Receivers' First Six Monthly Report on the State of Affairs of

Mainzeal Property and Construction Limited (In Receivership & In Liquidation) and Mainzeal Living Limited (In Receivership & In Liquidation)

(together the Companies)

Pursuant to Section 24 of the Receiverships Act 1993

6 October 2013

Company Numbers:
355829
1184709

Registrar of Companies
Companies Office
Private Bag 92061
Auckland Mail Centre

Contact Details
188 Quay Street
Private Bag 92 162
Auckland 1142
New Zealand
Webpage: www.pwc.co.nz/mainzeal
Email: receiverships@nz.pwc.com
Telephone: +64 (9) 355 8000
Facsimile: +64 (9) 355 8013

6 October 2013

Mainzeal Property and Construction Limited (In Receivership & In Liquidation)
Mainzeal Living Limited (In Receivership & In Liquidation)
- (together the Companies)

Please find attached our first six monthly report in relation to the Companies pursuant to Section 24 of the Receiverships Act 1993.

Yours faithfully
For the Companies

David Bridgman
Receiver

Colin McCloy
Receiver

Contents

Overview

Introduction and events leading to our appointment

Following a breach of the conditions of the Companies' banking facilities in late January 2013 the directors of the Companies, excluding one, resigned and the Companies' registered shareholder, Mainzeal Group Limited (now in Liquidation) passed a resolution requesting the appointment of Receivers to the Companies.

We, David Bridgman and Colin McCloy, Chartered Accountants of Auckland, were appointed Receivers of the Companies on 6 February 2013, with a further appointment as Receivers of 200 Vic Limited (**200VL**) on 13 February 2013.

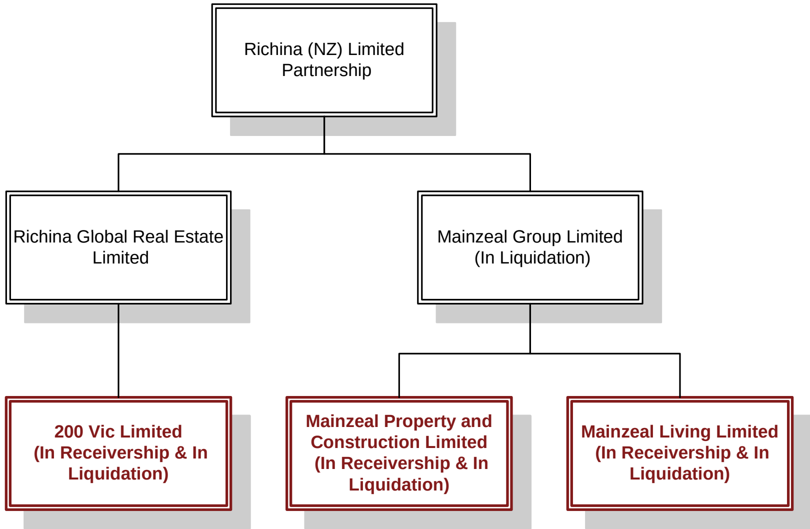
The reported ownership structure of the three entities as at the date of the appointments is set out in the table opposite.

The property in receivership comprises 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 24 of the Receiverships Act 1993 (the **Act**). This report covers the period 6 February 2013 to 5 August 2013. 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.

This report is subject to the restrictions set out at Appendix 1. In particular, all information contained in this report is provided in accordance with Sections 26 and 27 of the Act. Furthermore, in preparing this report we have relied upon and not independently verified nor audited information or explanations provided to us.

On 28 February 2013, Andrew Bethell , Brian Mayo-Smith and Stephen Tubbs of BDO were appointed as Liquidators of the Companies and 200VL by shareholder resolution. We have worked closely with the Liquidators in assisting and providing information where appropriate and will continue to do so.



Work undertaken since our last report

Upon appointment, the immediate priority was to ensure safety and asset protection. Security was dispatched to more than 70 project, office, yard and commercial/residential property locations across New Zealand.

Once all sites were secured, collection of subcontractor tools and equipment was facilitated in an orderly manner and an analysis of 42 active projects was undertaken, including engagement with contract principals in order to establish what feasible options existed to enable work to recommence.

As noted in our first statutory report, the financial status and stage of completion of many of the projects resulted in repossession or cancellation by the principal in all but five cases initially. In four instances agreement was reached with the principal for the Companies to re-engage subcontractors to complete works and rectify defects. In the remaining instance, the Companies provided project management staff for a period of time whilst the principal made alternative arrangements for completion of the works.

