

26 August 2003

**FIRST REPORT OF THE LIQUIDATORS
TO CREDITORS AND MEMBERS OF
MORROW TAYLOR FOOTWEAR LIMITED (In Liquidation)**

INTRODUCTION

We advise that MORROW TAYLOR FOOTWEAR LIMITED (In Liquidation) ("the company") was placed into liquidation on 20 August 2003 at 10.12am by a special resolution of shareholders pursuant to Section 241(2)(a) of the Companies Act 1993 ("the Act"). Kevin David Pitfield & Gareth Russel Hoole were appointed joint and several liquidators of the company at that time.

RESTRICTIONS

This report is not intended for general circulation, nor is it to be reproduced or used for any purpose without the liquidators' written permission in each specific instance. The liquidators, Staples Rodway Limited, its employees and agents do not assume any responsibility or liability for any losses occasioned to any party for any reason including as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

The liquidators reserve the right (but will be under no obligation) to review this report and, if considered necessary, to revise the report in light of any information existing at the date of this report which becomes known to us after that date.

BACKGROUND AND STATEMENT OF POSITION

Director and Shareholders

On the date of the appointment of the liquidators the records of the company reflected the following:

Shareholders: Joseph Hembrow
Wayne Leslie Ericksen
Russell Kenneth Pont

Director: Joseph Hembrow

History

The company was incorporated on 20 February 1997 as International Footwear Limited. On 13 March 1998 the name was changed to Morrow Taylor Footwear Limited.

The principal business of the company was that of Footwear Manufacturer.

We understand that the company experienced cash flow difficulties for some years prior to the appointment of the liquidators. The management of the company attributed the failure of the business to competition from low cost imported shoes. The cash flow constraints prevented the company from meeting its debts as they fell due and when the secured creditor indicated the withdrawal of financial support, the decision was made to place the company into liquidation.

The company may have traded whilst insolvent and to this end the liquidators are investigating the affairs of the company with particular attention to the actions of the directors up to date of liquidation. Pursuant to section 258A we will report any offences to the Registrar of Companies.

Actions Taken To Date

The liquidators and their representatives attended the premises of the company at 27 Honan Place, Avondale on the morning of our appointment. The premises were secured and rights of entry were restricted.

We have established that the company has assets in the form of receivables, inventory, plant, furniture, fittings, office equipment, land and buildings.

Some of the computer equipment and an EFTPOS terminal appear to be subject to operating leases and the liquidators have disclaimed these items to avoid further costs to the company and its creditors.

An independent registered valuer has been engaged to provide a current market value of the land and building and the liquidators will obtain a similar valuation of the other fixed assets.

Statement of Position

Attached by way of Appendix 1 is the Statement of Position of the company as at 20 August 2003, as advised by the management of the company. The information contained in the attached statement of position was provided by the management of the company and, as yet, has not been investigated by the liquidators. It is possible that subsequent investigation could result in a revision of the information thus presented.

Securities and Charges

There is a mortgage registered over the land and buildings at 27 Honan Place, Avondale in favour of Westpac Banking Corporation.

A search of the Personal Property Securities Register has revealed two registered security interests, one being a deed of debenture over all personal property of the company.

The other security interest identified relates to the computer equipment and EFTPOS terminal subject to operating lease agreements, which were disclaimed by the liquidators as noted above.

From our review of the records of the company there appears to be an unregistered security interest over a telephone system and we will investigate this in due course.

Apart from creditors designated as preferential in terms of the Seventh Schedule of the Companies Act 1993 and the secured creditors referred to above, all other creditors of the company will rank as unsecured.

PROPOSALS FOR THE CONDUCT OF THE LIQUIDATION

Investigations into the existence and whereabouts of any assets not identified at the date of this report will be undertaken.

The liquidators will seek to sell the business as a going concern. However, our investigations indicate the shoe manufacturing industry is not considered to be a viable business venture in this country in the future, which may preclude such a sale. Interest in the machinery, lasts and patterns will be solicited offshore and in all likelihood the sale of the plant will be by way of competitive tender.

