

23 May 2008

Dear Investor

**Lombard Finance & Investments Limited (In Receivership)**  
**Lombard Asset Finance Limited (In Receivership)**  
**Lombard Asset Finance NO. 2 Limited (In Receivership)**  
**Lombard Property Holdings Limited (In Receivership)**  
**(Collectively, "the Companies")**

## 1. Introduction

As you are aware John Fisk and John Waller were appointed receivers of the above Companies by Perpetual Trust Limited (the "Trustee") on 10 April 2008.

Lombard Finance & Investments Limited (In Receivership) ("LF&I") issued secured debentures to investors and we are writing to you in your capacity as a secured debenture investor.

Lombard Asset Finance Limited (In Receivership), Lombard Asset Finance NO. 2 Limited (In Receivership) and Lombard Property Holdings Limited (In Receivership) are all 100% owned subsidiaries of LF&I.

Since our last letter to you, dated 17 April 2008, we have continued to analyse the affairs of the Companies and take this opportunity to provide you with an update as to progress of the receiverships, and our preliminary estimate of the amount and timing of returns to the secured debenture investors.

Our preliminary estimate indicates that LF&I secured debenture investors could recover between **21% to 44%** of their original investment from the assets of the Companies. No interest will be payable. We emphasise that there are still considerable uncertainties relating to the recoverability of the property loans which will have an impact on the final recoveries paid to secured debenture investors.

At this time, we consider it highly unlikely that there will be any recovery for Subordinated and Capital Note investors.

## 2. Events Following Our Appointment

Following our appointment as receivers we attended the Companies' offices to secure the assets and records. Our actions have included:

- Communications with investors and the Trustee
- Securing key assets
- Securing all records of the Companies held at their premises and obtaining an electronic back-up copy of the computer records
- Undertaking an initial investigation into the financial standing of the Companies
- Developing an asset realisation strategy in respect of each loan

## 3. Financial Position of the Companies

We have restructured the management of the Companies. The services of the executive director has not been retained and we have offered on-going employment to four staff. In addition we have retained specialist property and legal advisers to assist with our analysis.

The table below summarises the consolidated Statement of Financial Position of the Companies as at 31 March 2008, based on draft, unaudited management information. We emphasise that in the time available to us we have relied upon the information provided and have not as yet independently verified all of this information.

<b>Lombard Finance &amp; Investments Limited (In Receivership) and its subsidiaries</b>		
<b>Statement of Financial Position</b>		
<b>Draft and Unaudited</b>		
<b>As at 31 March 2008</b>		
	Note	Book Value (\$000's)
<b>Assets</b>		
Property Loan Book	A	136,794
Provision for doubtful debts on property loan book	A	(800)
Property	B	2,850
Commercial Loan Book	C	2,748
Provision for doubtful debts on commercial loan book	C	(13)
Fixed Assets	D	660
Other	E	660
Accounts Receivable	F	332
<b>Total Assets</b>		<b>143,231</b>
<b>Liabilities</b>		
Secured Debenture Investors	G	110,990
Capital Note Investors	H	10,446
Subordinated Note Investors	I	3,718
Accounts Payable and other Liabilities	J	2,103
<b>Total Liabilities</b>		<b>127,257</b>
<b>NET ASSETS</b>		<b>15,974</b>
Source: Management Accounts		

The key elements of the Statement of Financial Position are as follows: -

**A. Property Loan Book (\$136.8M)**

LF&I's major asset is the property loan book which consists of 27 loans with a total book value of \$136.8M. The majority of loans are in respect of either bare land subdivisions or development properties, in various stages of completion.

On the majority of these loans, interest accruing is added to the loan balance and received on repayment of the loan, as opposed to interest being paid to LF&I on a monthly or quarterly basis.

The majority of the loans are secured by mortgages on land and buildings. The table below summarises the mortgage priority of the loans; including the number with first, second or third ranking mortgages, or other known security details.

<b>Loan Book - Analysis of Security</b>	
	<b>Security Type (No. of Loans)</b>
First Ranking Security	9
Second Ranking Security	11
Third Ranking Security	1
Security Sold (Reliance upon guarantees)	3
Other	3
<b>Total Number of Loans</b>	<b>27</b>

We are working with a number of stakeholders to recover these loans. However it is clear that this will be a complex, costly and time consuming exercise.

