

26 July 2013

NOTICE OF MEETING OF INVESTORS OF LDC FINANCE LIMITED (IN RECEIVERSHIP AND LIQUIDATION)

Notice is given that a special meeting of Investors (being both Stockholders holding secured stock and Depositors holding unsecured deposits) of the Company will be held Tuesday 13 August 2013 at 10:00am at the Trafalgar Centre on 7 Paru Paru Road, Nelson.

Business

The purpose of the meeting is to update the Investors on the Court proceedings which have been filed in the High Court at Nelson (**Court proceedings**) and to hold a vote on the passing of Resolutions which include two Extraordinary Resolutions.

Under the Debt Securities Trust Deed between LDC and Perpetual Trust Ltd dated 18 June 2004 Extraordinary Resolutions can be passed only by Stockholders in LDC holding secured stock. Stockholders received a lower rate of return in LDC but were rewarded with a priority over the unsecured Depositors. Any alteration to the provisions of the Trust Deed and the rights of investors must be done by Extraordinary Resolution. To pass an Extraordinary Resolution requires:

- a quorum of Stockholders holding at least 50% of the issued secured stock to attend in person or by proxy, and
- for at least 75% of those Stockholders to vote in favour of the resolution by a show of hands, or
- if a poll is demanded for Stockholders holding at least 75% of the stock to vote in favour of the resolutions.

The three resolutions that are to be voted on are as follows:

1. A General Resolution of Stockholders and Depositors being:

A general resolution of all investors appointing the LDC Investor Recovery Group to continue to communicate with all investors to keep them informed of developments and to liaise with the liquidators over the conduct of the Court proceedings. The wording of the resolution as to any authority to be granted to the Investor Recovery Group can be discussed at the meeting and may alter in accordance with the wishes of the meeting.

2. An Extraordinary Resolution of Stockholders being:

In accordance with clause 13.1(b) of the Trust Deed and clause 14(b)(i) of Schedule 2 of the Trust Deed to release the proceeds of the Court proceedings

from the Charged Assets so that the proceeds, if any, can be distributed by the liquidators to meet the costs of the liquidation and to pay the entitlements to third party funders and funding investors before the balance is distributed to Securityholders.

3. An Extraordinary Resolution of Stockholders being:

In accordance with clause 13.1(b) of the Trust Deed and clause 14(b) of Schedule 2 of the Trust Deed to rank Stock and Deposits equally for the purpose of distribution of proceeds of the Court proceedings so that any proceeds of the court proceedings paid out to Securityholders by the liquidators (other than to funding investors) will be paid on a pari passu (equal) basis in proportion to the sums owed to Stockholders and Depositors.

The attached explanatory materials explain the resolutions. Where it refers to Securityholders this is all investors in LDC, being the secured Stockholders and unsecured Depositors. This notice and the explanatory materials have been provided to Perpetual and to the Investor Recovery Group.

We urge you to attend the meeting or to appoint a proxy. Attached is a form to appoint a proxy if you are unable to attend. There are strict rules about how to submit the proxy form before the meeting which are set out under the heading 'Notes' on the proxy form. You are entitled to appoint any person you wish as proxy or alternatively to appoint Gary Wilson who is the Chairperson of the Investor Recovery Group to exercise your vote on your behalf. Gary will be the Chairman of the meeting.

After the meeting refreshments will be provided.

We urge you to vote in favour of the resolutions so that the Court proceedings can be advanced. If you have any queries you wish to discuss you can contact us or the Investor Recovery Group direct. Our contact details are on this letter but if you do not have the Investor Recovery Group contact details they are: LDC Investor Recovery Group, PO Box 845, Nelson or email: LDCIRG@gmail.com or telephone numbers:

Angus	McNeill	03 545 6346	021548507
Stephen P	Brady	03 544 0210	
Graeme	Sutton	03 544 1981	027 444 9673
Gary	Wilson	03 547 7491	021 506 643
Kaye	Whalan	03 544 4277	027 358 2001
Roger	Nicholson	03 545 2015	
Murray	Win	03 545 0283	027 923 9949

LDC FINANCE LIMITED (IN RECEIVERSHIP AND LIQUIDATION)

Instrument appointing a proxy

I, (Name) _____

(Address) _____

(Telephone) _____ (Email) _____

(contact details are required to be able to contact you if there is an issue with your form)

being unsecured Depositor / secured Stockholder / both Stockholder and Depositor of LDC Finance Limited (in Receivership) (in Liquidation) appoint _____ or Gary Wilson, Chairman of the LDC Investor Recovery Group *(print name of proxy or if left blank you will be appointing Gary Wilson)* to be my proxy at the meeting of investors to be held at the Trafalgar Centre on 7 Paru Paru Road, Nelson on Tuesday 13 August 2013 at 10:00am or at any adjournment of that meeting.

