

RECEIVERS' REPORT ON THE STATE OF AFFAIRS
of
FACE FINANCE LIMITED (IN RECEIVERSHIP)

1 Introduction

On 31 August 2010 Kerry Downey and William Black were appointed jointly and severally as Receivers and Managers ("Receivers") of all present and after acquired property of Face Finance Limited ("Face" or "the Company") as charged by the South Canterbury Finance Limited Trust Deed dated 12 April 1976 (as amended and supplemented from time to time) ("the Trust Deed") in favour of Trustees Executors Limited ("the Trustee").

We set out below our first six monthly report on the state of the affairs of Face and the conduct of the receivership during the reporting period 31 August 2010 to 28 February 2011 as required by section 24 of the Receiverships Act 1993.

2 Disclaimer

This report has been prepared by us in accordance with Section 24 of the Receiverships Act 1993.

It is prepared for the sole purpose of reporting on the state of affairs with respect to the property in receivership and the conduct of the receivership pursuant to Sections 26 and 27 of the Receiverships Act 1993. In compiling this report we have relied on the accuracy of all relevant information obtained from the Company, together with information supplied by the directors and/or management. We have not independently verified the accuracy of information provided to us, nor have we conducted an audit in respect of the Company. We express no opinion on the reliability, accuracy, or completeness of information provided to us and upon which we have relied.

The Receivers do not accept responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction, or use of this report.

3 Events leading up to our appointment

Face is a 75% owned subsidiary of South Canterbury Finance Limited ("SCF"), with two other parties holding the balance of 25%. The business was fully funded by SCF.

SCF's well publicised liquidity constraints, coupled with SCF's inability to complete either a recapitalisation or a sale, resulted in the SCF directors requesting the Trustee to appoint Receivers to SCF and its thirteen charging subsidiaries (the "SCF Group").

The Trustee considered that it was in the best interests of the holders of debt securities (debenture, deposit and bond holders) issued by SCF, that Receivers be appointed and accordingly our appointment as Receivers and Managers was made on the morning of 31 August 2010.

Given that Face is 75% owned by SCF and had cross guaranteed SCF's obligations under the Trust Deed, the Trustee also placed Face in receivership on 31 August 2010.

4 Receivers' trading

On appointment, our initial focus was on stabilising the SCF/Face businesses and operations, including retaining the management team and staff in order to preserve value for all stakeholders and maintain ongoing trading.

The support of key stakeholders, including employees, customers and suppliers was sought and established early on in the receivership. Specialist property and legal advisers have been engaged to assist with our administration.

Prior to recommencing lending activities, we undertook a thorough review of the credit process, documentation, controls, security and segregation of duties before authorising and processing new loans and draw downs.

In conjunction with senior management, we implemented a number of initiatives to support the ongoing businesses of SCF/Face. These included:

- updating and revising SCF/Face's credit policies and delegated lending authorities
- formed a formal credit committee with meetings held on a weekly basis
- expanded the credit function to ensure appropriate reviews of all new draw downs were undertaken
- expanded the internal audit function and implemented a work schedule to review new lending to ensure adherence to the updated credit policies, including approvals risk assessment and adequacy/quality of security
- improvements were made to cash flow forecasting and other management reporting

5 Property disposed of since the date of appointment (31 August 2010)

Operating lease income, interest and loan book realisations amounting to \$63,831,515 have been received in the six month period covered by this report. Collections have been from scheduled principal and interest instalments, early repayments and settlements negotiated by SCF's Asset Management Unit.

6 Proposals for disposal of receivership property

The Receivers retained Deutsche Bank AG New Zealand Branch as sale advisor for the SCF finance company business, including Face. A process is underway for Face to be sold separately from the other lending businesses of SCF. This process is well advanced and is expected to be completed during the next six months.

7 Amounts owing to the Trustee

At the date of our appointment \$1.58 billion was owed to the Trustee for and on behalf of investors under the SCF Trust Deed. Cross guarantees were given by the 12 other companies (other than SCF and Face) as listed in Appendix 1. Collectively we refer to the 14 companies as the SCF Group. All companies within the SCF Group were placed in receivership on 31 August 2010.

