

Receivers' Third Report on the State of Affairs of

Five Star Consumer Finance Limited, Company Number: 928786
Beverage Rental Limited, Company Number: 1128688
Vintage Finance Limited, Company Number: 1169283
Vintage Rentals Limited, Company Number: 1169283
(All In Receivership)
together ("the Companies")

For the six month period from 29 February 2008 to 28 August 2008

Pursuant to Section 24 of the Receiverships Act 1993



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

5 November 2008

Five Star Consumer Finance Limited (In Receivership); Vintage Finance Limited (In Receivership); Vintage Rentals Limited (In Receivership); Beverage Rentals Limited (In Receivership); together – “the Companies”

Please find attached our second report in relation to the Companies pursuant to Section 24 of the Receiverships Act 1993. A copy of this report has been sent to the Trustee, Covenant Trustee Company Limited. A separate update to secured debenture holders was sent on 31 July 2008.

Yours faithfully
For the Companies

A handwritten signature in black ink, appearing to read 'Richard D Agnew'.

Richard D Agnew
Receiver

A handwritten signature in black ink, appearing to read 'Anthony D K Boswell'.

Anthony D K Boswell
Receiver

1. Introduction and Restrictions

- We, Richard Dale Agnew and Anthony David Kenneth Boswell, Chartered Accountants of Auckland, were appointed receivers of Five Star Consumer Finance Limited (“Five Star”), Beverage Rentals Limited (“BRL”), Vintage Finance Limited (“VFL”) and Vintage Rentals Limited (“VRL”) together (“the Companies”) by the Trustee, Covenant Trustee Company Limited (“the Trustee”) on 29 August 2007. We were appointed under the terms of the Debenture Trust Deed dated 27 April 2001.
- As the Companies’ operations are intricately combined we have chosen to prepare a joint report for the receiverships as we believe this presents a clearer picture to all parties involved.
- This report has been prepared by us in accordance with and for the purpose of Section 24 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.
- We have relied on forecasts and assumptions prepared by the Companies about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.
- 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.

2. Events Leading to Our Appointment

- Five Star is an Auckland based finance company which had a registered prospectus and issued secured debenture stock to the general public.
- After consultation with Five Star's auditors and advisers, the board of directors concluded that Five Star was unable to operate given the lack of liquidity and the reduced re-investment rate in the market place. As such Five Star's board of directors requested the Trustee appoint receivers to the Companies.

3. Key Events and Notifications following appointment

- Upon appointment, we attended the Companies' premises to secure the assets and records, and commenced determination of the most appropriate method of realisation. Our actions to date have included:
 - a) Securing the key assets;
 - b) Overseeing the Companies' operations to ensure efficient and effective management;
 - c) Formulating and commencing asset realisation processes;
 - d) Management and collection of the Companies' consumer finance ledger until mid March 2008 when it was sold;
 - e) Management and collection of the Companies' vineyard related loan ledgers until mid December 2007 when they were sold;

- f) Ongoing analysis, monitoring and collections relating to the Companies' commercial loan ledgers;
- g) Providing regular communications with investors and the Trustee; and
- h) Ongoing investigations into the affairs of the Companies and liaison with regulatory authorities.

- Our preliminary estimate of returns to secured debenture investors, in October 2007, indicated potential recoveries of 26% to 40% from the assets of the Companies. The preliminary estimate reflected the considerable risks and uncertainties relating to the recoverability of significant loans and receivables.
- Unfortunately, deteriorating market conditions and subsequent events had a material adverse effect on the receivers' ability to recover outstanding loans and realise assets. As a consequence, in March 2008 we revised our estimate of recoveries to secured debenture investors to a range of 20% to 25%. This excludes the outcome of the legal action being brought by the Companies against the directors discussed under Section 7 below.
- We made our first repayment to all secured debenture investors of 17.5 cents in the dollar on 16 April 2008.
- In July 2008 we revised our estimate of recoveries to secured debenture investors to a range of 22.5% to 25% of their outstanding investment, excluding the legal action being brought by the Companies against the directors.

- We made our second repayment to all secured debenture investors of 5 cents in the dollar on 15 August 2008; bringing total repayments to date of 22.5 cents in the dollar.
- Regretfully, unsecured creditors will not recover any funds from the receiverships.

4. Particulars of Assets and Disposal of Receivership Property

- The table below summarises the consolidated total assets of the Companies as at 31 August 2007, based on draft, unaudited management information, as follows:-

| The Companies | | As at |
|---------------------------------|------|---------------|
| Statement of Financial Position | | 31 August |
| Draft and Unaudited | Note | Total |
| | | (NZD'000) |
| Loan Books | 4.1 | 65,520 |
| Provision for Doubtful Debts | | 1,018 |
| Intergroup Advantages | 4.2 | 7,457 |
| Accounts Receivable | 4.3 | 728 |
| Fixed Assets | 4.4 | 480 |
| Other | | 20 |
| Total Assets | | 73,187 |

- For confidentiality and commercial reasons we are unable to provide further details in respect of individual loans or

categories. However, we provide further detail on each of the categories and related recovery actions taken below.