The liquidators plan to complete the work in progress, subject to firm orders from customers of the company. The sales from these particular inventory items are forecasted to yield more funds to the liquidators, after deductions for further processing costs, than if the items were sold partially completed.

Items of finished goods inventory are located within the factory and on consignment in Auckland and Christchurch. The liquidators are examining their options with a view to auction or retail sales of the finished goods, whichever will provide the greatest monetary return.

There are some items of obsolete and out of season raw materials from which the liquidators are unlikely to realise any significant sales proceeds. Some of those materials are held as consignment stock or in some circumstances the suppliers claim to have retention of title clauses.

The company has a number of debtor balances which require collection. Some of those debts are subject to credit claims for returned and faulty goods whilst others are significantly past due dates. The liquidators will pursue outstanding debtors using all available legal remedies.

The most significant asset is the land and building and the liquidators will seek to dispose of that asset in the most economically beneficial manner.

The liquidators will review disbursements made by the company in the period beginning on 20 August 2001 through to their appointment for purposes of determining whether any such transactions can be considered voidable within the ambit of section 292 of the Companies Act 1993. The liquidators have identified what appears to be significant repayments of loan advances to an unsecured creditor during the specified period and will investigate these payments further.

From the records made available to the liquidators, at the time of appointment the company was prima facie insolvent. At this time we have not been able to determine how long the company traded under insolvent circumstances, if at all. However, we will conduct the appropriate investigation in this regard and report our findings to the Registrar of Companies as considered necessary. The liquidators will pursue appropriate action against the director to the extent considered economically beneficial if evidence exists to support such action.

CREDITORS' MEETING

The liquidators have decided, pursuant to section 245 of the Act, to dispense with a meeting of creditors. The decision has been made on the basis that pursuant to Section 255(5) of the Companies Act 1993 the liquidators are satisfied that the value of assets of the company available for distribution to unsecured creditors, not being creditors entitled to be paid in the order of priority set out in the Seventh Schedule of the Companies Act 1993, is not likely to exceed 20 cents in every dollar owed

Pursuant to section 314(1) of the Companies Act 1993 any creditor or shareholder of the Company may require the liquidators to call a meeting of creditors or shareholders by giving written notice to the liquidators, within 10 days of receipt of this circular.

ESTIMATED DATE OF COMPLETION OF LIQUIDATION

Bearing in mind the nature of the investigation of the company's affairs we tentatively estimate that this liquidation will be completed by 30 November 2003.

Should you have any queries regarding the liquidation of the company please do not hesitate to contact the liquidators.

Kevin David Pitfield
JOINT LIQUIDATOR

Gareth Russel Hoole
JOINT LIQUIDATOR

APPENDIX 1

MORROW TAYLOR FOOTWEAR LIMITED (In Liquidation) STATEMENT OF POSITION AS AT 20 AUGUST 2003 (Date of Appointment)

<u>Assets</u>	Book Value	Estimated Realisable Value
Trade Debtors (non factored)	185,508	¹
Inventory – Raw Materials	175,356	²
Inventory – Work In Progress	76,931	²
Inventory – Finished Goods	154,593	²
Prepayments - Insurance	654	654
Land and Buildings	540,000	²
Plant and Equipment	63,094	³
Furnishings, Fitout and Office Equipment	14,150	³
TOTAL ASSETS	<u>1,210,286</u>	
<u>Liabilities</u>		
Secured Creditors – Real Property	255,553	
Secured Creditors – Real and Personal Property	811,806	
Preferential Creditors	154,242	
Unsecured Creditors	577,524	
TOTAL LIABILITIES	<u>1,799,125</u>	
DEFICIT: LIABILITIES OVER ASSETS	<u>(588,839)</u>	

- 1 - The liquidators will pursue all debtors to the fullest extent provided by the law. Overdue debtors will be referred to Law Debt Collection Limited and realised in the most efficient manner possible.
- 2 - The liquidators are not prepared to disclose estimated proceeds of sale of inventory at this stage as disclosure may prejudice the quantum of realisations.
- 3 - The liquidators await valuations of the plant, office equipment and furniture and fittings. As is usual with forced sales, we expect the realisable value of some of these items to be as much as 70% less than the book value.