

ET Solutions Limited (In Liquidation)

Liquidators First Report

23 March 2006

1. Background

The writer was appointed, along with Thomas Lee Rodewald as Joint Liquidator of the company by an order of the High Court at Rotorua dated the 6th day of March 2006 at 10.55am. We detail below the Liquidators first report, for the information of creditors of the company.

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: 1 November 2001

Trading Address: 71 Windermere Drive, Tauranga

Type of business: Telecommunication supplier primarily to Vodafone and Telecom.

Date trading ceased: August 2005

Shareholders: Diane Webster
Nick Robert Webster
Sharp Tudhope Trustee Services No 4 Limited

Director: Diane Webster

4. Events leading to appointment of Liquidators

The company was established in late 2001, is domiciled in New Zealand and registered under the Companies Act 1993. It had been growing and trading reasonably successfully for about three years; however, during early 2005 a matrimonial dispute developed resulting in a shareholder, Nick Webster moving to Auckland and re-establishing himself and a portion of the business there.

His wife, the company director, was unable to sustain the business in Tauranga and the company began to experience cashflow difficulties, particularly with the level of salaries being paid to staff and for car lease payments, so a decision was made in August 2005 to cease trading. Staff were terminated and paid off and remaining assets and company records were placed in storage until a liquidator could be appointed.

The director and the Trust sought to voluntarily appoint a liquidator but the other shareholder would not sign the appropriate resolutions resulting in the director making an application to the High Court for the company to be liquidated. Steps had been taken during September to November to obtain signed resolutions but as they were not forthcoming an application to the Court was made in January with the hearing scheduled for 6 March 2006, when the Liquidators appointment was made.

5. Statement of Affairs

We attach at *Appendix I* a statement of the company's affairs as at the date of our appointment.

This has been prepared from information provided by the director of the company and KPMG, the company accountants and the Liquidators are not yet able to express an opinion on the validity of that information.

6. Analysis of Statement of Affairs

The secured creditors who had registered their security on the Personal Properties Security Register have previously repossessed the assets (vehicles) and disposed of them, then used the personal guarantee to make demand for settlement. As a result of these demands and the director's inability to settle the claims, she filed for bankruptcy and was adjudged bankrupt on the 8th of March 2006. Any claim from those parties against the company is now as an unsecured creditor.

The shareholders overdrawn accounts comprise the following;

D Webster	\$ 130,573
N Webster	\$(276,956)
E T Solutions Trust	<u>\$(163,813)</u>
Total	\$(310,196)

The collectibility of the overdrawn portions is unknown at this time but demands have been served.

To date no preferential claims from staff members have been received, due to payment when the company ceased trading.

During the 2004 year the company purchased 1000 DVD players from an overseas supplier, Tatung. These in turn were sold to Warehouse Stationery but 753 of the DVD players proved to be faulty and Warehouse Stationery have sought a refund on the stock. The company had paid the supplier and Warehouse Stationery had paid the company. Warehouse Stationery currently retains the faulty stock and a claim is expected, which in turn will be claimed against Tatung. As this matter has continued without resolution since 2004, it is currently shown in the statement of affairs as a contingent asset and liability.

The Inland Revenue Department have submitted a claim which includes preferential amounts for GST of \$37,167 but as this relates to GST default assessments, the Liquidators should be able to reduce this amount by doing the appropriate returns. In addition the unsecured portion of the

Inland Revenue Department debt includes \$75,752 default assessment for 31 March 2005, which the liquidators believe will be reduced to approximately \$25,000 after the return is filed.

7. Proposals for Conducting the Liquidation

A small amount of company assets were left in the Auckland office and have been since sold. Some assets were being held in storage at a lock-up facility in Tauranga. We have arranged to sell the more expensive items by advertising them and the assets of lower value have gone to a local Auctioneer. A quantity of stock was returned to some suppliers when the company ceased trading to offset their debts. We currently have a potential purchaser interested in the remaining stock.

The Liquidators intend pursuing the overdrawn shareholder accounts with Notice of Demands having been sent. Court action will proceed if no payment is received.

The Warehouse Stationery/Tatung claims will be examined to see firstly if any recovery is possible from the supplier and the extent of Warehouse Stationery's claim against the company.

An investigation of the companys books and records will be undertaken to ensure all assets have been accounted for and further to establish if there are any potentially voidable transactions that require investigation, particularly in relation to the stock returned. We will also be investigating any breaches of legislation by the Company or its officers. If any voidable transactions or breaches of legislation have occurred, then legal action will be pursued.

8. 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.

The Liquidators will forward reports at six monthly intervals and a final report when the liquidation is complete.

9. Creditors Meeting

No meeting will be held. The Liquidators dispense with holding a creditors meeting pursuant to section 243 of the Companies Act 1993 as the dividend is expected to be less than 20c in the dollar.

In accordance with Section 314 of the Companies Act 1993 a creditor or shareholder may request the Liquidators to call a meeting of creditors or shareholders at any time in the course of the Liquidation to vote on a proposal that a Liquidation Committee be appointed to act with the Liquidators. This request must be in writing.

The Liquidators may decline a request by a creditor or a shareholder to call a meeting on the grounds that:

- a) the request is frivolous or vexatious; or
- b) the request was not made in good faith; or
- c) the costs of calling the meeting would be out of proportion to the value of the company's assets.

The decision to decline a request may be reviewed by the Court on the application of any creditor or shareholder.

10. Creditors Claims

Please complete and return the enclosed Unsecured Creditors Claim form by 18 April 2006. If you believe that you are a secured creditor please contact this office and the appropriate forms will be sent to you.

Completion of your claim should be given your urgent attention. If creditors do not lodge a claim with the Liquidators, they are not entitled to share in any distribution to creditors that may be made by the Liquidators.

11. Further Information

If you require any further information or if you have any information that will be of assistance to the Liquidators please contact Claudine Cleaver at our Tauranga Office on (07) 571 6280.

Yours faithfully
For and on behalf of
ET Solutions Limited (In Liquidation)

Kenneth Peter Brown
Joint Liquidator

ET Solutions Limited (In Liquidation)
Statement of Affairs

As at 6 March 2006

	Book Value	Estimated Realisable Value
Assets		
Funds on hand	\$ 76,123	\$ 76,123
Plant and Equipment	\$ 4,670	\$ 2,000
Stock	\$ 18,000	\$ 5,000
Shareholders Current Accounts	\$310,196	<u>\$ Unknown</u>
		\$ 83,123
Plus Contingent Asset		
Tatung supplier claim	\$323,000	<u>\$ Unknown</u>
<i>Assets available for preferential and unsecured creditors</i>		\$ 83,123
Less Preferential Claims		
Petitioning creditor costs (estimate)	\$ 3,000	
Employee claims	\$ 0	
IRD - GST	\$ 37,167	
IRD - Student Loan	\$ 31	
		<u>\$ 40,198</u>
<i>Balance available for unsecured creditors</i>		\$ 42,925
Less Unsecured Creditors		
Trade Suppliers	\$528,193	
IRD Unsecured claim	<u>\$158,299</u>	
		\$ 686,492
Less Contingent Claim		
Warehouse Stationery		<u>\$ 471,960</u>
Deficit (before costs of liquidation)		\$1,115,527

Disclaimer

This statement should be read in conjunction with the disclaimer on page one of the above Liquidators report and Rodewald Hart Brown Ltd have not audited the report and they, their directors or employees accept no liability to any other party in relying on the information presented. The purpose of the report is to give creditors of the company an indication of the financial position of the company as at the date of appointment of the liquidators.

Rodewald Hart Brown Limited
20 March 2006