

SHANTON FASHIONS LIMITED (ADMINISTRATOR APPOINTED)

ADMINISTRATOR'S REPORT Pursuant to Section 239AU of the Companies Act 1993

9 February 2015

WAIVER

This report has been prepared for the Creditors of Shanton Fashions Limited (Administrator Appointed) ("Shanton") or as the context may require, the "Company"). It is not intended for general circulation, nor is it to be reproduced or used for any purpose without the Administrator's written permission in each specific instance. The Administrator (Bryan Edward Williams of BWA Insolvency Limited), BWA Insolvency Limited, its employees and agents do not assume any responsibility or liability for any loss occasioned to any party for any reason, including as a result of circulation, publication, reproduction or use of this report, contrary to the provisions set out in this section.

The Administrator reserves 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 him after that date.

The particulars in this report, together with any financial particulars provided herein, have been prepared from the records of Shanton or determined as a result of consultation and interview with the Directors of Shanton. The Administrator has not carried out anything in the nature of an audit or other verification procedure and consequently no opinion is expressed as to the veracity of any such information.

OVERVIEW

Authority

This report is prepared pursuant to section 239AU of the Companies Act 1993 (the "Act"). The report is available to the Creditors of Shanton. A Creditor of the Company in Administration is defined (as directed by section 239C of the Act) at section 303 of the Act and determined to be a person whose claim should be admitted because it is a debt or liability that is due presently or in the future, whether it is certain or contingent and whether it is ascertained debt or a liability for damages.

Required Purpose of this Report

This report is prepared in anticipation of the Watershed Meeting. Details of the meeting are set out in the section below entitled "Watershed Meeting Convened".

The report is intended to provide information about the business of Shanton, its property, relevant affairs, its financial circumstances and any other matter that is material to the making of an informed decision by the Creditors in respect of the business required to be considered at the meeting.

Creditors should make contact with the Administrator should any further information be required over and above that which is provided in this report.

What the Watershed Meeting is

The Watershed Meeting is the meeting of Creditors called by the Administrator to decide the future of Shanton and, in particular, whether Shanton should:

- a. Execute a Deed of Company Arrangement ("DoCA"); or
- b. Adjourn the Watershed meeting to enable the Administrator to continue the business sale process that is currently in progress; or
- c. Bring the Administration to an end with control of Shanton reverting back to the Directors; or
- d. Place Shanton immediately into liquidation.

Independence and Declaration of Interests

The Administrator confirms that neither he, nor BWA Insolvency Limited, have a professional, business or personal relationship with the Company or any of its officers, shareholders or creditors. The involvement of the Administrator with the Company prior to appointment was to prepare for the orderly conduct of the Administration.

Background to the Appointment of Administrator

Voluntary Administration ("VA") has been considered appropriate in the circumstances of the affairs of Shanton. The Directors wished to deal with Shanton's business circumstances by appointing an independent Insolvency Practitioner to determine the sustainable viability of the business within the controlled circumstances of Administration.

The Administrator is tasked with making recommendations to the Creditors for the future of the business, the four primary options as set out below in the section entitled "What the Watershed Meeting Is".

The Company appointed Bryan Edward Williams to be Administrator for these purposes.

First Meeting of Creditors

A first meeting of creditors was convened for the purposes of:

- Deciding whether to replace the Administrator; and
- Deciding on whether to appoint a Creditor's Committee and if so to appoint its members.

This meeting was held on 21 January 2015 with 35 creditors attending the meeting.

Bryan Williams' appointment as Administrator was ratified following a Creditors' vote.

The following seven person Creditors' Committee was unanimously approved: Jon Evans, Juliana Yelavich, Sanjil Mistry, Sharon MacNiven, Suzanne Vitro, Tracey Heaven, Garry Leonard.

