

**Provincial Finance Limited (In Receivership)
Consumer Credit Limited (In Receivership)
South Auckland Cars Limited (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 24 of the Receiverships Act 1993

30 January 2009

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

30 January 2009

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 a further report in relation to the above companies pursuant to Section 24 of the Receiverships Act 1993.

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



Maurice Noone
Receiver



Malcolm Hollis
Receiver

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Glossary

• the “Book”	PFL’s and CCL’s Finance Receivables Book
• the “Companies	PFL, CCL and SACL
• “CCL”	Consumer Credit Limited (In Receivership)
• “PFL”	Provincial Finance Limited (In Receivership)
• “PwC”	PricewaterhouseCoopers
• “SACL”	South Auckland Cars Limited (In Receivership)
• “TPI”	Tasman Pacific Insurance Limited

1.1 Introduction and Overview

- This further report in relation to Provincial Finance Limited (“Provincial” or “the Company”), is prepared pursuant to Section 24 of the Receiverships Act 1993. This report includes Provincial and related companies Consumer Credit Limited (“CCL”) (wholly owned by Provincial) and South Auckland Cars Limited (“SACL”) (wholly owned by Provincial and related parties) (together “the Companies”).
- As previously advised, John Waller and Maurice Noone 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). John Waller has retired from his position at PricewaterhouseCoopers and has accordingly resigned from his position as receiver of the Companies. Malcolm Hollis of PricewaterhouseCoopers was appointed as receiver in respect of the Companies in his place on 22 December 2008.
- Since our last report we are pleased to report that we have successfully concluded a sale of the finance receivables books, accelerating the realisation of the assets for Debenture Holders. It has also enabled us to progress the receivership faster and return the maximum amount of money to Debenture Holders as quickly as possible.
- Completing the sale reduces risks associated with the collection process and simplifies the receivership down to one primary issue, the litigation against Veda Advantage. It also has the additional benefit of providing for ongoing employment to nearly all the remaining Provincial employees with Bluestone, the purchaser of the finance receivables books.
- A 9th interim pro-rata principal distribution of 8 cents in the dollar was made to Debenture Holders on the 12th of September 2008. This followed on from the 1st payment of 25 cents in the dollar in September 2006, a 2nd payment of 15 cents in the dollar in December 2006, a 3rd payment of 10 cents in the dollar in early April 2007, 4th payment of 7.5 cents in the dollar in June 2007, a 5th payment of 7.5 cents in the dollar in September 2007, a 6th payment of 7.5 cents in the dollar in December 2007, a 7th payment of 5 cents in the dollar in March 2008, and an 8th payment of 5 cents in the dollar in June 2008.
- A total of \$268 million (90.5 cents in the dollar) has now been repaid to Debenture Holders. This has primarily been funded from collection of the finance receivable books in the ordinary course of business.
- It is likely there will be one more distribution to debenture holders, but the timing and quantum of any payment is dependent on the outcome of ongoing litigation. Legal action against Veda Advantage is continuing and we have held a portion of the finance receivables loan books sale proceeds back to fund the litigation. While a successful outcome will generate funds to distribute to secured Debenture Holders, given the fact that at the point of receivership there was approximately \$296 million owing to secured Debenture Holders, any successful outcome will only have a minor impact on the outcome for investors.
- In the current circumstances the Debenture Holders will not receive any accrued interest and Redeemable Preference Shareholders will not recover any funds from the receivership.

1.2 Notice of Restrictions

- This report is subject to the restrictions set out below:
- The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.
- In compiling this report we have relied on the accuracy of relevant information provided by the management of the Companies. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.
- The statements and opinions expressed in this report are based on information available as at the date of the report.
- We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

1.3 Financial Position

- The table opposite sets out the unaudited Statement of Financial Position of the Companies as at 31 December 2008, with comparative information also provided as at 30 June 2008 (the date of our last report), 31 December 2007, 30 June 2007, 31 December 2006 and at 31 May 2006, the day after we were appointed Receivers.

