

Patoka Dairies Limited (In Receivership)

“the Company”

Receivers' First Report on the State of Affairs of the Company

Pursuant to Section 23 of the Receiverships Act 1993

Company Number: 926309

Introduction

We, Maurice George Noone and John Howard Ross Fisk, Chartered Accountants of Auckland were appointed receivers of Patoka Dairies Limited on 16 March 2010 under the terms of a security agreement dated 22 May 2006 giving the holders a security interest in all of the assets and undertakings of the Company. The property in receivership comprises all of the assets, property and undertakings of the Company.

This report has been prepared by us in accordance with and for the purpose of Section 23 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 receivership.

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.

Events leading to our appointment

The Company owns and operates four dairy farms and two dairy support units in the Patoka region in the Hawkes Bay. Three of the Company’s dairy properties are recent conversions. There were a number of delays and cost overruns in relation to the conversions and the Company was unable to reach production targets set prior to the conversions. This, along with the reduction in dairy payout in the 2008/2009 season put the Company in a position where it was unable to service its secured debt. Farm property prices over this period also reduced significantly further eroding our appointer’s underlying security. Accordingly, the bank moved to protect its secured position and appointed receivers. A guarantor of the Company’s secured indebtedness and majority shareholder, McVitty Properties Limited, was also placed into receivership shortly after the appointment of receivers to the Company.

Debts and Liabilities

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

Class of creditor	Note	Name of creditor	Address of Creditor	Date of creation/ registration	Nature of claim	Amount of claim \$000's
First ranking secured creditor	1	Bank of New Zealand	Auckland	22 May 2006	All present and after acquired personal property	40,238
PMSI creditors	2	Marac Finance Limited	Auckland	15 January 2009	Motor Vehicles	115
	3	Rabobank Equipment Finance	Sydney, Australia	5 December 2007	Farm Equipment	94
	4	Ravensdown Fertiliser Co-Operative Ltd	Christchurch	Various	Farm Equipment	0.2
Preferential creditors	5	Employees	Various	Various	Holiday pay entitlement	40
	6	Inland Revenue Department	Hamilton	Various	PAYE GST	TBC

Notes to table

1. This amount is the balance of outstanding secured debt as provided by BNZ at the date of our appointment (excluding interest accrued to that date). BNZ holds a first ranking general security agreement over all assets and undertakings of the Company.
2. This amount relates to a number of Motor Vehicles leased by the Company.
3. This amount relates to a Silage Wagon leased by the Company.
4. This amount relates to rental arrears on two Urea Silos rented by the Company.
5. This amount relates to the outstanding holiday pay owed at the date of our appointment.
6. The Inland Revenue Department are yet to finalise their claim, however, we are aware of arrears for GST and PAYE.

Particulars of assets

The assets of the Company, at the date of our appointment, comprised four dairy farms, two support farms, and associated infrastructure, livestock and plant and equipment.

We have omitted details concerning any value of these assets, as we believe that their inclusion may materially prejudice the exercise of our functions, and in particular our duty to obtain the best price reasonably obtainable for the sale of receivership property, when and if that decision is made.

Proposals for disposal of receivership property

We have carried out an assessment of the Company's farming operations and have determined that it is in the best interests of the Company to continue trading in receivership whilst the farm conversions are completed and are brought up to optimum sustainable production levels in order to maximise the value of the Company farms. As a result, at this time we have not determined when, or if the Company's properties will be placed on the market for sale.

A small run off block owned by the Company, that was on the market prior to the Company's receivership, has now been sold by the receivers as it was not required for the ongoing requirements of the farming operations.

Amounts likely to be available for payment to creditors other than creditors of the company having statutory preferential claims

The total value of unsecured creditors' confirmations received for the Company up to the date of this report is \$398,000. This amount is likely to increase as further confirmations are received.

As you are aware the Company's major assets are farming properties. The values of these properties are subject to market fluctuations which are difficult to assess, but which will materially affect the prices achieved from any sale of any properties. At this time our estimates indicate that it will be unlikely that there will be any funds available for payment to unsecured creditors arising from the receivership. However, this position will not become clear until the conclusion of this receivership, and as mentioned above, this is likely to be some time.

Information provided by the company

All information requested by the Company and its officers for the preparation of this report has been provided.

Dated: 18 May 2010



Maurice George Noone
Receiver

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.