Administrator's Approach

Following appointment, the Administrator has undertaken the following activities:

- Obtained and reviewed relevant Company background from the Directors and available Company records.
- Identified and confirmed the existence of Company assets.
- Undertaken a Company wide stock take.
- Assessed the extent of Secured Creditor claims against the Company and have had the enforceability of those claims confirmed.
- Reviewed and assessed the current financial position of the Company.
- Ascertained viability on a store by store basis in order to consider rationalisation of the store footprint
- Managed the circumstances necessary to allow and control the business's continued operations including making arrangements with staff, suppliers and landlords.
- Established arrangements with property owners for continued use of leasehold interests during the Administration
- Commenced a business sale process.

Business Sale Process

The following summary points are relevant to the business sale process that is in progress:

- The business was advertised in the NZ Herald on Friday the 30th of January and Wednesday 4th of February.
- All expressions of interest received in response to the knowledge of the Administrator's appointment and the advertising have been collated.

- An Information Memorandum has been prepared and was distributed on Thursday 5th of February.
- The Information Memorandum includes a proposed timetable which calls for indicative non-binding bids on 12th February 2015. The Administrator will then select a certain number of parties to commence due diligence in the week beginning 16th February 2015. Submission of final binding bids has been set for the 24th of February 2015.

Administrator's Proposed Activity

The Administrator proposes that the Watershed Meeting is adjourned to allow for the business sale process to be continued and a sale finalised if possible.

Throughout this process the Administrator will maintain the trading activity of Shanton to ensure the inherent value of the business as a going concern is preserved.

Concurrently the Administrator will prepare an alternative plan for the reconstruction and rehabilitation of the business, with future activities to be conducted pursuant to a Deed of Company Arrangement. This would be as an alternative to be considered against the offers expected as a result of the sale process.

Watershed Meeting Convened

The Watershed Meeting is called to be held at the Commerce Club of Auckland, 27-33 Ohinerau Street in Remuera on 16 February 2015 commencing at 11:00am. If the Watershed Meeting is adjourned then the adjourned meeting will be called to be held at a time and place determined by resolution at the Watershed Meeting.

VOTING ENTITLEMENTS

A person or Company that is a creditor of Shanton is entitled to participate at the Watershed Meeting and vote on matters relating to the affairs of the Company as well as any other business to be addressed at the meeting. The degree of entitlement for voting purposes relates to the value of a claim a Creditor has in the affairs of Shanton.

A resolution is adopted if a majority in number, that represent 75% in the aggregate value of the Creditors that are entitled to vote and who do vote on the resolution, vote affirmatively in support of the resolution. If the dual threshold is not achieved the resolution fails.

Creditors do not have to be present at the Watershed Meeting to exercise their right to vote. Creditors are entitled to vote by post or to appoint a proxy to vote in their absence. Requirements for both of those two methods are described in the documents provided with this report.

Creditors are advised that strict timetabling requirements apply for making a vote by Postal Vote and the appointment of a Proxy (see forms below).

REQUIREMENT OF THE WATERSHED MEETING

Purpose and Outcome

The purpose of the Watershed Meeting is to consider the following items:

- 1) The report of the Administrator; and
- 2) Achieve an outcome in respect of the following matters by the proper moving and adoption of appropriate resolution, or resolutions, relevant to the business of the meeting. In particular to consider;
 - a. whether to execute a Deed of Company Arrangement;
 - b. whether to adjourn the Watershed meeting;
 - c. whether to bring the administration to an end; or
 - d. whether the Company should be placed into liquidation;

It is proposed that the items set out above become the order of business.

To assist Creditors to make an informed decision, relevant information is provided covering the following three categories.

1. Property and Affairs of Shanton
2. Summary Financial Position of Shanton
3. Administrator's Opinion

These topics are considered in this report. In summary, the Administrator submits that an adjournment of the Watershed Meeting is required to allow matters relevant to the sale of the business to be more fully determined while at the same time an alternative business plan is prepared for the reconstruction and rehabilitation of the business pursuant to a Deed of Company Arrangement.

PROPERTY AND AFFAIRS OF SHANTON

Background

Shanton is a fashion retailer with 37 stores located throughout New Zealand plus an online business. The business's design and buying infrastructure utilises both New Zealand and Chinese suppliers in order to source appropriate product. The head office management and warehouse functions are located in Takanini, Auckland.

