

**RECEIVERS' REPORT ON THE STATE OF AFFAIRS  
of  
SOUTH CANTERBURY FINANCE LIMITED (IN RECEIVERSHIP) ("SCF" or "the  
Company")**

**1 Introduction**

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

We set out below our first six monthly report on the state of the affairs of SCF 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**

SCF's well publicised liquidity constraints, coupled with the Company's inability to complete either a recapitalisation or a sale, resulted in the SCF directors requesting the Trustee to appoint Receivers to the Company 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.

**4 Crown guarantee**

On the day of our appointment, the Trustee was nominated as the eligible creditor under the terms of the Crown guarantee scheme. The Trustee immediately made a claim on behalf of the holders of debt securities issued by SCF, and the Crown paid the Trustee in full on 31 August 2010. The Crown's payment to the Trustee was in full and final settlement of the Crown's obligations under the terms of the Deed of Guarantee for SCF.

Subsequent to the Crown's payment to the Trustee and after completion of an independent audit of the debenture register, the Trustee repaid all bond holders in full on 23 September 2010 and repaid all debenture and deposit holders in full on 20 October 2010.

## **5 Receivers' trading**

On appointment, our initial focus was on stabilising the business 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 advisors were 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 business of SCF. These included:

- updating and revising SCF's credit policies and delegated lending authorities
- established 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

We also implemented a corporate governance review in order to ensure appropriate ongoing shareholder control of the subsidiaries which were not in receivership. Appropriate strategies for preserving and protecting the value of investments and ultimately the realisation of investments were implemented.

## **6 Property disposed of since the date of appointment (31 August 2010)**

Loan book realisations amounting to \$238.7 million 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 the Company's Asset Management Unit.

## **7 Proposals for disposal of receivership property**

Separate sale processes are in place for the core finance company businesses and for the individual non-core subsidiaries and investments. Deutsche Bank AG New Zealand Branch has been retained as sale advisor for the core finance company business and Goldman Sachs & Partners New Zealand Limited has been retained as sale advisor for the sale of SCF's 100% shareholding in Helicopters (N.Z.) Limited ("HNZ") and its majority shareholding in Scales Corporation Limited. First New Zealand Capital and Murray & Co have been retained as joint sale advisors in respect of a 83.3% shareholding in Dairy Holdings Limited (of which SCF holds 33.6%).

Sale processes have recently commenced for the core finance company businesses, being the consumer, business and rural lending divisions. The Company's staff are working closely with Deutsche Bank AG New Zealand Branch and the Receivers in the preparation of loan book data for purchaser due diligence and data room population.

Sale processes for the principal non-core subsidiaries and investments referred to above, commenced in late 2010 and are well advanced. A conditional sale and purchase agreement has been entered into with Canadian Helicopters Limited for the sale of the assets of HNZ and Helicopter Nominees Limited (In Receivership) ("HNL"). The sale price is approximately NZ\$160 million. Settlement is expected to take place in the next reporting period. Binding offers for the majority shareholding in Scales Corporation Limited were received in April 2011 and indicative bids for the 83.3% shareholding in Dairy Holdings Limited are expected in May 2011.

## **8 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 Trust Deed. Cross guarantees were given by the 13 other companies 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.

As referred to in section 4 above, the Trustee received a payment from the Crown which resulted in the holders of debt securities covered under the Company's Trust Deed being paid their entitlement to principal and interest up to the date of receivership.

## **9 Other security interests**

At the date of our appointment, our search of the Personal Property Securities Register showed that 16 parties had registered financing statements against the Company.

An updated search, carried out on 5 April 2011, shows that 6 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.

## **10 Preferential creditors**

The following preferential creditors have been paid in full by the Receivers:

	\$
Employee claims	900,754
Inland Revenue – RWT/NRWT	<u>5,511,914</u>
Total	\$ <u>6,412,668</u>

There is a further \$118,200 owed to the Inland Revenue Department in respect of PAYE and employee deductions. We expect that this amount will be paid in full by 31 May 2011.

