

**Receivers' Second 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 24 of the Receiverships Act 1993

Company Numbers: 1242396  
1488956  
1680468  
1409499

**10 October 2008**

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

1 December 2008

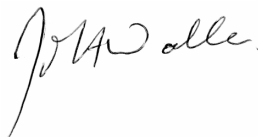
**Lombard Finance & Investments Limited (In Receivership) – (“LF&I”)**  
**Lombard Asset Finance Limited (In Receivership)**  
**Lombard Asset Finance NO. 2 Limited (In Receivership)**  
**Lombard Property Holdings Limited (In Receivership) – (“LPH”)**  
**(Collectively, "the Companies")**

Please find attached our second report in relation to the Companies pursuant to Section 24 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 were provided with a separate detailed report in September 2008.

Yours faithfully  
For the Companies



J H F Fisk  
Receiver



J A Waller  
Receiver

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## **1 Introduction**

- 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.
- 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 24 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 for the six month period from 10 April 2008 to 10 October 2008.
- 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 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
  - Developing and implementing an asset realisation strategy in respect of each loan
  - Overseeing the Companies’ operations to ensure efficient and effective management.
- Following our appointment we restructured the management of the Companies. We initially retained four staff members to assist with maintaining the investor and loan ledger and to manage the loans. At the date of this report, three of these staff have resigned and we have retained one Wellington based loan manager on a contract basis.
- In addition we have retained specialist property and legal advisers to assist with our analysis and recovery action.

### 3 Particulars of assets and disposals of receivership property

- Our initial report estimated that secured debenture investors could recover between 21% and 44% of their 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 investment. The updated estimate of recoveries was communicated to investors in our letter of 3 September 2008.

**Estimate of Recoveries  
As at 3 September 2008  
NZ\$ in 000s**

Description	Section	Book value as at 10 April 2008	Low	High
LF&I loan book	3.1	136,714	26,838	49,517
Lombard Asset Finance Limited - commercial loan book	3.2	2,934	1,912	2,086
Lombard Property Holdings Limited - property	3.3	2,850	1,836	1,836
Cash on Hand		500	530	530
Other	3.4	351	150	250
<b>Total Assets</b>		<b>143,349</b>	<b>31,266</b>	<b>54,219</b>
Preferential Creditors Contingency	4.2		(30)	(30)
			<b>(10,000)</b>	<b>(10,000)</b>
<b>Estimated Recoveries Prior to Costs</b>			<b>21,236</b>	<b>44,189</b>
Secured Borrowings - Investors Estimated Dividend Range	4.1		111,845 19%	111,845 40%

Source: Financial Statements, Management Accounts and PwC Assumptions

- 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:
  - 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.
  - 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 prior to Christmas 2008. As soon as we have a better indication of potential timeframes for recoveries we will advise investors.
- 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.

### 3.1. Property Loan Book

- LF&I’s major asset is the property loan book which consisted 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.
- As part of this strategy we have placed three of the borrower entities into receivership being; Brooklyn Developments No. 1

Limited, Brooklyn Views Limited and Liardet Apartments Limited. The purpose of these receiverships is to take control of each of these developments and manage either the continued development or sell down process.

## 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 have now completed construction of 4 of the 12 partially completed houses.
- The receivers of BD1 have appointed a real estate agent on an exclusive basis to sell the 4 nearly 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.

## Appointment of Receivers to Brooklyn Views Limited (In Receivership) ("BVL")

- BVL owns some of the land adjacent to the BD1 development that was to form part of the future residential development of approximately 500 dwellings.

- LF&I appointed receivers to BVL on 29 September 2008 to take control of the site and progress matters relating the purchase of the remaining land and the Environment Court proceedings currently on foot.

## Appointment of Receivers to Liardet Apartments Limited ("Liardet")

- Liardet owns a completed luxury apartment development in New Plymouth.
- LF&I appointed receivers to Liardet on 10 October 2008 to manage the sales process.
- Since the appointment of receivers to Liardet one apartment has been sold and a further two apartments are under contract.

