

**Provincial Finance Limited  
Consumer Credit Limited  
South Auckland Cars Limited  
(All In Receivership)**

**Receivers' Report on the State of Affairs of  
Provincial Finance Limited, Consumer Credit  
Limited and South Auckland Cars Limited (All  
In Receivership)**

Pursuant to Section 23 of the Receiverships Act  
1993

4 August 2006

Registrar of Companies  
Companies Office  
Private Bag 92061  
Auckland Mail Centre  
**AUCKLAND**

4 August 2006

Dear Sir/Madam

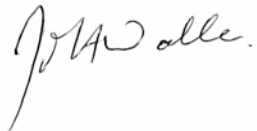
**Provincial Finance Limited (In Receivership)**  
**(Company Number: 315014)**  
**Consumer Credit Limited (In Receivership)**  
**(Company Number: 927785)**  
**South Auckland Cars Limited (In Receivership)**  
**(Company Number: 1675071)**

Please find attached our report in relation to the above companies pursuant to Section 23 of the Receiverships Act 1993.

A copy of this report will be sent to Perpetual Trust Limited and all investors.

Yours sincerely

For Provincial Finance Limited (In Receivership)  
Consumer Credit Limited (In Receivership)  
South Auckland Cars Limited (In Receivership)



John Waller  
Receiver



Maurice Noone  
Receiver

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## 1 Introduction and Preliminary Conclusions

### 1.1 Background

- This report in relation to Provincial Finance Limited (“Provincial” or “the Company”) has been prepared pursuant to Section 23 of the Receiverships Act 1993. This report includes Provincial and related companies Consumer Credit Limited (“CCL”) and South Auckland Cars Limited (“SACL”) (together “the Companies”).
- We were appointed receivers of the Companies on the afternoon of 30 May 2006 by the Trustee, Perpetual Trust Limited (“the Trustee”) under the terms of the Debenture Trust Deed dated 20 May 1998 (along with subsequent Deeds of Variation and Supplemental Deeds).
- We have written to the secured debenture holders and redeemable preference shareholders of Provincial previously to advise them as to progress of the receivership and our initial assessment of the potential outcome of the receivership.
- Since our appointment we have taken control and secured the assets of the Companies. In addition, we have;
  - Regularly communicated with investors and the Trustee;
  - Undertaken an initial Investigation of the affairs of the Companies;
  - Formulated and commenced asset realisation processes;
  - Overseen the Companies’ operations to ensure efficient and effective management of the Provincial and CCL finance receivables and in particular, loan repayments and management of overdue debts;

- Determined the best realisation strategies for other assets of the companies including cars, properties and chattels;
- Held discussions with a number of interested parties in respect of a possible recapitalisation or restructuring of the business.

### 1.2 Preliminary Conclusions

- Recoveries from the loan book are proceeding well, and subject to recoveries continuing at anticipated levels, secured debenture stockholders should recover most, if not all their principal.
- Redeemable preference shareholders are unlikely to recover anything from the receivership.
- By the end of the September 2006 we expect to be in a position to make an initial pro rata principal payment of between 10 and 20 cents in the dollar to secured debenture holders, and to advise the likely timeframe for further distributions to investors.

### 1.3 Notice of Limitations

- Please note that pursuant to Section 23 of the Receiverships Act 1993, certain values for disposal of assets have been omitted from this report on the basis that their inclusion might materially prejudice commercial negotiations.
- Please also note that while the receivers have made their best endeavours to ensure that all information in this report is accurate based on information available to us at the date of preparation of this report, we reserve the right to revisit any aspect of the report at any later date should further relevant information come to hand that may require us to change our views.

## 2 Financial Position

### 2.1 Overview

- The table opposite summarises the draft Statement of Financial Position of the Companies as at 31 March 2006, as adjusted, and 30 May 2006 (the date of our appointment).
- We caution that the financial position presented may be materially impacted by:
  - the adequacy of the level of bad debt provisioning made against the finance receivables; and
  - whether sufficient profits can be generated from the finance receivables in the future to utilise the future tax benefit.

Assuming the finance receivables ledger recoveries are no worse than set out in the Statement of Financial Position and the future tax benefit asset can be realised, we estimate that secured debenture holders should recover most, if not all, their principal.

- Regrettably redeemable preference shareholders are unlikely to recover anything from the receivership.

