

Appendix 2

Tunncliffe Timber Solutions (2018) Limited (Administrators Appointed)

Administrators' Report to Creditors for the
purposes of the Watershed Meeting

28 November 2023



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1. Introduction

1.1 Purpose of this report

This report is provided to creditors of Tunncliffe Timber Solutions (2018) Limited (Administrators Appointed) ('the Company' or 'Tunncliffe Timber'). Administrators were appointed to the Company on 31 October 2023. This report is the Administrators' report pursuant to s239AU(3)(a) of the Companies Act 1993 ('Act') for the purposes of the watershed meeting.

The creditors' watershed meeting is the meeting at which creditors of the Company have the opportunity to vote on the future of the Company.

To recap, voluntary administration is a short-term measure that effectively freezes the financial position of the Company for five weeks, giving creditors the opportunity to consider, and eventually vote on, the future direction of the Company.

The Administrators control the assets and operations of the Company (as agents of the Company) for five weeks from 31 October 2023 to approximately 5 December 2023.

This report records our opinion as to the course of action which is in the best interests of creditors of the Company. This report is intended to contain the information you need to make a fully informed decision as to how you will vote at the watershed meeting. However, if you have further queries, please contact us at the addresses set out in the report.

Our opinion as to the course of action which is in the interests of creditors of the Company is summarised below and set out below at Section 7.

ADMINISTRATORS' RECOMMENDATION TO CREDITORS:

The Administrators are of the view and recommend that, with no other viable options available, the best outcome for creditors is for the Company to be placed into liquidation.

If creditors wish to adopt the Administrators' recommendation then creditors should vote as follows:

- | | |
|--|-----------------|
| A. It is resolved that the Company be placed into liquidation and that Natalie Burrett and Neale Jackson be appointed Liquidators of the Company | Vote: "For" |
| B. It is resolved that the Administration end and control of the Company be returned to the Company's directors. | Vote: "Against" |

This report addresses the following matters (in Section order):

1. Introduction
2. Who and what is Tunncliffe Timber Solutions
3. Reasons given by the Director for the failure of the Company
4. Update on the Voluntary Administration
5. How has the Company performed
6. Options available to creditors
7. Administrators' opinion on the options
8. Enquiries



1.2 Purpose of the Watershed Meeting

The creditors watershed meeting will be held on 5 December 2023 in the Seminar Room, Lightning Hub, 1st Floor, 193 The Strand, Whakatane at 11.00 am,

The Notice of Meeting is included with the enclosed Circular to Creditors.

The meeting is an opportunity for creditors of the the Company to consider the options for the future of the Company, and to vote on three resolutions. The three potential resolutions are:

1. that the Company execute any proposed Deed of Company Arrangement ('DOCA') (if proposed); OR
2. that the Company be placed into liquidation; OR
3. that the Administration of the Company should end and control of the Company be returned to its Director.

In order for any resolution to be approved, the resolution must receive support from more than 50% of the Company's creditors by number, and more than 75% of the Company's creditors by value.

There is no DOCA proposal put up by the Company or the Administrators at the date of this report.

At the watershed meeting creditors will therefore be asked to vote on:

- A. a resolution that the Company be placed into liquidation (and if passed, the Company will be in liquidation immediately); and if such liquidation resolution fails,
- B. a resolution that the administration of the Company should come to an end and control of the Company be returned to its Director.

In relation to (B) above, the Company is insolvent. Therefore if creditors did not resolve to liquidate the Company, we consider the Director would most likely themselves seek liquidation of the Company.

On this basis and with no other options available, our opinion is that the Company should be placed into liquidation.

1.3 Restrictions

Please note this report contains information derived from various sources including, and the information has not been verified to third party sources.

The report should be read together with the restrictions at Appendix 1.



2. Who and what is Tunncliffe Timber Solutions

2.1 Overview

In 2018, the business and assets of Tunncliffe Timber Company Limited were purchased by two shareholders, Mark Andrew and Scott McCabe, via the company Tunncliffe Timber Solutions (2018) Ltd.