PROVINCIAL FINANCE GROUP (IN RECEIVERSHIP)						
Unaudited Statement of Financial Position						
(\$000's)	31-Dec-08	30-Jun-08	31-Dec-07	30-Jun-07	31-Dec-06	31-May-06
Assets						
Finance receivables	-	107,366	142,209	175,716	235,387	310,606
Provision for bad debts	-	(75,061)	(75,061)	(75,041)	(81,394)	(71,394)
	-	32,305	67,148	100,675	153,993	239,212
Cash - PFL	841	1,861	2,783	5,007	11,181	11,587
Cash - TPI	1,650	1,750	1,939	5,180	5,590	-
Prepayments, sundry receivables	23	79	118	541	514	300
Taxation paid	900	900	897	894	916	7,877
Fixed assets	3	159	199	455	522	4,810
Investments	742	742	796	3,186	3,845	8,554
Future tax benefit	-	30,686	27,434	26,636	26,184	23,698
Goodwill on Consolidation	-	204	407	611	814	-
	4,159	68,686	101,721	143,185	203,558	296,037
Liabilities						
Accruals and sundry creditors	1,042	1,505	1,554	1,865	1,732	2,221
Accrued interest	37,515	35,108	31,728	26,487	18,667	3,655
Borrowings (secured) Principal	28,122	51,817	81,428	125,843	192,465	296,100
Term loan	-	-	-	-	-	2,121
Provision for Unexpired Risk	831	920	1,445	2,551	4,046	-
	67,510	89,350	116,155	156,746	216,910	304,097
Net Assets	(63,351)	(20,664)	(14,434)	(13,561)	(13,352)	(8,060)

Source: Management Accounts

- Please note that in accordance with normal accounting principles and our past reports, the redeemable preference shares form part of the share capital of the Company, and are therefore not recorded within the liabilities set out above.
- As previously advised, as a result of acquiring the minority shareholders interests in TPI during December 2006, TPI has become a wholly owned subsidiary of Provincial. Accordingly, financial information in respect of TPI is included in the Statement of Financial Position from 31 December 2006.

- During the past six months the following actions have continued, which has impacted on the financial position of the company and the resultant cash on hand at 31 December 2008:
 - the remaining finance receivables were sold, together with the majority of the fixed assets
 - borrowings decreased as a consequence of the 9th interim pro-rata principal distributions made in early September 2008.
- We note that the deterioration in net equity reported over the period since receivership has been principally brought about through the increase in the doubtful debt provision and write off of bad debts over the periods as the finance receivables loan books reduced, and in the last period as a result of the sale of the residual books, which has crystallised the doubtful debt position. In addition, the past period has seen the write off of the deferred tax asset as it is unlikely that this asset will be capable of being recovered in the future now that virtually all the assets of the companies in receivership have been sold.
- Throughout the period of receivership we have continued to accrue full interest on the Debentures through the profit and loss account, even though as noted earlier in this report, this interest will be unable to be funded and paid to Debenture Holders from the receivership. This practice continues.
- Other material balances within the balance sheet at 31 December 2008 include:
 - Taxation paid of \$900,000 – this represents prepaid tax in TPI, which cannot be recovered from the IRD given the lack of imputation credits within TPI, but is capable of being used to settle any future income tax liabilities.
 - Other investments of \$776,000 – includes \$530,00 of Government stock, which is required to be held so long as TPI continues to operate as an insurance business, and other minor illiquid investments.
- Provision for unexpired risk of \$882,000 – assessed value of the unexpired risk associated with the policies issued by TPI.
- The borrowings of \$28 million represent the unpaid principal with respect to monies owed to Debenture Holders as at the current date.

1.4 Financial Performance

- Set out below is the unaudited Statement of Financial Performance for the seven months to 31 December 2006, six months to 30 June 2007, 31 December 2007, 30 June 2008, and 31 December 2008, together with the period of receivership.

PROVINCIAL FINANCE GROUP (IN RECEIVERSHIP)						
Unaudited Financial Performance (\$'000's)	Period of Receivership	6 months to 31-Dec-08	6 months to 30-Jun-08	6 months to 31-Dec-07	6 months to 30-Jun-07	7 months to 31-Dec-06
Operating revenue	54,949	1,411	4,776	8,220	13,603	26,940
Selling and administration expenses	26,326	1,770	2,970	4,526	6,588	10,472
Earnings Before Interest, Tax, Depreciation and Debt Provisioning	28,623	(359)	1,806	3,694	7,014	16,468
Depreciation / loss on assets & investments	1,408	(9)	239	386	280	512
Earnings Before Interest, Tax and Debt Provisioning	27,215	(350)	1,567	3,308	6,734	15,956
Interest accrued	32,569	2,002	3,379	5,241	7,808	14,139
Earnings Before Debt Provisioning and Tax	(5,354)	(2,352)	(1,812)	(1,933)	(1,074)	1,817
Doubtful debts provision increase	3,695	-	-	48	(6,353)	10,000
Bad debts written off / (recovered)	20,577	9,010	7,669	(310)	5,940	(1,732)
Net Profit / (Loss) Before Tax	(29,626)	(11,362)	(9,481)	(1,671)	(661)	(6,451)
Taxation	(22,909)	(29,833)	3,252	798	452	2,422
Net Loss for the period	(52,535)	(41,195)	(6,229)	(873)	(209)	(4,028)

