

**Receivers' Fourth 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

January 2008

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

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Level 22 Reception
Level 8 Mail Centre
Private Bag 92162
Auckland
New Zealand
www.pwc.com/nz/NF2000
Facsimile +64 9 355 8013

January 2008

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 an update has been provided 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)
- “Loan Book” NatFin’s motor vehicle finance receivables book

1 Introduction

- This is our fourth formal report in relation to National Finance 2000 Limited (“NatFin”) prepared pursuant to Section 24 of the Receiverships Act 1993. 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 receivership.
- 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 Loan Book whilst we determined the appropriate realisation method. Since our last report we have focussed on:
 - Realising secondary assets;
 - Investigating the affairs of the Company; and
 - Issuing a further interim distribution to secured investors.
- We have formally written to the investors of NatFin 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 46% to 48% of their investments. Regrettably, subordinated investors and other unsecured creditors will not recover anything from the receivership.
- As previously advised, we have referred a number of concerns to a range of authorities who continue to investigate the demise of the company. We continue to co-operate with these authorities.

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 \$157k, relating to GST and RWT.
- These entitlements have been settled.

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%. On 9 March 2007, we paid a further interim distribution to secured investors of 10%.
- Our current estimates indicate that secured debenture investors could recover between 46% and 48% of the original investment, inclusive of distributions to date. Accordingly, we estimate a further final distribution of between 6% and 8% at the conclusion of the receivership. 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 previous reports, 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 Loan Book

- The most significant asset at appointment was the Loan Book. As noted in our previous reports, due to the high level of arrears we had serious concerns regarding the realisable value of the Loan Book. Whilst determining the most appropriate option for realisation of the Loan Book, we continued to collect loan repayments.
- In July 2006, we called for expressions of interest in the Loan Book. Following a formal sale process, and after considering value analysis performed and the economic risks, costs and time required for continued operations, the Loan Book and the Company's office furniture and equipment were sold for \$7.7m in October 2006. Total recoveries from the Loan Book including receipts to the date of sale were \$10.8m.
- Following sale of the Loan Book, the offices of NatFin were closed and all remaining employee contracts were cancelled.
- We note that two loans totalling \$707k, recorded in the Loan Book, were reclassified as dealer loans for the purposes of this report. These loans were excluded from the sale process undertaken for the Loan Book.

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 Loan Book), comprising \$4.6m to the Payless Group and \$2.7m to other parties, less \$1.5m of doubtful debts.

- Recoveries from the Payless Group, which are all in receivership and liquidation, will depend on the outcome of the receivership of those companies. A range of recoveries from \$680k to \$930k has been estimated.
- Analysis has shown that advances to other parties (including some related parties) were substantially overstated in the financial statements. We have vigorously pursued recovery of the dealer loans, and note that a number of these have been collected or are now subject to settlement arrangements.
- Included in Dealer Loans were deposits on apartments being built in Fiji. We are seeking to have these deposits returned.
- Further realisations from Dealer Loans are being pursued through formal recovery actions, including Court proceedings. For example, there is a legal dispute around the Fiji apartments that will not be resolved for at least six months.

4.3 Fixed Assets

- The Company's reported fixed assets as at the date of our appointment are summarised in the table below. The assets relate primarily to two apartments in a motel complex. These apartments were subject to a registered mortgage to a third party and were sold by the mortgagee. No equity remained after repayment of the mortgage.

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

- 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 Loan Book.
- Motor Vehicles related to those vehicles driven by staff of NatFin. These vehicles have been realised or sold to staff. No further recoveries will be made.

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 are currently confirming 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 2007.

National Finance 2000 Limited (In Receivership)	
Receipts and Payments Summary	
9 May 2006 to 8 November 2007	(\$'000)
<i>Receipts</i>	
Cash on hand at appointment	12
Funds held on trust at appointment	757
Loan repayments	2,914
Recoveries from repossessed vehicles	150
Sale of finance ledger	7,700
Dealer loans recovered	543
Payment under guarantee	300
Sale of fixed assets	1
Interest received	153
Rent received	16
	12,545
<i>Payments</i>	
Staffing costs	344
Premises and utilities	55
Repossessed vehicle costs	92
Loan management costs	40
IT costs	73
Other	44
Repayment of trust monies	775
Distributions to investors	8,727
Distributions to secured parties	115
Distributions to preferential creditors	198
Related party advances	46
Receivers' fees & disbursements	951
Legal fees & disbursements	127
Other professional fees	23
GST	198
	11,809
Net Funds Held	736

6 Conclusion

- Our updated estimate of net funds available to secured debenture stock investors ranges from \$10.0m (46%) to \$10.5m (48%). This is an increase from our last estimate, of 44% to 47%. 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. On 9 March 2007, a second interim distribution of \$2.2m was made to secured investors, representing a further 10% dividend.
- We will issue a final dividend, estimated at between 6% and 8%, at the conclusion of the receiverships. Most of the remaining assets to be realised are subject to various forms of legal action. As a result we estimate that the receivership can be concluded in the second half of 2008.

6.1 Strategy Going Forward

- As NatFin's major asset, the Loan Book, has now been realised, we are focusing on obtaining maximum value for the remaining assets of the Company and the Payless Group. Activities going forward include:
 - Further pursuit of third party dealer loans, related party advances, and recovery of monies obtainable under guarantees provided by the interests of Allan Ludlow; and
 - Continued co-operation with various government authorities who continue to conduct investigations.

6.2 Investigations

- 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 have referred our concerns to a range of government authorities who continue to conduct investigations.

6.3 Other Matters

- 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. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.
 - The statements and opinions expressed in this report are based on information available as at the date of the report.
 - We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this Report was not brought to our attention, or subsequently comes to light.
- 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.