

**RECEIVERS' SECOND REPORT ON THE STATE OF AFFAIRS OF
COASTAL CUISINE NZ LIMITED (IN RECEIVERSHIP & IN LIQUIDATION)
"The Company"**

1. INTRODUCTION

On the 27 August 2012, Peri Micaela Finnigan and Roy Horrocks, Insolvency Practitioners, of Auckland, were appointed jointly and severally as Receivers and Managers of Coastal Cuisine NZ Limited by Tegel Foods Limited pursuant to all present and after acquired goods of Coastal Cuisine NZ Limited under the powers contained in the supply agreement, and the terms of the supply agreement dated the 30th day of April 2009 (which terms were reconfirmed in a supply agreement dated 8 June 2012) and which property consists of all goods supplied from time to time by the Secured Creditor to the company and includes all proceeds of such goods.

On 4 September 2012, Peri Micaela Finnigan and Roy Horrocks, Insolvency Practitioners of Auckland, were also appointed jointly and severally as receivers and managers of all the assets, property and undertakings of the company under the powers contained within a mortgage agreement dated 20 December 2011 in favour of S.H. Lock (NZ) Limited.

The Receivers set out below their second report on the state of affairs of the above named company as required by section 23 of the Receiverships Act 1993.

On 7 December 2012, Gregory Sheriff and Timothy Downs of Grant Thornton were appointed liquidators of Coastal Cuisine NZ Limited by special resolution of the shareholders.

2. EVENTS LEADING UP TO OUR APPOINTMENT

The appointment arose as a result of the company being placed in receivership on 9 August 2012 by the second ranking General Security Agreement holder, Weekend Holdings Limited. The receivers appointed by Weekend Holdings Limited retired on 6 September 2012.

3. TRADING ON / CLOSURE OF BUSINESS

The previous receivers ceased trading the business on 31 August 2012 and continued with a skeleton staff of 5 employees until 4 September 2012 reducing stocks held. On 4 September 2012 these staff were terminated. The general manager and operations manager gave their formal resignations to the new receivers.

4. PROPERTY DISPOSED OF TO DATE

The business assets were sold on 13 September 2012. The net proceeds have been paid to S.H. (NZ) Lock Limited in reduction of their debt. Debtors continue to be collected.

4.1 Fixed Asset Recoveries

Since our last report, the Receivers have sold the remaining assets of the company (BMW vehicle, large freezer). The BMW was sold by Turners Auctions. The vehicle reached a sale price of \$10,870 plus GST. After commissions and sale costs, the Receivers recovered \$9,800 (excl GST).

The Receivers successfully negotiated the sale of the larger walk in freezer with the landlord. The freezer was sold for the value attributed by an independent valuer (for removal). The value for use "as is" was higher.

A labelling machine is yet to be sold and requires the company server to operate. It will likely realise a further \$1,300.

The supplier of a Point of Sale system contacted the Receivers after date of sale of the business assets. The supplier had not registered a specific security but also had only supplied the unit in the six months prior to Receivership. As a result, the Receivers were obligated to pay the supplier for the proceeds relating to the supply. This reduced the total recovery from sale of business assets.

To date, the Receivers have paid \$95,000 to SH Lock from the sale proceeds in reduction of their secured claim.

4.2 Debtor Recoveries

The Receivers are updating the debtors' information and allocating receipts to invoices. Many earlier receipts had not been allocated and were recorded as 'unallocated'. The allocation towards the correct invoices is an important exercise to properly calculate the entitlements of the specific security holders with claims to proceeds. The security position in regard to entitlements of various secured creditors is complex.

The debtors' value reported in our first report originally estimated recovery of debtors of \$586,000. This was adjusted only by rebates and moneys due by Poultry Distributors NZ Limited ("PDNZ"). However, this estimated recovery of debtors must now be reduced significantly due to the difficulty associated with collecting the debts. Many of the debts are disputed and are unlikely to be recoverable.

To date, the Receivers have established that total debtor collections since the date of the Weekend Holdings Receivership (9 August 2012) is \$426,635. These include post receivership sales of inventory.

We calculated at 6 November 2012 that \$147,264 of debtor recoveries related to Tegel material content. The pre-receivership amount was \$88,309. This amount will increase for Tegel content in further pre receivership recoveries made since 6 November 2012. An analysis has not yet been undertaken into this additional entitlement.

