

## Easy Mind Limited (In Liquidation)

### Liquidators' Second Report

6 August 2010

#### 1. Background

On the 8<sup>th</sup> day of January 2010 at 3.13pm Thomas Lee Rodewald and Robert James Neilson were appointed Joint and several Liquidators of the above company by resolution of the shareholders.

The appointment arose after the company failed to make payments to creditors on Wednesday 6<sup>th</sup> January 2010 and was unsuccessful in arranging further funding over the next two days.

#### 2. Disclaimer

*This report is not intended for general circulation, nor is it to be reproduced or used for any purpose other than that outlined above without written permission in each specific instance. The Liquidators do not accept any responsibility or liability for any damage or loss occasioned to any party as a result of the circulation, publication, reproduction or use of this report. In particular the Liquidators take no responsibility for any misinformation contained therein that has been supplied by the company, its officers or any other person. The report is also based upon information available at this date, and the Liquidators therefore reserve the right to review, and if necessary, amend the report.*

#### 3. Company Information

Date of Incorporation:	27 August 2003
Shareholders:	Clare Adrienne Grace (50) Frederick Cornelius Grace (50)
Directors:	Clare Adrienne Grace Frederick Cornelius Grace
Type of business:	Home based Childcare
Registered Office:	91c Whitikahu Road, Gordonton, RD1, Taupiri 3791
Location of Business:	Waikato, Coromandel, Hawkes Bay, Manawatu, Southland and Otago.

#### **4. Conduct of the Liquidation**

##### **Initial Continuity of Trading and Sale of Business**

Upon appointment as Liquidators of Easy Mind Limited “EML” decided to continue business as usual for a short period of time, with a view to try and sell the business as a going concern. The primary concern of the liquidators was that from the date of liquidation the consideration for well-being of parents and children was paramount.

All staff and educators were contacted via conference calls explaining the situations, and asked to reassure parents that everything possible would be undertaken to keep children in care.

The business was extensively marketed nationwide, with considerable interest being expressed. In dealing with all the interested parties, it became apparent that the most practical solution was to breakup the business and sell it off on a regional basis.

Negotiations for the North Island progressed well with Gisborne, Palmerston North, Feilding and Napier (Central North Island Region) networks being sold to Martin Ennor of Scallywags 2007 Limited. The Hamilton networks were sold to Paula Lovegrove of Kids at Home Limited.

Scallywags 2007 Ltd took control of the Central North Island networks on 18 January 2010 and the Hamilton networks were transferred over on 19 January 2010. The new owners remained in the existing premises, and employed a number of the existing staff so as to cause minimal impact to the children, parents and educators. Unfortunately not everyone was able to be placed.

The sale of the South Island networks which were predominately in and around Dunedin and Invercargill proved difficult to sell, and after considerable effort the networks splintered to other childcare providers in the area. Once this happened the liquidators had no choice other than to cease trading in the South Island.

## **Ceasing Business Operations and Sale of Assets in South Island**

With the cessation of operations in the South Island, agents were engaged by the liquidator to coordinate, locate, collect and dispose of the company's assets, which ranged from office equipment to commercial property.

The Liquidators in conjunction with the agents located, and in some instances recovered from staff and educators, property of EML and sold these. In a number of cases the liquidator made a commercial decision not to recover some minor assets from educators because of the costs involved.

## **Debtors Ledger and Collection**

A review of the EML debtor's ledger showed that there were a number of debtor accounts that were set up for related parties, including ECET and family members.

In the majority of cases the debtor accounts arose from the billing of parents for childcare services provided. A large number of these were overdue at the date of liquidation.

Because of the low value of the majority of these accounts a commercial decision was made to on sell the debtors ledger to a collections agency. Blackbird Finance Limited was the company selected, and the ledger was assigned to Blackbird Finance Limited on 12 March 2010. To date the recovery has been reasonably successful although slower than anticipated. The collection process is still ongoing.

## **Disposal of Assets**

- **Land & Buildings**

EML owned five properties which were mortgaged by ANZ National Bank Limited. The Liquidators with the support of local real estate firms have sold four of these properties. The surplus proceeds from these sales were used to meet the costs of sale, and then reduction of the mortgages on the properties.

The last property has a conditional agreement, with settlement expected in late September 2010.

- **Office Equipment & Furniture**

Liquidators sold the majority of the Office Equipment and Furniture to the respective purchasers of the EML networks in the North Island. This was negotiated during the sale of business in order to ensure maximum value was realised.