## **11 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.

## 12 Shareholders

The SCF preference shares were not eligible for repayment under the Crown guarantee.

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

We note that trading of the preference shares has been suspended by NZX indefinitely.

## 13 Receipts and payments

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

## 14 Status of directors

The three directors that held office at the date of our appointment all resigned immediately after our appointment. The Company currently has no directors.

## 15 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

**South Canterbury 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

### Other security interests – Personal Properties Securities Register as at 5 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
3 May 2006	FLEXI LEASE LIMITED	Goods – Motor Vehicles
1 Nov 2006	ALLEASING NEW ZEALAND LTD	Goods – Other
5 Dec 2006	SCOLLAY HOLDINGS LIMITED	Goods – Other
16 Feb 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
16 Feb 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
16 Mar 2007	FLEXI LEASE LIMITED	Goods – Motor Vehicles
11 Apr 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
18 Apr 2007	FLEXI LEASE LIMITED	Goods – Motor Vehicles
2 Aug 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
9 Aug 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
25 Oct 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
8 Nov 2007	CAFE EXPRESS (SOUTH ISLAND LIMITED	Goods – Other
30 Jan 2008	KELT FINANCE LIMITED	Intangibles
19 Jun 2008	ASB BANK LIMITED	Investment Securities
19 Jun 2008	ASB BANK LIMITED	Investment Securities
19 Jun 2008	ASB BANK LIMITED	Investment Securities
6 Dec 2008	FUJI XEROX FINANCE LTD	Goods – Other
31 Dec 2008	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Collateral Type: Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Collateral Type: Goods – Other
20 Jan 2009	FUJI XEROX FINANCE LTD	Collateral Type: Goods – Other
21 Jan 2009	FUJI XEROX FINANCE LTD	Goods – Other
24 Jun 2010	TELECOM RENTALS LIMITED	All Present And After Acquired Personal Property Goods – Other
2 Jul 2010	ASB BANK LIMITED	Investment Securities
4 Aug 2010	FLEXI LEASE LIMITED	Goods – Motor Vehicles
31 Aug 2010	HER MAJESTY THE QUEEN	All Present And After Acquired Personal Property
8 Nov 2010	FLEXI LEASE LIMITED	Goods – Motor Vehicles
21 Dec 2010	FUJI XEROX FINANCE LTD	Goods - Other

## Appendix 3

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

	NZ \$
<b>Receipts</b>	
<i>From operations</i>	
Loan book repayments	238,722,511
Interest received	926,273
Bad debts recovered	66,112
GST refunds	901,175
Intercompany loan repayments	59,002,530
Sundry	72,602
	299,691,203
<i>Other receipts</i>	
Bank balances at the date of appointment	11,423,703
Crown advance	175,000,000
	186,423,703
<b>Total Receipts</b>	486,114,906
<b>Payments</b>	
<i>Operating costs</i>	
Loan book advances	50,045,959
Operating expenses including suppliers and landlords	6,939,154
Payroll including preferential claims owed to employees	6,300,874
	63,285,987
<i>Funding costs</i>	
Repayment of Crown advance	175,000,000
Interest payments	4,123,287
	179,123,287
<i>Asset realisation / sale process costs</i>	
Investment Bank fees	862,500
Vendor due diligence fees	2,500,372
	3,362,872
<i>Receivership costs</i>	
Receivers fees	3,731,675
Legal fees	1,922,821
Other Advisors fees	133,140
	5,787,636
<i>Other costs</i>	
Preferential claims - Inland Revenue Department	5,511,914
Repayment of prior ranking chargeholders	175,163,702
Repayment of trust monies held	809,104
	181,484,720
<b>Total Payments</b>	433,044,502
<b>Balance as at 28 February 2011</b>	53,070,404
<b>Represented by:</b>	
Term investments	40,000,000
Short-term investments	12,839,587
Current accounts	230,817
	53,070,404