<b>PROVINCIAL FINANCE GROUP (IN RECEIVERSHIP)</b>		
Statement of Financial Position	31-Mar-06	31-May-06
(\$000's)		
<b>Liquid Assets</b>		
Cash	31,631	11,587
Finance receivables	324,917	310,606
Less: Provision for bad debts	(79,973)	(71,394)
	<u>244,944</u>	<u>239,212</u>
Sundry receivables	332	300
Taxation refunds due	7,877	7,877
	<u>284,784</u>	<u>258,976</u>
<b>Non-current Assets</b>		
Fixed assets	4,795	4,810
Investments	8,554	8,554
Future tax benefit	24,211	23,698
	<u>37,560</u>	<u>37,062</u>
<b>Total Assets</b>	<u>322,344</u>	<u>296,038</u>
<b>Liabilities</b>		
RWT payable to IRD	1,491	-
Term loan	2,145	2,121
Borrowings (secured)	323,932	299,755
Accruals and sundry creditors	3,844	2,222
	<u>331,412</u>	<u>304,098</u>
<b>Net Assets</b>	<b>(9,068)</b>	<b>(8,060)</b>
<i>Represented by:</i>		
<b>Shareholders Equity</b>		
Issued capital - Ordinary shares	39,500	39,500
- Preference shares	15,950	15,950
Retained earnings	(64,518)	(63,510)
	<u>(9,068)</u>	<u>(8,060)</u>

Source: Management accounts

- Comment on specific balances follows.

## 2.2 Finance Receivables

- As at 30 May 2006 the finance receivables totalled \$308.9m, plus \$1.7m owing in respect of a purchased receivables ledger.
- The table below provide a high level analysis of the finance receivables.

PROVINCIAL FINANCE GROUP (IN RECEIVERSHIP)						31-May-06
Finance Receivables (\$000's)						
	Current	1 - 30	31 - 60	61 - 90	90 +	Total
<b>\$000's</b>						
Consumer (Car)	107,296	52,745	17,980	13,802	56,916	248,739
Consumer (Other)	10,101	3,132	797	248	1,168	15,445
Commercial	37,265	1,881	4,297	-	1,147	44,590
	<u>154,661</u>	<u>57,758</u>	<u>23,073</u>	<u>14,051</u>	<u>59,231</u>	<u>308,774</u>
<b>Loan contracts</b>						
Consumer (Car)	12,196	5,443	1,798	1,346	5,032	25,815
Consumer (Other)	840	216	66	29	122	1,273
Commercial	88	4	5	-	8	105
	<u>13,124</u>	<u>5,663</u>	<u>1,869</u>	<u>1,375</u>	<u>5,162</u>	<u>27,193</u>
<b>% of balance owing</b>						
Consumer (Car)	43%	21%	7%	6%	23%	100%
Consumer (Other)	65%	20%	5%	2%	8%	100%
Commercial	84%	4%	10%	0%	3%	100%
	<u>50%</u>	<u>19%</u>	<u>7%</u>	<u>5%</u>	<u>19%</u>	<u>100%</u>

Source: Monthly monitor reports

- Our key observations are:
  - The average loan amount is approximately \$11,400;
  - 13,124 loans by number (50%) do not have an overdue component;
  - Loans already written off and excluded from the above amount to \$37.2m. These loans will be reviewed and recovery actions, where appropriate, will be continued;
- Together with management we have strengthened the collection processes of the Companies with a view to reducing the level of arrears. This is an ongoing process which needs continual monitoring. Particular initiatives implemented include:
  - Cross counter scanning at Provincial's transaction bank to ensure all manual payments are recorded to the correct loan account;
  - Increased use of collection agents to engage in more "face to face" recovery strategies for customers whose loans go into arrears;
  - Changing employees' working hours to ensure collection team coverage through the evening;
  - Completion of the sale of vehicles as soon as possible following the 15 day pre-possession period;
  - Increased legal activity;
  - Sale or entering into commission arrangements with third parties of approximately \$20m of written off debt, to reduce the number of overdue loans Provincial staff are pursuing, allowing for better use of resources and to increase collections on previously written off debt which is not actively being pursued.
- The bulk of the provision for doubtful debts relates to the consumer finance receivables of \$263.0m. This provision, at \$80.0m at 31 March 2006, equates to a level of provision of 30% against this book.
- In the course of its operations the Companies repossess motor vehicles. As at the date of the appointment of receivers the company had some 1,000 vehicles on hand, with the largest concentration in Auckland (some 55%).