Since the last report, PDNZ has been placed into liquidation and the liquidators are working on collecting debtors. Coastal Cuisine NZ Limited is a significant creditor of PDNZ but is not a secured creditor and will rank on a pro rata basis with other unsecured creditors. The liquidators of PDNZ have advised many debtors are disputed and it will be some time before any recovery is made. The liquidators have advised that a large percentage of debts have been written off.

There is an expectation from our external debt collector that the recovery from both PDNZ and Coastal should realise about another \$30,000 having regard to the age of the debtors and cost effectiveness of collection. As mentioned, a large number of debtors have disputed the Coastal debts and/or claim to have already paid the amounts that have been recorded as debts in Coastal's ledger. The funds will be applied to Receivership costs, Tegel (for Tegel supply content), SH Lock and any balance of debtors proceeds after SH Lock are paid in full will be applied in the order of priority set out by the seventh schedule of the Companies Act 1993. At this stage we expect there to be a shortfall to the secured creditors.

The receivers reached an agreement with the former receivers in relation to the level of their fees and paid \$40,000 (including GST) in fees.

5. OTHER POTENTIAL RECOVERIES TO INVESTIGATE

5.1 Liquidation of Company

On 7 December 2012 Gregory Sherriff and Timothy Downes of Grant Thornton were appointed liquidators of Coastal Cuisine NZ Limited by special resolution of shareholders.

The Receivers are of the view that there will be actions to pursue by a liquidator. These may include insolvent setoff, insolvent transactions, and reckless trading etc. These actions may lead to a recovery for the preferential and unsecured creditors. The Receivers have protected the books and records of the company and have obtained a forensic copy of the company server.

5.2 Demands on Director

The Receivers made inquiry with the director regarding moneys he withdrew from Coastal to fund the fit out in a related company. Company records clearly show Coastal funds were taken to pay creditors of the related company. The director, Mr Ray Arnesen, claims Weekend Holdings Limited's advances to Coastal funded the payments. The bank account records however do not support this. The liquidators will likely review this matter in the future.

5.3 Bulk Meats Direct Limited

Coastal funds were withdrawn by the director and paid to a Refrigeration company for the installation of a large walk in freezer and some free standing freezers in a related company. The refrigeration company held a specific security over these assets and has a super priority to recovery of the proceeds from the sale of these assets from Bulk Meats Direct Limited. The landlord has re-entered the premises. The assets are largely attached to the premises and will likely realise NIL for the unsecured creditors. The specific security holders have a claim to the unpaid assets. The receivers made enquiry with the landlord and have passed details to the liquidators to investigate this further.

5.4 Weekend Holdings Limited

An investigation is required to be made into whether Weekend Holdings Limited as third ranking secured creditor, has received any preferential payments ahead of the earlier ranking secured creditors. The records for the company record payments to Weekend Holdings Limited of \$50,000 in the six months preceding the receivership. In the twelve months preceding receivership, Weekend Holdings Limited withdrew funds of \$214,833.

6. LEGAL ADVICE ON ENTITLEMENT TO PROCEEDS

The Receivers sought legal advice on the correct allocation of proceeds from debtor and asset recoveries. The appointment of the former Receiver (by Weekend Holdings Limited) and unpaid trading on costs during that period plus challenges under marshalling clauses between parties required some clarification. The advice was, Tegel Foods Limited as a specific security holder registered on the PPSR, has a super priority to all proceeds that relate to their specific supply (material content) and rank in priority to preferential creditors. The preferential creditors (employees and Inland Revenue Department for GST/PAYE) rank behind S.H. Lock who holds a specific security over debtors and a General Security Agreement ("GSA") over all present and after acquired property.

The former receivers have agreed to accept \$40,000 (inclusive of GST) in settlement of their fees. The legal advice obtained is that the former Receivers are entitled under the GSA they were appointed under to charge remuneration and recoup expenses from company property charged by the GSA when they in good faith incur personal liability carrying out their duties. The subsequent Receivers have received a benefit from the prior charge holders. The claim of the former Receivers ranks ahead of the current Receivers and in priority to S.H. Lock.

S.H. Lock and Tegel are subject to a Deed of Subordination. However, under a marshalling clause in the Deed of Subordination, S.H. Lock is obliged to seek to meet its debt from GSA assets and the non-Tegel related debtor recoveries first so as not to prejudice Tegel recoveries. With respect to the debtor recoveries that have been paid directly to S.H. Lock's account, S.H. Lock is required to hold Tegel related proceeds on trust for Tegel to the extent that that they are not required to meet S.H. Lock's debt. Once S.H. Lock has recovered its debt from the GSA assets and the non-Tegel related proceeds, S.H. Lock may then apply Tegel related proceeds to its debt. The application of debtor proceeds has been a complex process and is ongoing.