Additional activities undertaken and continuing are as follows:

- Negotiation and recovery of outstanding payment claims in respect of projects active at the date of receivership and final progress and retention claims in respect of 76 inactive projects, including arranging for defects to be remedied in relation to those projects where appropriate;
- Valuation and orderly realisation of plant and equipment, commercial/residential property and other assets (see section 5 for further detail);
- Evaluation and reconciliation of Inland Revenue, employee, PMSI and unsecured creditor positions;
- Liaison with the Liquidators and regulatory authorities as required;
- Orderly exit of all regional offices, including the exit of the head office at 200 Victoria Street West, Auckland; and
- Financial and administrative requirements, including meeting taxation obligations and migrating the Companies' computer systems and physical records to off-site facilities for continued operational use and storage.

As we have completed projects, realised assets and made progress with financial and administrative matters, the Companies' full time staffing has been reduced.

At the date of this report two full time employees remain to assist with the completion of projects and recovery of contract receivables.

In addition, we continue to work with a number of former employees who have been engaged on a casual or contract basis to assist with recoveries and other matters as required.

These employees have been retained based upon their institutional knowledge of the Companies, their systems, and assets, and to ensure that the receiverships are operated as cost efficiently as possible. We take this opportunity to again thank all staff for their support and efforts in difficult circumstances.

Debts and Liabilities

Overview and secured creditors

Overview

The following table shows the particulars of known outstanding debts and liabilities of the Companies as at the date of appointment required to be satisfied from the property in receivership:

Class of Creditor	Note	Name of Creditor	Amount $'000
First Ranking Secured	1	Bank of New Zealand	11,278
PMSI		Various	Unknown
Preferential		Employees	5,262
		Inland Revenue (estimate)	600
Unsecured Creditors	2		106,255

Note

1. *This balance represents principal and accrued interest to the date of appointment in respect of the following facilities:*
   - *Credit balances, asset finance facilities, net of overdraft;*
   - *Amounts owing as a guarantor of the mortgage facility of 200VL; and*
   - *Contingent exposure due to bonds issued by BNZ.*

   Interest and costs will continue to accrue on outstanding balances.
2. *Claims filed to date as per the Liquidators' statutory report.*

Creditors with a General Security Interest

Bank of New Zealand (**BNZ**) has registered security interests over the Companies in respect of General Security Agreements (**GSA**) dated 24 January 2006 and 4 October 2012. BNZ also held specific registered security over individual items of plant and equipment and intangibles. For the period from 6 February 2013 to 6 August 2013, distributions totalling $4.8m were made to BNZ from the net realisations of the Companies' secured assets.

Creditors with PMSI registrations

On appointment there were 114 specific security financing statements (**PMSI**) registered against the Companies, including seven by BNZ. The total of outstanding claims in respect of these registrations cannot yet be quantified as some individual claimants are yet to respond to our correspondence, while others are yet to provide adequate documentation to support their claim.

Since appointment, in excess of 90 financing statements have been addressed and registrations have been discharged by the creditors under the following circumstances:

- where no balance was outstanding;
- where the security has been proven invalid; and
- where the security has proven valid and the goods have been collected by, or proceeds provided to, the creditor.

Where a claim has been deemed invalid upon investigation, formal correspondence advising of this determination has been sent to the creditor.

The remaining PMSI registrations are either still being addressed or we are still awaiting supporting documentation.

A large number of further claims have been received where there is no registered financing statement and these have been addressed accordingly.

Preferential and unsecured creditors

Preferential creditors

Based on information available from the Companies' records and ongoing communication with employees, employee preferential entitlements at the date of receivership are currently estimated to total approximately $5.3m. These claims have been, and are still, subject to the resolution of ongoing queries from various individual employees.

Subsequent to the period covered by this report, the sale of property owned by 200VL has settled and sufficient funds are available to facilitate an interim distribution in respect of employee preferential claims. The Receivers are currently finalising details for the interim distribution and will contact employees directly to confirm the amount and date payment will be made.

The Companies' records indicate Inland Revenue may have preferential claims in relation to PAYE totalling approximately $0.6m. Discussions with Inland Revenue are ongoing regarding amounts outstanding in order to finalise the preferential portion of its claim.

Unsecured creditors

The unsecured creditors total of approximately $106m represents the total of those claims filed with the Liquidators of the Companies. The total will include claims in respect of:

- trade creditors;
- non-preferential employee entitlements;
- related party balances; and
- contingent creditors.

Unsecured creditor claims are being dealt with by the Liquidators and we continue to assist them in providing supporting information where required.

Property in Receivership

Particulars of assets and disposal of receivership property

Set out below are particulars of the key assets reported by the Companies as at the date of our appointment, based on the Companies' records.

