



Recovery

Dominion Finance Group Limited (In Receivership & In Liquidation)

Receiver's Tenth Report

Pursuant to Section 24 of the Receiverships Act 1993

9 March 2013

This report has been prepared subject to the limitations set out in Section 7.

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1. Introduction

Rod Pardington and Barry Jordan of Deloitte were appointed receivers and managers of all the assets, property and undertakings of Dominion Finance Group Limited (“Dominion” or the “Company”) on 9 September 2008 by Perpetual Trust Limited (“the Trustee”) pursuant to a Trust Deed dated 14 May 1993 and amended 17 April 1997. The appointment was made under the powers contained in the Trust Deed.

On 15 May 2009, William Black and Andrew Grenfell of McGrath Nicols Partners (NZ) Limited were appointed liquidators of Dominion.

We set out below our report on the state of the Company affairs as at 9 March 2013 in accordance with section 24 of the Receivership Act 1993. This report should be read in conjunction with the receivers’ previous reports. A statement of receipts and payments is attached at Section 4.

2. Receivership Details

2.1 Events Leading up to the Appointment of Receivers

As a finance company, Dominion offered securities to the general public secured by debenture stock. Under New Zealand securities legislation, Dominion (the Issuer) was required to appoint a trustee to act on the behalf of all debenture holders. Perpetual Trust Limited is the trustee for Dominion.

The Trustee’s role was to ensure that Dominion was operating in accordance with the terms of the offer in the investment statements, the prospectus, and the Trust Deed.

On 17 June 2008, Dominion suspended repayments of principal and interest to debenture holders and advised that it would be exploring options in respect of its repayment obligations to debenture holders. Dominion’s decision to suspend repayment of debenture stock as it fell due on maturity was a breach of the Trust Deed.

In the 12 week period following the suspension of repayments, Dominion’s initial focus was to try to achieve a plan for recapitalising the Company to enable it to continue trading. It then focussed on trying to develop a proposal for a moratorium while it wound down the loan book.

After a thorough review of Dominion’s position and proposal, the Trustee concluded that receivership was more appropriate for Dominion’s debenture holders.

Rod Pardington and Barry Jordan of Deloitte were appointed receivers and managers of Dominion on 9 September 2008.

2.2 Disposal of Property

Since appointment the receivers have been managing and realising the loan book of Dominion. Property securities have been realised where these realisations represent best value to investors. Action to realise loans has been successful to date, realising more than initial estimates based on registered valuations at the time of our appointment. As part of this we have reviewed and approved proposals for the realisation of a significant number of Dominion securities. The total loan and security realisations were around \$253.5m. Approximately \$196.4m was repaid to first mortgagees. Further settlement funds of \$7.9m were applied to reducing debt owed to an unrelated finance company under the terms of Dominion's security sharing agreement supporting borrowings from that company.

Property realisation strategies have been developed in conjunction with input from property experts and the receivers continue to develop recovery strategies for remaining loans on an individual basis having regard for any relevant issues or constraints.

We have evaluated recovery prospects from guarantors and conducted enforcement action which has realised \$27,010 in the period under review and \$1,429,490 since our appointment. The proceeds of litigation realised a further \$850,000 during the period under review.

Given the confidential nature of Dominion's loan book, the receivers believe releasing specific details of loans and collections to date or other commercially sensitive information would materially prejudice the exercise of their functions and potentially the outcome for secured debenture holders. Accordingly, under Section 23(3) of the Receiverships Act 1993 the receivers omit specific details in this section.

2.3 Amounts Owing to Appointer (on behalf of secured debenture holders)

Dominion had 7,468 investments held by 5,937 debenture holders with approximately \$176.9m invested in secured debentures as at the date of receivership ("Debenture Stock"). All Debenture Stock is secured under a Trust Deed between Dominion and Perpetual Trust Limited dated 14 May 1993, as amended on 17 April 1997.

