

Introduction

[1] The appellant, 90 Nine Ltd, appeals from a decision of Associate Judge Bell¹ dismissing an application for a liquidation order sought on the ground of the failure by Luxury Rentals NZ Limited (the respondent) to make payment in response to a statutory demand for a debt of \$1,000.² Given the amount of indebtedness the Associate Judge considered that a liquidation order was disproportionate. The issue on appeal is whether that was a proper basis for the exercise of the discretion in s 241(4) of the Companies Act 1993 (the Act).

Relevant facts

[2] The background to the claim is recited in the statement of claim as follows:

- In or around October 2016, Pure SEO Limited provided Search Engine Marketing and other services to the [respondent].
- The [respondent] was indebted to Pure SEO Limited for the receipt of services from Pure SEO Limited.
- The [respondent] failed to pay its debt to Pure SEO Limited when it was due.
- On or around 19 January 2018, a settlement was approved by the Disputes Tribunal at Auckland that the [respondent] would pay Pure SEO Limited \$1,000.00 (including GST) (“the Debt”) on or before 10 February 2018 in full and final settlement of all matters between the parties.
- The [respondent] failed to pay the Debt on or before 10 February 2018.
- On 19 October 2018, Pure SEO Limited assigned the Debt to the [appellant].

[3] On 1 November 2018 the appellant served on the respondent at its registered office a statutory demand for the amount of the debt. The respondent having failed to take any of the steps outlined in the statutory demand, on 19 December 2018 the appellant filed a statement of claim seeking an order for liquidation.

¹ *90 Nine Ltd v Luxury Rentals NZ Ltd* HC Auckland CIV-2018-404-2795, 1 March 2019.

² A statutory demand under s 289 of the Companies Act 1993 may not be made in respect of a debt less than the prescribed amount in reg 5 of the Companies Act 1993 Liquidation Regulations 1994, currently \$1,000.

The High Court decision

[4] The application was called in the High Court at Auckland on 1 March 2019. The Associate Judge issued a minute which, after noting the relevant facts and observing that he had not been informed what the consideration for the assignment was, stated:³

[3] 90 Nine Ltd has provided a consent by an insolvency practitioner to act as liquidator. A range of charge-out rates was provided with the consent. The liquidator proposes that he will charge out at \$500 an hour, the lowest charge-out rate being \$145 an hour.

[4] I understand from Mr Everitt that the plaintiff has served a statutory demand and has taken this liquidation proceeding, but has taken no other steps for the collection of the debt barring several letters of demand. I am not satisfied that this is an appropriate case to make a liquidation order. I regard liquidation of a company for a \$1,000 debt as disproportionate. It only needs two hours work by the liquidator for the amount of the debt to be consumed by the cost of liquidation. I challenged Mr Everitt on the total costs of the liquidation. I consider applications by liquidators for approval of their remuneration on a regular basis. It is a long time since I have been asked to approve remuneration for a liquidation for less than \$10,000. Mr Everitt contends that this company can be wound up for \$5,000. Even so, that cost is disproportionate, given the amount of the debt.

[5] I regard liquidation as disproportionate given the indebtedness. I dismiss the application. The plaintiff should take other steps to recover the debt.

Grounds of appeal

[5] The grounds of appeal in the notice of appeal were extensive but in summary it was contended that the exercise of the discretion involved an error of principle by the Associate Judge in considering the proportionality of the liquidation costs to the indebtedness and finding that other debt recovery steps should instead be pursued.

[6] The discretion was also challenged on the grounds that the Associate Judge erred:

- By taking into account and/or giving excessive weight to the following irrelevant considerations:
 - (i) The potential costs of the liquidation of the respondent.

³ *90 Nine Ltd v Luxury Rentals NZ Ltd*, above n 1.

- (ii) That the potential costs of the liquidation would outweigh the amount of the debt.
- By failing to take into account and/or giving insufficient weight to the following relevant considerations:
 - (i) That the level of the debt relied on by the appellant was at the prescribed amount as set out in regulation 5 of the Companies Act 1993 Liquidation Regulations 1994 to issue a valid statutory demand resulting in a statutory presumption of an inability to pay debts.