I direct that my proxy votes in the following manner:

Both Stockholders and Depositors to vote on General Resolution:

Yes / No In favour of a general resolution appointing the LDC Investor Recovery Group to continue to communicate with all investors to keep them informed of developments and to liaise with the liquidators over the conduct of the Court proceedings. The wording of the resolution as to any authority to be granted to the Investor Recovery Group can be discussed at the meeting and may alter in accordance with the wishes of the meeting.

Stockholders only to vote on Extraordinary Resolutions:

Yes / No *In accordance with clause 13.1(b) of the Trust Deed and clause 14(b)(i) of Schedule 2 of the Trust Deed to release the proceeds of the Court proceedings from the Charged Assets so that the proceeds, if any, can be distributed by the liquidators to meet the costs of the liquidation and to pay the entitlements to third party funders and funding investors before the balance is distributed to Securityholders.*

Yes / No *In accordance with clause 13.1(b) of the Trust Deed and clause 14(b) of Schedule 2 of the Trust Deed to rank Stock and Deposits equally for the purpose of distribution of proceeds of the Court proceedings so that any proceeds of the court proceedings paid out to Securityholders by the liquidators (other than to funding investors) will be paid on a pari passu (equal) basis in proportion to the sums owed to Stockholders and Depositors.*

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Signature(s)

Dated

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2013

Notes

- 1 ***A proxy need not be another investor in LDC. If you wish you may appoint as your proxy the chairperson of the meeting, Gary Wilson.***
- 2 ***If this form is returned without a direction as to how the proxy is to vote on the resolution(s), the proxy may decide whether or not to vote, and if so, how.***
- 3 ***This form must be signed by the appointer or his or her duly authorised attorney. If the appointer is a corporation this form must be signed by an officer of the corporation or its duly authorised attorney. Joint investors must all sign this form.***
- 4 ***This form, the power of attorney or other authority if any, under which it is signed or a notarially certified copy of the power or authority and a certificate of non-revocation of the power of attorney must be sent by email or post to the registered office of the Company which is the address of its liquidators as set out below not later than 10am Sunday 11 August 2013. If the power of attorney or other authority has previously been produced to the Company, it need not be produced again.***

Please post, fax or email proxy forms and any power of attorney documents to:

***LDC Finance Limited (in Receivership and Liquidation)
c/- Shephard Dunphy
PO Box 11793
WELLINGTON 6011***

By fax 04 473 6748

By email: office@sd.co.nz

EXPLANATORY MATERIALS

As set out in our letter which is enclosed with this notice we have filed Court proceedings against the directors of LDC, the accountants Carran Miller Strawbridge Ltd, the trustee of LDC Perpetual Trust Ltd and the auditors Sherwin Chan and Walshe. To fund the Court proceedings we have entered into a conditional funding arrangement with a third party funder and proposed a priority return for any LDC investors who assist with funding.

We have consulted with lawyers about whether proceeds of the Court proceedings would fall to us as liquidators to distribute. Whilst we understand that we would be entitled to exercise rights to recover our costs there remains a risk that some investors or indeed the defendants could assert that the balance of the monies recovered should be paid to Perpetual and distributed strictly in accordance with the Trust Deed.

We cannot finalise a funding agreement with a third party funder unless we are able to control the distribution of proceeds to meet the terms of the funding agreement. Whilst we could apply to Court to seek to sanction this, we believe that the resolutions proposed in the Notice of Meeting are in the interests of all investors in LDC and if adopted at the meeting will allow us to advance the Court proceedings.

As liquidators we filed the Court proceedings for the benefit of all investors. With the additional dividend being paid to Stockholders by the receivers the proceedings are predominantly for the benefit of Depositors who have received nothing.

