

3 September 2008

Dear Investor

**Lombard Finance & Investments Limited (In Receivership) – (“LF&I”)**  
**Lombard Asset Finance Limited (In Receivership)**  
**Lombard Asset Finance NO. 2 Limited (In Receivership)**  
**Lombard Property Holdings Limited (In Receivership) – (“LPH”)**  
**(Collectively, "the Companies")**

## 1. Introduction

We last wrote to you on 23 May 2008 (the “May Letter”) to provide you with an update as to the receiverships and our preliminary estimate of the amount and timing of returns to secured debenture investors. Since then, we have prepared our first report on the receiverships in accordance with Section 23 of the Receiverships Act 1993.

If you would like a copy of that report, it can be downloaded from our website, [www.pwc.com/nz/lombard](http://www.pwc.com/nz/lombard), or from the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz). Alternatively, a hard copy of the report can be posted to you on request.

We now take this opportunity to update you on various matters.

## 2. Amount and Timing of Return to Secured Debenture Investors

Our May Letter estimated that secured debenture investors could recover between 21% and 44% of their original investment from the assets of the Companies.

With continued deteriorating market conditions and uncertainty in the market place this continues to have an adverse effect on the receivers’ ability to recover outstanding loans and realise assets. As a consequence we have now revised our estimate of recoveries to secured debenture investors to a range of 19% to 40% of their original investment.

Our updated estimated range of recoveries is set out below:

<b>Updated Estimate of Recoveries</b>						
NZ\$ in 000's	Note	31 March 2008 Book value	23 May 2008		31 August 2008	
			Low	High	Low	High
Property loan book	A	<b>136,714</b>	29,413	53,714	26,838	49,517
Commercial loan book	B	<b>2,934</b>	1,760	2,347	1,912	2,086
LPH property	C	<b>2,850</b>	1,500	2,100	1,836	1,836
Cash on Hand		<b>500</b>	500	500	530	530
Other Assets	D	<b>351</b>	100	150	150	250
<b>Total Assets</b>		<b>143,349</b>	33,273	58,811	31,265	54,219
Preferential Creditors	E		(30)	(30)	(30)	(30)
Contingency	F		(10,000)	(10,000)	(10,000)	(10,000)
<b>Estimated Recoveries (Prior to Costs)</b>			23,243	48,781	21,235	44,189
Secured Borrowings			111,845	111,845	111,845	111,845
<b>Provisional Estimated Dividend Range (prior to costs)</b>			<b>21%</b>	<b>44%</b>	<b>19%</b>	<b>40%</b>

The decline in the estimated recoveries is primarily contained within the line in the above table described as "property loan book". The property loan book low/high recoveries are currently estimated in the range of \$26.8M to \$49.5M compared with \$29.4M to \$53.7M as at 23 May 2008. The key causes of the reductions are:

- 1) Approximately 56% of the property loan book is in respect of bare land comprising coastal subdivisions or future development sites. Given the slowing property market, we consider that there is significant uncertainty regarding the length of time required to achieve an orderly sell-down of these sites, resulting in increased holding costs and lower realisations. Consequently, we have reduced the range of recovery estimates from these bare land sites and particularly from coastal subdivisions.
- 2) We have reduced the "high" recovery estimate in respect of a completed residential development in Auckland due to additional costs incurred in maintaining the value of the development.

The timing of any investor payout is still uncertain due to the nature and difficulty in realising the Companies' assets. In particular it may take an extended period of time to achieve an orderly sell-down of bare land sites. Accordingly, it would be prudent for investors to assume that they will not receive any distributions from the receiverships within the next six months. As soon as we have a better indication of potential timeframes for recoveries we will advise investors.

#### **A. Property Loan Book**

LF&I's major asset is the property loan book which consists of 27 loans with a total book value of \$136.7M as at 31 March 2008.

A significant amount of our efforts in the receivership has been focused on determining and executing the most appropriate strategy to maximise recoveries from the property loan book. Specialist property advisors, legal advisors and valuers are assisting the receivers in assessing available options. We are unable to provide details in respect of individual loans due to

confidentiality and commercial reasons. However, we advise that options being addressed in each instance include, but are not limited to:

- Potential refinancing by the borrower;
- Feasibility of partial/full completion of developments in conjunction with the borrower and other lenders;
- Allowing the orderly sell down of properties by the borrower;
- Identification of additional action that may be taken to improve the realisable value of mortgage assets through changes or additions to current property management;
- Formal recovery action through the use of mortgagee powers and enforcement of associated securities; and
- Consideration of settlement proposals received from borrowers and third parties.

*Appointment of Receivers to Brooklyn Developments No.1 Limited ("BD1")*

On 10 July 2008, LF&I appointed receivers to BD1, the owner of a partially complete residential development in Brooklyn Wellington. The development comprises 38 completed houses (of which 36 had been sold), 12 partially completed houses and the balance as bare land.

Receivers were appointed to take control of the development site and to determine the extent to which the development should be completed to maximise the level of recoveries from it. To date, the receivers of BD1 have sold the remaining two completed houses and are working through the construction and resource consent issues with a view to completing at least 4 of the 12 partially completed houses. The receivers of BD1 are also assessing the costs and benefits of completing the remaining 8 partially completed houses and finalising their strategy for the realisation of the bare land.

