

Receivers' First Report on the State of Affairs of
Payless Cars Limited (In Receivership)
Payless Cars (North Shore) Limited (In Receivership)
Payless Cars (Ormiston) Limited (In Receivership)
Payless Cars (Papakura) Limited (In Receivership)

Pursuant to Section 23 of the Receiverships Act 1993

Company Numbers: 690129
1573994
1665235
1539673

10 July 2006

Registrar of Companies
Companies Office
Private Bag 92061
Auckland Mail Centre
AUCKLAND

10 July 2006

Dear Sir/Madam

Payless Cars Limited (In Receivership) (“PCL”)
Payless Cars (North Shore) Limited (In Receivership) (“PCNSL”)
Payless Cars (Ormiston) Limited (In Receivership) (“PCOL”)
Payless Cars (Papakura) Limited (In Receivership) (“PCPL”)
- together “the Companies”

Please find attached our report in relation to the Companies pursuant to Section 23 of the Receiverships Act 1993.

Yours sincerely

Payless Cars Limited (In Receivership)
Payless Cars (North Shore) Limited (In Receivership)
Payless Cars (Ormiston) Limited (In Receivership)
Payless Cars (Papakura) Limited (In Receivership)

Colin McCloy
Receiver

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1 Introduction

- We, Colin Thomas McCloy and John Anthony Waller, Chartered Accountants of Auckland, were appointed receivers of Payless Cars Limited, Payless Cars (North Shore) Limited, Payless Cars (Ormiston) Limited and Payless Cars (Papakura) Limited (together “the Companies”) by National Finance 2000 Limited (In Receivership) (“NatFin”) on 10 May 2006.
- We were appointed under the terms of General Security Agreements (GSAs) dated 1 December 2004, 1 December 2004, 2 March 2006 and 1 December 2004 respectively, giving NatFin a security interest over all of the assets, property and undertakings of the Companies.
- This report has been prepared by us in accordance with and for the purpose of Section 23 of the Receiverships Act 1993 (“the Act”). It is prepared for the sole purpose of reporting on the state of affairs with respect to the property in receivership and the conduct of the receiverships.
- In compiling this report we have relied on the accuracy of all relevant information provided by the management of the Companies. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.
- All information contained in this report is for the confidential use of the parties to which it is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993, and is not to be disseminated or passed to any other person without our prior written authority or in accordance with law.
- We reserve the right (but will be under no obligation) to review this report in the light of any information which now exists but becomes known to us after the date of this report.

2 Events leading to our appointment

- The Companies had suffered significant losses and had liabilities in excess of their assets.
- Receivers were appointed under NatFin’s security at the request of the Companies’ director.

3 Events following our appointment

- Upon appointment, we attended the sites of the Companies, located in Papakura, Otahuhu, Ormiston, and Albany, to secure the assets and records.
- The main assets, being motor vehicles, were transferred to the Companies’ Albany yard as this was considered the most secure site.
- Minimal non-vehicle assets held on the Companies’ sites were transported offsite to secure premises to be held pending determination of the most appropriate method of realisation.

4 Particulars of debts and liabilities outstanding at the date of receivership and requiring to be satisfied from the property in receivership

- The reported liabilities of the Companies immediately prior to the date of receivership are summarised in the table below.

Payless Cars Companies					
Reported Liabilities	Payless Cars	Payless Cars	Payless Cars	Payless Cars	
Draft Unaudited	Limited	(North Shore)	(Ormiston)	(Papakura)	
As at 9 May 2006	Limited	Limited	Limited	Limited	Total
(\$000's)					
Secured Liabilities					
National Finance 2000 Limited	82	2,155	907	367	3,511
	82	2,155	907	367	3,511
Preferential Creditors					
Unpaid wages	1	3	3	1	7
Unpaid commission	1	7	2	0	10
Employee leave entitlements	6	16	10	6	38
	8	25	15	7	56
Unsecured Creditors					
Bank overdraft	-	3	-	-	3
Trade creditors	138	136	128	195	597
Related party creditors	634	6,032	2,487	1,075	10,227
Related party advances	-	131	-	62	193
Shareholder current account	-	-	-	2	2
	772	6,302	2,615	1,334	11,023
Total Reported Liabilities	862	8,483	3,536	1,709	14,589

Source: Unaudited financial statements and management information

4.1 Secured Creditor claims

- NatFin had advanced funds to the Companies for the purpose of purchasing motor vehicle inventory. Prior to the date of receivership reported outstanding advances totalled \$3.5m.

