

3383573 ARROW INTERNATIONAL (NZ) LIMITED
3383875 ARROW INTERNATIONAL GROUP LIMITED
2240072 CONSTRUCTION LABOUR AND RESOURCES
LIMITED

(ADMINISTRATORS APPOINTED)
(Together “THE COMPANIES”)

Voluntary Administrators’ report pursuant to section
239AU of the Companies Act 1993

29 May 2019

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1. GLOSSARY OF TERMS

Act	Companies Act 1993
Adjourned First Creditors' Meeting 2019	CLR adjourned first creditors' meeting held on 19 March 2019
Administrators	Andrew Bethell, Andrew McKay and Colin Gower
AIGL	Arrow International Group Limited
AINZL	Arrow International (NZ) Limited
ANZ or Bank	ANZ Bank
Appointment Date	28-Feb-19
Australian Subsidiary	Arrow International Pty Limited (In Liquidation)
Board	The Directors
Bondholders	Vero, ANZ and Asset Insure
Bonds	Performance bonds
CLR	Construction and Labour Resource Limited
Companies	Together AINZL, AIGL and CLR
Directors	Robert Foster and Ronald Anderson
DOCA	Deed of Company Arrangement
EBITDA	Earnings before interest, tax, depreciation and amortisation
First Creditors' Meeting 2019	AINZL and AIGL first creditors' meeting held on 12 March 2019
IRD	Inland Revenue Department
Joint Venture Partnerships	Partnerships between Arrow subsidiaries and third parties including 111 Dixon Street Limited and 104 Dixon Street Limited
Moratorium	A moratorium prevents enforcement action by creditors during the administration
Non-trading entities	Companies in wider Arrow group which are not actively trading and which are not in administration
Subsidiary Companies	Further companies in the Arrow Group which are not in administration
Watershed Meeting	Second meeting of creditors held pursuant to section 239AT of the Act
Wider Arrow Group	Includes companies not in administration, the majority of which were not trading

2. OVERVIEW AND KEY POINTS

<p>Purpose of Report</p>	<p>This report provides creditors with details of the Companies' business, property, affairs and financial circumstances prior to the Watershed Meeting.</p> <p>This report also informs creditors about the actions and investigations taken by the Administrators and the Administrators' opinion and recommendation on the options available to creditors to vote on at the Watershed Meeting.</p>
<p>Watershed Meeting</p>	<p>It is at the Watershed Meetings that creditors get to decide on the future of the Companies. With no Deed of Company Arrangement ("DOCA") feasible and the Companies being insolvent, the Administrators are recommending liquidation.</p> <p>The Watershed Meetings for each of the Companies will be held jointly at 10.30am on Thursday, 6 June 2019 at the following locations:</p> <p>Auckland Hobson Room, Rydges Auckland Hotel, Level 1, 59 Federal Street, Auckland CBD (in person meeting)</p> <p>Wellington Wellington Board Room, BDO Wellington, Level 1, 50 Customhouse Quay, Wellington (audio visual connection)</p> <p>Christchurch Christchurch Boardroom, BDO Christchurch, Level 4, 287/293 Durham Street North, Christchurch (audio visual connection)</p> <p>Queenstown Wyndham Garden, 32 Red Oaks Drive, Remarkables Park, Queenstown (audio visual connection)</p>
<p>Voting at the Watershed Meeting</p>	<p>If you wish to vote at the Watershed meeting, you can do so by either postal vote, attending in person or appointing a proxy. If you have not already done so, you should submit a creditors' claim form.</p>
<p>Company Information</p>	<p>AIGL is the ultimate holding company.</p> <p>AINZL is a subsidiary of AIGL and was the main trading entity of the Group carrying on construction activities.</p> <p>CLR is a wholly owned subsidiary of AINZL. CLR provided labour hire primarily within the Arrow group.</p>

<p>Voluntary Administration</p>	<p>On 28 February 2019, the Companies were placed into voluntary administration by resolution of their respective Boards of Directors with the appointment of Andrew Bethell, Andrew McKay and Colin Gower as joint Administrators. Voluntary Administration is a formal insolvency regime where a moratorium is imposed on creditors preventing those creditors from exercising certain rights during the period of the administration.</p> <p>From the date of appointment, the Administrators have day-to-day responsibility for the management of the Companies and the directors' powers are suspended.</p>
<p>Events leading to Administration</p>	<ul style="list-style-type: none"> • Increasing competition in the construction industry with greater pressure on margins. • The impact on working capital with the introduction of the new retentions' regime in 2017. • Lack of interest from possible external investors. • Contraction of construction projects with many entering into a negative cashflow phase of the project. • A large loss-making project in Auckland. • A \$4.5m adjudication against AINZL which could not be met. • Property developments not having the value or realisation timing as expected.
<p>Why was Voluntary Administration chosen?</p>	<p>The moratorium imposed on creditors provided time to allow sensible negotiations with principals and creditors without the threat of immediate enforcement, with the aim of achieving a better result for all stakeholders.</p> <p>The outcomes to date support voluntary administration as the appropriate option as liabilities have been reduced while preserving asset realisation prospects.</p>
<p>What is the likely outcome for creditors?</p>	<p>Recoveries to date (see Receipts and Payments Appendix 1) are sufficient to meet secured creditors with general security agreements and preferential creditors (employees and IRD) in full.</p> <p>Employee holiday pay and annual leave entitlements as at the date of administration total \$0.8m and will be paid prior to the Watershed Meeting (in accordance with Section 4.4).</p> <p>There are sufficient funds to pay subcontractor retentions on contracts entered into after 1 April 2017 in full where contractual obligations are satisfied. To date, the Administrators have paid \$1.1M (circa 20%) of the retention funds held in trust.</p> <p>It is too early to estimate the level of funds available for unsecured creditors. This will largely depend on the level of recoveries of construction contract and retention receivables and the outcome of the sale of two investment properties which the Group has an interest in. It will also depend on the outcome of a dispute as to</p>

	whether certain funds are held on trust and recoveries from actions taken by the liquidators (if any).
Solvency of the Companies	The Companies are insolvent. The Administrators have yet to definitively determine the timing of the Companies' insolvency as yet. By early 2018 the Board and management realised the pressures that the Companies were facing and started taking action to scale back the business and exiting external construction to concentrate on its own development and construction. A comprehensive investigation by the liquidator will provide a conclusive opinion.
Liquidator Actions	Potential claims available to a liquidator include insolvent trading, voidable transactions and breaches of directors' duties. The Administrators have generally considered these matters but further investigations will be required by the liquidators.
Administrators' Recommendation	The Companies are insolvent and a DOCA is not feasible. The Administrators therefore recommend that each of the Companies be placed into liquidation.

3. INTRODUCTION

3.1 Appointment

Andrew Bethell and Andrew McKay of BDO Auckland, and Colin Gower, of BDO Christchurch were appointed joint Administrators of the following Companies on 28 February 2019 by the resolution of the Companies' directors: -

- Arrow International (NZ) Limited, NZCN 3383573 "AINZL"
- Arrow International Group Limited, NZCN 3383875 "AIGL"
- Construction Labour and Resources Limited, NZCN 2240072 "CLRL"
(together referred to as "the Companies")

3.2 Qualification of Administrators

Prior to consenting to our appointment as Administrators we disclosed relationships that the Administrators and BDO had with the Companies and its secured creditors to the High Court. As disclosed in the information already sent to creditors, the Court confirmed notwithstanding these relationships the appointment could still take place. Furthermore, the Court has confirmed that the Administrators can also act liquidators of the Companies in the event that the Companies' creditors resolve to place the Companies into liquidation.