Type of Asset	Book Value $'000
Contract receivables	21,200
Interest in Christchurch joint venture	Unknown
Fixed assets	12,321
Residential properties	5,900
Related party receivables	71,022
Other	1,000
Total (known assets)	**111,443**

The Companies' accounting records to 31 January 2013 had not been finalised at the date of the receiverships and December 2012 figures have therefore been utilised for the purposes of this report in some instances.

As stated in our first report, the Receivers' role is to maximise recoveries in an efficient manner, address statutory requirements and, once obligations have been met, transfer any surplus available for unsecured creditors to the Liquidators. It is likely that, upon retirement, the Receivers will be able to provide the Liquidators with a surplus from net recoveries made during the receivership.

We have omitted certain details concerning the realisation of receivership assets as we believe that, given the commercial sensitivity surrounding these details, their inclusion would materially prejudice the exercise of our functions and, in particular, our duty to obtain the best recovery reasonably obtainable in respect of the Companies' assets.

Contract receivables

The figure in the table to the left represents the recorded net receivables position of the Companies as at 31 December 2012. At the date of receivership the Companies' records indicated potential receivables in respect of 42 active and 76 inactive (i.e. completed) construction contracts.

As at 5 August 2013, we have recovered $9.35m in respect of contract receivables.

We continue to work with a number of parties in order to progress negotiations and recoveries in respect of both active and inactive contracts, including:

- Outstanding pre-receivership invoices;
- Certified and uncertified progress claims for active projects where works were undertaken by the contract principal;
- Ongoing claims for the remaining active sites currently being completed with the involvement of the Companies;
- Final claims for completed (inactive) contracts which were in defects liability periods; and
- Retentions held by principals due, or coming due, for release.

Particulars of assets and disposal of receivership property (cont'd)

In many instances resolution of outstanding receivables is a complex exercise due to the nature and status of the physical contract works, availability of detailed technical documentation and guarantee/warranty issues. Each claim was analysed on an individual basis to determine the most appropriate strategy for maximising realisations.

We are unable to provide details in respect of individual contracts due to reasons of confidentiality and commercial sensitivity. However, we advise that options considered and implemented have included the following:

- Negotiated settlement on the basis of agreed allowances for uncompleted works and/or documentation;
- Completion of remedial work relating to defects by the Receivers where beneficial; and
- Formal recovery action if required.

Interest in Christchurch joint venture

As noted in our first report, the Companies had a 50% interest in a joint venture (**JV**) arrangement providing project management services to a major insurance company in respect of Christchurch earthquake claims.

The receiverships triggered a buyout option for the JV partner and negotiations resulted in a recovery of $1m. In addition, 86 staff previously seconded to the joint venture were re-employed by the JV partner.

A further $221k was received in reimbursement of seconded employee salaries paid by the Receivers over the period of the negotiations.

Fixed assets

The Companies' fixed asset register, as provided following appointment, is summarised in the table below:

Asset Type	Net Book Value $'000
Land and buildings	4,945
Construction plant	3,333
Leasehold improvements	2,680
Computer equipment	518
Furniture and fittings	412
Software licenses	359
Motor vehicles	73
Total	**12,321**

Where assets were subject to offers/sale agreements prior to receivership the Receivers negotiated with these potential purchasers. This included a property in South Auckland, which was ultimately sold to a purchaser who had entered into a sale and purchase agreement with the Companies prior to the date of receivership.

Third party valuations of the Companies' assets and proposals for sales processes were obtained and assessed to determine the most appropriate strategy for maximising realisations.

A tender process for large construction plant items was completed in two stages, closing on 30 August 2013. Items which failed to sell for satisfactory values during the tender process have subsequently been realised by negotiation or further auction processes.

Particulars of assets and disposal of receivership property (cont'd)

Regional on-site auctions were held in respect of remaining construction plant items and general assets (e.g. computer equipment and office furniture) over a two month period from May to June.

As at 5 August 2013, receipts from the realisation of fixed assets totalled approximately $4.6m. A small number of items remain unsold and will be subject to further auction processes.

Residential properties

The Companies operated a residential house construction business in Christchurch. At the date of appointment, work in progress in respect of this business included 19 residential houses under construction, with interests held in a number of land sections. These interests included sections subject to uncompleted sale and purchase agreements where only a deposit had been paid and sections that had been fully paid for and which were therefore owned outright by the Companies.

A formal tender process for the properties, in conjunction with individual house marketing, was undertaken.

As at 5 August 2013, $9.7m has been recovered from realising 18 properties. One residential property remains unsold at the date of this report. This is subject to a sale and purchase agreement.