Appellant's argument

[7] Mr Norling's written submissions for the appellant carefully reviewed the statutory framework⁴ drawing attention to the fact that the long title to the Act includes the objective of providing "straightforward and fair procedures" for realising and distributing the assets of insolvent companies. He also reviewed the relevant authorities some of which we refer to in our discussion below. He accepted that it is well established that, even when all the statutory prerequisites for a liquidation order are satisfied, the court reserves the right to refuse to put a company into liquidation. However he contended that the general rule is that where those requirements have been met the applicant is presumptively entitled to an order.

[8] While unable despite research to find any indication in the legislative materials as to whether Parliament intended the prescribed amount in the Companies Act 1993 Liquidation Regulations 1994⁵ to also prescribe the minimum amount of debt for which a liquidation order would be appropriate, Mr Norling argued that was the plain meaning of the legislative framework. He submitted that an unsatisfied statutory demand is the most common mechanism in New Zealand by which companies' inability to pay debts is established. If Parliament intended that a liquidation order was not appropriate for the prescribed \$1,000 amount then a validly issued statutory demand for that amount would have no practical purpose.

[9] Mr Norling contended that frequently a creditor will be unable to assess the proportionality of a liquidator's fees to the debt at the point of the commencement of liquidation proceedings. A liquidator's fees may well be zero given that the liquidator

⁴ In particular ss 241, 287 and 289 of the Companies Act.

⁵ See above n 2.

can only receive fees if there are recoveries in the liquidation. It was submitted that a requirement to attempt alternative debt collection options instead of seeking a liquidation order would simply have the effect of increasing the creditor's costs and creating delays. It was said that such alternatives are uneconomic, unavailable or not practical in many cases. The effect would be that the procedure for procuring liquidation would become less "straightforward".

[10] Mr Norling also submitted that it is in the public interest that insolvent companies are investigated and precluded from further trading, which is achieved through liquidation. An outcome where creditors owed small amounts are left with no practical enforcement options would have devastating consequences on small businesses in New Zealand who operate on a high volume of small trades. The prospect of liquidation acts as a sword of Damocles with the consequence that the issue of a statutory demand is an effective debt collection tool in New Zealand. The utility of that remedy would be substantially undermined if the perception in the market was that notwithstanding a failure to comply with the demand a liquidation order might be declined.

Discussion

[11] The nature of the discretion in s 241(4) and the general policy of the Act in that context was made clear by this Court in *Commissioner of Inland Revenue v Newmarket Trustees Ltd*:⁶

[65] While the decision of this Court in *Commissioner of Inland Revenue v Chester Trustee Services Ltd* related to the exercise of the discretion under s 290(4)(c) of the Companies Act, we consider that its approach is equally applicable to the exercise of the discretion under s 241(4). We do not agree with the Associate Judge that the decision is distinguishable. This is clear from the language of Tipping and Baragwanath JJ. Tipping J held:

... the general policy of the (Companies) Act that insolvent companies should be put into liquidation, if a creditor seeks such an order, should not be departed from lightly. To justify such departure there must be some other factor, be it policy, principle or simply the justice of the particular case, which outweighs the prima facie entitlement of the creditor to an order putting the insolvent company into liquidation. If the focus is on the justice

⁶ *Commissioner of Inland Revenue v Newmarket Trustees Ltd* [2012] NZCA 351, [2012] 3 NZLR 207 (footnotes omitted).

of a particular case, the discretion must always be exercised on a principled basis and not on some ad hoc conception of what individual justice might require. All cases involving s 290(4)(c) must in the end come down to a judgment by the Court as to whether the creditor's prima facie entitlement is outweighed by some factor or factors making it plainly unjust for liquidation to ensue. The ground advanced by the insolvent company must be sufficiently compelling to overcome the general policy of the Act with regard to insolvent companies.

Baragwanath J held:

... the insolvency policy of the companies legislation is clear: (1) insolvency results in winding up; and (2) insolvency is proved by inability to establish a substantial dispute over the debt or by way of cross-claim.

