

LIQUIDATORS' THIRD REPORT
ON THE STATE OF AFFAIRS OF
MURCHISON BUSES LIMITED
(IN LIQUIDATION) – "The Company"

31 August 2010

Introduction

On 21st August 2009 at 3.00pm it was resolved by special resolution, pursuant to Section 241 (2) (a) of the Companies Act 1993, that Murchison Buses Limited be liquidated, and that Pat Norris, Insolvency Practitioner of Norris Management Services Ltd of Nelson be appointed as Liquidator.

I set out below my Third report on the state of affairs of Murchison Buses Ltd as required by section 255(2)(d) of the Companies Act 1993.

This report should be read in conjunction with the Liquidators First report dated 24th August 2009 and the Second report dated 11th March 2010. Copies of these reports are available on our web site www.norrismanagement.co.nz

Company Information – Murchison Buses Limited (In Liquidation)

Company Number	1294269
Date of Incorporation:	1 May 2003
Nature of Business:	Transport and Butchery
Date Ceased Trading:	21 st August 2009
Shareholder/Director:	James M Flanagan, Belinda J Girle

Disclaimer

The Liquidator reserves the right but will be under no obligation to revise this report if I consider it necessary to do so in light of any information existing at the date of this report which may become available after this date. The Liquidator or any of his staff or employees shall not be responsible for the reliance of any person on information contained in, or derived or omitted from this report.

Statement of Affairs:

This is an interim report as the Liquidator is still concluding matters relating to the Company. Payments to unsecured creditors and the balance remaining after the Liquidators costs to the company shareholders, still needs to be reconciled against the accounts held. Once this has been completed, the Liquidator will provide the final report and apply to have the company removed from the register in conclusion to the liquidation.

The principle duty of the Liquidator is detailed in section 253 of the Companies Act 1993 being to take possession of, protect, realise, and distribute the assets, or the proceeds of the realisation of the assets, of the company to its creditors in accordance with the Act. If there are surplus assets remaining, to distribute them, or the proceeds of the realisation of surplus assets, in accordance with section 313(4) of the Act.

The Liquidator therefore represents and acts on behalf of the creditors with a duty remaining to the shareholders.

The company's financial viability and trading was impacted significantly on losing the school bus contract for the Murchison area in the tender round during 2009.

The company's financial position at the date of liquidation (21st August 2009) with the secured (ANZ National bank) was slightly less than \$200,000.00. By letter dated 24th August 2009, as an overview, the Liquidator after discussion and confirmation with the shareholder's, proposed to ANZ National bank that they retain \$80,000.00 by way of the current mortgage over the shareholders Owen River property, with the orderly disposal/sale of company assets to reduce the level of debt to achieve this negotiated lower amount. The secured confirmed this arrangement and the Liquidator after confirming this with the shareholders, has proceeded since that time on this basis.

Further secured creditors were identified and confirmed as having security interests over certain items of plant and equipment used by the butchery business.

A difficulty experienced by the liquidator with the unsecured creditors was that the directors had transacted essentially all personal accounts through the company accounts, and as these were clearly personal accounts, they were required to be separated from the company creditors for the personal attention of the shareholders. The remaining identified company unsecured creditors were identified as 36 in number with \$52,728.14 as owed by the company. A majority of these company accounts were disputed by the shareholders, requiring the liquidator to investigate fully the background and circumstances of each claim.

Investigations were commenced immediately following liquidation to establish the viability of Murchison Meats under the management of the shareholders. The butchery business continued trading after liquidation under the control of the Liquidator. The shareholders requested the Liquidator to investigate the possibility of employing butchery staff to assist with the day to day running of the business, however this was not planned to be followed up until the results of the Liquidators review of the business' continuing viability was established. To assist in this regard, the Liquidator after consent from the shareholder's, recruited the services of a butchery consultant and a review of the past trading performance of the business and attempts were made to identify potential opportunities for Murchison Meats. That review concluded that there was little chance of Murchison Meats achieving a viable trading model given a) the very limited butchery experience of the shareholders, b) the past relationships with staff and community, c) the limited population base for potential sales, d) the higher costs of operating by employing skilled butchers against a standard owner / operator type operation, e) and also the financial amount required to meet financial commitments after the cost of operation. The review also attempted to assist in identifying potential purchasers for the butchery business.