The business conducted by Shanton originated in 1976.

Shanton Fashions Ltd (Administrator Appointed) was incorporated on 14 November 2012. The Company was formed by the shareholders identified below to acquire the business and certain assets of Shanton Apparel (NZ) Limited (in Receivership).

Events Leading to Administration

Bryan Williams of BWA Insolvency was appointed as the Company's Administrator on 11 January 2015. From our review of the Director's Statement received on 19 January 2015 we understand that the primary factors leading to Shanton's circumstances and the decision to appoint an Administrator include:

- Cash flow pressures created by the payment terms of Chinese suppliers following the move in 2014 from using New Zealand suppliers to purchasing direct from China.
- The seasonal impact of a prolonged 2014 winter and a late start to summer 2014/2015 which had an adverse effect on sales.
- The negative impacts of competitive pressures in the retail market and customer moves to online shopping.
- Shanton's reaction to its circumstances by discounting product in order to achieve turnover and release cash which caused margin and profitability to be lost.
- The sales and cash flow uplift of the 2014 Christmas period did not occur to the extent expected and required.

Company Information

Relevant details of Shanton are as follows:

- Company Name: Shanton Fashions Limited (Administrator Appointed)
- Company Number: 4103458
- Incorporation Date: 14 November 2012
- Registered Office: 131 Taupaki Road, Taupaki, Auckland
- Address for Service: 131 Taupaki Road, Taupaki, Auckland
- Directors:
 - Inderjit Lutheria
 - Vijesh Bhagwan Nangia
 - Mandeep Pala
- Shareholders:
 - Pala Petrochem Ltd owning 420 (35%) of the 1,200 shares issued
 - Inderjit Lutheria owning 420 (35%) of the 1,200 shares issued
 - Vijesh Bhagwan Nangia owning 360 (30%) of the 1,200 shares issued

The Company continues (as at the date of this report) to employ approximately 155 staff and trade from all 37 retail sites, plus the website, that existed as at the time of the Administrator's appointment.

SUMMARY OF FINANCIAL CIRCUMSTANCES

Set out below is a summary of the Company's financial performance since its incorporation in November 2012.

The following table sets out the summarised financial performance of Shanton for:

- The four months to 31 March 2013
- The 2014 financial year
- The nine months to 31 December 2014

The financial results for the periods ending 31 March 2013 and 2014 have been obtained from the year end compilation financial statements prepared by Shanton's external accountants. The financial results for the period to 31 December 2014 have been summarised from Shanton's management accounts.

Clearly, the financial performance below is indicative of the factors and issues advised of in the Directors' statement referred to above.

2013-2015 FINANCIAL PERFORMANCE

	31-Mar-13 (4 months) (000's)	31-Mar-14 (12 months) (000's)	31-Dec-14 (9 months) (000's)
Sales	5,961	16,869	12,069
COS	(2,957)	(6,979)	(5,976)
Gross Profit	3,004	9,890	6,093
Gross Profit%	50%	59%	50%
Expenses excluding depreciation, shareholder remuneration and "one- off" expenditure	(2,911)	(9,530)	(6,612)
EBITDA (before shareholder remuneration & one-offs)	93	360	(518)
Depreciation	(31)	(141)	TBC (2)
EBIT (before shareholder remuneration & one-offs)	62	219	(518)
Interest	(4)	(94)	(67)
Director's Salaries	(83)	(260)	(239)
One-Off Expenditure (1)	0	(240)	0
Net Profit/(Loss)	(25)	(376)	(824)

(1) Identified as an \$85K accounting adjustment + \$155K market & brand strategy costs

(2) Depreciation expense yet to be accounted for in 2015

Set out below is a summary of the opening financial position of Shanton as relevant to the Creditors at the date of Administration (11 January 2015). An explanation of each item is set out below the table. Critically, the values represented below for Stock and Fixed Assets are at book value as per the Company records. These do not necessarily represent the market value of these assets that an interested party may be willing to pay to acquire the assets. Furthermore the market value of the assets is likely to differ depending on whether they are sold on a going concern or liquidation basis. These values can only be established by conducting an appropriate sales process. An estimate of market values has not been set out, as clearly we do not wish to disclose any information which may impact on the sales process. The creditors' claims values set out below have been derived from both claims received and Company records. We note that these values have not been verified via a formal claim process that would be required in a Receivership or Liquidation.