2.4 Amounts Owing to Other Secured Creditors

Dominion had arranged committed credit facilities with their bankers, Bank of Scotland International Pty Ltd ("BOS") and ASB Bank Limited ("ASB"), totalling \$55.1m secured by Stock Security Certificates which rank equally with Debenture Stock. The receivers' first report dated 9 November 2008 summarises all other security interests registered on the Personal Property Securities Register.

2.5 Amounts Owing to Preferential Creditors

Dominion's preferential creditors were its employees whose claims related to salaries and accrued holiday entitlements. The amount owing at the date of appointment was approximately \$59,000.

The full entitlements have been distributed.

2.6 Amounts likely to be available to secured and other creditors

Soon after our appointment we estimated returns of between 10 cents and 25 cents in the dollar to debenture holders with part of this being subject to realising recoveries from potential claims against directors and a favourable outcome for Dominion from a Court application regarding proceeds of realisations claimed by North South Finance under a security sharing agreement. Previous reports noted that this estimate resulted from a comprehensive review of security priorities combined with extensive independent formal valuation of loan securities by valuers experienced in each asset type and location. In some cases these were cross checked against real estate agent appraisals. We have reviewed the estimated return as at the date of this report and at this point we believe that it remains relevant.

Realisation of the loan book is a substantial and complex exercise. Section 2.2 covers this in more detail.

Realisations to date have achieved our initial estimates and receivership distributions reached the lower end of our initial estimates last April. A further distribution was completed in December 2012 bringing total distributions to debentureholders to date to 12 cents in the dollar.

The majority of Dominion's securities have now been realised, with only a relatively small number remaining. These have significant issues to resolve which are impeding or delaying realisation. Some of these issues have been reported previously, including subsidence, water supply, weathertightness, complex legal issues, and earthquake damage, each requiring time to resolve in a manner that will maximise realisation for Dominion.

The properties remaining to be realised are generally of lower quality than the loans realised to date and the receivers expect some difficulty in realising these properties with an acceptable return. We noted at the time of our appointment that we would not fire sale difficult assets meaning that the timeframe for realising some assets has been extended in order to optimise realisations. In some cases actual or potential litigation has also delayed sales.

The issues compromising the value and timing of the few remaining realisations compromise reliable projection of the amount and timing of further distributions. Further distributions rely on successful realisation of difficult securities and success in litigation currently underway. Having regard for litigation risk and the nature of remaining securities, these outcomes cannot be reliably predicted and potential recoveries could therefore vary significantly from projections in the closing stages of the receivership. Our best anticipation at this stage is that there is the potential for another

two distributions, similar to the level of previous distributions (of approximately 2.5 cents in the dollar of debt), the first of which we are targeting will be in the first half of the new year.

We do not expect there to be any funds available for payment to Dominion's unsecured creditors.

3. State of Affairs

3.1 Assets Comprising the Property in Receivership

The assets of Dominion principally comprise its loan receivables. The equipment usual for finance company operations (such as leasehold improvements, office equipment, fixtures and fittings) did not represent a significant proportion of total assets.

3.2 Summary of Debts and Liabilities

Particulars of debts and liabilities	NZ \$'000s
<i>Secured Creditors</i> ¹	
Perpetual Trust (for debenture holders)	170,849
Bank of Scotland International Pty Limited	50,536
ASB Bank Limited	4,574
	<hr/>
	225,959
<i>Preferential Creditors</i> ²	
Employees	59
	<hr/>
	226,018
<i>Unsecured Creditors</i>	
Creditors	565
	<hr/>
Principal Balances as at 9 September 2008	\$226,583

Notes:

1. We reviewed and finalised each debenture holder's principal balances in order to make the distributions in May 2009, December 2009, April 2010, February 2011 and December 2012. Under the Trust deed, the principal balances are defined as the debenture holders balance (inclusive of unpaid interest due) at the last date that they were entitled to receive interest before the Company went into receivership.
2. Approximately \$59,000 has been distributed to preferential creditors since appointment. Unsecured creditors were notified of the receivership at appointment and were provided Confirmation of Debt forms to complete.

3.3 Encumbrances over the Property in Receivership

Particulars of encumbrances over the property in receivership are registered on the Personal Property Securities Register (PPSR). The receivers' first report dated 9 November 2008 included details of interests registered on the PPSR.

