

Receivers' Fourth 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)

For the six month period 10 April 2009 to 9 October 2009

Pursuant to Section 24 of the Receiverships Act 1993

Company Numbers: 1242396
1488956
1680468
1409499

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

9 December 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 fourth 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 report on the status of the receiverships on 2 December 2009.

Yours faithfully
For the Companies



J H F Fisk
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, Perpetual Trust Limited (“the Trustee”) determined that the interests of investors would be better served by the appointment of receivers.
- John Howard Ross Fisk and John Anthony Waller, Chartered Accountants, were appointed receivers to each of the Companies on 10 April 2008 by 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 10 April 2009 to 9 October 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 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 previous report for the six month period to 10 April 2009 contained a revised provisional estimate of return to secured debenture investors of 17% to 29% of their original investment.
- At this time, our assessment of the estimated range of recoveries to secured debenture investors remains unchanged, however, we make the following comments:
 - The property market continues to be challenging and volatile, particularly in respect of development land and bare land coastal subdivisions. Borrowers continue to face difficulties in achieving sales or refinancing of the property assets securing LF&I's loan book. In a number of cases, LF&I is selling the underlying property asset as mortgagee or has appointed receivers to manage the sell down process.
 - Marketing campaigns are currently underway in respect of certain significant loan assets. The outcome of these marketing campaigns will not be known until late December 2009/January 2010 at the earliest and accordingly we intend to review our range of recoveries for our next report to secured debenture investors due in February 2010.
- We will continue to closely monitor the status of, and recoveries from, each of the property loans made by LF&I.
- 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.
- Realisation strategies are in place for each loan, with the property assets securing 9 of the 27 loans now realised. We continue to actively monitor the remaining loans to ensure the most appropriate strategy for maximising realisations is implemented. In circumstances where there is, or is likely to be, a shortfall to LF&I, we are pursuing any guarantors. Specialist property advisors, legal advisors and valuers continue to assist the receivers where required.
- As part of this strategy we have placed four of the borrower entities into receivership being; Brooklyn Developments No. 1 Limited, Brooklyn Views Limited, Liardet Apartments Limited and Der Rohe Holdings 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.

Realisations from the Property Loan Book

- As at 9 October 2009, net proceeds to LF&I (after settlement of prior ranking security holders and sale costs) from the property loan book totalled \$9.9M.

Update on the Receiverships of the Borrower Entities

Brooklyn Developments No.1 Limited (In Receivership) ("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.
- The receivers of BD1 have taken the following steps:
 - sold the remaining two completed houses
 - completed construction and sold 4 of the 12 partially completed houses
 - engaged Colliers International to undertake a marketing process for the sale of the partially completed houses and balance of the land. The deadline for expressions of interest was 10 December 2009 and negotiations with interested parties are on-going.
- Following expert advice, the receivers have demolished two partially complete dwellings as follows:
 - One dwelling comprised of framing only, which had remained exposed to the elements for some seven months prior to the appointment of receivers to BD1. This structure was demolished in December 2008.
 - One dwelling was partially enclosed and had also been exposed to the elements for some seven months prior to the appointment of receivers to BD1. The receivers of BD1 initially thought that the dwelling may be able to be salvaged, however, they were unable to obtain sign off from the contractors for the work carried out pre-receivership. Accordingly the dwelling was demolished in November 2009, although the foundation was able to be salvaged.

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.
- BVL has a current appeal lodged with the Environment Court in relation to a proposed plan change to the zoning of the land from rural to outer residential in the Wellington City District Plan. The plan change is required for the development to proceed.
- The receivers of BVL are having on-going constructive discussions with the Wellington City Council and other stakeholders regarding the rezoning of the land subject to the proposed development. Any rezoning would be subject to the approval of the parties to the appeal and the Environment Court.
- The BVL land was also included in the tender process for the BD1 development.

Liardet Apartments Limited (In Receivership) ("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 eight apartments have been sold and a further two apartments are under

contract. The remaining one unsold apartment is currently being marketed for sale.

Der Rohe Holdings Limited (In Receivership and In Liquidation) ("Der Rohe")

- Der Rohe developed a 42 unit apartment building in Eden Terrace, Auckland ("the Property"). LF&I appointed receivers to Der Rohe on 15 December 2008 to manage the sales process.
- As at the date of receivership of Der Rohe, 37 apartments had been sold with the remaining five apartments being marketed for sale. As at the date of this report, one unit has been sold with a further unit subject to an unconditional contract.
- The remaining three apartments are currently being marketed for sale.

3.2. Commercial loan book

- 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 \$1.7M. We continue to monitor the collections process closely.

3.3. Property

- 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

- Other asset potential realisations primarily comprise accounts receivable. 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

- 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 2 December 2009 to update them on the receivership and the timing of the first interim distribution.
- We continue to monitor queries lodged by investors through our website www.pwc.com/lombard, by mail and via our dedicated phone line.

Timing of Returns to Secured Debenture Investors

- We are pleased to advise that an interim distribution of 6.5 cents in the dollar (calculated on the secured debenture investment as at 10 April 2008) will be made on 17 December 2009.
- Although the Inland Revenue Department (“IRD”) has not concluded its GST audit of LF&I, it has been agreed they will waive any preferential claim over the amount being paid as an interim distribution (estimated at \$7.3m), thus enabling the distribution to occur sooner than would otherwise be the case.
- The GST audit may still result in the identification of preferential claims against LF&I. Any accepted preferential claims will be required to be paid in full prior to any further distribution to secured debenture investors. We are working with the IRD to progress the audit as quickly as possible.

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

- The preferential entitlements of the IRD preferential claims will be in relation to PAYE, Goods and Services Tax and Resident Withholding Tax 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 from the receivership 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 2009 to 9 October 2009.
- We note the following in respect of the receipts and payments summarised in the table:
 - As noted earlier in this report, as at 9 October 2009, net proceeds to LF&I (after settlement of prior ranking security holders and sale costs) from the property loan book totalled \$9.9M. Of the \$9.9M received by LF&I, approximately \$3.2M was received in the six month period 10 April 2009 to 9 October 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 10th April 2009 - 9th October 2009

	NZ\$ 000's
Receipts	
Brought Forward	6,579
Receipts from property loan book	3,243
Receipts from commercial loan book	398
Receipts from sale of sundry fixed assets	4
Other receipts	45
GST received	229
GST on receipts	6
Total receipts	10,504
Payment	
Loan expenses (net of interest received on loans)	268
Insurance	3
Operational costs	245
Legal fees and associated costs	281
Other professional fees and associated costs	21
Receivers' fees	217
Disbursements	18
GST Paid	11
GST on payments	98
Total payments	1,163
Net funds on hand	9,341

6 Other matters

- It continues to take significant time and resource to fully investigate transactions entered into by the Companies and obtain all relevant information, including from third parties, before legal action can be taken.
 - We appreciate the information provided to us by investors which may assist with potential actions by the receivers and/or various government authorities.
 - 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.
 - 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. This work is still on-going.
 - At this time we are unable to provide confirmation of the timing for the completion of our investigation and commencement of legal action (if any). We will provide a further update in our next quarterly report to secured debenture investors due by the end of February 2010.
- As noted above, a further formal update to the secured debenture investors will be issued by the end of February 2010. 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 postal address, as follows:

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PricewaterhouseCoopers
PO Box 243
Wellington
Facsimile: +64 4 462 7492
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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.