3.3 Objectives of VA

The objectives of a VA are to:

- Maximise the chances of the company, or as much as possible of its business, continuing in existence; or
- If it is not possible for the company or business to continue in existence, results in a better return for the company's creditors and shareholders than would result from an immediate liquidation.

3.4 Role of Administrator

An Administrator's role is to:

- To investigate and report to creditors on the Companies' business, property, affairs and financial circumstances.
- To give recommendations on the best available options to creditors on which creditors can vote at the "watershed" meeting of creditors.
- The Administrator has all the management powers of the company and its directors.

3.5 First creditors' meetings

First meetings of creditors for all Companies were held on 12 March 2019. The meetings for AINZL and AIGL were quorate and the Administrators' appointment was confirmed, and a creditors committee appointed.

Due to a lack of quorum, the first meeting of creditors for CLR was adjourned until 19 March 2019. The adjourned meeting also failed to achieve a quorum and neither resolution was passed.

3.6 Creditors' committee

It was resolved at the first meeting of creditors that a creditors' committee be appointed for AINZL and AIGL. The members of the creditors' committee are:

- Jason Sutherland of Vero
- Andrew March of March Construction
- Graeme Bratty of McKay Electrical

The creditors' committee has met once during the Administration.

3.7 Extension of convening period

On 8 March 2019, the Administrators sought and obtained from the High Court, an extension from 14 March 2019 to 31 May 2019 to convene the watershed meeting.

3.8 Watershed meeting

The watershed meeting for all the Companies will be held on 6 June 2019 at 10.30am in the following locations:

- Auckland Hobson Room, Rydges Auckland Hotel, Level 1, 59 Federal Street, Auckland CBD - (in person meeting)
- Wellington Wellington Board Room, BDO Wellington, Level 1, 50 Customhouse Quay, Wellington - (audio visual connection)
- Christchurch Christchurch Boardroom, BDO Christchurch, Level 4, 287/293 Durham Street North, Christchurch - (audio visual connection)
- Queenstown Wyndham Garden, 32 Red Oaks Drive, Remarkables Park, Queenstown - (audio visual connection)

3.9 Purpose of Administrators' report

Section 239AU of the Act requires the Administrators to provide a report to circulate to all creditors prior to the watershed meeting containing:

- Details about the business, property, affairs and financial of the Companies.
- The Administrators' opinion and recommendation on each of the options available to creditors.
- If a DOCA is proposed, the details of the DOCA.

3.10 Context of Administrators' report

This report and the statements herein are based on our preliminary investigations. Any additional material issues identified subsequent to this report may be the subject of a further written report and/or tabled at the watershed meeting.

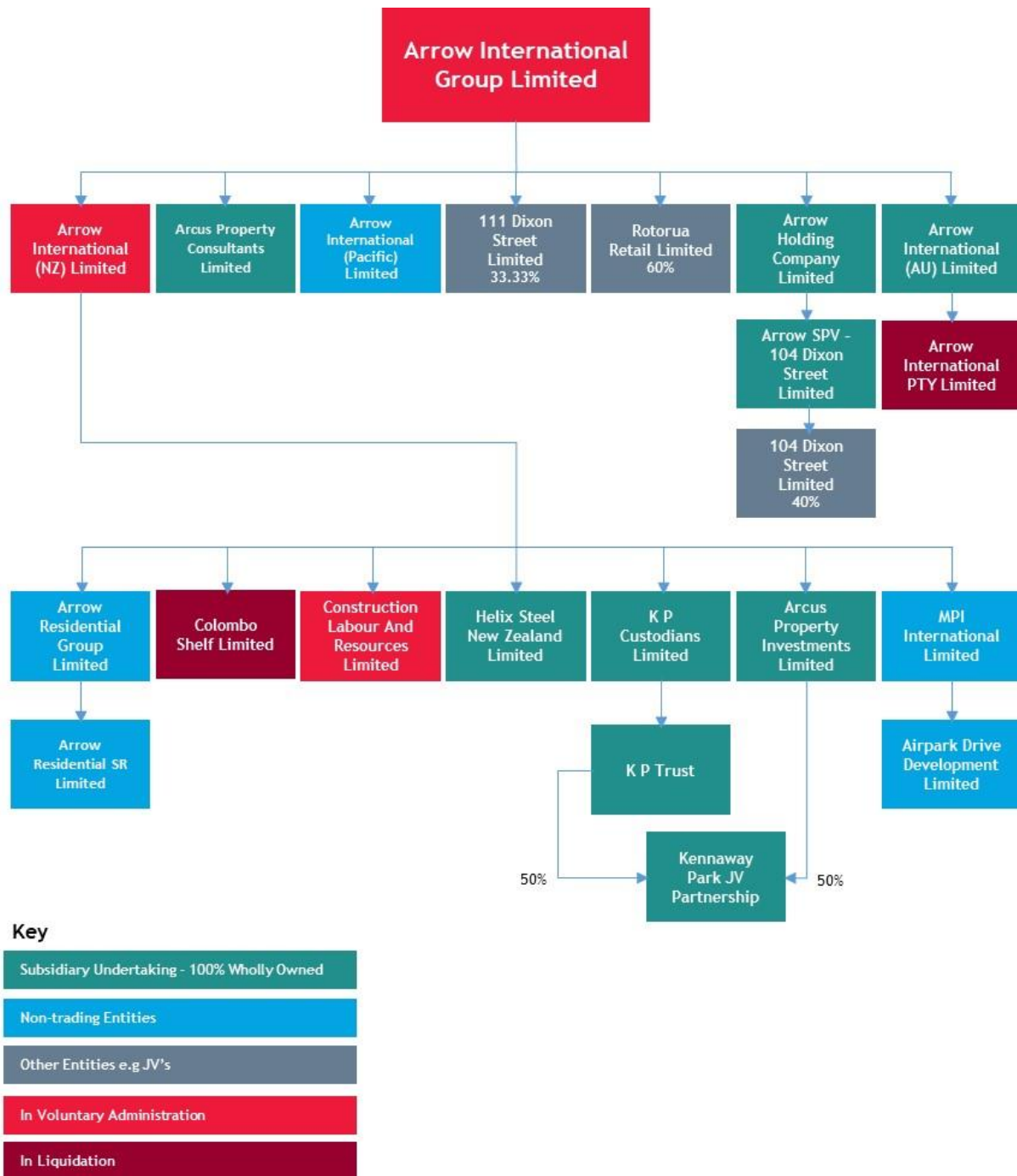
The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. Except where otherwise stated, we reserve our right to alter any conclusions reached on the basis of any changed or additional information that is received subsequent to the preparation of this report.