## Realisations from the Property Loan Book

- As at the date of this report, the following assets in the property loan book have been realised:
  - 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;
  - A number of apartments have been sold in a completed development in Auckland, which has reduced the loan balance outstanding;
  - Sell down of units in completed residential developments located in the South Island is ongoing and has significantly reduced the amount owing to the prior ranking security holders;
  - Sell down of units in a completed development in Auckland is ongoing and all prior ranking securities have been satisfied; and

- 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 assets of \$13.7M from the property loan book have been realised as at the date of this report. Of these realisations, LF&I has received \$1.8M, 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.

### **3.2. Commercial loan book (\$2.9M)**

- As at 10 April 2008, the commercial loan book comprised 171 loans totalling \$2.9M. 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 \$739k. We continue to monitor the collections process closely and are investigating possible options to sell the commercial loan book.

### **3.3. Property (\$2.9M)**

- LPH owned a residential property in Auckland, which has now been sold resulting in net realisations of \$1.8M

### **3.4 Other Assets (\$351k)**

- Other assets potential realisations primarily comprise accounts receivables. To date recoveries from other assets total \$133k (excluding GST). Whilst we continue to pursue payment of the outstanding accounts receivable balances, no further material recoveries from these assets are anticipated.

## **4 Particulars of debts and liabilities outstanding and requiring to be satisfied from the property in receivership**

### **4.1. 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 last wrote to secured debenture investors on 3 September 2008 to update them on the receivership and the estimated recovery range. We also requested confirmation of their bank account details to ensure that any future distributions are made efficiently.
- We continue to monitor queries lodged by investors through our website [www.pwc.com/lombard](http://www.pwc.com/lombard), by mail and via our dedicated phone line. All queries received to date have been replied to either in writing or followed up by a telephone discussion.
- 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 prior to Christmas 2008. Once we have a better



indication of potential timeframes for recoveries we will advise investors.

- A further update to secured debenture investors will be distributed prior to Christmas 2008.

#### 4.2 Preferential Creditors

##### *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 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.
- IRD is currently undertaking an audit into the taxation records of the Companies. Accordingly it may take some time to verify the amounts outstanding to the IRD.

#### 4.3 Amounts likely to be available to other creditors

- Given the estimated returns to secured debenture 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.

## 5 Receipts and Payments

- The table opposite sets out the receipts and payments for the Companies from 10 April 2008 to 10 October 2008.
- We note the following in respect of the receipts and payments summarised in the table:
  - As noted earlier in this report, gross assets of approximately \$13.7m had been realised in respect of the property loan book as at 10 October 2008, of which only \$1.8m was received by LF&I, the balance being paid to prior ranking security holders.
  - Loan expenses includes, where required, payment of interest on prior ranking serviced debt, body corporate fees, local authority levies, insurance, marketing, maintenance, valuation, professional and completion costs in preparation for realisation. Recoveries from the assets for which these costs were incurred are yet to occur in a number of instances.
  - Operational costs include, but are not limited to, staffing, premises, communications, electricity and administration costs.
  - Legal services to date include general receivership advice, loan specific legal requirements, litigation as required, property administration and transfer, and loan documentation.
  - Other professional fees include advice obtained from specialist property, accounting and tax consultants.

### Lombard Finance and Investments Limited and subsidiaries (In Receivership)

#### Receipts and Payments Summary For the six month period from 10th April 2008 - 10th October 2008

	NZ\$ (000's)
<b>Receipts</b>	
Receipts from property loan book	1,819
Receipts from commercial loan book	739
Receipts from sale of property	1,809
Receipts from sale of sundry fixed assets	133
Proceeds from bank account balance	530
Other receipts	116
GST received	242
GST on receipts	32
<b>Total receipts</b>	<b>5,420</b>
<b>Payment</b>	
Loan expenses	1,337
Payment of preferential entitlements	30
Insurance	6
Operational costs	465
Legal fees and associated costs	497
Other professional fees and associated costs	148
Receivers' fees	621
Disbursements	42
Resident withholding tax paid/(recovered)	1
GST Paid	13
GST on payments	206
<b>Total payments</b>	<b>3,366</b>
<b>Net funds on hand</b>	<b>2,054</b>

## 6 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 before Christmas 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:

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PricewaterhouseCoopers  
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Wellington  
Facsimile: +64 4 462 7492  
Website: [www.pwc.com/nz/lombard](http://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.