

**Receivers' Second Report on the State of Affairs of
National Finance 2000 Limited (In Receivership)**

Pursuant to Section 24 of the Receiverships Act 1993

Company Number: 975493

December 2006

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December 2006

Dear Sir/Madam

National Finance 2000 Limited (In Receivership)

Please find attached a further report in relation to National Finance 2000 Limited (In Receivership) pursuant to Section 24 of the Receiverships Act 1993.

A copy of this report has been sent to Covenant Trustee Company Limited and to all investors.

Yours sincerely
National Finance 2000 Limited (In Receivership)



Colin McCloy
Receiver

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Glossary

- “Covenant” Covenant Trustee Company Limited
- “IRD” Inland Revenue Department
- “Payless Group” All of the following:
 - Payless Cars Limited (In Receivership & In Liquidation)
 - Payless Cars (Ormiston) Limited (In Receivership & In Liquidation)
 - Payless Cars (North Shore) Limited (In Receivership & In Liquidation)
 - Payless Cars (Papakura) Limited (In Receivership & In Liquidation)
 - Payless Cars (Henderson) Limited (In Receivership & In Liquidation)
 - Payless Cars (Greenlane) Limited (In Receivership & In Liquidation)
 - Great North Management Limited (In Receivership & In Liquidation)
- “NatFin” or “Company” National Finance 2000 Limited (In Receivership)
- “Book” NatFin’s motor vehicle finance receivables book

1 Introduction

- This is our second formal report in relation to National Finance 2000 Limited (“NatFin”) prepared pursuant to Section 24 of the Receiverships Act 1993.
- We were appointed receivers of NatFin on the evening of 9 May 2006 by the Trustee, Covenant Trustee Company Limited (“Covenant”) under the terms of the Debenture Trust Deed dated 14 April 2000.
- This report is subject to the restrictions set out at Appendix I. In particular, all information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993. Furthermore, in preparing this report we have relied upon and not independently verified or audited information or explanations provided to us.

2 Events following our appointment

- As previously advised, following our appointment we determined to continue the Company’s operations in a limited capacity to preserve the value in the Book whilst we determined the appropriate realisation method. Since our last report we have focussed on:
 - Realising key assets, including the sale of the Book;
 - Investigating the affairs of the Company; and
 - Issuing an interim distribution to secured investors.
- We have formally written to the investors of NatFin on a number of occasions to advise them as to progress with the receivership and our assessment of potential recoveries from the receivership.
- Our latest estimates are that secured investors could recover 44% to 48% of their investments. Regrettably, subordinated investors and other unsecured creditors will not recover anything from the receivership.
- In light of the poor recoveries to investors we have referred the events leading up to receivership to various authorities for investigation.

3 Particulars of debts and liabilities outstanding and requiring to be satisfied from the property in receivership

3.1 Preferential Creditor Claims

- Preferential creditor claims as at 9 May 2006 comprised:
 - Employee entitlements of \$41k relating to salaries and wages and accrued holiday entitlements; and
 - IRD preferential claims of \$152k, relating to GST and RWT.
- Employee preferential entitlements have been settled for all but two employees. We are currently confirming the IRD position.

3.2 Secured Investors

- Secured debenture investors totalled \$21.8m as at 9 May 2006. On 16 October 2006, we paid an interim distribution to secured investors of 30%. Our current estimates indicate that secured debenture investors could recover between 44% and 48% of the original investment. No interest will accrue or will be payable.

3.3 Unsecured Liabilities

- Unsecured claims against the assets of NatFin include:
 - Subordinated investors of \$3.0m as at 9 May 2006;
 - Inland Revenue Department claims of \$35k;

- Other accounts payable of \$394k;
- Accrued interest to investors of \$279k; and
- Provision for taxation of \$134k.

- As stated in our letter to subordinated investors and our previous report, we regret that there will not be any amounts available for payment to subordinated investors and other unsecured creditors from the assets in receivership.

4 Particulars of assets and disposals of receivership property

- The Statement of Financial Position for NatFin as at the date of receivership, 9 May 2006, is summarised in the table opposite. The position showed positive shareholders' funds of \$56k. As previously advised, upon review of the quality of the assets, our view is that these accounts should have shown a substantial negative equity position.

4.1 The Book

- The most significant asset at appointment was the Book. As at 9 May 2006, the Book had a gross value of \$27.4m, including \$12.4m (45%) of loans in arrears, closed or written off. After adjustments for unearned interest (\$0.8m), and doubtful debt provisioning/write offs (\$6.5m), the Book had a reported net value of \$20.1m. Due to the high level of arrears we had serious concerns regarding the realisable value of the Book. Whilst determining the most appropriate option for realisation of the Book, we continued to collect loan repayments.
- We note that two loans totalling \$707k, recorded in the Book, have been reclassified as dealer loans for the purposes of this report. These loans were excluded from the sale process undertaken for the Book.
- In July 2006, we called for expressions of interest in the Book. Following a formal due diligence process eight binding offers were received. We commenced negotiations with the highest bidder, and as a result of these negotiations, the Book and the office furniture and equipment were sold for \$7.7m. Total recoveries from the Book including receipts to the date of sale were \$10.8m.

- After considering the value analysis performed, and the economic risks and time required to continue operating the Book, we concluded the offer received represented a better outcome for investors when compared with the risks and costs of a controlled wind down. Settlement of the sale occurred on 6 October 2006.
- Following sale of the Book, the offices of NatFin were closed and all remaining employee contracts were cancelled.