Following cessation of operations in the South Island the Liquidators in conjunction with assigned agents collected and disposed of assets located in the South Island regions.

- **Vehicles**

The Liquidators in conjunction with specific charge holders facilitated the sale of the majority of the vehicles owned by the company. A substantial number of the vehicles located in the North Island were sold to the purchasers of the EML networks.

The proceeds from these sales were paid to the various finance companies in satisfaction of the debt owed to these companies.

- **Stock**

The majority of the stock on hand in the North Island Networks at date of Liquidation was on sold to the respective purchasers during the sale of business process. This was negotiated during the sale in order to ensure maximum value of stock was realised.

Along with this the sale of the stock in the South Island was again facilitated by the Liquidators in conjunction with the assigned agents

- **Trading Sales**

Trading sales as detailed in appendix I is income received for continuing to offer child care services after date of Liquidation.

This income was received by the Liquidators for the periods 8 January 2010 to 18 January 2010 for Central North Island and 8 January 2010 to 19 January 2010 for Waikato. From these dates all trade sales income was paid to the new owners.

In the South island childcare services ceased on Friday 15 January 2010 therefore income for these services was received from date of Liquidation up until this date.

- **Work in Progress**

In reviewing the EML's accounting records it was apparent that these costs related to work being undertaken for ECET playgroups. This included refurbishment costs and resource consents in Hamilton, Fielding and Palmerston North.

These costs should be considered leasehold improvements to those properties and were considered costs on behalf of ECET.

- **Sundry**

On analysis of the financial statements these costs were found to be payments made to related parties.

## **Funding**

- **Ministry of Education ("MOE")**

The MOE was contacted at the commencement of the liquidation. Discussions included the financial situation of EML, including the current position of MOE funding. Also discussed was the interim provision of childcare services to allow parents time to consider their service provider options. This also allowed the liquidators the opportunity to endeavour to sell the networks / business as a going concern.

The MOE provided support to enable the networks to be transferred to the new service providers, and also audit staff to assist in establishing the financial position relating to the MOE funding for EML.

With support from the MOE the liquidators were able to establish that there was a substantial amount owing to the MOE, for subsidies and grants paid in advance under EML's licence to operate.

- **Work and Income New Zealand (“WINZ”)**

EML received subsidy payments from WINZ on behalf of parents who had children in care. The subsidies paid by WINZ prior to the date of liquidation were frozen in the EML bank account as at date of Liquidation.

These funds are considered to be unsecured creditor payments, and as such it is unlikely that any repayment would be made to WINZ.

- **Parent’s Fees Paid in Advance**

Prior to the liquidation it was an EML policy that parents who had children in care would need to have made payments in advance for their contribution over and above any subsidies made by either MOE or WINZ.

As a result of this a number of these debtor accounts were paid in advance, others remained overdue. All payments made by parents prior to the liquidation, and for the provision of child care services in advance rank as unsecured creditors.

There is little likelihood of the parents receiving any of the monies that were paid in advance.

## **5. Further Action to be Taken and Likelihood of a Distribution**

### **Disposal of Assets**

The last EML property located in Tairua, has a conditional agreement in place. The agreement is due to go unconditional and settle in late September 2010. All proceeds for this sale will be allocated to meet selling costs and then the surplus will be paid to the secured party in reduction of the mortgage.

It is anticipated that this sale will not be sufficient to repay the entire monies owing.

## **Related Party Transactions**

- **Early Childhood Education Trust (“ECET”)**

During the liquidators review of the financial records of EML it was apparent that the Directors of EML were in the process of establishing a network of playgroups throughout the country through a related party ECET.

ECET had begun setting up a number of playgroups in both the North Island and South Island, and had made application to the MOE for funding grants. These applications had been declined by the MOE, though were in the process of being resubmitted at the time of commencement of EML’s liquidation.

From the date that ECET began setting up the playgroups, the Directors of EML began a process of advancing funds to ECET to secure properties and also acquire playgroup equipment.

At the date of liquidation it was identified that a considerable sum of money was advanced to ECET, and ECET was setup as a debtor to EML. To date these sums have not been repaid.

The liquidator is working through this with the Trustees of ECET with a view to achieving some form of recovery.

- **Directors and Shareholders**

In reviewing the financial records of EML, and with the assistance of the MOE it is apparent that the Directors and Shareholders claim that EML was underfunded by the MOE was incorrect.