4.2 Preferential Creditor Claims

- Preferential claims as at 9 May 2006 have been calculated based upon the Companies' payroll records. Due to contractual issues, the position of employees with respect to the entity under which these entitlements fall is yet to be finalised.

- We note that the position in respect of the Inland Revenue Department ("IRD") is yet to be finalised. The receivers are in discussions with the IRD regarding un-filed returns.

4.3 Unsecured liabilities

- The majority of unsecured creditor amounts reported are balances outstanding between the Companies (for vehicle sales) and to other related entities. The majority of these entities are now in either receivership or liquidation.
- All known creditors of the Companies as at the date of receivership, as per the Companies records, were sent a letter confirming the receiverships and requesting submission of a creditor claim form. As further creditors are identified this documentation is distributed as required.

5 Particulars of assets and proposals for the disposal of receivership property

- The reported assets of the Companies immediately prior to the date of receivership are summarised in the table below.

Payless Cars Companies					
Reported Assets Draft Unaudited As at 9 May 2006 (\$000's)	Payless Cars Limited	Payless Cars (North Shore) Limited	Payless Cars (Ormiston) Limited	Payless Cars (Papakura) Limited	Total
Fixed Assets	1	310	53	8	373
Cash at bank	2	10	4	1	16
Inventory	113	2,065	779	375	3,332
Related party debtors	557	3,973	2,657	537	7,725
Related party advances	10	-	31	-	41
GST receivable	35	327	107	81	551
Other	32	139	39	18	228
Total Reported Assets	750	6,825	3,670	1,020	12,266

Source: Unaudited financial statements and management information

5.1 Fixed Assets

- The table below shows a summary of each fixed asset category.

Payless Cars Companies					
Fixed Assets Draft Unaudited As at 9 May 2006 (\$000's)	Payless Cars Limited	Payless Cars (North Shore) Limited	Payless Cars (Ormiston) Limited	Payless Cars (Papakura) Limited	Total
Leasehold improvements	1	211	43	2	257
Signage	-	64	8	3	74
Office furniture/equipment	0	13	3	2	19
Land and buildings	-	10	-	-	10
Plant and equipment	-	9	-	-	9
Computer hardware/software	0	3	-	1	4
Total Reported Assets	1	310	53	8	373

Source: Unaudited financial statements and management information

- The majority of the Companies' fixed assets comprise leasehold improvements and signage on the Companies various sites, for which it is unlikely value can be realised.
- The remaining fixed assets present at the Companies' sites were secured upon appointment and have/will be sold via an auction process.

5.2 Motor Vehicle Stock

- At 10 May 2006 approximately 400 cars were held at the Companies' sites, 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 Companies at the date of receivership, and a general security interest in the remaining approximately 249 vehicles.
- It was agreed that the third party should sell the 151 vehicles over which it claims a specific security; and that we as receivers should sell the remaining vehicles. All proceeds of sales by both parties, net of direct costs, are being held in trust 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 Companies were employed to assist with the sale.
- The sale concluded with 148 of the 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 which the receivers are in the process of recovering.
- Pending resolution of the legal issues, it is difficult to estimate likely realisations from the Companies' inventory. However recoveries are likely to be at a substantial discount to the \$3.3m book value of the inventory.

5.3 Other Assets

- As with unsecured liabilities, the majority of the other assets of the Companies relate to balances outstanding between the Companies (for vehicle sales) and to other related entities. The majority of these entities are now in either receivership or liquidation. Accordingly, significant recoveries are not anticipated from these balances.
- GST refunds of \$551k are reported as assets of the Companies. As returns were not filed for a number of months prior to the appointment of receivers, we are currently in discussions with the IRD in order to clarify and finalise the position. Until these discussions are complete, we are unable to estimate the likely recoveries from the reported GST position.
- As at the date of this report we have not become aware of any other assets of significance.

6 Amounts likely to be available for payment to creditors other than creditors of the Companies having statutory preferential claims

- Unfortunately, as we believe the realisations from the receiverships will be insufficient to meet the secured liabilities of the Companies, there are unlikely to be any amounts available for payment to unsecured creditors from the assets in receiverships.

7 Other matters

- The directors and management of the Companies co-operated fully in making available the information required by the receiver to complete this report.
- Should creditors or other stakeholders have any queries arising from this report please contact us in writing via our private bag or facsimile addresses.