Source: Management Accounts

- Operating revenue represents interest and fee income generated from the loans and advances made by the Companies as at the date of receivership, with the administration expenses principally representing the costs associated in recovering the finance receivables and in conducting the various litigation that the Companies has taken against third parties.
- As noted previously, an additional provision for doubtful debts of \$10 million was made in the period to 31 December 2006. A further bad debt write off of \$7.7 million has been made in the period to 30 June 2008, with a final write off taken on disposal of the book of \$9 million.
- Overall, we continue to operate in receivership at a positive cash manner.

1.5 Receipts and Payments

- The table below sets out a summary of the unaudited receipts and payments for the seven months to 31 December 2006, six months to 30 June 2007, 31 December 2007, 30 June 2008, 31 December 2008, and the period of receivership.
- The Receipts and Payments summary excludes all TPI details and consequently the Cash Balance as at 30 June 2008 does not include \$1.65 million of cash held by TPI.

PROVINCIAL FINANCE GROUP (IN RECEIVERSHIP)						
Statement of Receipts & Payments (\$'000's)	Period of Receivership	6 months to 31-Dec-08	6 months to 30-Jun-08	6 months to 31-Dec-07	6 months to 30-Jun-07	7 months to 31-Dec-06
Receipts						
Loan repayments/sale of receivables books	263,335	24,371	31,127	40,212	65,442	102,183
Sale of bad debts	1,050	0	0	0	0	1,050
Sale of properties/fixes assets	5,606	0	0	78	0	5,528
Interest received - bank deposits	3,004	248	385	474	685	1,212
Tax refunds	8,329	0	0	0	0	8,329
Advance from TPI	5,700	0	0	5,700	0	0
Other net receipts	2,387	0	0	316	762	1,309
subtotal receipts	289,411	24,619	31,512	46,780	66,889	119,611
Payments						
Wages	6,663	473	919	1,389	1,530	2,352
Other overheads and expenses	15,648	875	1,713	2,841	4,043	6,176
Lending - Commercial facility drawdowns	4,234	0	0	7	400	3,828
Secured mortgagee repayment	2,157	0	0	0	0	2,157
Receivers fees	3,035	593	193	351	470	1,429
Other payments	440	0	0	0	0	440
subtotal payments	32,178	1,941	2,825	4,588	6,442	16,382
Opening cash balance	11,587	1,861	2,784	5,007	11,181	11,587
Cash available for distribution	268,821	24,539	31,471	47,199	71,629	114,816
Repayments to Debentureholders	267,979	23,698	29,610	44,415	66,622	103,635
Closing Cash Balance	841	841	1,861	2,784	5,007	11,181

This report comprises the receipts and payments for the Group companies in receivership:

Provincial Finance Ltd, Consumer Credit Ltd and South Auckland Cars Ltd

Source: Management Reports

- As the finance receivables books have reduced in size through recovery of the loans, so does the scale of the operations at the Companies which is reflected in a reduction in the cost base, as illustrated through the reducing levels of payments above.

1.6 Proposed Strategy and Conclusion

- In our last report we noted that we were in discussions with various parties, which if successful, would result in a final lump sum payment to Debenture Holders in the near future, rather than Debenture Holders having to wait a further couple of years for their final repayment.
- We are pleased to report that we have been successful with this. Apart from TPI, the principal asset for the receivers to pursue at this time is the legal action against Veda Advantage. A court date has been set for mid February 2009, with the trial expected to last up to three weeks. We expect to know the outcome of the litigation within the coming months, and we will advise Debenture Holders further at that time.
- It is likely there will be one more small distribution to Debenture Holders, but the timing and quantum of any payment is dependent on the outcome of this litigation. Redeemable preference share holders will not receive any payment.
- We thank investors for their ongoing support throughout the receivership and acknowledge the good work done by the staff at the Companies involved in the recovery of the monies owed to the Companies.
- 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.