Tunncliffe Timber is a timber processor and re-manufacturer with a focus on serving three industry segments: Joinery, Apiary and Thermally Modified Timber ('TMT'). It operates from leased premises in Edgecumbe, Whakatane.

In 2020 the Company received a loan of \$2.25 million from Crown Regional Holdings to help the business expand, purchase new machinery and create additional jobs in the region.

In September 2020, the Company entered into a joint-venture agreement with IWT – Moldrup Asia Pacific Pte Ltd to form Tunncliffe's Modification Limited (TML) for the purpose of owning and operating a Moldrup-SSP thermal treatment plant and a vacuum/ pressure impregnation plant. The ownership of the joint venture assets is currently in dispute.

The director advised the following as critical factors that impacted Tunncliffe Timber's prospects for success:

- The global Covid-19 pandemic, and the associated government-mandated lockdowns, market disruption, economic instability and supply chain disruptions.
- Ministry of Primary Industries' ('MPI') reclassification of manuka honey and its associated impact on the apiary industry.
- Shareholder dispute which ultimately resulted in Mark Andrew buying the shares owned by Scott McCabe.
- Extreme weather events and associated disruption of supply chains and the wider market.
- Official Cash Rate ('OCR') increases and the effect these had on the broader timber industry and its customers (notably, the building industry), consumer confidence and spending.
- Insufficient throughput to meet the Company's high fixed operating costs.

At the time of our appointment on 31 October 2023, 17 staff were employed, 14 on a full-time basis and three on a casual basis.

2.2 Company shareholders

The shareholders in the Company at the date of our appointment were:

Shareholder	No. of Shares
DHT (2018) 3 Limited, Elizabeth Jane Andrew and Mark James Andrew	449
Mark James Andrew	1
	450

2.3 Secured creditors

A General Security Agreement ('GSA') was registered over the Company's assets by BNZ on 24 July 2018. BNZ is owed \$1.13m (interest accruing).

A subsequent GSA was registered by Crown Regional Holdings ("Kānoa") on 18 November 2020. Kānoa has a first ranking security interest in all shares held by the Company in TML, and any inter-company loans to TML, and a second-ranking GSA behind BNZ. Kānoa is owed \$2.61m (interest accruing).



A GSA was subsequently registered by the following parties, with outstanding amounts owing as follows (based on company records):

- Flexicommercial Ltd (\$1,269.57)
- Tumu Timbers Ltd (NIL)
- KJ & JA Massey Family Trust (\$317,379.20)
- ITI Timspec (\$19,246.49)

Secured creditors with GSA's are owed approximately \$4.08 million.

As at the time of our appointment, there were also 9 secured parties registered on the PPSR against the Company relating to Tunncliffe Timber's specific assets. We summarise these in Appendix 2.

- A number of these claims have been discharged and we are seeking information from those that have not provided evidence of their financing documentation.
- We will assess those with secured interests and confirm release of assets or consideration to those with a perfected security interest.

2.4 Preferential creditors

The Company has accrued preferential entitlements of \$555,906 as follows:

	\$000
Staff – holiday pay (gross)	97.4
Staff – pre-administration wages (gross)	13.9
IRD – preferential debt	444.6
Total preferential entitlements	555.9

We note that staff wages owing were paid at the start of the administration with funding from BNZ as an advance to be repaid from asset realisations.

2.5 Unsecured creditors

The Company records show unsecured creditors totalling approximately \$1,650,238.80, related predominantly to its landlord, general trade creditors, the IRD and non-preferential employee entitlements.

The above is subject to approval of any claims by the Administrators.

We note the value of the above claims may change once reviewed by any Liquidator that is appointed.

2.6 Contingent claims

We are not aware of any contingent claims.