The butchery business and land and buildings were then placed on the market for sale through the Liquidator and the Liquidator successfully concluded a sale by

private treaty for \$ 95,774.96 on the 18th September 2009. The purchasers also agreed to take over and fund the remaining liability to the secured creditors for the items of plant used by the butchery business effectively increasing the overall sale value by that amount, and also by reducing the final liability to the company from those secured creditors. The sale was accepted on this basis by the ANZ National and the shareholders. After the deduction of legal fees, GST on sale, rates and water, and a contribution towards the liquidation costs, \$75,452.51 was transferred to the ANZ National in reduction of the loan as instructed.

The directors had placed separately two buses used by Murchison Buses prior to and following the loss of the school bus contract tender round, to a bus sales yard in Blenheim. The smaller of these buses registration number YF9409 had its ownership details transferred on 27 June 2008 under the dealer network (effectively to put expired COF and REG on hold) to this bus sales yard.

Valuations were sought for both buses with these recorded the following values as YF 9409 at \$ 3,000.00 for "wrecking value" and ZQ 6297 being the larger bus for \$14,000.00.

The larger bus was subsequently sold for \$22,500.00 less repairs undertaken on the brakes for \$3,952.13, effectively returning \$18,547.87 to the liquidation, and \$4,547.87 higher than the valuation received.

The smaller bus was purchased for \$3,000.00 and paid for by Nelson Tours and Charters Ltd on the 27th August 2009 of which the Liquidator is the director. This change in ownership was some 17 months after the bus ownership had been transferred to the Blenheim bus sales yard from the company. Before the vehicle could be removed from the Blenheim bus sales yard, repairs had to be carried out for a cost of \$2,169.01 and this was paid also by Nelson Tours and Charters Ltd. In addition, other necessary repairs and maintenance totalling \$5,381.41 was carried out on this vehicle, again paid by Nelson Tours and Charters Ltd. The end result is that Nelson Tours and Charters paid \$10,550.42 for the bus with \$3,000.00 of this going towards the liquidation of the company. The current value of the bus (now in going and roadworthy condition) is estimated at well below the amount paid originally on and for the bus by Nelson Tours and Charters Ltd.

The shareholders used a 2004 Holden Commodore Reg CHJ316 recorded as owned by the company. Following its collection from the shareholders the vehicle was valued at an approx market value of \$12,000.00. To achieve market value, costs were incurred (panel and paint plus groom) of \$1,925.00. The vehicle was sold on 28th August 2009 for \$13,500.00.

By the 31st of August 2009, only some 10 days after being appointed as Liquidator, the shareholders started constantly requesting by email, fax and phone, immediate action to conclude the liquidation of the company, and the relationship between the Liquidator and Ms Girle particularly, became very strained from that time. Although these constant requests and demands made to the Liquidator were explained to the shareholders as an expense to the liquidation, the emotional strain the shareholders were obviously experiencing influenced these persistent and distracting actions.

The shareholders personal financial position was also under some strain, and the Liquidator assisted the shareholders on the 7th September 2009 with applications to WINZ for income benefits.

The company also owned a 1997 Freightliner FL60 truck. On the 16th September 2009 the Liquidator was requested by the ANZ National to uplift the truck and place it for sale. The vehicle was uplifted, and given the relationship between the Liquidator and director Ms Girle was already strained, the collection of this truck finalised any chance of reconciling any working relationship with Ms Girle. The truck unfortunately was her pride and joy. The truck was placed as instructed on a truck sales yard in Richmond for sale. Ms Girle was unsuccessful in obtaining funding to purchase the truck back, and the truck was eventually sold with assistance by the Liquidator for \$56,000.00. After sales commissions to the truck yard, repossession costs, repairs and servicing, and a contribution towards the liquidator's costs, \$38,384.60 was transferred to the ANZ National as required.

The company debtors (from the butchery business) were collected over a 4 month period from the date of liquidation to a value of \$1,951.65.

The company also owned a trailer Reg: D275U which was sold on 23 August 2009 by the director for \$900.00, and these funds were paid to the Liquidator and credited towards the liquidation.

By letter to the shareholders legal counsel dated 23 September 2009, as a result of the constant requests to the Liquidator by Ms Girle, the Liquidator advised that he would not be responding to the abnormal and the considered "frivolous" persistent requests unless the shareholders deposit \$260.00 on account to cover the cost of responding to these constant requests, and so long as this account balance remained in credit to that amount. The intention was simply to make the point to attempt to reduce the increasing cost incurred by the Liquidator as experienced to that date in the liquidation.