8 Other security interests

At the date of our appointment, our search of the Personal Property Securities Register showed that five parties had registered financing statements against the Company.

An updated search carried out on 7 April 2011, shows that three of the above parties have discharged their financing statements. Details of the remaining parties, and their interests in the Company, are attached as Appendix 2 to this report.

9 Preferential creditors

Preferential employee claims of \$53,352 owed by the Company at the date of our appointment have been paid by the Receivers.

There is a further \$39,523 owed to the Inland Revenue Department in respect of PAYE and employee deductions (\$18,227) and GST (\$21,296). We expect that these amounts will be paid, in full, by 31 May 2011.

10 Unsecured creditors

At this stage in the receivership we do not expect there will be any surplus funds available from the realisation of the assets under the Receivers' control to meet the claims of the unsecured creditors.

11 Ordinary shareholders

Ordinary shareholders rank behind unsecured creditors. As noted above, we do not expect that there will any funds available from the sale of the Company's assets to meet the claims of the unsecured creditors therefore it is unlikely that Face's shareholders will be repaid either.

12 Receipts and payments

We attach, as Appendix 3, a summary of receipts and payments for the six month period: 31 August 2010 to 28 February 2011.

13 Other matters

We are aware of a number of concerns raised by investors and other parties with respect to the activities of the SCF Group prior to our appointment. We have met with and provided information to the appropriate authorities in relation to certain specific transactions that took place prior to our appointment as Receivers.

Potential breaches of legislation that are identified during the course of the receivership will be reported to the relevant regulatory authorities. Due to the ongoing nature of the investigations, we are unable to provide details regarding individual issues or our findings since doing so could prejudice any subsequent proceedings which may be taken.



Kerryn M Downey
Receiver and Manager



William G Black
Receiver and Manager

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29 April 2011

Appendix 1

Face Finance Limited (In Receivership)

Charging Group Entities

(collectively “the SCF Group”)

South Canterbury Finance Limited (In Receivership)

Belfast Park Limited (In Receivership)(In Liquidation)

Braebrook Properties Limited (In Receivership)(In Liquidation)

Face Finance Limited (In Receivership)

Fairfield Finance Limited (In Receivership)

Flexi Lease Limited (In Receivership)

Galway Park Limited (In Receivership)

Helicopter Nominees Limited (In Receivership)

Hornchurch Limited (In Receivership)

Rental Cars Limited (In Receivership)

SCFG Systems Limited (In Receivership)

Sophia Investments Limited (In Receivership)

Southbury Insurance Limited (In Receivership)

Tyrone Estates Limited (In Receivership)(In Liquidation)

Appendix 2

Face Finance Limited (In Receivership)

Other security interests - Personal Properties Securities Register as at 7 April 2011

<i>Registration date</i>	<i>Secured Party</i>	<i>Collateral Type</i>
15 Oct 2002	Trustees Executors Limited	All Present And After Acquired Personal Property
31 Aug 2010	Her Majesty The Queen	All Present And After Acquired Personal Property

Appendix 3

Face Finance Limited (In Receivership) Summary of receipts and payments from 31 August 2010 to 28 February 2011

	NZ \$
Receipts	
Bank balance at the date of appointment	398,533
Loan book repayments	62,164,046
Operating lease income	1,605,225
Interest received	62,244
GST refunds	309,290
Advance received from parent company	3,767,000
Sundry	8,700
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Total Receipts	68,315,038
Payments	
Loan book advances	12,090,949
Payroll including preferential claims owed to employees	302,320
Operating expenses including suppliers and landlords	2,305,302
Purchase of assets to on lease	2,300,000
Repayment of intercompany advance	50,000,000
Receivers fees	20,239
	<hr/>
Total Payments	67,018,810
Balance as at 28 February 2011	<hr/> <u>1,296,228</u>
Represented by:	
Short term investments	1,266,253
Current accounts	29,975
	<hr/> <u>1,296,228</u>