3.4 Any Default by the Grantor in Making Information Available

We requested a Statement of Affairs from the Company's directors on 10 September 2008. This had not been provided at the time of finalising this report.

4. Receipts and Payments Account

**Receipts and Payments for
Dominion Finance Group Limited (In Receivership & In Liquidation)
for the period 10 September 2012 to 9 March 2013**
 (All figures exclude GST)

Receipts

Net Loan Receipts Net of Payments to First Mortgagees	\$2,941,156
Guarantor Settlements	\$27,010
Interest Received From Banks	\$238,859
Miscellaneous Income	\$80
Proceeds of Litigation Settlement	<u>\$850,000</u>
Total Receipts in the Period	<u>\$4,057,105</u>

Payments

Property Related

Rates & Insurance	\$116,075
Legal - Enforcement, Claims and Disbursements	\$337,946
Contingencies	<u>(-\$112,955)</u>
	<u>\$341,067</u>

Finance Related

GST Paid	\$126,220
Interest Paid to Banks	<u>\$24</u>
	<u>\$126,244</u>

Other

ACC	\$669
Bank fees	\$384
Recoverable Contractor costs	\$4,229
IT Expenses	\$18,760
Electricity	\$546
Legal Fees	\$660
Insurance	\$6,594
Office Expenses	\$3,601
Postage & Mail Outs	\$12,310
Printing & Stationery	\$1,189
Trustee Fees	\$50,421
Trustee Legal Fees	\$8,489
Receivers Disbursements	\$72
Receivers Fees	\$176,381
Receivers Fees - Legal Recoveries	\$69,798
Rent	\$37,050
SADE Liquidator Funding	\$1,000
Telephone & Communications	<u>(-\$8,266)</u>
Wages & Salaries and Contractors	<u>\$102,608</u>
	<u>\$486,494</u>

Distribution

Distribution to Secured Creditors	<u>\$5,649,000</u>
	<u>\$5,649,000</u>
Total Payments in the Period	<u>\$6,602,804</u>

Net Receipts in the Period

(-\$2,545,699)

5. Receiver's Contact Details

The receivers can be contacted at the address below. Enquiries should be directed to:

Email: greg@domfin.co.nz
Phone: +64 9 306 0407
Facsimile: +64 9 306 0404
Contact Address: Dominion Finance Group Limited (In Receivership & In Liquidation)
Deloitte Centre
80 Queen Street
Private Bag 115-033
Shortland Street
Auckland 1140

R G Pardington
Receiver and Manager

6. Glossary

Dominion or Company	Dominion Finance Group Limited (In Receivership & In Liquidation)
The Trustee	Perpetual Trust Limited
SSA	Security Sharing Agreement

7. Important Notice

The information required to complete this report was provided by the directors and employees of the Company and obtained from Company records. Values are based on book values from the financial statements and accounting records prepared by Company personnel.

We have relied on the information provided by the directors and employees of the Company and on Company records in preparing this report.

We take no responsibility for any incorrect information contained in this report that has been supplied by the company, its officers or other persons. This is a report prepared by the receivers in terms of section 24 of the Receiverships Act 1993. This report is not to be reproduced or used for any other purpose without our prior written consent in each case. We do not accept any liability whatsoever to any party from any use of, or reliance on, this report.

Any realisation projections, time taken to complete realisations and related costs were all subject to uncertainty at the time that these projections were prepared. We express no opinion on the likelihood of any projections being achieved. Financial projections are based on assumptions and estimates of future events which cannot be estimated with any certainty. Actual results are likely to be different from projections and the variations could be material since anticipated events frequently do not occur as expected.

In accordance with standard practice neither Deloitte, the receivers, nor any member or employee of Deloitte, undertakes responsibility arising in any way whatsoever to any person (nor provides recourse to receivers' personal assets) in respect of realisation projections, the related commentary on options available to the receivership, any estimate of outcome for creditors, or any other report content including any errors or omissions herein arising through negligence or otherwise however caused.