

25 February 2010

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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")

1. Introduction

Our last report to secured debenture investors was dated 2 December 2009. We take this opportunity to provide you with a further update on the progress of the receiverships and our investigations into events leading up to the receiverships of the Companies.

2. Returns to Secured Debenture Investors

In our December 2009 letter we estimated a range of recoveries to secured debenture investors of 17% to 29% of their original investment.

In our December letter we advised that marketing campaigns were underway in respect of certain significant assets and that we would review our range of recoveries in our next report. As a result of the outcome of these marketing campaigns, we consider it prudent to reduce the estimated range of total recoveries to secured debenture investors to between **15%** and **24%** of their original investment. The decision to reduce the estimated range was largely as a result of a reassessment of recoveries from two loan exposures, addressed later in this letter.

Secured debenture investors will have received a first distribution of 6.5 cents in the dollar in December 2009. If you did not receive your payment, please contact us urgently as per the contact details at the end of this letter.

It is difficult to provide guidance on when the next distribution will be made; however, we consider that it would not be realistic to expect a distribution within the next six to nine months. We appreciate this creates difficulties for investors and we will continue to work hard to get distributions made as quickly as possible. The key reason for the estimated timing is that we are not seeing any notable decrease in the time to realise the underlying land assets subject to LF&I's lending, in a market which remains challenging. Further, the pre-receivership GST audit currently being undertaken by Inland Revenue is expected to take at least a further 12 months to complete. We address these matters later in this letter.

It should be noted that the estimated range of recoveries above does not take into account any new preferential claims by Inland Revenue that may arise as a result of their audit.

3. 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. As at 19 February 2010, net proceeds to LF&I (after direct sales costs and settlement of prior ranking security holders totalling \$38.6M) from the property loan book totalled \$11.5M.

The status of the loan realisations as at 19 February 2010 is summarised below:

Status	Number of loans
All property assets now realised	9
Property assets where there is only one remaining unit to be realised	2
Property asset under contract	1
Loan repayment plan in place	1
Sell down process currently being undertaken	8
Enforcement action being taken to recover loans	4
Other	2
Total	27

Where possible we are seeking to realise collateral property and enforce personal guarantees. In respect of the guarantors:

- Four guarantors are now bankrupt;
- Six guarantors are in negotiations with LF&I regarding their personal guarantees;
- Four guarantors have reached settlement arrangements with LF&I; and
- Three guarantors are subject to legal action by LF&I.

We comment below on two significant loan exposures that LF&I holds and which have been subject to revised expectations since our last report

3(a) *Brooklyn Developments No.1 Limited and Brooklyn Views Limited (both in receivership) – (the “Brooklyn Development”)*

- The Brooklyn Development is LF&I's largest loan totalling \$42.6M as at 10 April 2008. Issues in respect of the Brooklyn Development include difficult terrain (increasing the cost of construction), planning and logistical issues.
- A tender process in respect of the partially completed Brooklyn Development closed in December 2009. Whilst a number of developers expressed interest in the asset, no acceptable tenders were received.
- As a result of the unsuccessful tender process, we are now considering other options, such as the receivers of the Brooklyn Development partnering with a third party to complete the development.
- Given that the Brooklyn Development loan makes up 31% of LF&I's loan book, the level of loan recovery will have a significant impact upon the overall level of return to secured debenture investors. For reasons of commercial sensitivity, we do not propose to disclose the estimated recovery from this exposure at this stage.

3(b) *Monaco Village Limited (In Receivership and Liquidation) (“MVL”)*

On 17 February 2010, LF&I appointed receivers to MVL, which is the owner of 13 units in a resort complex in Nelson and two bare land sections in the Marlborough Sounds. Following the failure of a proposal to enter into a Compromise with all its creditors, MVL had been placed in liquidation by the High Court on the application of an unsecured creditor. As a result, it became necessary for LF&I to appoint receivers to manage the sell down process of the remaining units. We note that MVL does not own or manage the operation of the resort.

4. Commercial Loan Book

As at 10 April 2008, the commercial loan book comprised 171 loans totalling \$2.9M. Gross recoveries from the commercial loan book for the period 10 April 2008 to 13 November 2009 totalled approximately \$1.9M. We continue to monitor and manage the collections process.

5. Other Recoveries

Potential estimates of recoveries have excluded possible returns in respect of any actions that may be taken against directors and other third parties. The likelihood of legal action and quantum of any returns cannot be estimated at this time.

6. Investigations

The receivers continue to provide extensive assistance and information to various Government authorities in respect of their investigations.

Our investigations into the affairs of the Companies have primarily focussed on the most significant loans, including the Brooklyn Development exposure. Documentation has been sought and received from a number of third parties who were associated with the Companies prior to our appointment. The documents are now being assessed by our lawyers to determine what causes of action the companies may have against certain parties where such could result in recovery for investors. We expect to provide further details on these potential actions in our next report. It should be noted that receivers have no special statutory powers in this context.

7. Inland Revenue Department ("IRD") Investigation

IRD is currently undertaking an audit into the pre-receivership affairs of LF&I and this may result in the identification of preferential claims against LF&I, principally in regard to Goods and Services Tax. It is expected that any preferential payments will be required to be paid in full prior to any distribution to secured debenture investors. IRD has now indicated that this audit is unlikely to be completed in the next 12 months.

As with the interim distribution paid in December 2009, IRD has indicated that if funds become available to pay a further distribution to secured debenture investors, then IRD may agree to waive any preferential claim over any further amount being paid as distribution, pending the outcome of their investigation.

We are working with IRD to progress the audit as quickly as possible.

8. Concluding Remarks

Overall, achieving loan recoveries remains difficult due to market conditions and, in certain cases, enforcement action by prior ranking security holders has resulted in minimal or no recoveries for LF&I. Realisation strategies are in place for each loan and we are focussed on enforcement action, utilising all recovery options available to LF&I. Significant effort is now being put into potential legal action in relation to the activities of the Companies leading up to the appointment of receivers. In conjunction with our legal advisors, we will seek to identify and investigate any actions or omissions by parties where recovery may be available to investors.

We will keep investors updated on a regular basis, and expect to issue a further report by 30 June 2010. 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 thank you for your ongoing support and patience through this difficult process.

Yours faithfully



John Fisk
Receiver



Colin McCloy
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