4. BACKGROUND INFORMATION

4.1 Business Overview

As shown in the group structure diagram, the wider Arrow group consisted of 20 companies (including an Australian registered company) plus a trust and several joint venture partnerships.

Only the three entities being AIGL, AINZL and CLR were placed into voluntary administration. Of these the main construction company was AINZL which has demanded the vast majority of the cost and resource due to the number of active projects on appointment.



4.2 Secured Creditors and Other Charges

General Security Interests

- ANZ Bank New Zealand Limited holds a first ranking general security interest over each of the Companies. At the date of administration, the Companies' contingent liability to ANZ stood at approximately \$2.0m as a result of bonds on issue, the largest being for \$1.610m in relation to the Airedale Apartment project in Auckland which was called and paid. The ANZ bond facility was secured by a \$2m cash deposit under the terms of the ANZ facility agreement. Of the \$2.0m cash deposit, \$318k remains securing two bonds awaiting release.
- AAI Limited (Vero) holds a second ranking general security interest over AINZL and AIGL. At the date of administration, the Companies' contingent liability to AAI stood at \$4.792m. This security relates to performance bonds which were on issue. AINZL and Vero agreed to set aside \$2.4m to partially address the contingent exposure, however, the exposure is expected to exceed this amount.
- An employee, Matthew Currie holds a security interest over AIGL only in his capacity as security trustee. This security relates to funds advanced in relation to the Dixon Street projects by investors for which Mr Currie acts as the security trustee.

Other Security Holders

At the date of the Administrators' appointment a PPSR search revealed the following:

- AIGL had a further five security interests registered against it;
- AINZL had a further 145 financing statements registered against it representing approximately 84 creditors;
- CLR had no other securities registered against it other than the ANZ Bank general security interest.

4.3 Trade and Other Creditors at 28 February 2019

At the date of the Administrators' appointment, the Companies' records indicated that trade and other creditors were owed \$36.512m as per the table below.

Creditors' Summary as at 28 February 2019 \$'000	AINZL		AIGL		CLRL		TOTAL	
	#	\$	#	\$	#	\$	#	\$
SECURED								
Bond - Pref	2.00	3,279	0.00	0	0.00	0	2.00	3,279
PPSR	19.00	633	0.00	0	0.00	0	19.00	633
Subtotal	21.00	3,911	0.00	0	0.00	0	21.00	3,911
EMPLOYEE / IRD								
Employee	167.00	929	4.00	18	7.00	35	178.00	982
IRD	0.00	0	0.00	0	0.00	0	0.00	0
Subtotal	167.00	929	4.00	18	7.00	35	178.00	982
UNSECURED								
Trade Creditors & Subcontractors	726.00	25,249	10.00	40	1.00	0	737.00	25,289
Bond - Unsec	1.00	6,330	0.00	0	0.00	0	1.00	6,330
Subtotal	727.00	31,579	10.00	40	1.00	0	738.00	31,619
CONTINGENT								
Principal	0.00	0	0.00	0	0.00	0	0.00	0
Subtotal	0.00	0	0.00	0	0.00	0	0.00	0
Total	915.00	36,419	14.00	57	8.00	35	937.00	36,512

Following the Administrators' appointment, some January and February subcontractor liabilities were settled by principals. As a consequence, the claims of creditors recorded in the Companies' records as at the date of administration have been reduced.

4.4 Creditor claims received as at 24 May 2019

The Administrators have received claims as summarised in the table below. The Administrators are in the process of assessing these claims for the purpose of voting at the watershed meeting. A formal adjudication of these claims will be undertaken by the liquidators.

Creditors' Claims Submitted \$'000	AINZL		AIGL		CLRL		TOTAL	
	#	\$	#	\$	#	\$	#	\$
SECURED								
Bond - Pref	0.00	0	0.00	0	0.00	0	0.00	0
PPSR	16.00	3,697	0.00	0	0.00	0	16.00	3,697
Subtotal	16.00	3,697	0.00	0	0.00	0	16.00	3,697
EMPLOYEE / IRD								
Employee	103.00	1,184	4.00	62	5.00	48	112.00	1,294
IRD	1.00	616	1.00	60	1.00	18	3.00	695
Subtotal	104.00	1,800	5.00	122	6.00	66	115.00	1,988
UNSECURED								
Trade Creditors & Subcontractors	264.00	26,620	2.00	9	0.00	0	266.00	26,629
Bond - Unsec	1.00	1,500	0.00	0	0.00	0	1.00	1,500
Subtotal	265.00	28,120	2.00	9	0.00	0	267.00	28,129
CONTINGENT								
Principal	2.00	5,194	0.00	0	0.00	0	2.00	5,194
Subtotal	2.00	5,194	0.00	0	0.00	0	2.00	5,194
Total	387.00	38,812	7.00	131	6.00	66	400.00	39,008

In the course of the administration to date, some creditors have submitted contingent claims on the basis of potential future losses they might incur which can be attributed to the Companies. These claims have not been reviewed or admitted at the time of this report.

Creditor claims are continuing to be received and as a result the total of creditor claims will be subject to ongoing amendment. While the Administrators anticipate further claims will be received, they also expect that claims will be withdrawn and / or rejected where negotiated settlements with principals have meant creditor liabilities have been mitigated.

Employee holiday pay and annual leave entitlements as at the date of administration total \$0.8m. These entitlements, up to a maximum of \$23,960 gross per employee, will be paid (prior to the Watershed Meeting on 6 June 2019) in respect of the preferential claim they would otherwise have in any liquidation of the Companies.

5. FINANCIAL INFORMATION

A summary of each Company's reported Profit and Loss and Balance Sheet for the financial years FY16, FY 17, FY 18, and year to date to 28 February 2019 are set out below. Note that these are prepared on a going concern basis and do not reflect an accurate picture under a liquidation scenario. Key observations follow each.

5.1 AIGL Historical Profit and Loss and Balance Sheet

Summary of Arrow International Group Limited Profit and Loss				
\$'000	FY16	FY17	FY18	YTD Feb 19
Revenue	1,626	1,420	1,122	1,523
Other Income	7,975	2,925	199	123
Administration and General Expenses	(1,770)	(1,238)	(1,673)	(1,957)
Finance Expenses	(1,071)	(1,124)	(421)	(482)
Profit/(Loss) from operations	6,761	1,983	(773)	(792)
Subventions	676	618	4	-
Profit/(Loss) before tax	7,437	2,601	(769)	(792)
Tax	-	-	298	-
Profit after tax	7,437	2,601	(471)	(792)
Dividends paid	(2,200)	(2,600)	(200)	(175)
Retained Profit for the year	5,237	1	(671)	(967)

