

National Finance 2000 Limited (In Receivership)

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

Pursuant to Section 23 of the Receiverships Act
1993

9 July 2006

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9 July 2006

Dear Sir/Madam

National Finance 2000 Limited (In Receivership)

Please find attached our report in relation to National Finance 2000 Limited (In Receivership) pursuant to Section 23 of the Receiverships Act 1993.

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

Yours sincerely
For National Finance 2000 Limited (In Receivership)



Colin McCloy
Receiver

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1 Introduction

1.1 Overview

- This is our formal report in relation to National Finance 2000 Limited (“NatFin”) prepared pursuant to Section 23 of the Receiverships Act 1993.
- 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 initial assessment of potential recoveries from the receivership.
- We were appointed receivers of NatFin on the evening of 9 May 2006 by the Trustee, Covenant Trustee Company Limited (“the Trustee”) under the terms of the Debenture Trust Deed dated 14 April 2000.
- Since our appointment we have taken control and secured the assets of NatFin and the related Payless Cars Companies, over which we were appointed receivers on 10 May 2006. Our actions have included;
 - Regular communications with investors and the Trustee;
 - Securing the key assets;
 - An initial Investigation of the affairs of NatFin and Payless Cars;
 - Formulating and commencing asset realisation processes for key assets;
 - Overseeing NatFin’s operations to ensure efficient and effective management of the NatFin loan book and in particular loan repayments and management of overdue debts.
- Our latest estimates are that secured investors could recover 30% to 50% of their investments. Regrettably subordinated investors are unlikely to 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.
- We expect that by the end of the September 2006 quarter we will be in a position to communicate the likely timeframe for pro rata principal distributions to investors.

2 National Finance Receivership

2.1 Financial Position and Recoveries to Investors

- The table opposite summarises the unaudited financial position of NatFin as at 9 May 2006, the date of our appointment as receivers. The Statement of Financial Position as at that date showed positive shareholders' funds of \$56k. However, on review of the quality of the assets, including the Loan Book and Dealer Advances, our view is that the Loan Book and Dealer Advances are materially overstated and therefore the financial statements should properly show a substantial negative equity position.
- On 2 June 2006 we wrote to investors and advised that in light of NatFin's financial standing, our preliminary estimate was that secured debenture investors could receive between 30% and 50% of their original investment and that regretfully subordinated investors would not receive any distribution from the assets in receivership. We have not changed our view in relation to this position.
- We discuss the major assets and liabilities in the subsections that follow.

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

2.2 The Loan Book

- The table opposite summarises the Loan Book as at 9 May 2006. At that stage the Loan Book (net of unearned interest and write offs and provisions) was recorded at \$20.1m. Our key observations in relation to the position as at 9 May 2006 are as follows:

 - Only \$7.7m or 28% of the Loan Book was current with no arrears;
 - Arrears total \$12.4m, or 45% of the Loan Book. Of these \$9.3m had payments that were over 150 days overdue, \$1.3m categorised as “Gone No Address” and \$1.6m loans that had been written off.
- In light of the level of arrears we believe that the allowance for write offs and provisions was inadequate and therefore the \$20.1m book value of the Loan Book was overstated.
- We have retained the core credit control team at NatFin so that loan arrears continue to be followed up through the appropriate channels, including repossessing cars and pursuing borrowers through the Courts. We will of course vigorously pursue arrears with a view to maximising returns to investors.
- We have commenced a sales process for the Loan Book. We have received a large number of unsolicited enquiries and have advertised for expressions of interest to be received by 4pm Friday 14 July. A high level information memorandum has been prepared and is in the process of being issued to interested parties, who have until 28 July 2006 to submit indicative non binding bids. The bids will be reviewed and a number of bidders invited to complete due diligence and submit legally binding bids.

National Finance 2000 Limited			
Management Unaudited Loan Book			
As at 9 May 2006			
(\$000's)	Current	Arrears	Balance
Current Loans	7,676	-	7,676
1 - 30 Days Overdue	1,841	42	1,883
31 - 60 Days Overdue	800	49	849
61 - 90 Days Overdue	443	62	505
91 - 150 Days Overdue	463	98	561
150+ Days Overdue	3,569	9,272	12,841
Gone No Address	216	1,314	1,530
Loans Written Off	(33)	1,580	1,546
Total	14,975	12,416	27,391
Unearned Interest			(782)
Write Offs and Provisions			(6,465)
Balance per Accounts			<u>20,143</u>

Source: Management Unaudited Loan Book Trial Balance

2.3 Dealers Advances

- As at 9 May 2006, the book value of assets classed as Dealer Advances totalled \$5.1m. The table opposite classifies Dealer Advances between advances to the Payless Cars Companies and other parties.
- All Payless Cars Companies are either in receivership or liquidation. Recoveries for advances will be at a substantial discount to book values. We discuss the receiverships of the Payless Cars Companies in further detail in the following section.
- A number of Non-Payless Cars Advances are to companies that have either been struck off the Companies Register, or are in liquidation. In addition there are a number of loans to parties associated with Allan Ludlow. It is clear that based on the age of loans, documentation and the borrowing parties, recoveries will be at a substantial discount to book value as at 9 May 2006.
- Again we will vigorously pursue recovery of the dealer advances with a view to maximising returns to investors.