- Prior to the receivership, management were reviewing the vehicle disposal strategy. We have worked with management to prepare a clear disposal strategy to reduce stock to a target of 500 vehicles by 30 September 2006. This includes conducting receivership sales in each of Auckland, Hamilton, Christchurch and Wellington during July to realise value in retail quality vehicles held in stock.
- Each of the sales will be followed by wholesale tenders and auctions to dispose of remaining vehicles, with the prospect of further receivership sales as stock levels determine.
- Whilst work continues in regard to disposing of excess vehicles, the response to date through the receivership sales has been good.

### 2.3 Taxation

- The 2006 income tax returns for the Companies were filed with the IRD in June 2006. The returns claim the full amount of provisional tax paid by Provincial and CCL as refundable. \$4.6m of provisional tax and \$200k of use of money interest has now been received.
- Upon review of the records of Provincial and CCL we filed adjusted 2005 tax returns. The adjustments result in additional potential refunds for Provincial and CCL of \$2.4m and \$0.3m respectively. This has been accepted by the IRD and the repayment of this is due to be received in the coming weeks.

### 2.4 Fixed Assets

- The company owns the SACL land and buildings in Auckland. We are seeking to realise this asset over the next 3 months, and a tender process has been established to sell this property.

- The remaining balance of fixed assets relates to office equipment, computer equipment and leasehold improvements held at the Companies' sites in Christchurch and Auckland. Most of this equipment is being retained to enable the continued operation of the Companies to realise the finance receivables.

### 2.5 Investments

- The Companies hold investments in two companies, Tasman Pacific Insurance Limited ("TPI") and South Island Vehicles Finance Limited ("SIVF"), and a property at Millbrook, Arrowtown.
- The investments are carried at estimated net realisable value given the current position of the Companies.
- At the present time, TPI is not trading and its investment rating has been downgraded from B+ to B-.
- We are still assessing our strategy with TPI. In the interim we have increased the level of monitoring and oversight that Provincial has over this asset.
- The Company holds a 50% shareholding in SIVF. We are currently evaluating our options with regard to this investment.
- The Millbrook property has been placed on the market

### 3 Other Matters

#### 3.1 Debenture Holders

- We have continued to monitor queries lodged by debenture holders through our website [www.pwc.com/nz/provincialfinance](http://www.pwc.com/nz/provincialfinance) and by mail. Numerous enquiries have been received and responded to.

#### 3.2 Preferential Creditor Claims

- Preferential creditor claims as at 30 May 2006 have been paid or in the case of employee claims, adopted by the Receivers.

#### 3.3 Proposed Strategy Going Forward

- Throughout the early stage of the receivership it has been important to focus on securing and gathering information on the assets and operations of the Companies, communicating with stakeholders including investors, and forming preliminary views on likely realisation processes.
- Our aim has been to maintain the value of the finance receivables through continuing to operate the business. Most staff have been retained on an ongoing basis to assist with recoveries.
- To date we have been impressed by the level of commitment of management and staff. In what is a difficult time, considerable progress has been made in many areas.
- There are three principal scenarios likely for realising value from the finance receivables, being:
  - Wind down the business by the receivers; or

- Restructure the Companies; or
- An outright sale.

- We are currently working through each of the above scenarios to determine the optimum outcome. At this time we cannot comment further as this may prejudice the outcome of the receiverships. This process will take some months to finalise.

#### 3.4 Timing of Distributions to Debenture Holders

- We are conscious secured debenture holders wish to know the potential timing of pro rata principal distributions. The future timing of distributions will be determined by the success of realising finance receivables.
- We expect that by the end of the September 2006 we will be in a position to repay between 10-20 cents per dollar to debenture holders. We will also communicate at the time the likely timeframe for future pro rata principal distributions to investors.

#### 3.5 Concluding Remarks

- We have received the full cooperation of the Directors throughout the course of the receivership.
- We have received a high volume of correspondence from investors, which we have endeavoured to reply to in a timely manner. Should investors or other stakeholders have any queries arising from this report please contact us via one of the following methods:
  - Web at: <http://www.pwc.com/nz/provincialfinance>
  - Our post office box (P O Box 13244, Christchurch), or
  - By fax on 03 374 3001