Source: Financial Statements and management accounts at 28 Feb 2019

Summary of Arrow International Group Limited Balance Sheet				
\$'000	FY16	FY17	FY18	YTD Feb 19
Cash & cash equivalents	120	245	185	10
Trade and other receivables	4	6	82	391
Related Company receivables	12,727	10,906	12,118	12,784
Total Current Assets	12,851	11,157	12,386	13,185
Property, plant and equipment	83	9	80	72
Loan-vendor finance	-	-	1,547	-
Shares in subsidiaries	39,049	39,049	23,581	26,081
Related Company receivables-non current	-	-	2,696	2,927
Intangible assets	30	15	7	-
Deferred tax asset	-	-	298	-
Total Non-Current Assets	39,161	39,072	28,210	29,080
Total Assets	52,012	50,229	40,596	42,266
Trade and other payables	(177)	(116)	(318)	(277)
Loans from subsidiaries	(19,114)	(17,391)	-	-
Total Current Liabilities	(19,291)	(17,507)	(318)	(277)
Other Loans	-	-	(1,369)	(1,548)
Total Non-Current Liabilities	-	-	(1,369)	(1,548)
Net Assets	32,721	32,722	38,908	40,441
Equity				
Ordinary Shares	(10,146)	(10,146)	(10,146)	(12,646)
Retained Earnings	(22,575)	(22,576)	(29,968)	(29,001)
Capital Reserves	-	-	1,206	1,206
Total Equity	(32,721)	(32,722)	(38,908)	(40,441)

Source: Financial Statements and management accounts at 28 Feb 2019

Reported Net Assets of \$40.4m relies on Shares in subsidiaries and Related Company receivables largely from companies in administration or liquidation. As such, much of these values are not recoverable.

AIGL's revenue and income are intercompany recharges to cover costs incurred and dividends received.

The current related company receivables are primarily due from the Australian company which is in liquidation and the non-current related company receivables relate to advances to the Company's investment in a Dixon Street project. The Loan-vendor finance related to the sale of a related entity and has been repaid.

Loans from subsidiaries were repaid from the proceeds of sale of investments and the transfer of the Portlink property to AINZL.

5.2 AINZL Historical Profit and Loss and Balance Sheet

Summary of Arrow International (NZ) Limited Profit and Loss				
\$'000	FY16	FY17	FY18	YTD Feb 19
Revenue	344,503	192,072	178,357	212,890
Cost of sales	(312,292)	(178,731)	(162,131)	(199,569)
Gross Profit	32,211	13,341	16,226	13,321
Gross Margin	9.3%	6.9%	9.1%	6.3%
Other Income	1,214	1,315	455	2,731
Administration and General Expenses	(22,160)	(20,881)	(15,895)	(11,063)
Finance Expenses	(113)	(133)	(46)	(1,669)
Profit/(Loss) from operations	11,152	(6,358)	739	3,320
Subventions	(3,093)	(1,799)	(510)	-
Profit/(Loss) before tax	8,060	(8,157)	229	3,320
Tax	(2,648)	1,732	-	(395)
Profit after tax	5,411	(6,426)	229	2,925
Dividends paid	(7,399)	(2,256)	-	-
Retained Profit for the year	(1,988)	(8,682)	229	2,925

Source: Financial Statements and management accounts at 28 Feb 2019

Summary of Arrow International (NZ) Limited Balance Sheet				
\$'000	FY16	FY17	FY18	YTD Feb 19
Cash & cash equivalents	8,713	6,228	6,421	9,047
Retentions trust account			2,307	5,614
Contract and other receivables	31,275	11,680	19,786	22,396
Retention Receivables	5,485	5,399	5,082	6,988
Related Company receivables	21,489	21,843	3,513	7,867
Total Current Assets	66,961	45,150	37,109	51,913
Property, plant and equipment	2,736	4,077	2,723	3,018
Shares in subsidiaries	-	-	13,232	13,232
Intangible assets	5,364	5,240	5,146	4,305
Deferred tax asset	1,676	3,347	2,837	-
Total Non-Current Assets	9,776	12,663	23,938	20,555
Total Assets	76,737	57,813	61,047	72,468
Bank term loans	-	(3,775)	(1,622)	-
Trade and other payables	(40,862)	(21,751)	(23,858)	(27,426)
Work in progress / Income in advance	(7,567)	(15,547)	(12,683)	(10,802)
Subcontractors Retentions	(12,158)	(9,238)	(7,896)	(10,221)
Related Company payables	-	-	(1,279)	(5,139)
Total Current Liabilities	(60,587)	(50,310)	(47,338)	(53,588)
Other non-current liabilities	(296)	(331)	(276)	(22)
Total Non-Current Liabilities	(296)	(331)	(276)	(22)
Net Assets	15,854	7,172	13,433	18,858
Equity				
Ordinary Shares	(9,050)	(9,050)	(15,082)	(17,582)
Retained Earnings	(6,804)	1,878	1,649	(1,275)
Total Equity	(15,854)	(7,172)	(13,433)	(18,858)

Source: Financial Statements and management accounts at 28 Feb 2019

The Company's business declined primarily in Christchurch post FY16. Other income in YTD Feb19 includes \$2.5m dividend from a related company and finance expenses includes a \$1.6m write-off of a receivable from Colombo Shelf Limited which went into liquidation in December 2018.

The FY17 related company receivables have been repaid by group companies in cash and the transfer of the Portlink property to subsidiaries involved in the Portlink development, a commercial property development subdivision on the outskirts of Christchurch.

Shares in subsidiaries is the investment in the Portlink development.

5.3 CLRL Historical Profit and Loss and Balance Sheet

Summary of Construction Labour and Resources Limited Profit and Loss				
\$'000	FY16	FY17	FY18	YTD Feb 19
Revenue	382	282	533	489
Cost of sales	(320)	(211)	(414)	(443)
Gross Profit	62	71	119	46
Gross Margin	16%	25%	22%	9%
Administration and General Expenses	(58)	(36)	(46)	(9)
Profit/(Loss) from operations before tax	4	35	73	36
Tax	(3)	8	(2)	
Profit after tax	1	43	71	36
Dividends paid	(58)	-	-	(65)
Retained Profit/(Loss) for the year	(57)	43	71	(29)

Source: Financial Statements and management accounts at 28 Feb 2019

Summary of Construction Labour and Resources Limited Balance Sheet				
\$'000	FY16	FY17	FY18	YTD Feb 19
Cash & cash equivalents	37	57	83	83
Trade and other receivables	45	2	-	6
Shareholders current accounts	-	42	48	43
Total Current Assets	81	100	130	133
Property, plant and equipment	11	7	5	3
Deferred tax asset	1	8	6	-
Total Non-Current Assets	12	15	11	3
Total Assets	93	115	141	136
Trade and other payables	(33)	(68)	(22)	(46)
Loans to subsidiaries	(55)	-	-	-
Total Current Liabilities	(88)	(68)	(22)	(46)
Net Assets	5	48	119	90
Equity				
Ordinary Shares	-	-	-	-
Retained Earnings	(5)	(48)	(119)	90
Total Equity	(5)	(48)	(119)	90

Source: Financial Statements and management accounts at 28 Feb 2019

6. EVENTS LEADING TO APPOINTMENT

6.1 Directors' opinion as to the reasons for failure

In accordance with section 239AF of the Act, the directors have jointly prepared a Statement of the Companies' Positions as at 28 February 2019 ("Directors' Statement") and this is set out below.

Construction Labour & Resources Limited

"CLRL" was trading profitably but at the time of the Arrow NZ administration its staff were engaged exclusively in Arrow projects. CLRL had guaranteed construction performance bond facilities of Arrow NZ. With Arrow NZ being placed into administration, the directors determined that CLRL needed to be placed into administration as well as a protective measure against calls under these guarantees.