Related party receivables

As reported by the Liquidators, the related entities they identified as owing debts to the Companies are either currently under applications to be placed into liquidation or the Liquidators are considering further options for recovery.

We have pursued recovery of these debts in co-ordination with the Liquidators.

Other

We continue to assess any other assets or avenues for recoveries as they arise for the benefit of the creditors of the Companies.

Subsequent to the period covered by this report the property owned by related entity 200VL has been sold.

The Receivers are currently in discussions with the Liquidators regarding the orderly handover of remaining assets and issues following the completion of an interim distribution to employees in respect of their preferential entitlements and the completion of statutory obligations prior to the Receivers retiring.

Receipts and Payments

Receipts and Payments

The table opposite sets out the receipts and payments for the Companies for the period from 6 February 2013 to 5 August 2013. We note the following in respect of the payments summarised:

1. Security costs relate to initial and, where required, ongoing security on the 70+ active sites, plant yards, residential and commercial properties, and regional offices.
2. Legal fees to date include general receivership advice, PPSR specific requirements, employment law advice, litigation as required and property administration and transfer documentation. Other professional fees include advice obtained from construction specialists and taxation consultants.
3. Direct contract expenses include subcontractor and supplier costs incurred to complete works or remedy outstanding defects where appropriate.
4. Land purchases were required in order to sell the residential properties on which construction had been substantially completed but where only a deposit had been paid on the land as at the date of the receiverships.
5. Staffing costs include initial payroll costs for the approximately 500 employees of the Companies upon receivership and the ongoing cost of those employees who continued to assist with project tasks, administration and financial analysis.
6. Advances to related party comprises advances made to 200VL to meet operating and administrative costs whilst the sale process for the property was undertaken.

Mainzeal Property and Construction Limited and Mainzeal Living Limited (both in Receivership and in Liquidation)
Receipts and Payments
for the period from 6 February 2013 to 5 August 2013

	Note	Total
		$
Receipts		
Asset realisations		4,605,688
Property realisations		7,967,332
Contract recoveries		9,352,098
GST		559,936
Net interest		10,116
Other		34,139
		22,529,310
Payments		
Operational expenses		47,636
Computer expenses		64,447
Freight		25,298
Utilities		65,445
Postage and courier		965
Rent and rates		307,581
Security	1	786,621
Administration expenses		124,304
Commission and sale costs		143,480
Insurance		89,996
Repairs and maintenance		36,337
Receivers' fees		2,370,448
Legal fees	2	824,389
Other professional fees		112,860
Storage		41,424
Direct contract expenses	3	5,263,481
Land purchases	4	863,860
Staffing	5	2,355,590
Other		68,364
Distribution to secured creditor		4,852,879
Advances to related party	6	191,856
		18,637,260
Net Funds		**3,892,050**

Other Matters

Other matters

Amounts likely to be available for payment to creditors other than those with statutory preferential claims

As stated earlier in this report, it is likely that upon retirement the Receivers will be able to provide the Liquidators with a surplus from net realisations.

Any distribution to unsecured creditors will be determined by the Liquidators. In this respect, the Liquidators' statutory report notes that the quantum of any distribution will depend on the Liquidators being able to achieve significant recovery from related entities and through other causes of action available to them. The report further notes that, if those activities are not successful, the quantum of a dividend (if any) is not likely to be substantial.

Information provided by the Companies

The management and staff of the Companies have co-operated in making available the information required by the Receivers to complete this report.

Communication

We have received a high volume of correspondence from creditors and other parties which we have endeavoured to reply to in a timely manner. We recognise that this is an extremely difficult situation for the many people and businesses impacted and would like to again thank all parties for their ongoing patience and support as we work through the complexities of the receiverships.

Unless we have retired and filed a final report in the interim, our next statutory report under Section 24 of the Act, covering the period from 6 August 2013 to 5 February 2014, will be issued in April 2014.

Material updates will be communicated either in writing to relevant parties or via our webpage. In the interim, should creditors or other stakeholders have any queries arising from this report, please contact us as follows:

Mainzeal Receiverships
c/- PwC
Private Bag 92 162
Auckland 1142
New Zealand
Webpage: www.pwc.co.nz/mainzeal
Email: receiverships@nz.pwc.com
Telephone: +64 (9) 355 8000
Facsimile: +64 (9) 355 8013

Appendices

Restrictions

Statutory requirements	All information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993.
Basis of reporting	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.
Information available	We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Companies. 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.
Prospective Financial Information	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.
Other	Certain numbers in table throughout this report have been rounded and therefore may not add up exactly. Unless otherwise stated all amounts are expressed in New Zealand dollars.