To date, the Receivers have paid \$95,000 to S.H. Lock and have paid \$16,000 towards the costs and expenses of the former Receivers (employees/Tegel purchases) and paid \$40,000 (including GST) to the former receivers for their fees.

7. AMOUNTS OWING TO THE SECURED CREDITOR

7.1 At the date of the former receivers' appointment on 9 August 2012, the amounts due to the secured creditors were as follows:

	\$	
S.H. Lock (NZ) Limited – First Ranking GSA	262,258	(refer note 1)
Weekend Holdings Limited – Second Ranking GSA,	4,000,000	(approximate)
Tegel Foods Limited – Specific Security (in debtor proceeds)	224,917	
TOTAL	<u><u>\$5,374,350</u></u>	

Note1: S.H. Lock (NZ) Limited ("S.H. Lock") (following the trading on by the former receivers') is further owed a post receivership balance of \$96,972. S.H. Lock on commencement by the current receivers, were therefore owed \$359,230.

7.2 S.H. Lock – Likely Outcome

S. H. Lock at the date of the current receivers' appointment was owed \$359,230. They incurred a further \$20,208 in costs. They have received \$284,439 from debtors who have paid to their account direct and \$95,000 from asset recoveries since the appointment of the Weekend Holdings Receivers. The debtor funds are held by them awaiting reallocation in accordance with the terms of the Deed of Subordination with Tegel.

S.H. Lock has been paid \$95,000 from asset proceeds. S.H. Lock as a consequence of a factoring arrangement is also entitled to the balance of debtors proceeds (subject to the terms of the Deed of Subordination) after payment of Receivers costs and disbursements. S.H. Lock are first entitled (after reasonable costs) to any recoveries from other actions taken pursuant to the terms of their General Security Agreement.

S.H. Lock holds \$284,439 which comprises Tegel and non Tegel related recoveries.

7.3 Tegel Foods – Likely Outcome

Tegel Foods Limited was owed \$224,917 at date of appointment and are owed further costs arising from the Receivership. To date, Tegel have received payment for post receivership purchases (the prior Receivers' trading on purchases) and received \$70,000 on 11 March 2013 (not recorded in attached statement to 6 March 2013). As at the date of this report, Tegel's total debt including costs is \$284,798 (less \$70,000 from 11 March 2013). This shortfall is subject to further change based on additional costs and potential future collections that Tegel may have entitlement to.

An MYOB consultant successfully extracted the Tegel content on all debtors' recovered balances. The outcome of this analysis which spans many pages of line entries was that at 6 November 2012 no less than \$88,308.75 of total pre receivership proceeds collected was Tegel content. The receivers have taken the view that \$88,308.75 of debtor receipts come within Tegel's security interest and have paid Tegel \$70,000 on this basis.

A report has also been provided to estimate the likely position should outstanding debtors pay. At this stage it is likely that there will be a substantial shortfall to Tegel. The outcome will depend on the success with further collections. Tegel will be entitled to lodge an unsecured claim in the liquidation for any shortfall. The shortfall will likely be upwards of \$200,000 unless the liquidators of PDNZ have a good recovery. Any PDNZ recovery is however subject to further analysis with priority given to Receivers' fees and S.H. Lock entitlement to non Tegel related recoveries.

8. PREFERENTIAL CREDITORS

We have received some formal claims from the company's preferential creditors. According to the records of the company these claims, as at the date of our appointment, are summarised as follows:

	\$
Employees' Claims –Holiday Pay & Redundancy	37,062
PAYE	83,236
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TOTAL	\$120,298
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Employees will be paid from surplus debtors recovered (if any).

All employees need to provide their contact details to the Receivers /Liquidators.

At this stage and assuming only a further \$30,000 is recovered in debtors, there will be insufficient funds to pay employee claims. Any recovery by employees will depend on the success of recoveries under heading 5 and recoveries made from the liquidation of PPNZ.

9. UNSECURED CREDITORS

At this stage, the receivers do not anticipate that there will be funds available for distribution to unsecured creditors from the realisation of assets. Weekend Holdings Limited as a secured creditor and the preferential creditors, rank ahead of these creditors.

