

**Receivers' First Report on the State of Affairs of
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)**

Pursuant to Section 23 of the Receiverships Act 1993

Company Numbers: 1242396
1488956
1680468
1409499

9 June 2008

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

9 June 2008

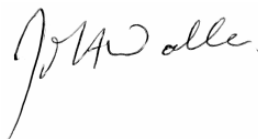
Lombard Finance & Investments Limited (In Receivership) – (“LF&I”)
Lombard Asset Finance Limited (In Receivership)
Lombard Asset Finance NO. 2 Limited (In Receivership)
Lombard Property Holdings Limited (In Receivership)
(Collectively, "the Companies")

Please find attached our first report in relation to the Companies pursuant to Section 23 of the Receiverships Act 1993. A copy of this report has been sent to the Trustee, Perpetual Trust Limited. Secured debenture holders in the Companies have been provided with a separate update.

Yours faithfully
For the Companies



J H F Fisk
Receiver



J A Waller
Receiver

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1 Introduction

- We, John Howard Ross Fisk and John Anthony Waller, Chartered Accountants were appointed receivers to each of the Companies on 10 April 2008 by Perpetual Trust Limited (“the Trustee”). We were appointed under the terms of a debenture trust deed giving the holder a security interest over all the assets and undertakings of the Companies.
- This report has been prepared by us in accordance with and for the purpose of Section 23 of the Receiverships Act 1993 (“the Act”). It is prepared for the sole purpose of reporting on the state of affairs with respect to the property in receivership and the conduct of the receivership.
- This report is subject to the restrictions set out at Appendix I. In particular, all information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993. Furthermore, in preparing this report we have relied upon and not independently verified or audited information or explanations provided to us.

2 Events Leading to our Appointment

- LF&I is a Wellington based finance company which had a registered prospectus and issued secured debenture stock, capital and subordinated notes to the general public.
- On 3 April 2008, LF&I announced to its investors that it would be seeking a moratorium in respect of its repayment obligations to secured debenture and note holders. After reviewing the position of LF&I, the Trustee determined that the interests of investors would be better served by the appointment of receivers.

3 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
 - Overseeing the Companies’ operations to ensure efficient and effective management.
- 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.
- Our initial estimates are that secured debenture investors could recover 21% to 44% of their investments over time. Regrettably, unsecured creditors, including capital and subordinated note holders, are unlikely to recover anything from the receivership.

4 Financial Position

- 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.

Lombard Finance & Investments Limited (In Receivership) and its subsidiaries		
Statement of Financial Position		
Draft and Unaudited		
As at 31 March 2008		
	Note	Book Value (\$'000's)
Assets		
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
Total Assets		143,231
Liabilities		
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
Total Liabilities		127,257
NET ASSETS		15,974

Source: Management Accounts

- The key elements of the balance sheet are discussed on the following pages. Please note that we have omitted certain details concerning the realisation of receivership assets, as we believe that their inclusion would materially prejudice the

exercise of our functions and in particular, our duty to obtain the best price reasonably obtainable.

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.

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

- 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 has now been sold, with settlement due to occur on 18 June 2008.

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.
- We wrote to investors on 6 July 2007 advising them of our appointment as receivers and requesting their confirmation of the amounts recorded as outstanding in respect of their investments. We have received 3548 confirmations to date, and we continue to seek the remaining 352 responses outstanding, representing approximately 9% of investors.
- A list of frequently asked questions for investors is available on our website at: www.pwc.com/nz/lombard

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.
- The outstanding amounts in relation to the Companies' taxation obligations remain subject to verification in conjunction with IRD.

5 Amounts owing to creditors with preferential claims

5.1 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 \$32k and have been distributed.

5.2 Inland Revenue Department ("IRD")

- The preferential entitlements of the IRD preferential claims will be in relation to PAYE, Goods and Services Tax ("GST") and Resident Withholding Tax ("RWT") unpaid at the date of receivership.
- The outstanding amounts in relation to the above remain subject to verification in conjunction with IRD.

6 Amount and Timing of Dividend to Secured Debenture Investors

- In order to assess the potential recoveries to secured debenture investors, we 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
- It is highly likely that any recoveries to investors will be paid out over time as loans are recovered, as opposed to a lump sum payout. Furthermore, due to the current state of the marketplace and as cash in-flows will primarily only occur at the completion of large property transactions it would be prudent for investors to assume that they will not receive any distributions within the next six months. Once we have a better indication of potential timeframes for recoveries we will advise investors.

7 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 to unsecured creditors, including Capital and Subordinated Note holders.

8 Other matters

- 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, maturing investments and associated dealings with third parties;
 - 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.

- Potential 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.
- 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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PricewaterhouseCoopers
PO Box 243
Wellington
Facsimile: +64 4 462 7492
Website: www.pwc.com/nz/lombard

Appendix I

Restrictions

- All information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993.
- 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.
- We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Companies. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied. 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.
- We have relied on forecasts and assumptions prepared by the Companies about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in

the future will vary from the forecasts upon which we have relied. These variations may be material.

- In addition the following should be noted:
 - Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
 - Unless otherwise stated all amounts are stated in New Zealand dollars.