Arrow International Group Ltd

AIGL had guaranteed construction performance bond facilities of Arrow NZ as well as Arrow NZ's performance under particular individual construction and services contracts. With Arrow NZ being placed into administration, the directors determined that Arrow Group needed to be placed into administration as a protective measure against calls under these guarantees and to allow an orderly realisation of its assets in the event a call arose.

Arrow International (NZ) Ltd

Arrow NZ had some challenges on certain construction contracts in the past three years due to prevailing market conditions. This generated a net loss in FY17 and a positive but small profit result for FY18 and a similar small profit result was forecast for FY19. While solvent, the losses and low profitability had weakened the company's balance sheet. The business had prior been scaling back its involvement in the types of contracts, where risk is heavily weighted onto the contractor, that had led to the losses. Arrow NZ's major asset, an industrial development in Christchurch had been put up for sale to generate cashflow to fund the scaling back of the business.

The directors were taking professional advice, monitoring the cash position closely and actively reducing expenditures.

An adverse determination under the Construction Contracts Act was unexpectedly made against Arrow NZ in 15 February 2019. The outcome was unexpected, considered to be incorrect by the Directors and Arrow NZ immediately filed notices of Arbitration and Mediation.

The Construction Contracts Act Adjudication process requirement to pay any awards within 2 working days is a significant imposition on any business, especially when \$5m is the sum awarded.

Despite filing mediation notices the other party to the dispute pursued a statutory demand for the full sum at the expiry of the 2 working days. The Directors reviewed the forecast cashflow position of the business and sought further legal and financial advice. It was determined Arrow NZ was unable to pay the statutory demand and also meets its obligations to other creditors and accordingly administrators were appointed.

Timeline of Key Events

Date	Description
15.2.19	Adjudication Decision issued close of business. Arrow NZ required to pay \$4.3m+GST by 19.2.19
18.2.19	Arrow file notices of arbitration and mediation with the other party to the dispute. Seeks to delay enforcement pending outcome of that process.
19.2.19	Due date for paying the adjudication award
20.2.19	Statutory demand issued by the other party at close of business requiring full payment within 15 working days
21.2.19	Board request updated forecasts and seek further legal advice on the adjudication and demand
25.2.19	Board meets to consider information provided. Enters discussions with secured creditors.
27.2.19	Board resolves to appoint administrators pending appropriate High Court clearances.
28.2.19	Court clearance received and administrators formally appointed mid-afternoon.

6.2 Administrators' opinion as to the reasons for failure

The Administrators are of the opinion that the following factors contributed to the Companies' failure:

- Highly competitive industry with pressure on margins
- Impact of retention regime reducing available working capital
- Drain on working capital through funding Australian entity
- Large loss-making project
- High overhead structure
- Contraction of construction book coupled with cash flow profile of projects
- Property investments and developments not achieving results expected
- Failure to find an external investor
- Adjudication for \$4.5m which was to be paid within 2 working days.

7. ADMINISTRATORS' ACTIONS FOLLOWING APPOINTMENT

At the date of the Administrators' appointment AINZL was involved in approximately 20 active projects in varying stages of completion.

Once sites were secured, the Administrators undertook a preliminary assessment of each project in conjunction with management and project staff. It was evident that for the majority of the projects the costs to complete exceeded revenue to come, meaning completion by the Administrators was not viable. It was determined to urgently move into an orderly wind-down process which resulted in termination or novation by agreement or unilateral termination or repossession of sites by the principals.

Where appropriate, projects were converted to project management contracts whereby costs incurred were recharged along with a margin to defray costs and generate ongoing revenue while retaining staff. This action was designed to mitigate losses and allow either completion or an orderly transfer to another contractor.

Due to the wind-down of the business the Administrators reduced staff numbers appropriately from approximately 200 to only a few remaining. Where possible staff were transferred to the contract principal to assist with transition and completing the project.

The Administrators would like to thank staff for their considerable assistance and professionalism during the Administration under trying circumstances, which in many cases contributed to the enhanced outcomes achieved.

In addition, the Administrators investigated whether:

- The entire business could be sold as a whole; or
- Certain business units (such as the Southern Response unit, or a regional construction unit) could be separated and sold; or
- There were stand-alone businesses which could attract a buyer.

The outcome of the Administrators' investigations confirmed that none of the foregoing options was available.

7.1 Projects

Actions taken on projects by Administrators aimed to get projects back underway as quickly as practical in order to reduce principal and subcontractor claims and transfer staff while extracting value for Arrow where possible. Each project had its own bespoke solution depending on the specific circumstances of that project and approach of the principal. However, in most cases objectives were achieved and we thank staff, principals and subcontractors on most projects for their pragmatic approach in challenging circumstances.

Below is a table summarising the various active projects on which Arrow was engaged at the time of the Administrators' appointment and action taken. Due to confidentiality obligations contained within both pre-administration contracts and close-out arrangements, we are unable to provide further detail.

SITE LOCATION	ACTION TAKEN
Anzac Avenue	Negotiated termination of loss-making contract by agreement
Airedale Street	Negotiated termination and resumption deed with principal
89 Courtenay Place	Principal took possession of site
Hawkes Bay Airport	Termination by agreement
Johnsonville	Termination by agreement
111 Dixon Street	Termination by agreement
Niue Chancery	Termination by agreement
Elim School	Termination by agreement
Northern Regional Correction Facility	Termination by agreement
Plant and Food Research	Incomplete contract, settlement of outstanding claims by agreement
WIAL	Principal in possession of site, ongoing co-operation to mitigate loss

SITE LOCATION	ACTION TAKEN
66 Carmen Road	PMCM contract continued on site by variation agreement
Northlink	PMCM contract continued on site by variation agreement
104 Dixon Street	Transfer of shares to JV partner
CIAL Bunnings	Continued on site under Deed of Arrangement agreed with principal
Millbrook	Negotiations initiated unilateral termination by principal
Wanaka Community House	Negotiations initiated but termination by principal
Coronet Peak	Contract converted to project management to complete project
Mt Aspiring	Negotiations with principal
Chapel Street Papanui	PMCM contract continued on site by variation agreement
Southern Response	Transition of Arrow work to Southern Response including transfer of staff, following termination
Portlink	Held in AINZL subsidiary. Administrators approval of strategy for realisation

7.2 Administrators' Actions on Projects

In relation to the above projects, the Administrators have since their appointment:

- Attended on all sites and established strategies for managing sites
- Held discussions with management and project managers and review of all projects on foot to determine a strategy for orderly wind-down, continuation, termination or novation as appropriate for each site

- Allocated tasks around the country between Administrators' staff and the Companies' employees
- Communicated with various stakeholders including principals, trade creditors and subcontractors and responding to queries
- Ensured accounting cut-off and capturing of all pre-VA data where possible
- Assessed financial requirements to implement strategy
- Communicated with legal advisers on drafting termination and novation agreements
- Instituting protocols for site management
- Ensured Health & Safety requirements are maintained
- Maintained communications and data access across sites as required
- Managed orderly decanting of sites, staff reduction and asset removal.

Administrators other actions are covered in detail in Appendix 2.

