

# The Treasury

## South Canterbury Finance Limited Information Release

### Release Document

April 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(i) - to protect trade secrets
- [3] 9(2)(b)(ii) - to avoid unreasonable prejudice to the commercial position of the person who supplied the information or who is the subject of the information
- [4] 9(2)(ba) - to protect information that is subject to an obligation of confidence, or that was or could be provided under legal compulsion, where making the information available would be likely to prejudice the supply of similar information and it is in the public interest for that information to continue to be supplied
- [5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [6] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(i).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Date: 17 August 2009.

Present: [1] – Partner, Korda Mentha  
– Partner, Korda Mentha  
Ivan Kwok – Principal Advisor, Treasury  
John Park – Team Leader Deposit Guarantee Scheme, Treasury  
Craig Murphy – Senior Analyst, Treasury

Subject: **South Canterbury Finance (“SCF”) Update.**

### General Outline of Discussion

We were provided the SCF group structure by Korda Mentha (attached).

We have very little visibility on Allan Hubbard’s personal wealth and South Island Dairies (which was acquired by SCF with the last equity injection).

The only real assets Hubbard has now (through Southbury) are SCF, Scales Corporation, Helicopters, Dairy Holding and South Island Dairies. Further to this, we have limited knowledge of these assets real value.

SCF’s corporate structure is now changing to a more appropriate structure. The previous structure was inappropriate.

To support SCF’s liquidity position, they are selling down their listed bonds and shares (\$137m 30 June 2009, \$112m 17 August 2009).

There is the potential for an additional \$127m – \$157m in additional provisioning to be required in addition to the writing off of the tax asset (as SCF require profits to gain any benefit from it). This will lead to a reduction in net assets to between \$29m and \$59m.

KM Provisions	Loans \$m	Provision (mid)		Net Asset Modelling	
		\$m	%	Scenario	
				Low	Mid
Specific Provision	476	131	28%	234	234
Collective (at risk)	233	40	17%	131	131
Collective (Not at risk)	980	30	3%	10	40
	1689	201	12%	30	30
				48	48
				44	44
				59	29

SCF has \$1b of assets (property and business lending) that are expected to remain illiquid for a minimum of the next two to three years.

The existing shareholders do not have capacity to rectify the SCF’s capital problem

### Liquidity

Baseline liquidity analysis suggests a significant liquidity issue within the next 2 – 3 months:

- Baseline assumes cash position \$50m higher than at present (~\$85m)
- Assumes Company can access \$115m of re-invested funds which are currently being diverted to a Trustee controlled Bank Account
- If the USPP is accelerated, the Company currently would be unable to pay

### Potential Default Events Outlined

The [3] facility will be in default as at 31 August (as the 30 June default event has been waived until 30 June).

The USPP was in breach as at 30 June 2009. This is to be declared 30 August 2009 – and give the lenders acceleration rights (majority vote required).

Trust Deed, if as at 30 June 2009 equity falls below \$170m there will be a breach of the related party covenant (max 35%). As this covenant was in breach as at the date this Trust Deed was put in place, SCF could advise that the Southbury loan was greater than 35% of equity when trust deed signed so it does not have to comply with the Trust Deed – that is likely to give the Companies Office significant cause for concern. In addition, if the USPP is called and not paid within 14 days this will result in a breach of the Trust Deed.

#### **Other Issues Outlined**

SCF have alluded to a rescue package with potentially \$150m of equity to be invested in SCF over a period of time, but:

- we have no evidence that a rescue package is being worked through – we do not have a terms sheet, the name of the investor, or a time table that SCF are working towards,
- Cameron and Co who we would expect to lead this process seem to be divorced from the detail

It seems to be SCF's expectation that there will be an announcement by the 27<sup>th</sup> of August that the RDGS will be extended, and that they will be able to leverage this news to enable the cooperation of BNZ/CBA, USPP etc (they have the capacity to raise additional retail money).