National Finance 2000 Limited Dealers Advances Management Unaudited Position (\$000's)	As at 9 May 2006 Unaudited Book Value
Payless Cars Companies	4,601
Provision for Doubtful Debts	<u>(1,433)</u>
Net Book Value	<u>3,167</u>
Non-Payless Cars Advances	1,911
Provision for Doubtful Debts	<u>(19)</u>
Net Book Value	<u>1,892</u>
Book Value as at 9 May 2006	<u>5,059</u>

Source: Unaudited Management Accounts

2.4 Fixed Assets

- Fixed assets had a book value of \$512k as at 9 May 2006. The table below shows an analysis of each fixed asset category. Our key observations follow.

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

- Land and Buildings of \$432k relate predominantly to two apartments owned by NatFin, located in Newmarket. We are informed that these properties were acquired as settlement under one of the dealer loans. The properties are secured by a bank term loan and based on a recent valuation it is unlikely that NatFin will recover any value from the apartments.
- Office equipment, computer equipment and leasehold improvements relate to assets held at NatFin's New Lynn sites. These assets are required by the receivers to continue with collections of the Loan Book and preserve value. They will be sold in due course.
- Motor Vehicles relate to those vehicles driven by staff of NatFin and will be sold in due course.

2.5 Other Assets

- As at the date of our appointment, the balance of other assets was \$242k, including prepaid rent of \$5k and sundry receivables of \$237k.
- Sundry receivables relates predominantly to further amounts owing from Payless Cars Companies. Given that the Payless Cars Companies are in receivership or liquidation we do not anticipate significant recoveries.
- As at 9 May 2006 funds held in the Solicitor's Trust account totalled \$752k. Those funds related predominantly to new monies invested in the period prior to receivership when difficulties at NatFin became apparent. Following confirmation from our legal advisers we returned the funds to the relevant investors on 26 May 2006.
- The Cabtal Family Trust, which is associated with Allan Ludlow, provided an unconditional guarantee to investors in NatFin. The Cabtal Family Trust owns three properties, over which a bank has a first mortgage. The Trustee has a second mortgage over two of the properties, for the ultimate benefit of investors. We have obtained valuations in respect of the properties and on that basis believe there may be some surplus from the sale for investors. A sales process has commenced for the properties.
- As yet we have not become aware of any other assets of significance.

2.6 Preferential Creditor Claims

- Preferential creditor claims as at 9 May 2006 related to:
 - Employee entitlements of \$41k relating to salaries and wages and accrued holiday entitlements; and
 - IRD preferential claims of \$152k, relating to GST and RWT.

2.7 Secured Investors

- Secured debenture investors totalled \$21.8m as at 9 May 2006. As per our letter to investors dated 2 June 2006, our preliminary estimates indicate that secured debenture investors could recover between 30% and 50% of the original investment. No interest will accrue or will be payable.

2.8 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 investors dated 2 June 2006, we regret that there are unlikely to be any amounts available for payment to subordinated investors and other unsecured creditors from the assets in receivership.

3 Payless Cars Companies Receiverships

3.1 Appointment

- We were appointed receivers of the Payless Cars Companies under security agreements in favour of NatFin.
- The Payless Cars Companies had suffered significant losses in the year prior to the appointment of receivers, had liabilities in excess of assets and it was therefore determined that continued trading was not a viable option.

3.2 Initial activities

- Upon appointment, we attended the sites of the Payless Cars Companies to secure the assets and records.
- The main assets, being motor vehicles were transferred to one site at the Payless Cars Albany yard. This was considered the most secure site.
- Minimal non-vehicle assets held on the Payless Cars Companies sites were transported offsite and are in the process of being sold via auction.

3.3 Motor Vehicle Stock

- At 10 May 2006 approximately 400 cars were held across the Payless Cars Companies, the vast majority of which were relocated to the Albany car yard.

- A third party has claimed specific security over 170 vehicles, of which 151 were in the possession of the Payless Cars Companies, and a general security interest in the remaining 249 vehicles. We were unable to reach agreement as to the claim and the matter has been referred to the Courts.
- It was agreed that the third party should sell the 170 vehicles on which it claims a specific security; and that we as receivers should sell the remaining 230 vehicles. All proceeds of sale, net of direct costs, are being held in solicitors' trust accounts pending resolution of the respective legal claims.
- Following analysis of the realisation options available we determined that a receivers' sale of the 249 vehicles would be undertaken at the Albany site. Former employees of the Payless Cars Companies were employed to assist with the sale.
- The sale concluded with 148 of the 249 available vehicles being sold during the receivers' sale. The remaining residual vehicles are being sold via auction. It was not economical to continue the sale for the remaining vehicles at the Albany premises.
- There are a number of additional vehicles still held by parties claiming liens and former employees which the receivers are in the process of recovering.
- Pending resolution of the legal issues, it is difficult to estimate likely realisations from the Payless Cars receiverships. However recoveries are likely to be at a substantial discount to the \$3.2m book value of advances from NatFin to the Payless Cars companies.

4 Other Matters

4.1 Referral to Government Authorities

- In light of the poor level of recoveries to investors we have referred the events leading up to receivership, to various authorities for investigation.
- We are restricted by the level of comment that we are able to give regarding the matters being investigated by the authorities, as we do not want to prejudice investigations.

4.2 Timing of a Distribution to Investors

- We are conscious that investors wish to know the potential timing of pro rata principal distributions. The timing of a pro rata principal distribution will be determined by the success or otherwise of selling the Loan Book. We expect that by the end of the September 2006 quarter we will be in a position to communicate the likely timeframe for pro rata principal distributions to investors.

4.3 Concluding Remarks

- We trust this report is of assistance to the Companies Office, the Trustee and to investors.
- We have received the full cooperation of the Directors throughout the course of the receivership.
- We have received a high volume of correspondence from investors, which we have endeavoured to reply to in a timely manner. 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.