It is not currently known whether the directors have sufficient means to meet any successful claim against them for breaches of directors' duties. This is a matter the Liquidators will need to consider.


10. PARTICULARS OF ASSETS AND LIABILITIES

We **attach** our report on receipts and payments. The funds recovered are not sufficient at date of writing this report to clear S.H. Lock (NZ) Limited in full. Debtors continue to be collected to reduce the debt due. The collection process is slow. All debtors are now held with MFL Services Limited, a debt collection agent working on behalf of the Receivers.

McDonald Vague holds \$74,122 in available funds (reduced to \$4,122 at 11 March 2013). S.H. Lock holds \$284,439. Tegel are entitled to no less than \$18,309 of these funds (following the \$70,000 distribution on 11 March 2013). Tegel's entitlement to proceeds recovered since 6 November 2012 has not yet been calculated.

The total recoveries to date are insufficient to clear the secured creditors (Tegel and S.H. Lock) and receivership costs. The total owing to the two secured creditors at commencement was \$583,000. Given that there is likely only another \$30,000 available in debtors and these funds will be applied to receivership costs and secured creditors, it is now unlikely there will be funds available for the preferential employee claims unless funds are realised from the PDNZ liquidation or an action for recovery against the director is successful. No actions have yet been taken against the director.

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 PERI M FINNIGAN
 RECEIVER

DATED this 15 day of April 2013

THE RECEIVERSHIPS ACT 1993

NUMBER OF COMPANY : 2228040
 NAME OF COMPANY : COASTAL CUISINE NZ LIMITED (IN RECEIVERSHIP)
 PRESENTED BY : McDonald Vague
 Insolvency Specialists
 Level 4, 143 Nelson Street
 P O Box 6092
 Wellesley Street PO, AUCKLAND 1

STATEMENT PURSUANT TO SECTION 24

Statement of Receipts and Payments in the Receivership of the company from 27 August 2012 (being commencement of the Receivership) to 26 February 2013 (being the second report on the Receivership).

	As Per Statement of Affairs	Cash Received Prior Receiver	Cash Received
	\$	\$	\$
CASH HAS BEEN RECEIVED AS FOLLOWS:			
Plant and Machinery (Including Trucks)	73,200	}	90,436
Goodwill	10,000		
Stock	2,000		
High Ceiling Freezer	10,000		
Debtors	585,914		426,635
Vehicle – 2001 BMW X5	10,870		10,870
Interest Received / Sundry	-		476
Lease Income	-		1,731
Bank Account Closure	-		4,864
GST Credits received from write off of bad debts (refer note 1)	-		96,459
Sundry Receipts	-		74
			<hr/>
			631,545
Total Realisations for Prior Receiver			
Advance from Lock Finance		98,100	
Bank Account Closure		6,200	
Debtors Recovered		20,497	
Loan Repayments		8,000	
Rent Received		7,500	
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			140,297
TOTAL REALISATIONS	\$691,984		\$771,842
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CASH HAS BEEN PAID AS FOLLOWS:

Costs Charges & Expenses of Receiver (Lock & Tegel)

Bank Fees, RWT, Sundry Expenses	969
Legal Fees	13,763
Rent	4,091
Debt Collection Costs	11,588
Electricity	1,925
Auction Fees	919
Insurance Premiums	330
Disbursements	3,721
Waste Disposal	234
Receivers Fees	84,510
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	\$122,050

Costs Charges & Expenses of Prior Receiver

Trading On Costs incurred by former Receiver (paid by McDonald Vague)	28,250	
Trading On Costs	129,473	
Receivers Fees (former Receiver)	34,783	
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		192,506
Distribution to Secured Creditors		95,000
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TOTAL PAYMENTS		\$409,556
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TOTAL REALISATIONS		771,842
LESS TOTAL PAYMENTS		409,556
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BALANCE HELD		\$362,286
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Note: The above figures are GST exclusive.

REPRESENTED BY:

Funds Held by S.H. Lock for the benefit of S.H. Lock & Tegel		284,439
ASB Bank Limited – Cheque Account	(refer note 2)	74,122
GST Suspense Account		3,725
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		\$362,286
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Note 1: GST credits received were offset against GST payable for the August/September 2012 period. This resulted in a refund of \$64,841.

Note 2: The receivers have since paid \$70,000 to Tegel under their security interest.



 PERI M FINNIGAN
 RECEIVER

Dated this 15 day of April 2013