

Receivers' Third 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 April 2009

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

9 June 2009

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 third 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 April 2009.

Yours faithfully
For the Companies



J H R Fisk
Receiver



C T McCloy
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.
- On 10 April 2009, John Howard Ross Fisk and John Anthony Waller, Chartered Accountants, were appointed receivers to each of the Companies 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.
- Mr Waller has subsequently retired from his position at PricewaterhouseCoopers and has accordingly resigned as receiver of the Companies. Colin McCloy of PricewaterhouseCoopers was appointed as replacement receiver on 22 December 2008.
- 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 11 October 2008 to 10 April 2009.
- 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:
 - Securing key assets;
 - Securing all records of the Companies held at their premises and obtaining an electronic back-up copy of the computer records;
 - Providing regular communications with investors and the Trustee;
 - Undertaking investigations into the affairs of the Companies;
 - Developing and implementing an asset realisation strategy in respect of each loan; and
 - 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 previous report for the six month period to 10 October 2008 contained a revised provisional estimate of return to secured debenture investors of 19% to 40% of their original investment.
- Since October 2008, the property market has continued to deteriorate. Borrowers are facing significant challenges in either refinancing or selling down developments and, in some cases, prior ranking mortgagees are taking enforcement action.
- These factors continue to adversely impact upon the options available to the receivers, the potential level of realisations from LF&I's loan book and the timing of those realisations. As a result, we have revised our estimated range of recoveries to secured debenture investors to 17% to 29% of their original investment. A summary of the estimated range of recoveries is set out on the following page. Specific reasons for the reduced recovery range include:
 - A property loan asset based in Auckland was sold by the prior ranking mortgagee. Unfortunately, we have been advised that there will be no funds available to LF&I, as second mortgagee, from the sale of this property. Accordingly we have reduced our high estimate on this loan asset to nil.
 - Further work has been undertaken by specialist property consultants in assessing the costs associated with continuing a partially completed development. This analysis indicates that the costs of development will be higher than originally estimated and accordingly we have reduced the "high" estimate of recoveries on this particular property loan asset.
 - Difficulties in settling pre-sales and sell down of units in a completed residential development in the South Island. As a

result, we have revised downward both the "high" and "low" estimate of recoveries.

We will continue to monitor closely the status of, and recoveries from, each of the property loans made by LF&I.

Updated Estimate of Recoveries

As at 10 April 2009

NZ\$ in 000's

	Section	31 March 2008 Book value	10 April 2009	
			Low	High
LF&I property loan book	3.1	136,714	24,324	37,837
Commercial loan book	3.2	2,934	1,912	2,086
LPH property	3.3	2,850	1,836	1,836
Cash on Hand		500	530	530
Other Assets	3.4	351	171	250
Total Assets		143,349	28,773	42,539
Preferential Creditors	4.2		(30)	(30)
Contingency			(10,000)	(10,000)
Estimated Recoveries (Prior to Costs)			18,743	32,509
Secured Borrowings			111,845	111,845
Provisional Estimated Dividend Range (prior to costs)	4.1		17%	29%

Source: Financial Statements, Management Accounts and PwC Assumptions

3.1. 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.
- Based on discussions with the borrowers, legal advisers and specialist property advisers we continue to implement individual loan strategies, which we consider will maximise the recoveries to investors. These strategies are continuously assessed and revised as the circumstances of the borrowers alter or where the prior ranking mortgagees take enforcement measures.
- Where appropriate we have placed borrower entities into receivership in order to take control of developments and manage either the future development or sell down process. These receiverships include Brooklyn Developments No. 1 Limited, Brooklyn Views Limited, Der Rohe Holdings Limited and Liardet Apartments Limited.

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;
 - Four apartments have been sold in a luxury apartment development in New Plymouth, which has significantly reduced the amount owing to the prior ranking security holder;

- Ten apartments have been sold in a completed development in Auckland, which has reduced the loan balance outstanding;
- Sell down of units in a completed residential development located in the South Island is ongoing and has significantly reduced the amount owing to the prior ranking security holders;
- Sell down of sections in two bare-land subdivisions in the lower North Island is ongoing;
- Three lifestyle blocks in the South Island have been sold, with the proceeds fully repaying prior ranking mortgages and partially repaying LF&I's debt.
- Sell down of units in a completed town-house development in Auckland is ongoing and all prior ranking securities have now 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 \$26.3M have been realised from the property loan book as at 10 April 2009. Of these realisations, LF&I has received \$6.8M, 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 for the period from 10 April 2008 to 10 April 2009 total approximately \$1.3M. We continue to monitor the collections process closely.