ASSETS AND CREDITOR CLAIMS AS AT 11 JANUARY 2015

Assets to be Realised	
Cash at Bank	90,158
Stock at Book Value	2,576,373
Fixed Assets at Book Value	690,740
Intangible Assets	to be determined during sale process
	3,357,271
Creditors' Claims	
PMSI Stock Held at Book Value	476,327
Preferential Employees	175,000
Preferential IRD	109,125
GSA Loans	1,580,767
Unsecured Creditors	5,457,042
	7,798,261
Indicative Deficiency Based on Book Values	(4,440,991)

- Cash at Bank was the cash held by the Company as at 12 January 2015.
- Stock at Book Value represents the stock holding as per company stock system records as at 12 January 2015. Book Value effectively represents the cost price paid by Shanton to suppliers. A stocktake completed on 28 January 2015 indicated stock held (at that later date) of just under \$2.5M. Of the total \$2.5M of inventory on hand, approximately \$1.7M is identified as being current summer 2014 inventory.
- Fixed Assets at Book Value is the cost price of fixed assets less accumulated depreciation. It includes Motor Vehicles, Shop Assets and Office Equipment. The value identified in the table of \$690,740 is the number set out in the financial statements of Shanton as at 31 March 2014 as prepared by the Company's external accountants. We note that the accounting for fixed assets since 31 March 2014 has yet to be completed by the Company but that the Directors' advise that the primary movements since that time have been approximately \$180K (cost) for Shop Assets acquired for three new stores which have been opened in the current financial year. The Shop Assets value included in the table above is the cost price paid by the current owners in October 2012.
- The book value Goodwill and Intangible Assets that exist on the Company Balance Sheet represents acquisition Goodwill paid by the Company to acquire the business assets from the previous owner. This is irrelevant in the Company's current circumstances. Intangible Assets that exist within Shanton include the perceived value associated with the brand and fashion labels (fully registered and protected trademarks), clothing designs and patterns, customer database, retail sites/locations,

operational systems and infrastructure. The market value of these intangible assets will be dependant on the value perceived by a party acquiring the business which will be specific to their circumstances and the purpose of the acquisition.

- PMSI stock held represents the book value of stock for which PMSI claims have been registered on the PPSR. The validity of these claims is yet to be established. We note that there are eight Creditors with PMSI's registered on the PPSR. However there are only two for which stock existed at the date of Administration. For both these two claims, the value of the Creditors' claims exceeds the value of stock on hand.
- Preferential Employee claims are the value of holiday pay outstanding as per Company records at the date of Administration. We note that all wage and salary expense is up to date.
- Preferential IRD is based on a claim form received from the IRD for outstanding Kiwisaver, GST and PAYE obligations. Outstanding GST comprises \$98K of this balance.
- GSA Loans is the value of loans outstanding to GSA holders as per the Company records. We note that the GSA holders are interests associated with the directors/shareholders of the Company. While the validity of the security has been established, given the significance of the value at stake, further work would be required to confirm the quantum of the loan.
- Unsecured Creditors includes the value of amounts outstanding to trade creditors, landlords and gift voucher holders as per Company records and Administrator's correspondence.

ADMINISTRATOR'S OPINION

The Watershed Meeting is an event prescribed by statute. It is convened to determine the outcome of the Administration. The Administrator is obligated to submit to Creditors a statement setting out the Administrator's opinion, with reasons for that opinion, about the following matters:

1. Whether it would be in the Creditors' interests for the Company to execute a DoCA; or
2. Whether it would be in the Creditors' interests for the Administration to end; or
3. Whether it would be in the Creditors' interests for the Company to be placed in liquidation; or
4. Whether an adjournment of the Watershed should be sought.