National Finance 2000 Limited	
Management Unaudited Financial Position	
(\$000's)	9 May 2006
Current Assets	
Cash at Bank	58
Trust Account	752
Loan Book	20,143
Dealers Advances	5,059
Prepayments	5
Sundry Receivables	237
	<u>26,254</u>
Current Liabilities	
Accounts Payable	533
Accruals	283
Employee Entitlements	29
Provision for Tax	134
New Investor Funds Held in Trust	752
	<u>1,730</u>
Working Capital Surplus/(Deficit)	<u>24,524</u>
Fixed Assets	512
Investor Advances - Secured	(21,793)
Investor Advances - Subordinated	(2,961)
Term Loan	(226)
Net Assets	<u>56</u>
Total Equity	<u>56</u>

Source: Management unaudited financial statements

4.2 Dealer Loans

- As at the date of our appointment, advances to dealers were reported at a book value of \$5.8m (being \$5.1m per the Company's balance sheet, and a further \$0.7m identified within the Book), comprising \$4.6m to the Payless Group and \$2.7m to other parties, less \$1.5m of doubtful debts.
- Recoveries from the Payless Cars Companies, which are all in receivership and liquidation, will depend on the outcome of the receivership of those Companies. A range of recoveries from \$350k to \$700k has been estimated.
- Analysis has shown that advances to other parties (including some related parties) were substantially overstated in the financial statements. We cannot comment on likely recoveries from these loans, as this may prejudice recoveries. However, we will vigorously pursue recovery of the dealer advances.

4.3 Fixed Assets

- The Company's reported fixed assets as at the date of our appointment are summarised in the table opposite. The assets relate primarily to two apartments in a motel complex. These apartments are subject to a registered mortgage to a third party. Recent valuations and a conditional sale and purchase agreement for the apartments indicate that there is unlikely to be any equity remaining after repayment of the mortgage.
- Office equipment, computer equipment and leasehold improvements relate to equipment held at the Company's New Lynn sites. The majority of these assets were included with the sale of the Book, therefore we expect no further recoveries.
- Motor Vehicles related to those vehicles driven by staff of NatFin. These vehicles have been realised or sold to staff. We

expect no further material realisations from vehicles or any other fixed assets.

National Finance 2000 Limited	
Fixed Assets as at 9 May 2006	
(\$000's)	
Leasehold Improvements	7
Land & Buildings (NM Apts)	432
Office Furniture	19
Motor Vehicles	33
Computer Software & Equipment	21
Total Fixed Assets	512

Source: Unaudited Management Accounts

4.4 Other Assets

- Funds held on trust relating to investments received from March 2006 (when investment was suspended) until the date of our appointment were refunded to the prospective investors in May 2006.
- Analysis of reported prepayments and sundry receivables (\$237k) revealed that this balance was comprised primarily of further advances to the Payless Group and other related entities. No realisations are anticipated.
- A related entity had provided a guarantee to Covenant secured over residential properties, which have now been sold. On 10 November 2006, \$300k was received from this party from the proceeds of the property sales. We do not anticipate further material recoveries from this source; however, we have requested further information from the entity in order to ascertain the final position.
- At the date of this report we have not become aware of any other assets of significance.

5 Receipts and payments

- The table below sets out the receipts and payments for the Company from 9 May 2006 to 8 November 2006.

National Finance 2000 Limited (In Receivership)	
Receipts and Payments Summary	
9 May 2006 to 8 November 2006	(\$'000)
<i>Receipts</i>	
Cash on hand at appointment	12
Funds held on trust at appointment	757
Loan repayments	2,919
Recoveries from repossessed vehicles	146
Sale of finance ledger	7,700
Dealer loans recovered	53
Sale of fixed assets	1
Interest received	57
Rent received	16
	11,660
<i>Payments</i>	
Staffing costs	344
Premises and utilities	34
Repossessed vehicle costs	86
Loan management costs	39
IT costs	64
Other	44
Repayment of trust monies	775
Distributions to investors	6,549
Distributions to secured parties	115
Distributions to preferential creditors	38
Related party advances	31
Receivers' fees & disbursements	295
Legal fees & disbursements	8
Other professional fees	18
GST	93
	8,533
Net Funds Held	3,128

6 Conclusion

- Our updated estimate of net funds available to secured debenture stock investors ranges from \$9.6m (44%) to \$10.4m (48%). We stress that this is an estimate only and is dependant upon realisations achieved for the remaining assets of the Company and the Payless Group.
- An interim distribution of \$6.5m was made to secured investors on 17 October 2006, representing a 30% dividend on secured amounts.
- We are currently making preparations to issue a further interim dividend early in 2007, with any balance to be distributed at the conclusion of the receiverships.

6.1 Strategy Going Forward

- As NatFin's major asset, the Book, has now been realised, we will now focus on obtaining maximum value for the remaining assets of the Company and the Payless Group. Activities going forward will include:
 - Minor residual issues arising from the sale of the Book;
 - Resolution of Payless Group legal/GST issues;
 - Pursuit of third party dealer loans, related party advances, and recovery of monies obtainable under guarantees provided by the interests of Allan Ludlow; and
 - Analysis of the activities/records of the Company/Payless Group to identify further issues and opportunities for recovery.

6.2 Other Matters

- There are a number of matters that have come to our attention since our appointment that raise questions regarding the operations of NatFin and the Payless Group prior to the receiverships. We continue to co-operate with various government authorities who are conducting investigations and we are also undertaking our own enquiries.
- We trust this report is of assistance to the Companies Office, Covenant and to investors.
- Should investors or other stakeholders have any queries arising from this report please contact us in writing via our website, private bag or facsimile addresses.

Appendix I

Restrictions

- All information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993.
- The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.
- We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Company. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.
- In addition the following should be noted:
 - Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
 - Unless otherwise stated all amounts are stated in New Zealand dollars.