2.7 Total creditor claims

Based on company records and information available to us, it is estimated that creditors were owed \$6.138 million total as follows:

	\$000
Secured creditor – BNZ	1,129.2
Secured creditor – Kānoa	2,610.2
Staff – holiday pay	97.4
IRD – preferential debt	444.6
Unsecured creditors (incl landlord, IRD non-preferential and director claims)	1,650.2
Total creditors	5,931.5

We note the value of the above claims may change once reviewed by any Liquidator that is appointed.



3. Update on the Voluntary Administration

Upon our appointment, we have undertaken the following:

- Attended the site and secured control of the assets. We maintain a site presence as needed for the purposes of the asset realisation process.
- Engaged a limited number of staff (casually mainly) to provide us with the means to verify stock available and realise cash from inventory. This included a production/operations staff member to assist with asset information, contact customers and potential stock purchasers, and three casual staff to conduct a stocktake and assist with picking/packing and load outs.
- Discovered that significant losses were incurred during FY21-FY23 and the Company was placed into voluntary administration as a result of it running out of cash. There was no viable plan to continue trading the business during the voluntary administration. As a result, our focus has been on asset realisation.
- Established an asset realisation strategy based around:
 - Inventory: selling inventory to existing customers in the first instance, pending a wider sale process (refer below).
 - Debtors: notifying all debtors and supporting collection of debts when due.
 - Business and assets: overseeing a sale process, as outlined below.
- Advertised the sale of the business, assets and inventory. We ran a short tender process to 22 November 2023 for the business and all, or substantially all, its assets. We are currently in the process of assessing offers to decide the best way to maximise the realisation value. We are trying to sell the business and its plant and equipment as a whole so a new owner can possibly trade at the current premises however the outcome is not yet clear.
- Conducted the first creditor's meeting, the minutes of which can be found on our website at <https://www.calibrepartners.co.nz/flx-creditor/tunncliffe-timber-solutions-2018-limited/>.
 - At the meeting, creditors resolved not to replace the administrators and no creditor committee was formed.



4. How the Company performed

4.1 Trading performance

The Company's financials for FY20 – FY23 are summarised below.

Profit and loss summary				
Year end 31 March	FY20 \$000	FY21 \$000	FY22 \$000	FY23 \$000
Operating income				
Sales revenue	3,472	3,620	3,762	2,655
Less cost of goods sold	(2,695)	(3,617)	(3,480)	(2,639)
Gross profit	777	4	283	16
<i>Gross profit %</i>	<i>22%</i>	<i>0%</i>	<i>8%</i>	<i>1%</i>
Other income	162	459	12	368
Operating expenses	(451)	(674)	(885)	(816)
EBITDA	487	(212)	(590)	(432)
Depreciation	(94)	(122)	(108)	(105)
EBIT	393	(333)	(698)	(537)
Interest expenses	(157)	(121)	(114)	(153)
Taxation & Adjustments	(35)	(3)	(3)	(0)
Net profit / (Net loss)	201	(458)	(814)	(690)

- Between FY20 and FY23, the company recorded losses totalling \$1.76 million.
- Other income in FY21 consisted mainly of Covid-19 government grants (\$347,297), and in FY23 of insurance proceeds (\$307,044).
- Sales revenue remained relatively stable (except for FY23), but cost of goods sold, especially raw material purchases and direct wages, increased significantly, which resulted in loss in margin. From FY20 to FY23, raw material purchases as a percentage of total sales increased from 37% to 50%, and direct wages as a percentage of total sales increased from 28% to 34%. This indicates the Company was unable to recover its higher input costs from customers.
- During this period, operating expenses have also increased materially which eroded the margin. The largest increase was in salaries and wages over this period.
- The operating expenses in FY23 appear to be understated as the Company only paid rent for 3 months.
- The losses were embedded in the operation as we can see from the above, and the existing operating model was not sustainable.
- The negative equity position in FY22 and FY23 showing below is a result of the trading loss over the past three years.