The Administrator's opinion and the reasons for it are as follows:

Execute a Deed of Company Arrangement

I am of the opinion that a Deed of Company Arrangement (“DoCA”) should not be executed at this stage of the Administration. It may be however that a DoCA is recommended, as an alternative to liquidation, at the reconvened watershed meeting; assuming creditors agree with the adjournment that is proposed.

The reason for my opinion is that there are three options that exist for the going concern trading activity of the company:

- a. Sell the going concern to a known contender on terms that are the best outcome that can reasonably be achieved in all the circumstances as a result of having conducted an open and transparent selling process; or
- b. Appoint a Liquidator to liquidate the business assets if the trading activity cannot be sold as a going concern during the period of the proposed adjournment; or
- c. Continuity of the business of the Company on a reconstructed basis. The most likely form of any reconstruction would involve decreasing the number of retail sites as a result of the store profitability analysis undertaken by the Administrator in addition to the removal of head office costs in line with a reduced store footprint and necessary efficiencies. If profitability/viability can be demonstrated as a result of such reconstruction then the Administrator may see merit in proposing a DoCA for the intention of providing continuity to the reconstructed business. Clearly the critical requirement of any such DoCA being that the potential realisation/return to Creditors proposed is superior to the potential realisation estimated in a liquidation.

There is clearly merit in concluding a sale of the going concern trading activity to a person that is prepared to make such an investment.

The sale process that was commenced on 28 January 2015 has resulted in nine enquiries (as at the time of writing). Some of the enquirers are of substance, in the industry and have demonstrated a genuine interest in pursuing a purchase.

It is accordingly my opinion that a DoCA should not be considered on 16 February 2015. It may however be one of the options to consider when the adjourned meeting is reconvened.

End the Administration

I am of the opinion that the Administration should not be brought to an end at this stage in the Administration. The reason for my opinion is that such a decision would place control of the company back in the hands of the Board of Directors and that the intent and focus of the Voluntary Administration process, to ascertain whether or not the company or its business can continue in existence, would be precipitously defeated without any merit or benefit to the creditors of the company.

Appoint a Liquidator

I am of the opinion that a Liquidator should not be appointed at this stage of the Administration. The reason for my opinion is that the best outcome for the creditors of the company is likely to result in a sale of the going concern trading activity either to one of the contenders that have responded to the sale process or as a result of reconstruction of the trading activity pursuant to a DoCA. Liquidation will be inevitable once the property (going concern) of the company is dealt with but to initiate liquidation as a means to deal with the property will cause damage the inherent value in that property.

If however the property cannot be sold as a going concern then liquidation will be an option to consider at the reconvened meeting.

In any event liquidation will be required when the time comes to consider issues in respect to: directors' duties, voidable transactions, duty to keep proper records, or transactions for inadequate or excessive consideration. Those matters should be considered once the property of the company is dealt with.

Adjournment of the Watershed Meeting

I am of the opinion that the Watershed Meeting should be adjourned. The reason for my opinion is that a business sale process is in progress and should be allowed to run its course. There are nine parties that have shown a genuine interest and the determination of that interest should be fully explored.

The adjournment of a Watershed Meeting can take place for thirty working days from the date from when the Watershed Meeting is first convened without Court involvement. I propose that the Watershed Meeting is adjourned to 30 March 2015.

I submit that no party is disadvantaged by the adjournment to any significant degree. The parties that may be affected are;

- a. Landlords whose property rights are altered during the convening period; and
- b. Creditors who cannot proceed against guarantors during the convening period.

It is contended that the adjournment will involve the continuation of the going concern activity and the cost associated with maintaining the form and structure of the business. That is correct but creditors will need to make a decision around the prospect of achieving a sale because a going concern activity exists or to reduce cost but at the same time destroying the inherent value of the business operation. It is the view of the Administrator that obvious cost efficiency measures should be actioned immediately but pre-emptive

broad brush measures should not be taken until further requirements are determined by the contending purchasers.