*Realisations from the Property Loan Book*

As at the date of this report, the following assets in the property loan book have been realised:

- 1) A bare land coastal subdivision has been sold with a shortfall on the amount owed to LF&I. Summary judgment has been obtained against the guarantors of the loan for the balance outstanding;
- 2) A number of apartments have been sold in a completed development in Auckland, which has reduced the loan balance outstanding;
- 3) Sell down of units in completed residential developments located in the South Island and Auckland is ongoing and has significantly reduced the amount owing to the prior ranking security holders; and
- 4) A residential property which formed part of a loan's collateral security has been realised, with funds available to LF&I after repayment of the prior ranking security holders.

Gross recoveries of \$10.7M from the property loan book have been realised as at the date of this report. Of these gross recoveries, LF&I has received \$1.5M, with the balance being paid to prior ranking security holders and to cover direct sale costs. We note that the extent of prior ranking securities combined with the longer time period that is required to realise some properties will, in most cases, reduce the funds available to LF&I.

**B. Commercial loan book**

As at 10 April 2008, the commercial loan book comprised 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.

Gross recoveries to date total approximately \$530k. We continue to monitor the collections process closely and are investigating possible options to sell the commercial loan book.

**C. LPH Property**

As noted in our letter to you dated 23 May 2008, LPH owned a residential property in Auckland, which has now been sold resulting in net realisations of \$1.8M

**D. Other Assets**

Other assets comprise fixed assets, accounts receivables and intangible assets. To date recoveries from other assets total \$150k. Whilst we continue to pursue payment of the outstanding accounts receivable balances, no further material recoveries from these assets are anticipated.

**E. Amounts owing to creditors with preferential claims**

*Employee entitlements*

Based on the information available from the Companies' records, employee preferential entitlements relating to salaries and wages, accrued holiday entitlements and redundancy entitlements as at the date of receivership were calculated at approximately \$30k and have now been settled in full.

*Inland Revenue Department ("IRD")*

The preferential claims of the IRD will be in relation to PAYE, Goods and Services Tax and Resident Withholding Tax unpaid at the date of receivership.

The outstanding amounts in relation to the above remain subject to verification by the IRD.

**F. Contingency**

A general contingency allowance of \$10M has been incorporated into the estimated range of recoveries. We consider this contingency is prudent given the deteriorating market conditions and continued uncertainty in the market place. As a greater proportion of the assets are realised, we expect to refine this contingency.

### 3. Amounts likely to be available for other creditors

Given the estimated returns to secured investors, we regret to advise that there are unlikely to be any amounts available for payment out of the receiverships to unsecured creditors, including Capital and Subordinated Note holders.

### 4. Investigations

The receivers are conscious of a number of concerns raised by investors and other parties in respect of the activities of the Companies and third parties prior to receivership. Accordingly, a thorough investigation is being undertaken, including (but not limited to) examination of the following:

- Specific transactions entered into by the Companies;
- The Companies conduct in respect of investors, including the treatment of funds received and maturing investments;
- The activities and conduct of the Companies, the officers of the Companies, and third parties leading up to the appointment of receivers;
- The financial reporting practices of the Companies;
- The compliance of the Companies with the requirements of the Trust Deed and applicable legislation, including the Securities and Companies Acts; and
- Additional matters raised by investors and other parties as they are received.

Due to the nature of these investigations and potential legal consequences, we are unable to provide details regarding individual issues or our findings to date because doing so would prejudice any proceedings which may be taken.

Any breaches of legislation or the Companies' Trust Deed identified during the course of our investigations will be referred to the appropriate Government authorities. 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.

### 5. Other Matters

#### IMPORTANT – ACTION REQUIRED

To ensure that any future distributions are made efficiently, we would like to confirm the bank account details of all secured debenture investors. Accordingly, we ask that you provide us with a **pre-printed bank deposit slip for a New Zealand account** or other printed advice from your bank. Please note that the account must be in the name of the investor(s). Please also print your investor number (shown above) on the deposit slip for identification purposes and sign the deposit slip. If your investment is held jointly, we require signatures for all joint investors. If you are signing under a Power of Attorney, please provide a copy of this document for our records.

If you do not operate a New Zealand account please advise by return and we will make alternative arrangements for any future payments. We have included a free-post reply paid envelope for this purpose.

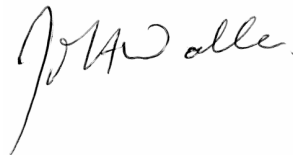
We will endeavour to keep investors updated on a regular basis and expect to issue a further report by 30 November 2008. In the meantime, should investors or other stakeholders have any queries arising from this report, please contact us in writing via our website, facsimile, or postal address, as follows:

Lombard Finance & Investments Limited (In Receivership)  
PricewaterhouseCoopers  
PO Box 243  
Wellington  
Facsimile: +64 4 462 7492  
Website: [www.pwc.com/nz/lombard](http://www.pwc.com/nz/lombard)

Yours faithfully



John Fisk  
Receiver



John Waller  
Receiver