4.1 Loan Books

General

- The Companies major asset was the Loan Book totalling \$65.52m (before provisions for doubtful debts) which can be broken down into four distinct categories as detailed below.

| The Companies | Number | Total Value |
|---------------------------------|---------------|---------------|
| Summary of Loan Book | of loans | of loans |
| Draft and Unaudited | of loans | \$000 |
| Commercial | 72 | 40,965 |
| Consumer | 9,267 | 19,436 |
| Vineyard | 72 | 3,971 |
| Other | 1,783 | 1,148 |
| Total value of Loan Book | 11,194 | 65,520 |

Source: Management Information

Commercial Loans \$40.965m

- Five Star provided 72 commercial loans to private individuals and entities in New Zealand and one in Australia.
- As previously advised, the majority of the commercial loans were outside normal commercial lending practices and made either without any security or satisfactory security. As a result, recovery of the commercial loans has been difficult with minimal realisations to date or expected.

- Total collections to 28 August 2008 from the Commercial loan book were \$2.815m.

Consumer Loans \$19.436m

- Five Star provided 9,267 consumer loans to private individuals who purchased consumer goods on finance from certain retailers and door to door salespersons throughout New Zealand. The consumer goods financed by Five Star were generally secured by registration on the Personal Property Security Register.
- Five Star's collection team of 12 staff undertook collection on the ledger for six and a half months until the consumer loan book was sold in mid March 2008.
- A sale of the consumer loan book was completed in mid March 2008 at a significant discount to its face value due to its distressed nature (i.e. a significant portion of the borrowers were in arrears and had a history of defaulting on their payments).
- The sale represented the best possible value obtainable. The sale was favourable when compared to the potential future value if the loan book was wound down and collected over time, less the costs of managing the collection over several years.
- Total collections to 28 August 2008 from collections made; together with the sale of the consumer book were \$10.238m.

Vineyard Loans \$3.971m

- VFL and VRL provided 72 loans to a number of vineyards and wineries throughout New Zealand to finance plant, equipment and wine barrels. The finance provided in this context by VFL and VRL was generally secured.
- The sale of the vineyard related loan books was completed on 21 December 2007 at a discount to its face value. The sale represented the best possible value obtainable. The sale was favourable when compared to the potential future value if the loan book was wound down and collected over time, less the costs of managing the collection over several years.
- Total collections to 28 August 2008 from collections made together with the sale of the vineyard related loan books were \$3.099m.

Other Loans \$1.148m

- Loans were made to customers for security systems and store cards to a large number of private individuals and entities throughout New Zealand. These were sold as part of the Consumer loan book sale completed on 14 March 2008.
- Loans were also made on coffee machines operated in cafes and restaurants. After no suitable offer was received for the sale of this ledger we are now collecting out this loan book.
- Total collections to 28 August 2008 from Other Loans were \$383k.

4.2 Inter-Group Advances

- The unsecured intergroup advances made to Antares Finance Holdings Limited, the parent of the Companies, and to Five Star Finance Limited, now in receivership, are not collectable due to the insolvent nature of these companies.

4.3 Accounts Receivable

- Accounts receivable of \$728k relates to prepayments and other sundry debtors balances. There have been limited recoveries from these assets.

4.4 Fixed Assets

- Fixed Assets of \$480k were made up of a very small amount of office fixtures and fittings together with computer software development. There have been limited recoveries from these assets.

5. Particular of debts and liabilities outstanding and requiring to be satisfied from the property in Receivership

5.1 Secured Debenture Investors of \$54.429m

- The secured debenture investors balance of \$54.429m represents approximately 3,200 investments held by approximately 2,130 secured debenture investors.
- We wrote to secured debenture investors on 5 September 2007 advising them of our appointment as receivers and requesting their confirmation of the amounts recorded as outstanding in respect of their investments.

- Updates on the status of the receiverships were distributed to secured debenture investors in October, December 2007, and March and July 2008.

- A repayment of 17.5 cents in the dollar was made to secured debenture investors on 16 April 2008 and a further repayment of 5 cents in the dollar made on 15 August. This brings total repayments to secured debenture investors to 22.5 cents in the dollar on their original investment.

- The funds to make this distribution came primarily from the daily collections, since the date of receivership, of amounts owing by customers in relation to the various loan books, proceeds from the sale of the vineyard loan book which was completed in late December 2007 and proceeds from the sale of the consumer loan book in March 2008.

- We acknowledge investors' ongoing support during the receivership. We will continue to keep investors updated on a regular basis via our website. A further formal update will be distributed by 31 December 2008.

5.2 Inter-Group Borrowings

- Inter-Group Borrowings of \$6.380m represents the Companies recorded balance of amounts advanced from Five Star Consumer Finance Pty Limited ("FSCFPL") and Five Star Rentals Pty Limited ("FSRPL"), now both in receivership.