The adjournment will not materially affect the role and duties of the Office of a Liquidator given that the primary investigation period for a Liquidator is preserved as being two years prior to the filing of Liquidation proceedings (which then leads to a Court appointing a Liquidator). Liquidation proceedings were filed on 17 December 2014. Any commercial substance that may be of interest to a liquidator for recovery purposes will therefore be unaffected by the extension of a potential Liquidator's appointment date beyond 30 March 2015.

For the reasons provided in this section of the report, I propose that the Watershed Meeting is adjourned to 30 March 2015 and submit a draft resolution for consideration of the creditors.

The Administrator proposes that the following resolution is put before the Creditors and voting takes place in respect of the resolution either by Postal Vote, using the form provided, or by being present at the Watershed Meeting and voting in person or by Proxy.

Resolution:

To give full consideration to the prospect of selling the going concern trading activity of Shanton Fashions Limited (Administrator Appointed) the Watershed Meeting is adjourned to 30 March 2015.

This report is prepared by Bryan Edward Williams and delivered to the Creditors entitled to receive it by email on 9 February 2015.

For and on behalf of

SHANTON FASHIONS LTD (ADMINISTRATOR APPOINTED)



Signed this 9th day of February 2015

ADMINISTRATOR

Enquiries to: Bryan Williams

BWA Insolvency Limited

131 Taupaki Road, Taupaki, Auckland

P O Box 609, Kumeu 0841

Telephone: (09) 412 9762. Facsimile: (09) 412 9763

Email: bryan@bwainsolvency.co.nz



FORM OF POSTAL VOTE SHANTON FASHIONS LIMITED (ADMINISTRATOR APPOINTED)

Name and Postal Address of Creditor in Full Name: _____ Address: _____ _____	*Any personal information collected is for the purpose of administering the Administration in accordance with the Companies Act 1993. The information will be used and retained by the Administrator for the purposes of the Administration and will be released to other parties only as required for that purpose or with your authorisation or in compliance with the Privacy Act 1993. You may have access to and request correction of any personal information. *Not applicable if Creditor is not an individual within the meaning of the Privacy Act 1993.
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I/we, _____
 (Name of Creditor)

Amount of claim: \$ _____

cast the vote recorded herein for the resolution to be submitted at the Watershed Meeting of Creditors held on 16 February 2015 or at any adjournment thereof.

To give full consideration to the prospect of selling the going concern trading activity of Shanton Fashions Limited (Administrator Appointed) the Watershed Meeting is adjourned to 30 March 2015.

For	Against	For Office use Received: (Date Stamp) Date: _____ Time: _____
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Signed _____

Position held _____ Date: ____/____/____
 (To be completed where Creditor is a partnership, Company or other Corporate Body)

This form, when signed, must be lodged with the Administrator by not later than 11:00 am on Thursday the 12th day of February 2015. Please forward to gary@bwainsolvency.co.nz or fax to (09) 412 9763



APPOINTMENT OF PROXY BY CREDITOR

SHANTON FASHIONS LIMITED (ADMINISTRATOR APPOINTED)

I/we, _____
(Name of Creditor)

Appoint

(Name of person appointed)

Delete the option below that is not applicable

1. To be my proxy from _____ to _____ (term not to exceed 12 months)

OR

2. To be my proxy to vote at the meeting of Creditors of Shanton Fashions Limited (Administrator Appointed) to be held on 16th February 2015 or at any adjournment thereof.

Signed _____

For Office use
Received: (Date Stamp)
Date: _____
Time: _____

Position held _____ Date: ____/____/____
(To be completed where Creditor is a partnership, Company or other Corporate Body)

This form, when signed, must be lodged with the Administrator by no later than 11:00am on the 12th day of February 2015. Please forward to gary@bwainsolvency.co.nz or fax to (09) 412 9763