The Statement of Financial Position as at 31 March 2008, details provisions for doubtful debts of \$0.8M in respect of the property loan book. In our view this is significantly understated. Further substantial provisions are required.

**B Property (\$2.9M)**

This is a residential property in Auckland, which is currently being marketed for sale.

**C Commercial loans (\$2.7M)**

The commercial loan book comprises 171 loans totalling \$2.7M. The types of loans include hire purchase, consumer and business loans. The finance provided is secured either over specific assets or as a general security over the assets of the borrower.

The majority of these loans have monthly repayment commitments of interest/capital and are within their agreed terms. We will be monitoring the collections process closely and will investigate possible options to sell the commercial loan book.

The Statement of Financial Position details provisions for doubtful debts of \$13k in respect of the commercial loan book.

**D. Fixed Assets (\$660k)**

The Fixed Assets (totalling \$660k) comprise office fixtures and fittings, computer software and vehicles. Only a small level of recoveries from these assets is anticipated.

**E. Other (\$660k)**

Other comprises funds on hand and intangible assets. As at the date of our appointment as receivers (10 April 2008), funds on hand totalled \$529k. We do not anticipate any recoveries from the intangible assets.

**F. Accounts Receivable (\$332k)**

Accounts Receivable of \$332k relates to prepayments and other sundry debtor balances. Material recoveries from these assets are not anticipated.

**G. Secured Debenture Investors (\$111.0M)**

The Secured Debenture Investors balance of \$111.0M represents approximately 6,400 investments held by approximately 3,900 secured debenture investors.

**H. Capital Note Investors (\$10.4M)**

The Capital Note Investors balance of \$10.4M represents approximately 450 investments held by approximately 310 capital note investors.

**I. Subordinated Note Investors (\$3.7M)**

The Subordinated Note Investors balance of \$3.7M represents approximately 330 investments held by approximately 230 subordinated note investors.

**J. Accounts Payable and Other Liabilities (\$2.1M)**

Accounts Payable and other liabilities consist of liabilities and accruals including Resident Withholding Tax, tax and trade suppliers.

#### **4. Amount and Timing of Dividend to Secured Debenture Investors**

In order to assess the potential recoveries to secured debenture investors, we have started with the unaudited consolidated management Statement of Financial Position for the Companies as at 31 March 2008 and made the following adjustments:

- A substantial increase of the property loan book provisions, reflecting the fact that most of the property loans are secured over bare land or semi-completed developments and the difficulty in selling or completing these developments in the current market;
- Allowing for preferential creditors such as employees and Inland Revenue Department; and
- Incorporating a contingency allowance for unknown factors.

As stated earlier in this report, our preliminary estimate of recoveries to secured debenture investors is between **21%** to **44%** of their original investment.

The timing of any payout and the ultimate recovery to secured debenture investors will depend on a number of factors and so remains difficult to assess at this time. In particular, one of the developments on which LF&I has lent substantial funds will require further funding to complete and the level of recovery is uncertain.

Furthermore, amounts due to, or recoverable from, the Inland Revenue Department in respect of GST remain subject to verification. GST is a preferential creditor and therefore ranks ahead of secured debenture investors. As a result, further GST liabilities could be material to recoveries to secured debenture investors

#### **5. Other Matters**

We will notify the appropriate Government authorities of any potential breaches of legislation or LF&I's Trust Deed that come to our attention during the course of the receivership. Those authorities may take such actions as they deem appropriate.

Where our investigations identify any actions which may be taken by the Receivers directly, such actions will be pursued based upon an assessment of the legal position and may include Court action.

We will endeavour to keep investors updated on a regular basis and expect to issue a further report by 31 August 2008 by which stage, we are hopeful that, the nature and timing of future dividends will become clearer. In the meantime, should investors or other stakeholders have any queries arising from this report, please contact us in writing via our website, facsimile, or postal address, as follows:

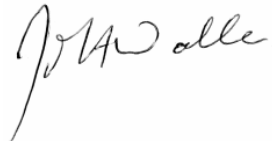
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We appreciate that the level and timing of returns will come as a shock to many investors. We regret that this letter could not provide you with more positive news.

Yours faithfully



John Fisk  
Receiver



John Waller  
Receiver