7.3 Retentions

As confirmed to creditors at the first meeting, AINZL operated a separate trust account in which retention sums for contracts entered into after 1 April 2017 due to subcontractors were held. Since their appointment the Administrators have undertaken a full reconciliation of the trust account to confirm balances and expected release dates. In addition, legal advice has been sought as to whether retentions can be released where practical completion has not been achieved or where defect liability periods have yet to end but where the contract with the principal has been terminated by agreement or otherwise.

The Administrators are working through a process to ensure the orderly release of retentions where due and to date retentions have been released or transferred by agreement on a number of projects. This process is ongoing.

To date, the Administrators have paid \$1.1M (circa 20%) of the retention funds held in trust.

8. INVESTIGATIONS

8.1 Overview

The Administrators have undertaken a limited preliminary investigation into the affairs of the Companies and whether there would be any potential recoveries or actions available in a liquidation, or any transactions that appear to be voidable where a liquidator (if appointed) might recover funds for the benefit of creditors.

The Administrators' investigations will assist the Administrators in forming their opinion on the possible options available to creditors at the watershed meeting.

As indicated earlier in this report, the Administrators are of the opinion that the only option available to creditors is to resolve to place the Companies into liquidation. No DOCA has been proposed and given that the Companies are insolvent it is unrealistic for the Companies to be returned to the Directors.

8.2 Investigations undertaken

The Administrators' preliminary investigations included (but were not limited to):

- Review and preliminary analysis of the Companies' historical financial statements and current financial records;
- Review of the Companies' taxation liabilities and the period over which these accrued;
- Discussions with the Board and members of the wider management team;
- Discussions with various creditors regarding their concerns;
- Consideration of the Companies' banking, loan and bond facilities;
- Review of asset disposal;
- Review of investments and the valuation thereof;
- Review of inter-company transactions;
- Analysis of accounts payable and retention liabilities;
- Met with and discussed any specific concerns raised by creditors.

8.3 Adequacy of books and records

- Section 194 of the Act provides that a board of a company must ensure that there are kept at all times accounting records that correctly record the transactions of the company, which ensure the financial statements to comply with generally accepted accounting principles and will enable the financial statements of the company to be readily and properly audited.
- Failure to comply with this requirement can mean that a director commits an offence and could be liable on conviction to a penalty not exceeding \$50,000.
- Based on the records available, it is the Administrators' preliminary opinion that the Companies' books and records are adequate.

8.4 Date of insolvency

- A company is insolvent if it cannot pay its debts as they fall due or where its liabilities exceed its assets.
- On 28 February 2019 the Board resolved that the Companies may become insolvent and they therefore resolved to place the Companies into administration. This is the latest date that we can determine the Companies becoming insolvent.

- The Administrators consider that the Companies were likely insolvent at an earlier date. Further investigations are required in order to determine that date.

8.5 Cash flow solvency

From their preliminary review, the Administrators note that the Companies:

- were meeting their taxation obligations at the date of the Administrators' appointment.
- had failed to meet their January subcontractor obligations which were due for payment up to a week earlier in February.
- were trading at a loss on a group basis for the two years from 2017 onwards despite acting to reduce costs and scale back the business generally [See review of financial information for FY16 to FY18]

8.6 Balance sheet solvency

- Under the balance sheet test a company is insolvent if its total liabilities (including contingent liabilities) exceed the value of its total assets.
- A review of each of the Companies' financial statements indicates that, based on reported numbers prepared on a going concern basis, the Companies were solvent on a balance sheet test in the years from FY16 to FY18. Further investigation is required to determine the appropriateness of the going concern assumption and the value of assets and liabilities shown in those accounts.
- The management accounts for the Companies at the date of appointment of the Administrators also indicate that reported assets exceeded reported liabilities for the Companies'. However, we are aware that the book value of certain assets exceed the likely realisable values.
- The effect of administration may give rise to contingent liabilities which would not have otherwise been reasonably foreseen in normal trading.
- In the event that the Companies proceed into liquidation, further analysis will be undertaken by a liquidator to more accurately assess the Companies' balance sheet solvency.

8.7 Administrators' preliminary conclusions on solvency

- In determining solvency of a company, it is necessary to consider the company's financial position having regard to the wider group.
- Given claims and contingent liabilities which have emerged subsequent to the Administrators' appointment, it is clear that the Companies were insolvent at the date of administration. Further analysis is required to determine at what earlier date the Companies were insolvent and whether trading should have ceased earlier.
- The Board appears to have recognised the Companies' increased risks and acted to mitigate the position and reduce the potential losses to creditors.
- A more complete investigation and review by the liquidator will provide a better understanding of potential actions available (if any).

8.8 Voidable Transactions

- Should the Companies be placed into liquidation, certain transactions which occurred prior to the Administrators' appointment may be subject to review and recovery action by a liquidator. Such transactions may include:
 - Insolvent transactions
 - Transactions at undervalue
 - Transactions for the purpose of defeating creditors
- There are statutory defences available to parties where a liquidator brings an action for recovery including:
 - Acting in good faith
 - There were no reasonable grounds to suspect and the defending party did not suspect that the company was or likely to become insolvent
 - Value was provided or the other party altered its position in the reasonably held belief that the payment was validly made and would not be set aside.
- At this stage the Administrators have not undertaken a comprehensive investigation of such potential claims and note that any recovery action initiated by a liquidator would be dependent upon the likely benefit to creditors and financial ability to pursue such claims.

8.9 Directors' and Officers' duties

- Sections 131 - 138 of the Act requires directors to:
 - act in good faith and in the best interests of the company;
 - exercise a power for a proper purpose;
 - not agree to the business being carried on in a manner likely to create substantial risk of serious loss to the company's creditors;
 - exercise powers or perform duties with the due care, diligence and skill of a reasonable director in the circumstances.
- The Administrators' preliminary review has not identified, at this stage, any breaches of the above sections however a fuller investigation by a liquidator may result in a different conclusion being formed.

9. ADMINISTRATORS' RECOMMENDATION

The primary purpose of the Watershed Meeting is to provide the creditors with the opportunity to vote on the future of the Companies and accordingly the Administrators are required to provide their opinion and recommendation as to whether:

- The Companies should execute a DOCA; or
- Control of the Companies be returned to the directors and the administration end; or
- A liquidator be appointed.

The Administrators recommend that creditors vote for the third option - that a liquidator be appointed.

9.1 Reasons for Administrators' recommendation

- A DOCA is a binding agreement between a company and its creditors governing the future management of a company. To date no DOCA has been proposed for the Companies as there is no prospect of the Companies being rehabilitated and trading out of their financial position. This option is therefore not available.
- Creditors may resolve to end the administration and return the Companies to the control of the directors. Given the Administrators' assessment that the Companies have insufficient assets to meet their liabilities and are insolvent, the Administrators do not consider this a viable option.
- The third option is for the creditors to resolve to appoint a liquidator. On appointment, a liquidator would:
 - Make further enquiries into potential recovery actions; and
 - Pursue recovery of any assets yet to be realised; and
 - Adjudicate creditor claims and distribute available funds in order of statutory priority.