- In November 2007 we were notified of a potential claim from the Australian receiver of FSCFPL and FSRPL that they believed may have a "super priority" (ie; ranks ahead of secured

debenture investors) for the advances totalling A\$7.56million made to the Companies.

- We have now resolved this priority with the Australian receivers of FSCFPL and FSRPL and their claim has been classified as an unsecured creditor of the Companies.

5.3 Accounts Payable \$2.5m

- Accounts Payable consists of liabilities and accruals including preferential creditor amounts for employee entitlements and Resident Withholding Tax together with unsecured creditor amounts such as amounts owed to trade suppliers.
- As noted previously, unsecured creditors will not recover any funds from the receivership.

5.4 Preferential creditors

Employee entitlements

- Based on the information available from the Companies' records, employee preferential entitlements relating to salaries and wages, accrued holiday entitlements and redundancy entitlements as at the date of receivership are estimated to be approximately \$88k.
- All \$88k of these entitlements have now been paid to former employees.

Inland Revenue Department ("IRD")

- There was a preferential entitlement due to the IRD in relation to Resident Withholding Tax ("RWT") unpaid at the date of receivership. The outstanding amount of \$275k was been agreed and paid to the IRD.

6.0 Receipts and Payments

- We attach, as Appendix A, a combined statement of receipts and payments in the receivership for the period 29 August 2007 to 28 August 2008.

7.0 Investigations

- Following our investigations into the affairs of the Companies prior to our appointment, we gave instructions as the receivers of Five Star Consumer Finance Ltd (In Receivership) for the Company to issue civil proceedings on 3 July 2008 against the directors and an alleged shadow/de facto director for breaches of duties owed to the Company (including duties of care).
- The Companies claim was commenced after taking advice from a Queen's Counsel and after considering various matters including the costs of litigation and recovery issues.
- The defendants in that proceeding have filed statements of defence in relation to these proceedings and we are currently liaising with our solicitors as to the discovery process.
- At this stage, and while the matter is before the Court, it is too early to comment further on the merits and likely outcome of that claim.
- As reported by the media, criminal charges have been laid against the directors of Five Star Finance Limited (In

Receivership and In Liquidation) and Five Star Debenture Nominee Limited (In Liquidation) by the New Zealand Companies Office. These companies, whilst having the same directors as Five Star Consumer Finance Limited (In Receivership) do not form part of the Group of which we are the receivers.

- In addition, various Government Authorities have indicated a strong focus on identifying potential prosecutions involved with various finance companies including Five Star Consumer Finance Limited. The receivers have provided assistance and information to Government Authorities in respect of their investigations and will continue to co-operate and assist as required.

8.0 Distributions

- The receivers made a first pro-rata interim repayment to secured debenture investors on 16 April 2008 representing 17.5 cents in the dollar, of secured debenture investments.
- A further repayment of 5 cents in the dollar was made on 15 August; bringing total repayment to date to 22.5 cents in the dollar.
- We expect that secured debenture investors could receive between 22.5% to 25% of their outstanding investment, excludes the outcome of legal action being brought by the Companies against the directors. However, it is difficult to quantify both the quantum and timing of any further distributions to secured debenture investors as they are dependent on the outcome of the legal action and actions we are currently taking to recover certain commercial loans.

9.0 Future Correspondence

- Our next statutory report under Section 24 of the Receiverships Act 1993, covering the period from 29 August 2008 to 28 February 2009, will be prepared on or before 28 April 2009.
- We continue to keep secured debenture investors updated on a regular basis and are next due to report to them by 31 December 2008.
- Should investors or any other stakeholders have any queries arising from this report please contact us via one of the following methods: -
 1. Web at: <http://www.pwc.com/nz/fivestarfinance>
 2. Post Office box: Five Star Consumer Finance, C/- PricewaterhouseCoopers, Private Bag 92 162, Auckland
 3. Facsimile: 09 355 8013.

Dated this 5th day of November 2008

 

Richard D Agnew
Receiver

Anthony D K Boswell
Receiver

Appendix A : Receipts and Payments

- The table below sets out the receipts and payments for the Company from 29 February 2008 to 28 August 2008.

**The Companies' Receipts and Payments Summary
For the period from 29 August 2007 to 28 August 2008**

| | \$ 000's |
|---------------------------------------|---------------|
| Receipts | |
| Consumer ledger receipts | 5,317 |
| Commercial ledger receipts | 2,815 |
| Other ledger receipts | 818 |
| Consumer ledger sale | 4,921 |
| Vineyard ledger Sale | 2,664 |
| Management fees | 186 |
| Bank interest received | 171 |
| Other receipts | 312 |
| Total Receipts | 17,204 |
| Payments | |
| Operational costs | 1,415 |
| Receivers' fees & disbursements | 1,239 |
| Legal fees & disbursements | 610 |
| GST paid | 285 |
| IRD preferential payments | 279 |
| Secured debenture investor repayments | 11,747 |
| Other payments | 127 |
| Total Payments | 15,702 |
| Net Funds on Hand | 1,502 |