3.3. LPH Property (\$2.9M)

- As previously reported, 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 asset potential realisations primarily comprise sundry fixed assets and 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.
- Potential estimates of recoveries have excluded potential returns in respect of actions that may be taken against directors and other third parties. The likelihood of action and quantum of any returns cannot be estimated at this time.

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

4.1. Secured Debenture Investors (\$111.8M)

- The Secured Debenture Investors balance of \$111.8M represents approximately 6,400 investments held by approximately 3,900 secured debenture investors.

- We last wrote to secured debenture investors on 28 April 2009 to update them on the receivership and the estimated recovery range.
- We continue to monitor queries lodged by investors through our website 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.
- A further update will be provided to secured debenture investors prior to 31 July 2009.

Timing of Returns to Secured Debenture Investors

- In our December 2008 report to secured debenture investors, we advised that we were hopeful of being in a position to make an interim distribution to secured debenture investors by the end of March 2009. We further noted that any distribution was dependent upon loan recoveries occurring as forecast and confirmation of the Inland Revenue Department's ("IRD") final claims in the receivership.
- Unfortunately, although loan recoveries have occurred as forecast, we have yet to receive confirmation of IRD's final claims in the receivership. IRD is currently undertaking an audit into the affairs of LF&I and this may result in the identification of preferential claims against LF&I. It is expected that any preferential payments are required to be paid in full prior to any distribution to secured debenture investors.
- The IRD are conscious that investors are awaiting an interim distribution in the receivership and have advised that the LF&I audit is being treated as a priority. The IRD are keeping us updated as to the progress of the audit.

- Once we have confirmation from the IRD of the likely timing of the completion of the audit, we will advise investors.

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 been settled in full.

Inland Revenue Department

- The preferential entitlements of the IRD preferential claims may be in relation to PAYE, Goods and Services Tax ("GST") and Resident Withholding Tax ("RWT") unpaid at the date of receivership.
- As noted above the IRD is currently undertaking an audit into the taxation records of LF&I. Once this audit is completed, we will be able to verify any IRD claims in the receiverships of the Companies.

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 11 October 2008 to 10 April 2009.
- 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 \$26.3m had been realised in respect of the property loan book for the period 10 April 2008 to 10 April 2009, of which only \$6.8m was received by LF&I, the balance being paid to prior ranking security holders. Of the \$6.8m received by LF&I, approximately \$5.0m was received in the six month period 10 October 2008 to 10 April 2009.
 - 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 11th October 2008 - 10th April 2009

	NZ\$ 000's
Receipts	
Brought Forward	2,054
Receipts from property loan book	5,014
Receipts from commercial loan book	569
Receipts from sale of sundry fixed assets	20
Other receipts	51
GST received	274
GST on receipts	3
Total receipts	7,984
Payment	
Loan expenses (net of interest received on loans)	101
Insurance	1
Operational costs	409
Legal fees and associated costs	339
Other professional fees and associated costs	103
Receivers' fees	276
Disbursements	20
GST Paid	11
GST on payments	142
Total payments	1,404
Net funds on hand	6,580

6 Other Matters

- The receivers continue to provide extensive assistance and information to various Government authorities in respect of their investigations. The receivers have sought legal advice as to the potential for legal action against a number of parties in relation to the activities of the Companies leading up to the appointment of receivers.
- 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.
- Our next statutory report under Section 24 of the Receiverships Act 1993, covering the period from 11 April 2009 to 10 October 2009, will be issued in December 2009.
- As noted above, a further formal update to the secured debenture investors of the Companies is anticipated prior to the end of July 2009. In the interim, should investors or other stakeholders have any queries arising from this report, please contact us in writing via our website, facsimile, or private bag 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

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.