9.2 Return to Creditors

- Secured creditors hold "all present and after acquired security interests" in each of the Companies. Based on information currently available it appears there will be sufficient funds available to fully discharge the Companies' liabilities to these security holders.
- Preferential creditors rank ahead of secured creditors in relation to distributions from realisations from pre-appointment accounts receivable, work in progress and inventory. Preferential creditors include employees for arrears of wages and holiday pay and certain Inland Revenue taxes including GST and PAYE. Employees have been paid any wages or salary owing at the date of the Administrators' appointment. We anticipate that there will be sufficient funds to satisfy all preferential creditors in a liquidation.
- Until assets have been realised or recovery actions largely completed and until all secured and preferential liabilities have been discharged, the Administrators are not in a position to advise the level of funds available for distribution to the Companies' unsecured creditors.
- The Administrators received advice from certain parties claiming that monies held in bank accounts at appointment are held on trust. The Administrators have sought directions from the High Court to confirm the position. We expect that the outcome will impact on the level of distributions to unsecured creditors.
- On appointment \$5.6m was held in a separate trust account on behalf of subcontractors in relation to subcontractor retentions that were required to be held in trust in accordance with the Construction Contracts Amendment Act 2015. Where entitled to these funds, we expect funds to be returned to those subcontractors.



10. CONTACT INFORMATION

If you require any further information, please direct enquiries to:

Email: arrowgroup.administrators@bdo.co.nz

Attention: Adrienne Stone
BDO Auckland
PO Box 2219
Level 4, BDO Centre
4 Graham Street
AUCKLAND

Dated this 29th day of May 2019

A handwritten signature in black ink, appearing to read 'Andrew Bethell'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Andrew Bethell
Administrator

APPENDICES

Appendix 1 - Receipts and Payments 28 February 2019 to 23 May 2019

Arrow International (NZ) Limited Receipts and Payments from 1 March 2019 to 23 May 2019	
	\$000
Opening Balance	7,038
Receipts	
Fixed asset sales	158
GST-Net	376
Interest received	8
Post-appointment debtors	1,006
Pre-appointment debtors	961
Pre-appointment GST	451
Reimbursement of operating expenses	105
Sundry receipts	82
Transfers from Retentions Trust Account	177
Total Receipts	3,324
Payments	
Administrators disbursements	17
Administrators fees	927
Insurance	246
Legal fees and disbursements	404
Operating Expenses	378
Portlink costs	129
Project costs	91
Retentions paid	177
Secured Creditors	143
Security	235
Wages and salaries	1,693
Total Payments	4,440
Cash at bank as at 23 May 2019	5,922

Arrow International Group Limited Receipts and Payments from 1 March 2019 to 23 May 2019	
	\$000
Opening Balance	10
Receipts	
Pre-appointment debtors	52
Pre-appointment funds in trust-Australia	138
Pre-appointment tax refund	5
Total Receipts	195
Payments	
Wages and salaries	40
Total Payments	40
Cash at bank as at 23 May 2019	165

Construction Labour & Resources Limited Receipts and Payments from 1 March 2019 to 23 May 2019	
	\$000
Opening Balance	83
Receipts	
Cash at bank on appointment	83
Total Receipts	83
Payments	
Wages and salaries	9
Total Payments	9
Cash at bank as at 23 May 2019	75

Appendix 2 - Work Performed, Hourly Rates and Charges

Description of Work Undertaken

Task	General description
Projects	<ul style="list-style-type: none"> • Securing sites immediately on appointment to preserve assets • Meetings/ discussions with principals and other stakeholders to assess options • Discussions with Arrow staff to understand current status of projects and issues • Negotiations with stakeholders re termination, novation or continuation of projects • Drafting termination /novation terms • Determining options to maximise recoveries • Arrange decanting of sites where projects completed or terminated
Trading	<ul style="list-style-type: none"> • Prepare Estimated statement of position • Assess costs to complete against retentions held for Arrow • Assess Southern Response agreement for ongoing personnel supply • Establish accounting cut-off • Ensure Arrow systems updated with all pre VA data • Reconcile pre-VA bank accounts and arrange funds transfer • Collection of funds due from recharges • Establish purchase order system • Attend at all sites • Liaise daily with administrator staff nationally • Manage receipts and payments through administrator accounting system
Legal Matters	<ul style="list-style-type: none"> • Confirm Administrators' qualified to act • Instruction to lawyers generally • Issuing non-use notices • Injunction relief re asset removal • Convening period extension request and extension to notice period for termination of employment contracts • Dealing with pre VA litigation matters • Consideration of trust issues • Consideration of retention issues • Confirm applications for directions where necessary
Subcontractor Retentions	<ul style="list-style-type: none"> • Reconcile retentions held in separate trust fund • Analyse movements in and out of trust in the 2 months preceding Administrators' appointment • Confirming contracts fell within the provisions of the Construction Contract Act for retentions retained • Communications with principals confirming agreement to release of retentions' • Communications with subcontractors where retentions held in trust • Collating payment schedules to final release letters • Transfer retentions released to principals with subcontractor agreement • Confirm legal position re various permutations on retention release • Respond to retention release requests from subcontractors where contracts pre-date 31 March 2017

Task	General description
Administration	<ul style="list-style-type: none"> • Staff allocation plan and project management • Task list preparation • Preparation of appointment documents including notices to creditors, media releases, arrange advertisements and lodgement of Companies Office documents • Set up IPS system and cashbook • Establish systems to capture all requisite information for GST returns • Organise record archive and maintenance, both electronic and hard copy • Notification to bank and establishment of Administrators' bank accounts • Notification to Inland Revenue and compliance with ongoing tax obligations • Arrange full clone of all electronic data • Review Health & Safety matters and retain H&S expert
Asset realisation	<ul style="list-style-type: none"> • Obtain fixed asset schedule and undertake asset location review • Request and review sales proposal from national auctioneer • Communicate proposed fixed asset realisation strategy to security holder • Negotiate release of assets held by third parties • Collate fixed assets schedule and confirm location and status of items around the country • Assess estimated realisable values provided and negotiate sales where commercially reasonable to do so
Creditors	<ul style="list-style-type: none"> • Receipt and recording of creditor claims • Responding to creditor queries • Co-ordination of creditor meeting venues set up for audio visual presentations • Comparison of claims to Companies' accounts payable records • Notifying creditors of first meeting, proxies, voting forms and notices • Ensuring creditors received notifications of Court orders • Preparation and attendance at creditors meetings held in 4 locations • Tabulation of votes and proxies
PPSR and landlord creditors	<ul style="list-style-type: none"> • PPSR searches • Notifications to PPSR creditors and landlords • Confirming validity of PPSR creditors • Negotiating continued use of PMSI assets necessary to orderly wind-down of business • Arrange return of secured assets not required • Liaising with landlords re effect of moratorium and ongoing occupation of premises • Negotiating exit of office premises around the country • Securing assignment of necessary supply agreements
Secured Creditors	<ul style="list-style-type: none"> • Notify secured creditors of appointment and confirm decision period restrictions • Discuss strategies with GSA holders • Discuss fixed assets realisation options
Creditors Committee	<ul style="list-style-type: none"> • Communications confirming members of creditors committee • Arranging creditor committee meeting • Preparation of presentation for creditor committee meeting • Attendance at creditor committee meeting

Task	General description
Employees	<ul style="list-style-type: none">• Meeting with all employees where possible• Confirming Administrators' strategy• Notifying employees of extension of time for Administrators to give notice of termination of employment contracts• Assemble all relevant information on employees and collate copies of all employment contracts• Calculate employee entitlements outstanding at appointment date• Maintaining payroll services• Termination of employment contracts where staff no longer required• Responding to employee queries• Liaising with Ministry of Immigration re employee visa restrictions• Organising fixed term contracts post 31 May 2019

Administrators' Rates

Note that in some cases rates charged differ from those listed, however, the impact of this is an overall saving to the Administration.