[12] In the High Court in *Newmarket Trustees Associate* Judge Bell had similarly to the present case reached the view that the company should not be put into liquidation for reasons which included the absence of any benefit from the requisite expenditure.⁷

As he explained:

[66] It is also helpful to consider the possible conduct and cost of the liquidation. When an assetless taxpayer is put into liquidation on the Commissioner's application, the Commissioner pays the liquidators' remuneration. Where it is clear that the company has no assets and there is no need for further inquiries and investigation, I am advised that the liquidators' remuneration is typically in the range of \$4,000 to \$8,000. In this case I cannot see any benefit to the Commissioner in spending this money on a liquidation.

[67] If there were other creditors and there were assets to be realised and distributed, the amounts of unpaid taxes the Commissioner proves for could be very important in the liquidation. ...

[68] On the exercise of the ultimate discretion, the insolvency of the defendant carries considerable weight. If there were no other factors, there would be an order for liquidation. However, in the circumstances of this case, I cannot see that any benefit would arise from ordering the defendant into liquidation. There are no assets held by the company that could be made available for creditors. The only potential line of inquiry is to pursue the surpluses from the sales of trust properties. The Commissioner does not rely on that as requiring liquidation in this case. ... The costs arising from the company going into liquidation and the lack of benefit outweigh the insolvency factor. The company should not be put into liquidation.

[69] I have come to this decision on the particular facts of this case. Insolvency law is a mix of principle and pragmatism. The Companies Act is to be used in a practical way. It does not require liquidation when that will not serve any useful purpose.

⁷ *Commissioner of Inland Revenue v Newmarket Trustees Ltd* (2011) 25 NZTC 20-030 (HC).

[13] The Associate Judge there noted that when a company apparently holds no assets it may be appropriate to make a winding-up order to allow the affairs of the company to be investigated,⁸ referring to the observation of Chilwell J in *Re Robert Raymond Associates Ltd*.⁹

Justice in this case requires that creditors who cannot get paid by an obviously insolvent company should be given the opportunity of having the Company's affairs investigated by a liquidator.

[14] In *Newmarket Trustees* the Commissioner acknowledged that there had been no conduct on the part of the directors which could lay a foundation for claims against them for breach of their duties as directors.¹⁰ Given that the Commissioner did not press for investigation as a ground for the liquidation order, Associate Judge Bell could not see that putting the company into liquidation would usefully open up any lines of inquiry or give trust creditors any remedies not already available as a result of the bankruptcy of an individual who had been a co-trustee with *Newmarket Trustees*.¹¹

[15] However a more cautious approach was signalled by Rodney Hansen J in *Feltex Carpets Ltd v N&I Investments Ltd*.¹²

A liquidator should normally be appointed if one of the available grounds is made out. The discretion to refuse to put a company into liquidation is to be sparingly exercised ... Even if it is unlikely that there will be any assets available for distribution to unsecured creditors, the Court regards the liquidator as serving useful functions in the investigation of the company's affairs and acting as a guardian of the interests of unsecured creditors — (see *Re Marlborough Sealink Ltd* (1986) 3 NZCLC 99,501 and *Westgold Finance Ltd v Pan Pacific Cameras Ltd* (High Court, Christchurch, M 644/88 11 May 1989, Master Hansen).

[16] We endorse the approach in *Feltex Carpets*. If a creditor elects to seek to recover a debt from a company by utilising the statutory demand process and the debtor fails to respond, then the creditor has the “standing”¹³ to apply to wind up the company. There may be cases where one might wonder at the economic rationality of

⁸ At [41].

⁹ *Re Robert Raymond Associates Ltd* SC Auckland M371/74, 5 June 1975 at 15.

¹⁰ *Commissioner of Inland Revenue v Newmarket Trustees Ltd*, above n 7, at [40].

¹¹ At [47].

¹² *Feltex Carpets Ltd v N&I Investments Ltd* (2006) 3 NZCCLR 714 at [38].

¹³ The term adopted in *Pink Pages Publications Ltd v Team Communications Ltd* [1986] 2 NZLR 704 (HC) at 714.

doing so. However, subject to what we say below, that need not be the concern of the court presented with the creditor's application.

[17] It is for the creditor and the liquidator to exercise the prudential judgement as to whether the cost of pursuing the matter is outweighed by the prospect of the debt ultimately being recovered. And as Mr Norling pointed out, in many cases that is not something which creditors or their legal advisers are able to accurately assess in advance of the liquidation. For example, until the liquidator has access to the company's accounts, the liquidator will not be able to ascertain whether shareholders' current accounts are overdrawn.

