

**RECEIVERS' REPORT ON THE STATE OF AFFAIRS
of
SOUTH CANTERBURY FINANCE LIMITED (IN RECEIVERSHIP)**

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 second six monthly report on the state of the affairs of SCF and the conduct of the receivership during the reporting period 1 March 2011 to 31 August 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:

- updated and revised 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 our last report (dated 29 April 2011)

Loan book realisations amounting to \$262.6 million have been received in the six month period covered by this report. Collections have been from scheduled principal and interest instalments, early repayments, settlements negotiated by the Company's Asset Management Unit and from the August 2011 sale of the consumer, business and rural loan books to Nomura, a Tokyo based investment bank.

As a consequence of the sale of the consumer, business and rural loan books to Nomura, a downsize plan has been developed and implemented to close leased premises, sell owned premises and reduce loan management staff.

In addition to net funds received from SCF Charging Group entities of \$14.4 million there were also realisations from the sale of shares held by SCF for investment purposes of \$31.1 million. The majority of this latter amount relates to the sale of shares held by SCF in Scales Corporation Limited, which were sold in May 2011.

The realisation of SCF's investment in Helicopters (NZ) Limited ("HNZ") was effected by means of a sale by HNZ of its assets and undertakings. In the future, SCF, in its capacity as shareholder of HNZ, will receive a distribution with respect to its shareholding.

7 Proposals for disposal of receivership property

The sale process in respect of SCF's 33.6% shareholding in Dairy Holdings is progressing.

SCF Asset Management Unit continues to manage and realise the residual loans that were not included in the sale to Nomura.

In addition, realisation processes are under way with respect to other investments, loans to subsidiaries and SCF's equity in certain Charging Group entities, principally engaged in property development.

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.

During the reporting period the amount owed to the Trustee has reduced by \$345 million, being the total amount of receivership distributions made to the Crown from the SCF Group during this reporting period. A breakdown of the distributions by each of the companies in the SCF Group is as follows:

	\$
South Canterbury Finance Limited (In Receivership)	209,000,000
ECAF Limited (In Receivership)	85,000,000
ZNH Nominees Limited (In Receivership)	43,000,000
Hornchurch Limited (In Receivership)	<u>8,000,000</u>
Total	\$ <u>345,000,000</u>

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 12 October 2011, shows that eight of the above parties have discharged their financing statements and one further party has registered a charge. Details of the 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 \$118,233 owed to the Inland Revenue Department in respect of PAYE and employee deductions for the month of August 2010. We have advised the Department that this amount may be offset against the Company's GST refund due for the same month, August 2010. To date we have not received the net GST refund from the Inland Revenue Department, nor have we received confirmation of the offset.

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 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 receive any distribution in respect of their shareholdings.

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: 1 March 2011 to 31 August 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.

Some potential breaches of legislation have been identified during the course of the receivership and have been and will continue to 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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25 October 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)

ECAF Limited (In Receivership) formerly Face Finance Limited (In Receivership)

Fairfield Finance Limited (In Receivership)

Quality Lease Cars Limited (In Receivership) formerly Flexi Lease Limited (In Receivership)

Galway Park Limited (In Receivership)

ZNH Nominees Limited (In Receivership) formerly 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)

Other security interests – Personal Properties Securities Register as at 12 October 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
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
11 Apr 2007	ALLEASING NEW ZEALAND LTD	Goods – Other
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) LTD	Goods – Other
30 Jan 2008	KELT FINANCE LIMITED	Intangibles
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
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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
31 Aug 2010	HER MAJESTY THE QUEEN	All Present And After Acquired Personal Property
21 Dec 2010	FUJI XEROX FINANCE LTD	Goods - Other
7 Sept 2011	PACIFIC DAWN LTD	All Present And After Acquired Personal Property

South Canterbury Finance Limited (In Receivership)
Summary of Receipts and Payments from 1 March 2011 to 31 August 2011

NZ \$

Balance at 28 February 2011 brought forward 53,070,404

Receipts*From operations*

Loan book realisations	262,626,560
Rent received	48,548
Interest received	1,604,619
Dividends received	274,615
Management fees received	486,613
Bad debts recovered	236,504
GST refunds	1,510,536
Funds received from Charging Group entities	17,098,465
Less payments made to Charging Group entities	(2,683,000)
Sale of investments	31,078,203
Third party monies received	1,038,308

Total Receipts 313,319,971

Payments*Operating costs*

Loan book advances	20,345,549
Operating expenses including suppliers and landlords	5,329,653
Payroll	4,193,137
Advances made to non-charging companies/joint venture operation	286,582

30,154,921

Asset realisation / sale process costs

Investment Bank fees	4,268,327
Vendor due diligence fees	3,108,533

7,376,860

Administrative costs

Receivers fees	3,479,547
Legal fees	3,161,839
Other Advisors fees	271,964

6,913,350

Other payments

Distribution to Crown under the Government guarantee scheme	209,000,000
Funds held in escrow	10,000,000

219,000,000

Total Payments 263,445,131

Balance at 31 August 2011 102,945,244

Represented by:

Term investments	90,593,446
Short-term investments	12,000,836
Current accounts	350,962
	102,945,244