Position	Hourly Remuneration
Administration	\$180
Graduate	\$145
Analyst	\$195
Senior Analyst	\$245
Manager	\$315
Senior Manager	\$370
Associate	\$450
Partner	\$550

Title	Qualifications and role	Hourly Rate Ex GST
Appointee/ Partner	RITANZ Accredited insolvency practitioner, Chartered Accountant or equivalent, generally degree qualified with in excess of 12 years' experience. Leads assignments with overall responsibility for strategy and implementation.	\$550
Associate	RITANZ member, Chartered Accountant or equivalent, degree qualified with more than 10 years' experience. Autonomously leads insolvency appointments reporting to partner/appointee.	\$450
Senior Manager	RITANZ member, generally Chartered Accountant or comparable relevant qualification, degree qualified with over 7 years' experience. Responsible for managing small to medium insolvency assignments and leads teams on larger matters.	\$375
Manager	RITANZ member, generally Chartered Accountant, or comparable relevant qualification, degree qualified with over 5 years' experience. Responsible for smaller insolvency assignments.	\$315
Senior Analyst	RITANZ member, generally degree qualified and completing Chartered Accountant qualification or comparable relevant qualification with over 18 months' experience. Undertakes work stream tasks subject to supervision.	\$245
Analyst	Generally, degree qualified with less than 12 months' experience. Assists with work stream tasks under supervision.	\$195
Graduate	Working towards relevant degree qualification with less than 3 months' experience. Assists senior staff on administrative matters under supervision.	\$145
Administration	Appropriately experienced providing administrative and treasury support under supervision.	\$180

Time Costs for period from 28 February 2019 to 30 April 2019

Time Costs Excluding GST		
Tasks	Hours	Billed
Projects, trading, legal matters, subcontractor retentions	2,052	656,881
Administraton	293	145,273
Asset Realistion	330	120,139
Creditors, PPSR and landlords, creditor committee	324	93,510
Employee Matters	155	53,753
Debtor Matters	26	7,533
IRD Matters	9	2,585
Total	3,189	\$1,079,674

Administrators' Fees for the period from 28 February 2019 to 30 April 2019				
Name/ # per Position	Position	\$ per Hour	Hours	Fees (\$)
Andrew Bethell	Appointee	536	243	130,593
Andrew McKay	Appointee	528	16	8,442
Colin Gower	Appointee	460	153	70,196
3	Partner	491	474	232,686
2	Associate	365	472	172,440
1	Senior Manager	374	201	75,161
3	Manager	317	387	122,495
4	Senior Analyst	259	616	159,863
3	Analyst	193	368	70,941
4	Graduate	124	173	21,450
3	Administration	179	86	15,407
Total Fees (Excluding GST)			3,189	1,079,674
Total Fees (Excluding GST) if charged at rates quoted at first meeting of creditors				1,159,164

Disbursements

Disbursements net of GST incurred by the Administrators in the period from 28 February 2019 to 21 May 2019 total \$17,982.16 and relate to the following categories:

- Travel costs
- Accommodation costs
- Advertising costs
- Meeting room hire

Disbursements	\$ (excl GST)
Advertising	7,865
Travel Expenses	2,736
Other Disbursements	2,611
Creditor Meeting Room Hire	1,980
Bin Hire	1,809
Office Service Charges	981
Total Disbursements	17,982

Appendix 3 - Declaration of Independence, Relevant Relationships and Indemnities

The Administrators declare that:

- they have undertaken a proper assessment of risks to Independence in accordance with the law, Code and applicable professional standards;
- they have determined that the assessment identified the following risks to Independence;
- they have evaluated the significance of any real or potential risk to Independence and taken such action as necessary to preserve their Independence
- they have sought and been granted leave of the High Court to act as Administrators
- in all cases, are not otherwise aware of any impediments to taking the Appointment.

Relationships

The Administrators have been appointed by the boards of directors of each of the Companies respectively, in each case in accordance with section 239I of the Act. No advice was provided to the Companies, their officers or their advisers prior to their appointment however the Administrators note the following:

- Before consenting to being appointed as Administrators of the Companies, the Administrators considered whether there was any matter that would disqualify them from acting as Administrators of the Companies under sections 239F and 280 of the Act.
- Our investigations have revealed connections between BDO (the Administrators' firm) and the Bank.
- In addition, BDO (through one of its other partners) provides accounting and tax advisory services to an employee of one of the Companies (Mr Currie) who has registered a security interest on the PPSR against one of the Companies.
- In addition, BDO (through one of its other partners) provide IT systems advice to Euro Corporation, one of the 85 secured creditors registered on the PPSR.
- As a consequence of these three relationships, the Administrators considered that they were restricted under s 239F of the Act from acting as Administrators of the Companies, by virtue of the provisions under s 280 of the Act.

In relation to Mr Currie

- Mr Currie has advised that he personally is not owed any money by the Companies and that his registered security relates solely to his role as trustee for investors in a property development. In addition, any work done by BDO for Mr Currie is done by different staff within BDO who are not connected with the Administrators in their role as Administrators of the Companies.

In relation to the Bank

- From time to time the Bank refers engagements for BDO to act as Independent Appraiser of some of the Bank's borrowers' businesses that are in financial difficulty.
- From time to time the Bank has appointed BDO partners as receivers, although no appointments have been made in the last two years.
- In the past two years, BDO has been engaged by the Bank on seven occasions. The most recent engagements were in relation to two investigating accountant assignments.

As a result of the above relationships the Administrators sought orders permitting them to take appointment as liquidators or deed Administrators at a watershed meeting (if creditors vote for the appointment of liquidators or vote that a deed of company arrangement ("DOCA") is to be executed by the Companies).

The Court granted leave to act to the Administrators.

The Administrators declare that

- (a) no issues of conflict arise, other than as set out above.
- (b) BDO has never provided services to the Companies.
- (c) Despite BDO having a continuing business relationship with ANZ, BDO has done, and will do, no work for ANZ in relation to the Companies.
- (d) The Administrators are well aware of their obligations to act independently and professionally in the role of Administrators, deed administrator or liquidators of BDO, should they be appointed.

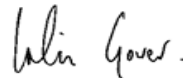
Indemnities and Upfront Payments - The Administrators declare that they have received no indemnity but did receive an Upfront Payment of \$50,000 in relation to the administration for the purpose of meeting the costs of securing the Companies' project sites.



Andrew Bethell



Andrew McKay



Colin Gower

