

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

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 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 report on the state of the affairs of SCF as required by Section 23 of the Receiverships Act 1993.

2 Disclaimer

This report has been prepared by us in accordance with Section 23 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

As noted in its media release dated 31 August 2010 the Trustee had SCF under “heightened surveillance” since 2008, following on from the well publicised financial difficulties experienced by the finance company sector. As part of its monitoring, the Trustee granted SCF a waiver in February 2010 to allow the Company time to achieve a recapitalisation.

Despite significant efforts by senior management and the directors, achieving a recapitalisation was ultimately unsuccessful. The severe liquidity constraints facing SCF, coupled with the inability to complete either a recapitalisation or a sale of the Company, resulted in the directors requesting the Trustee to appoint Receivers to the Company and its 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

As Receivers, 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 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 have implemented a number of initiatives to support the ongoing business of SCF. These include:

- updating and revising SCF's credit policies and delegated lending authorities and the formation of a formal credit committee
- expansion of the credit function to ensure appropriate review of all new draw downs
- expansion of the internal audit function and implementation of a work schedule to review new lending and ensure adherence to credit policy, including approvals risk assessment and adequacy/quality of security
- improvements to cash flow forecasting and other management reporting

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

6 Proposals for disposal of receivership property

The Receivers envisage that separate sale processes will be run for the core finance company business and for the individual non-core subsidiaries and investments. As announced in our recent media releases, 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 and its majority shareholding in Scales Corporation Limited.

The Receivers are working with the Company and professional advisors regarding the appropriate strategies to optimise value and ultimately realise on other investments and related party loans.

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 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.

8 Other security interests

From our search of the Personal Property Securities Register we note that as at the date of our appointment, 15 parties have registered financing statements against the Company, other than the Trustee. Details of these parties and their interests in the Company are attached as Appendix 3 to this report.

9 Preferential creditors

According to the records of the Company, the amounts owing to preferential creditors as at the date of our appointment are set out below. These amounts are subject to verification and finalisation.

	\$
Employee claims	900,754
Inland Revenue – PAYE, Student loan, Kiwisaver deductions	118,232
Inland Revenue – RWT/NRWT	<u>5,511,915</u>
Total	<u>\$6,530,901</u>

We expect preferential creditors to be paid in full.

10 Unsecured creditors

At this stage in the receivership it is too early to assess with any degree of certainty the likely outcome with respect to the claims of the unsecured creditors.

11 Preference shareholders

The SCF preference shares are not eligible for repayment under the Crown guarantee. Preference shareholders rank behind unsecured creditors and accordingly until the outcome for unsecured creditors is determined, we are unable to confirm the likely recovery for preference shareholders. We note that trading of the preference shares has been suspended by NZX indefinitely.

12 Ordinary shareholders

Until the positions of the unsecured creditors and preference shareholders are determined, we are not able to confirm the likely recovery for ordinary shareholders.

13 Particulars of the assets and liabilities

We attach, as Appendix 2, a Summary of Unaudited Assets and Liabilities as at 31 August 2010, as prepared by SCF management.

A breakdown of SCF loan advances included in the summary attached is set out below:

SCF loan advances as at 31 August 2010	
Sector	Advances \$ million
Business	690.8
Plant & Equipment	25.5
Rural	179.6
Consumer	68.6
Property	<u>256.2</u>
<i>Total external advances</i>	1,220.7
Less impairment provisions	(446.2)
Plus advances to Charging Group companies	341.2
Total loan advances net of impairment provisions	<u>1,115.7</u>

Source: SCF data warehouse and management

In accordance with Section 23(3) of the Receiverships Act 1993, we have omitted from this report our realisation estimates of the assets as we believe that their inclusion could materially prejudice the exercise of our functions, and in particular, our duty to obtain the best price reasonably obtainable for the Company's assets.

14 Information provided by the Company

The directors and management of the Company have co-operated fully in making available the information required to complete this report.