Although the Directors and Shareholders had introduced capital into the business in the months preceding the liquidation, it was not sufficient to cover the funds that were advanced to ECET.

It became apparent that with the ill health of one of the Directors, that insufficient knowledge of the accounting and finance processes resulted in little or no management information being available.

This lack of knowledge contributed to the fact that little or no management information was available with which to manage the business on a daily basis.

The Liquidator is still in discussions with the Directors and Shareholders relating to their conduct, and legal action cannot at this stage be ruled out.

### **Likelihood of Distribution**

In light of the matters that have arisen in the last six months of the Liquidation the Liquidators are unfortunately not anticipating a dividend payment to unsecured creditors.

### **6. Estimated Date of Completion of Liquidation and Notice As To Further Reports**


It is not practicable to estimate the date of the completion of the liquidation at this stage. Further reports will be issued six monthly and a final report at the conclusion of the liquidation.

### **7. Receipts and Payments to**

Attached as *Appendix 11* is a receipts and payments summary from 8 January 2010 to 5 August 2010, being the first six months of the liquidation.

## **8. Further Information**

If you require any further information or if you have any information that will be of assistance to the Liquidators please contact Blair Millar at our Tauranga office.



Thomas Lee Rodewald  
*Joint Liquidator*

**Easy Mind Limited (In Liquidation)****Updated Creditors Statement as at 4 August 2010****Schedule of Creditors**

		<i>As at 6 August 2010</i>	<i>Estimates at date of Liquidation (Note 1)</i>
<b>Secured Claims</b>			
Secured Creditors	<i>Note 2</i>	650,747	1,891,580
		<hr/>	<hr/>
		\$650,747	\$1,891,580
<b>Preferential Claims</b>			
Employee Wages and holiday pay		51,571	109,432
IRD		367,040	685,938
		<hr/>	<hr/>
		418,611	\$795,370
<b>Unsecured Creditors</b>			
Educators Payments		57,928	135,000
Parent Pre-payments		30,744	136,257
Ministry of Education – Pre Payments		559,909	482,327
IRD Penalties		34,619	35,000
Trade Creditors		325,601	160,000
		<hr/>	<hr/>
		\$1,008,801	\$948,584
<b>TOTAL CREDITORS</b>			
		<hr/>	<hr/>
		<b>\$2,078,159</b>	<b>\$3,635,534</b>
		<hr/>	<hr/>

## **Creditors Commentary**

**Note 1**            The creditor figures included as at date of Liquidation were estimates.

**Note 2**            The reduction in the secured creditor figure is due to the allocation of proceeds from the sale of vehicles and property to satisfy the debts of charge holders and mortgage holders.

In summary of the payments made to Specific Security Holders were as follows;

- Finance Companies \$278,186
- ANZ National Bank Limited \$750,338

**Note 3**            The proceeds from the sale of the final property owned by EML will be applied under the mortgage and guarantees from the Company in reduction of debt.

## Easy Mind Limited (In Liquidation)

### Receipts and Payments from 08/01/2010 to 06/08/2010

GST Exclusive		\$
<b>Receipts</b>		
Debtors - NO GST	20,226	
Electricity	54	
Funds on hand pre receivership	191	
GST on Income	173,792	
Insurance refund	368	
Interest received	404	
Rates portion on sale	556	
Rent	6,105	
Sale of assets	19,794	
Sale of business	126,865	
Sale of properties	840,344	
Sale of vehicles	303,834	
Sundry income	5,521	
Trading sales - Liquidation	66,315	
		1,564,369
 <b>Payments</b>		
Advertising	2,051	
Commission on sale of assets	25,725	
Computer Expenses	834	
Consultancy	16,987	
GST Received (IRD)	79,937	
GST on Expenses	34,332	
GST paid	22,458	
Insurance	1,504	
Legal fees	23,485	
Liquidators fees	180,577	
PAYE paid	13,091	
Postage/Courier Fees	168	
Rates	5,364	
Resident Withholding Tax	93	
Security	1,049	
Specific Security Holder - ANZ National	750,338	
Specific Security Holder - Finance Companies	278,186	

Stationery	170	
Storage and removal	1,790	
Telephone	6,638	
Transport costs	328	
Valuation	5,990	
Wages	111,600	
		1,562,695
<b>Net Funds</b>		<b>\$1,674</b>

### Receipts and Payments Commentary

**Note 1** Sundry income was received from the purchasers of the EML networks as reimbursements for costs incurred by the Liquidators in the handover process after the date the networks were transferred over to the new owners.