Following the sale of the other company assets, the only other asset remaining in the ownership of the company was the former bus site section at 69 Fairfax Street, Murchison which had been purchased by the company for \$ 50,222.00 as recorded in the company asset schedule. The shareholders believed that a sale could be completed at higher values than that had been received by the Liquidator by the way of offers for around \$56,000.00. However, it was agreed with the secured ANZ National and the shareholders, that the Liquidator would decline current offers and the shareholders would take an active part in assisting to sell the section at a higher price. While the GV of the section was detailed at \$ 89,000.00, the GV of the section had been stated for the three earlier years at \$ 66,000.00. Discussions and investigations were also undertaken by the Liquidator with land agents familiar with land transactions in and around Murchison and the views expressed were that the GV in the current market was far too high, and the suggestion adopted was to market the property at \$60,000 plus GST. Signs were placed advertising the property for sale, and the Liquidator listed the section on Trade Me. The sales attempts continued again from January to late June 2010.

On the 17th February 2010, the ANZ National advised the shareholders essentially that given the payment reductions made against the mortgage from the sale of the butcher shop and Freightliner, the mortgage loan was reduced to \$ 83,873.93 and confirmed the new term of the loan for 160 months.

Twenty five unsecured creditors had registered in the Liquidation and had their claims accepted by the Liquidator totalling \$ 28,057.38. This was down from the original number of unsecured company creditors identified of thirty six, and less than the original amount identified of \$ 52,728.14. One reason for this reduction was the shareholders had reached private arrangements and or settled a number of creditors

who held personal guarantees against the directors/ shareholders. The Liquidator confirmed with the unsecured creditors again in late March early April to ensure the claimed amounts remained.

During the middle to end of June 2010, the Liquidator following sales enquiries received a cash offer of \$50,000 plus GST (\$ 56,250.00) for the company's section at 69 Fairfax Street. The offer was then relayed to the ANZ National for consent. The shareholders however wanted to halt the sale and then advised they wished to purchase the section back. The Liquidator agreed that they could do so for the same sale amount should they secure the finance. Numerous discussions were held between the legal counsel for the shareholders and the Liquidator over the considered basis to which the shareholders could achieve this purchase. The proposition advanced to the Liquidator was that the shareholders would borrow the funds from the ANZ National (who declined the extension of finance in any event) and instead of paying the proceeds of the sale to the Liquidator to pay the unsecured creditors; the shareholders would instead pay it back to the ANZ National in reduction of the loan. This proposition was clearly not accepted by the ANZ National or the Liquidator as it would defeat the unsecured creditors.

Ms Girle believing she was disadvantaged by this decision of the Liquidator, then went public on the 22 June recruiting the services of the local Nelson press who provided front page editorials claiming Ms Girle wanted to get myself as Liquidator removed, and that she had applied for legal aid to fund this planned future legal action.

Consequently the shareholders formally withdrew their offer to purchase the section as their finance was declined by the ANZ National, and the Liquidator moved to secure the section sale with the purchasers by an unconditional private treaty sales agreement completed by the parties in July. The settlement date for the section is expected 31st August 2010.

From the attached provisional statement of Receipts and Payments it will be noted that all unsecured creditors as registered are to be paid from the proceeds of the sale of the company's section, with a further residual amount being paid of \$ 9,647.00 to the shareholders after the costs of the liquidation.

The Liquidator wishes to advise that the costs of this liquidation have been significantly reduced to ensure the unsecured creditors are paid from those funds available.

Summary

This is therefore considered as an interim report until matters are concluded.

.....

PD Norris
LIQUIDATOR
Murchison Buses Limited (In Liq.)

Murchison Buses Limited (In Liquidation)

Company Number 1294269

Provisional Statement of Receipts and Payments
21 August 2009 to 30 July 2010

(updated 3/9/10)

Receipts

Sale of Assets	\$247,986.22
Debtors Collected	\$1,951.65
GST Collected	\$6,811.12
Funds held	<u>\$5,647.00</u>

Total Receipts **\$262,395.99**

Payments

Secured Creditors (National Bank)	\$113,837.11
Legal and Disbursements	\$6,134.92
Water and Rates	\$2,601.60
GST on Sales	\$26,973.82
Vehicle Repairs	\$8,161.72
Collection and Repossession	\$540.00
Truck Sale Commission	\$5,000.00
Butcher Shop Sub Contractor	\$556.00
Creditor Payments	\$27,398.71
Shareholder payment	\$9,647.00
Liquidators Costs - (Discounted Nett)	\$26,469.00
Liquidators Remuneration - (Discounted Nett)	\$28,237.77
GST (on Liquidators Costs/Remuneration)	<u>\$6,838.34</u>

Total Payments **\$262,395.99**

NB: The Liquidator Disclaimer - as per the attached Third Report.