

## Confidential to Investors

16 March 2015

To all DFG Debentureholders

## By Post

## **DOMINION FINANCE GROUP LIMITED (In Receivership & In Liquidation) Investors' Update Report**

### Introduction

As advised in our previous Investor Update (supplemented by the normal statutory receivers reports we file) the nature of the small number of remaining securities available to Dominion's receivers, and the inherent risks associated with litigation, meant that further distributions could not be easily or reliably estimated. This is still the position; albeit we are now much closer to a conclusion of the receivership given the extent of progress achieved in 2014 within the realisation programme. We have summarised this programme below.

The strategy for this receivership, over what has always been impaired and difficult to sell assets, is well documented. The carefully managed asset realisation programme continued in earnest during 2014, consistent with this strategy. This work, combined with good professional advice, has produced some excellent results in the circumstances, which we have summarised below.

From the perspective of the potential funds available to Investors at the time of our last report, much of the future realisations were to come from litigation. The receivers selected and initiated three separate claims to litigate. No different to what we have said in the past, litigation is expensive and time consuming. It is always imperative to balance the need to fund long-run, expensive litigation to achieve a realisation against the need to return funds more quickly to investors. For that reason we have taken a cautious view of which actions to take and how they will be managed to reach a conclusion..

In this Investor Update we cover the following areas which we envisage will be important to you:

- What recoveries have been achieved since our last update?
- What potential realisations are still available?
- When (and how much) will the next and final distribution be?
- What is the likely estimated final outcome for Investors after the receivership is complete?

## **What recoveries have been achieved since our last update?**

In terms of the tangible security assets, the receivers completed the sale of two vacant lifestyle blocks near Queenstown for values much better than we were provided with early in the receivership when the Queenstown market was very soft.

We have also continued the sales programme for the sub-division known as Te Kowhai (near Taupo) (<http://www.tekowhaikinloch.co.nz>). Ten lots (a mix of vacant sections, development land and a house) have been sold by the receivers. There are 14 separate lifestyle block sections still for sale. A carefully managed and well established sales programme has been underway for 18 months now. Good progress has been made, however the sales programme will likely still take some years to complete, possibly outside the timeframe of other recoveries in the receivership. Unless a suitable sale is achieved for the remaining sections in one line, we expect this asset programme will be transitioned across to the liquidator when the receivership is complete later in the year.

The receivers have also sold four of six apartments in an Auckland complex that is subject to well documented subsidence and weather tightness issues. The final two apartments are being marketed for sale at present.

As well as resolving ongoing litigation, the receivers have continued to negotiate and settle claims with guarantors on loans (or initiate bankruptcy/ liquidation proceedings where necessary). Many guarantors are making instalment repayments which the receivers are overseeing.

Significant work on two claims subject to litigation has achieved settlements, both of which are subject to confidentiality provisions. The larger of these settlements relates to a claim addressing complicated issues with multiple parties. It represents a significant part of the potential final distribution referred to below. This settlement is conditional on a successful outcome from a Court application process to confirm there are no other competing claims. It is therefore important to note that a significant part of the estimated final distribution referred to below is still contingent on this application succeeding.

## **What potential realisations are still available?**

In addition to the continued sell down of the Taupo sections and the Auckland apartments, there are now three remaining realisation projects the receivers are focusing on to bring the receivership to a conclusion.

Following a public tender process, the receivers unconditionally sold a 227 hectare block of 26 separately titled "lifestyle" block sections near Alexandra. This was a difficult asset to sell because of problems with water supply. After good professional local advice we initiated, and then completed, a sales programme in late 2014. However the purchaser failed to settle in December 2014. Despite extensions being granted the receivers had to cancel the contract in February 2015. The significant deposit paid to the receivers was forfeited and a second sales programme is now underway, which is due for completion at the end of March. Depending on the outcome litigation may follow to recoup any shortfall from the original purchaser.

We have noted above that one of the two settlements achieved since our last report is still conditional on a successful outcome from a Court application process to confirm there are no other competing claims. We are currently progressing this and our lawyers advise that this still will take several months to complete.

Another claim has been initiated against another secured creditor who the receivers say recovered funds from a common borrower but in preference to Dominion's registered security. This litigation is at an early stage.

In addition to these three projects, the receivers, with the Trustees approval, have provided funding to Dominion's liquidators to progress another claim against the directors and their insurers (under a Directors

and Officers policy). Our legal advisors determined that it was more appropriate for the liquidators to bring the claim, albeit the receivership has provided input (as well as considerable funding) to the liquidation to pursue the claim in the High Court. This litigation is still at an early stage and is complicated by the fact there are multiple potential claimants, including the FMA, over the insurance policy.

## **When (and how much) will the next and final distribution be?**

The next (and final) distribution will be made after the retirement processes are complete, which will follow shortly after the Court application process referred to above is complete. At this stage we expect this will be in the final quarter of 2015.

Assuming the Court application goes in Dominion's favour, together with the recoveries achieved since our last report, our projections indicate that a further, final, distribution of circa 3.5 cents in the dollar will be available to investors when we retire. This is over and above the 13.5 cent distribution already made to date. This would take the total distribution from the receivership to 17 cents in the dollar, which is in the middle of the original range provided early in the receivership.

We must emphasise that this projected outcome is still very largely dependent on the Court application process going in Dominion's favour. If it does not, or if there are delays, then this will change the outcome.

## **What is the estimated final outcome for investors after the receivership is complete?**

This is more difficult to accurately estimate. To a large part it will depend on recoveries achieved by the liquidator and the outcome of the separate claim made against the directors. In addition, there will be some remaining realisations from guarantors (many repaying under instalment arrangements put in place by the receivers) and possible from the remaining Kinloch sections. The liquidators will provide updates on this in their statutory reports.

## **Further information**

We have previously provided details of the receivership website developed at the time of our appointment ([www.deloitte.com/nz/dominion](http://www.deloitte.com/nz/dominion)). The Receivers' statutory reports are filed on-line at the Companies Office and can be viewed free at the Companies' Office website [www.companies.govt.nz](http://www.companies.govt.nz). We will post further updates and matters of relevance to investors on the receivership website as appropriate. In the interim for past reports containing further information please visit the receivership website [www.deloitte.com/nz/dominion](http://www.deloitte.com/nz/dominion).

If you have questions about your contact details please call +64 9 306 0407, or email [greg@financeservices.co.nz](mailto:greg@financeservices.co.nz) or post to Dominion Finance Group Limited (In Receivership & In Liquidation), Level 4, AMI House, 63 Albert Street, Auckland.

## **Confidentiality**

This report is confidential to the Trustee and secured debenture holders. It 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.

## Concluding comments

Once again Rod and I appreciate the support and patience from investors in the recovery work. We are now in the final stages of the receivership.

Our next, and likely final, update will occur in the final half of this calendar year when we expect the Court application will be complete, along with specific details around the timing and amount of the final distribution.

Yours sincerely

**Dominion Finance Group Limited (In Receivership & In Liquidation)**

A handwritten signature in black ink, appearing to be 'BJ', with a long horizontal line extending to the right.

Barry Jordan  
**Receiver and Manager**

Personal Liability Excluded