15 Other matters

We are aware of a number of concerns raised by investors and other parties in respect of the activities of the SCF Group prior to our appointment. We have notified 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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Level 17, 34 Shortland Street, Auckland
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1 November 2010

Appendix 1

South Canterbury Finance Limited (In Receivership)

Charging Group Entities

(collectively “the SCF Group”)

South Canterbury Finance Limited (In Receivership)

Belfast Park Limited (In Receivership)

Braebrook Properties Limited (In Receivership)

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)

Appendix 2**South Canterbury Finance Limited (In Receivership)****Summary of Unaudited Assets and Liabilities as at 31 August 2010**

South Canterbury Finance Limited (In Receivership)		
Unaudited Assets and Liabilities as at 31 August 2010		
	\$	\$
ASSETS		
Cash and cash equivalents	10,431,428	
Funds held in trust	809,001	
	<u> </u>	11,240,429
Receivables	1,715,865	
GST refund	569,556	
	<u> </u>	2,285,421
Loan advances	1,561,934,867	
Less impairment provisions	(446,278,266)	
Total net advances	<u> </u>	1,115,656,601
Property, plant and equipment		751,176
Investments		235,787,508
Deferred taxation		25,151,772
TOTAL ASSETS		<u> </u> <u> </u> 1,390,872,907
LIABILITIES		
Creditors and accruals	(14,990,302)	
Debt securities	(1,581,557,230)	
Prior chargeholders	(109,108,180)	
	<u> </u>	
TOTAL LIABILITIES		<u> </u> <u> </u> (1,705,655,712)
NET LIABILITIES		<u> </u> <u> </u> (314,782,805)

Source: SCF management

Important Note and Disclaimer:

The above schedule has been prepared from information provided by the Company. This information has not been verified. The Receivers have not carried out an audit of the information supplied and do not accept any responsibility for the accuracy or completeness of the information. The Receivers do not accept any responsibility on any ground whatsoever, including liability in negligence, to any person.

Other security interests – Personal Properties Securities Register as at 31 August 2010

<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
17 April 2008	FLEETPARTNERS NZ	Collateral Type: Goods – Motor Vehicles
17 April 2008	FLEETPARTNERS NZ	Collateral Type: Goods – Motor Vehicles
22 April 2008	FLEETPARTNERS NZ	Goods – Motor Vehicles
29 May 2008	FLEETPARTNERS NZ	Goods – Motor Vehicles
19 Jun 2008	ASB BANK LIMITED	Investment Securities
19 Jun 2008	ASB BANK LIMITED	Investment Securities
19 Jun 2008	ASB BANK LIMITED	Investment Securities
14 Jul 2008	FLEETPARTNERS NZ	Goods – Motor Vehicles
30 Sep 2008	FLEETPARTNERS NZ	Goods – Motor Vehicles
22 Oct 2008	FLEETPARTNERS NZ	Goods – Motor Vehicles
6 Dec 2008	FUJI XEROX FINANCE LTD	Goods – Other
10 Dec 2008	FLEETPARTNERS NZ	Goods – Motor Vehicles
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	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
14 Feb 2009	MONUMENT FINANCE LTD	Intangibles
31 Mar 2009	FLEETPARTNERS NZ	Goods – Motor Vehicles
08 May 2009	FLEETPARTNERS NZ	Goods – Motor Vehicles
18 May 2009	ASPECT FURNITURE SYSTEM LIMITED	Goods – Other
8 Jun 2009	FLEETPARTNERS NZ	Collateral Type: Goods – Motor Vehicles
22 Jun 2009	FLEETPARTNERS NZ	Goods – Motor Vehicles
26 Jun 2009	FLEETPARTNERS NZ	Goods – Motor Vehicles
20 Oct 2009	PELORUS FINANCE LIMITED	Chattel Paper, Documents Of Title, Intangibles, Investment Securities, Money, Negotiable Instruments
27 Oct 2009	TORCHLIGHT SECURITY TRUSTEE LIMITED	All Present And After Acquired Personal Property
14 Jan 2010	COVENANT TRUSTEE COMPANY LIMITED	All Present And After Acquired Personal Property
05 Mar 2010	FUJI XEROX FINANCE LTD	Collateral Type: 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