[18] Mr Norling acknowledged that there will be instances where it will be uneconomic to continue with the liquidation. The present case would appear to be one example. This Court has the benefit of some further information about the respondent which was not available to the Associate Judge. Upon the filing of the appeal the Registry of this Court wrote to Gilligan Rowe & Associates LP Ltd which was the respondent's registered address in New Zealand enclosing a notice of appeal and inquiring whether its address was the correct address to which correspondence should be addressed.

[19] On 17 June 2019 this Court received a letter from Skeates Law Ltd advising that it acted for Gilligan Rowe & Associates LP Ltd and confirmed that that company's business premises was the registered office and address for service for the respondent. The letter further advised that Skeates Law Ltd had historically acted for Adam Bsisou, the sole director of the respondent and its shareholder. The letter stated:

We can confirm that neither [Gilligan Rowe & Associates LP Ltd] nor ourselves have any instructions from [the respondent] nor its director or shareholder. We also believe that the company is insolvent with no assets.

We also confirm that the sole director has emigrated from New Zealand and we understand that he has no plans to return or to instruct us, [Gilligan Rowe & Associates LP Ltd], or any other party in respect of this matter.

[20] However this appeal is pursued as a matter of principle. Mr Norling advised from the Bar there have been applications for substantially larger sums than the debt in this case in which applications for winding up have been dismissed in the exercise

of the court's discretion by reference to the proportionality ground. He submitted that the decision under appeal creates substantial uncertainty for creditors and their lawyers. Creditors ought to have a clear understanding about how they may enforce debts and the threshold quantum that is appropriate.

[21] It is possible that the Associate Judge may have had in contemplation a scenario where the court's processes might be used in a manner that was seen as an abuse, for example where substantial work was undertaken by liquidators to recover funds which are simply expended in the reimbursement of the fees charged. However proceedings by liquidators, for example under ss 299 and 301 of the Act, are made to the High Court which thereby has some oversight of the litigation. Furthermore the court has the powers of supervision of a liquidation conferred by s 284 and may at any time on application make an order under s 250 terminating the liquidation of the company if it is satisfied that it is just and equitable to do so. Furthermore, instead of the liquidator proposed by the applicant, the court might prefer to appoint the Official Assignee as liquidator in which event s 254 would apply.¹⁴ Hence the prospect of the court's processes being successfully rorted seems remote.

[22] We consider that there is considerable merit in Mr Norling's point that the utility of the statutory demand process would be substantially undermined if corporate debtors perceived that such demands could be ignored with comparative impunity. Hence creditors must have available to them the ability to obtain liquidation orders when there is a failure to respond to a demand. Consequently we consider that the issue of proportionality between the amount of indebtedness and the deployment of an application to wind up a debtor company is one for the creditor and liquidator. Absent the prospect of an abuse of the court's processes, the issue of proportionality is not a relevant consideration for the court in the determination of the application. As the Associate Judge relied on this factor in dismissing the application and because we do not consider there is evidence that this proceeding is an abuse of the court's processes, the appeal must be allowed.

¹⁴ Section 254 of the Companies Act provides that if a company has no assets available for distribution to its creditors and the Official Assignee is the liquidator of the company, the Official Assignee will not be required without the consent of the relevant Minister to carry out any duty or exercise any power in connection with the liquidation if, to do so, would or would be likely to involve incurring any expense.

[23] The appellant did not seek a winding-up order but rather an order quashing the “order dismissing the liquidation application” and a direction that the matter be remitted to the High Court to make such orders as to the appointment of a liquidator or other orders as considered appropriate. The reason for that request was that subsequent to the commencement of this appeal the respondent was removed from the Companies Register as a consequence of it having failed to file its annual return. Therefore in order to obtain an order for liquidation it would be necessary for the matter to be remitted to the High Court so that an order for reinstatement of the respondent to the register could be made.

[24] In those circumstances we allow the appeal and we remit the matter to the High Court for further hearing of the application.

Result

[25] The appeal is allowed.

[26] The proceeding is remitted to the High Court for further hearing.

[27] The respondent must pay costs to the appellant for a standard appeal on a band A basis and usual disbursements.

Solicitors:
Norling Law Ltd, Auckland for Appellant