4.2 Current Financial Position

The Company's financial position can be summarised as follows:

Balance sheet summary

As at 31 March	FY20 \$000	FY21 \$000	FY22 \$000	FY23 \$000
Current assets				
Cash	-	0	0	1
Accounts receivable	268	416	287	339
Inventory	1,426	1,927	1,909	1,363
Other current assets	-	38	38	-
Total current assets	1,694	2,381	2,234	1,702
Current Liabilities	-	-	-	-
Finance facilities	132	810	694	441
Accounts payable	258	628	482	576
Other	486	367	285	284
Total current liabilities	876	1,805	1,462	1,301
Working capital	817	576	772	401
Non-current assets	-	-	-	-
Property, plant and equipment	586	843	1,223	1,060
Intangible assets	789	789	789	769
Other	1	221	758	748
Total non-current assets	1,375	1,852	2,770	2,577
Non-current liabilities	-	-	-	-
Loan accounts	1,468	2,161	3,973	4,020
Total non-current liabilities	1,468	2,161	3,973	4,020
Net asset	724	267	(431)	(1,042)

As at our appointment, 31 October 2023, the book values of assets and liabilities of note were:

- **Cash:** The Company had no cash in the bank and a small amount of petty cash available of \$122 .
- **Accounts receivable / Debtors:** There was a total of 37 customers with amounts outstanding totalling \$185,977.
- **Inventory:** The Company had a large amount of raw material, work in progress and finished goods on hand at a book value of \$1,305,357.
- **Plant and equipment assets:** Comprises of timber machining and re-manufacturing plant and equipment and some movable plant, computer equipment and a vehicle.
- **Intangible and other assets:** relates to goodwill and related party receivables.
- **Accounts payable/Trade creditors:** The Company owed \$1,650,238 to trade creditors (approximately 91 suppliers).
- **Other payables and accruals:** The balance relates primarily to employee annual leave and other accruals.
- **Loan accounts:** Consists of loans advanced from the Bank of New Zealand and Crown Regional Holdings. The landlord is also owed \$217,491 for rent deferral and \$264,959 for loan advanced.



5. Options available to creditors

There are three courses of action available to the Company:

1. Execution of a DOCA with the approval of creditors. A DOCA is an agreement between a company and its creditors as to how the debts of the company may be restructured and how the affairs of the company may be conducted; or
2. The administration ends, and the Company returns to the control of its directors; or
3. Liquidation of the Company.

5.1 Option 1: Deed of Company Arrangement ('DOCA')

No DOCA has been proposed.

As such, this is not an option available for creditors to consider unless a DOCA is proposed at the watershed meeting or between the date of issuing this report and the meeting.

5.2 Option 2: Administration ends and company returns to the control of the director

The Company is insolvent. If creditors choose to return the Company to the control of the Director, the Director would be likely to seek the appointment of liquidators in any case.

5.3 Option 3: Liquidation of the Company

The Administrators recommend creditors vote to put the Company into liquidation.

We set out briefly below, the manner in which we believe an immediate liquidation would proceed:

1. The liquidator would conclude a sale of the residual assets.
2. The liquidator would consider whether further recoveries for creditors could be achieved via legal actions including:
 - a. Pursuit of voidable preferences;
 - b. Recoveries from past and present officers of the Company for breaches of duty to the group. This would include where the Company has been traded recklessly or incurred obligations without reasonable grounds to believe that the obligation could be performed when required.

A liquidator's actions need to be funded. If there were claims to pursue, a liquidator would consider what funding was available or how it could be obtained.

We turn now to consider the effect of liquidation on the interests of creditors in various tranches.

5.4 Effects of liquidation on creditors

5.4.1 Preferential creditors

- The Companies Act provides preferential status to certain obligations to staff, and to certain obligations to IRD from certain types of assets.
 - The preferential status applies to the proceeds of sale from certain recoveries only, being proceeds realised in relation to stock and debtors (after costs).
 - In regard to staff, obligations for wages, holiday pay and redundancy are accorded preferential status to a cap per person of \$25,480 (before tax).
- The asset realisation process is ongoing and it is unclear at this stage what distribution staff will receive from stock and debtor realisations.