Resolution one – General Resolution whether to confirm authority of the Investor Recovery Group

We are working very closely with the Investor Recovery Group – they arranged for our appointment and we regularly keep in touch with them and discuss how the liquidation is progressing. The first resolution seeks to recognise the importance of the Investor Recovery Group and to formalise their role as the voice of the investors. The Group represents both Stockholders and Depositors. Our letter which is sent in this pack includes their contact details. Their role will become more important as the proceedings progress and allow us to liaise closely with them. They also wish to take an active role in the proceedings given that some of them are named as plaintiffs. Those plaintiffs are applying to be appointed formally by the Court as representatives of investors.

We are not aware of any reasons why the Investor Recovery Group should not liaise closely with us and more formally represent the interests of the LDC investors.

We would urge all investors to vote in support of Resolution one. A majority of all investors at the meeting or voting by proxy need to vote for this resolution in order to adopt it.

Extraordinary Resolution 2 – Stockholders voting whether to alter the entitlements to litigation proceeds

As stated above Resolution 2 will allow us to enter into funding agreements with the third party funder and with funding investors. It will mean that we can manage the proceeds of the Court proceedings and distribute them in accordance with the funding arrangements and then for the benefit of all investors. Given that Perpetual Trust is a defendant and that the receivership will soon come to an end, we believe that we can act for the benefit of all investors, being both Stockholders and Depositors, as well as the few unsecured creditors. The few unsecured trade creditors and the debt owed to Inland Revenue rank behind Depositors so it is not expected that they will receive any share of the proceeds of the Court proceedings.

We need to have certainty about the distribution of the proceeds of the Court proceedings to manage those proceedings effectively and to fund them appropriately. If this resolution is not passed and we cannot get the Court to sanction the same outcome, there will be no external funder because without it the stockholders have priority over the funder. Without external funding for the Court proceedings the chance of any return for investors falls dramatically.

The resolution is therefore critical to our wider strategy to fund these proceedings and to seek to maximise the recovery for all investors – note that investors are referred to as ‘Securityholders’ in the resolution as that is the word used for investors in the Trust Deed. We urge the Stockholders to vote in favour of Resolution 2.

Extraordinary Resolution 3 – Stockholders voting whether to rank their security equally with the unsecured Depositors

The final resolution is to recognise that the proceeds of the Court proceedings which are distributed to investors should be applied equally to both Stockholders and Depositors. Stockholders have now received all of their principal investment and a substantial amount of interest accrued over the last 6 years (acknowledging that some Stockholders will pay out the interest as a funding contribution). The unsecured Depositors have received nothing and yet are owed approximately \$9 million in principal, plus substantial interest. We will be seeking recovery of the monies owed to all investors, but the most significant recovery will be for unsecured investments which have been lost in their entirety. We would not be recommending that the proceedings continue if they only sought to recover the balance of the interest owing to Stockholders. It would not be cost effective to do so.

As matters stand under the Trust Deed, the Stockholders rank ahead of the Depositors. In our view, it would not be fair to continue this priority ranking of Stockholders such that they are paid out their remaining interest from any proceeds of the litigation before the Depositors receive anything. The fairest way to distribute the proceeds after payment of the costs of the liquidation and payment to the third party funders and funding investors is to pay the balance equally to all investors (referred to as Securityholders in the resolution)

in proportion to the sums owed to them. This is called ranking them all pari passu so that they share equally in the balance on a pro rata basis.

There are legal benefits in the proceedings if we no longer distinguish between classes of investors. In addition we foresee some real difficulty running the court proceedings if we cannot treat Stockholders and Depositors equally. Many Depositors may become disillusioned with the Court proceedings and there is already a perception of unfairness as Depositors have not received any distribution to date.

We urge the Stockholders to vote to rank equally with the Depositors.

We are happy to answer any queries you have on the issues raised. The Investor Recovery Group would also be happy to provide answers to any questions you have. If you do not understand the proposed resolutions or have concerns about them you can also seek your own legal advice on it. The Liquidators can be contacted on 04 473 6747, 0800 491 636 or by email office@sd.co.nz and the Investor Recovery Group contact details are LDC Investor Recovery Group, PO Box 845, Nelson or email: LDCIRG@gmail.com (telephone numbers are provided on page 2).