5.4.2 Secured creditors

- The proceeds from sale of the fixed assets, plant and equipment, (after costs) will first be paid to the secured creditors.

5.4.3 Partly secured creditors

- Partly secured creditors would be free to exercise their security and, subject to agreement with the liquidator, remove the relevant collateral from the business, at the time.
- Partly secured creditors would be entitled to claim for any shortfall on their recovery, and share pro rata with other unsecured creditors in the ultimate realisations from the liquidation.
- We have not yet formed an opinion as to the validity and enforceability of the security interests of all partly secured creditors (such as those with equipment leases).

5.4.4 Unsecured creditors

- If liquidation proceeded on the basis of the information known to us at the time of writing, asset realisations would currently flow to preferential and secured creditors only.
- Unsecured creditors would only receive payment if there were grounds for, and a liquidator successfully pursued, claims such as for voidable preferences or reckless trading.
- Liquidation is therefore the only mechanism through which unsecured creditors will have the potential (albeit highly uncertain) to recover some repayment (if any).



6. Administrators' opinion on the options & recommendation to creditors

We have considered the Company's financial position and trading prospects. No proposals have been received for a DOCA. Neither the Company, nor its creditors or a third party, have put up a DOCA and, in the circumstances, the Administrators do not consider it appropriate to propose a DOCA.

As such, in our opinion, it is in the interest of creditors to resolve that that the Company be placed into liquidation. We recommend that creditors vote for liquidation.



7. Enquiries

If you have any queries or concerns regarding the Company, please contact us directly using the details below. Email is preferred.

Relevant addresses of the Administrators for **all purposes** in respect of the Company are:

Email: ttsl@calibrepartners.co.nz

Post: Tunncliffe Timber Solutions (2018) Limited (Administrators Appointed)
PO Box 982
Shortland Street
Auckland 1140

Phone: +64 9 307 7865

Courier: Level 21, 88 Shortland Street
Auckland 1010



Appendix 1: Restrictions

This report is not intended for general circulation, nor is it to be reproduced or used for any purpose other than that outlined above without our written permission in each specific instance. We do not assume any responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

In preparing this report we have relied on information provided to us by others. We have not independently audited or verified that information and express no opinion on its accuracy, completeness or reliability. We reserve the right (but will be under no obligation) to review this report and if we consider it necessary to revise the report in light of any information existing at the date of this report that becomes known to us after that date.

The information provided to us may include forecasts of future revenues and expenditures, profits and cashflows. Forecasts by their very nature are uncertain, and some assumptions inevitably will not materialise. Therefore the actual results achieved may vary significantly from those in any forecasts.



Appendix 2: List of secured creditors

Secured Party	Collateral Type	Status at Report Date
Bank of New Zealand	GSA / All present and after acquired personal property	
Bank of New Zealand	Goods – Motor Vehicles	
Bank of New Zealand	Goods – Other	
H J Asmuss & Co Ltd	Goods – Other	
Tenon Clearwood LP	Goods – Other	Discharged
The Lumberbank NZ Ltd	Goods – Other	
Winstone Pulp International Ltd	Goods – Other	Discharged
Northpine Ltd	Goods – Other	Discharged
Forklift Rental & Leasing 2000 Ltd	Goods – Motor Vehicles	Security Released
Crown Regional Holdings Limited	GSA / All present and after acquired personal property	
Flexicommercial Limited	GSA / All present and after acquired personal property	
Heartland Bank Limited	Goods – Motor Vehicles	
Tumu Timbers Limited	GSA / All present and after acquired personal property	
Biobiowood Limited	Goods – Other	
Abodo Wood Limited	Goods – Other	
KJ & JA Massey Family Trust	GSA / All present and after acquired personal property	
ITI Timspec	GSA / All present and after acquired personal property	
