

30 November 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 27 July 2010 and we were due to report again by 29 October 2010. This report has been delayed due to the receivers being advised of a significant potential preferential claim by Inland Revenue and the need to seek further clarification on the nature of the claim. We now take this opportunity to provide you with an update on the progress of the receiverships.

This report is subject to the restrictions set out at Appendix I.

## **2. Status of the Inland Revenue Department (“IRD”) Audit**

As previously reported, the IRD has been carrying out a GST audit of LF&I since the commencement of the receivership in April 2008. The IRD has now advised that it may have a preferential claim of up to \$4.5M in the receivership of LF&I. The preferential claim relates to the GST component of one specific transaction that occurred prior to receivership.

The IRD has advised that its next steps will be to deal with certain procedural issues and to provide us with the basis of any preferential claim in late January/early February 2011.

Once we have received the required information from the IRD, we will be reviewing their claim to assess whether to accept it and whether the receivers consider it to be preferential or not.

## **3. Impact of the IRD Audit on Interim Distributions to Secured Debenture Investors**

Previously, whilst the IRD was carrying out its GST audit of LF&I, IRD had agreed that any preferential claim over the amount being paid as an interim distribution would be waived. This enabled two interim distributions totalling 9.5 cents in the dollar to be paid to secured debenture investors sooner than would otherwise be the case.

The IRD has now advised that as a result of the outcome of its audit it is no longer in a position to agree to waive any preferential claim in respect of any further interim distributions.

**Regrettably this will mean that no further interim distributions to secured debenture investors will be made until IRD’s potential preferential claim is resolved.**

We have reiterated to the IRD that resolution of any potential preferential claim should be treated as a matter of urgency so that guidance can be given to secured debenture investors as soon as possible regarding the timing and amount of any future distributions.

#### 4. Returns to Secured Debenture Investors

In our July 2010 letter our estimated range of total recoveries to secured debenture investors was between **15%** and **24%** of their original investment. At this time our assessment of the estimated range of recoveries to secured debenture investors remains unchanged.

It should be noted that the estimated range of recoveries above does not take into account any potential preferential claim by the IRD. We note that if the IRD's potential preferential claim of \$4.5M is accepted in full, this will reduce the range of total recoveries to secured debenture investors to between 11% and 20% of their original investment.

#### 5. 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. Gross realisations of circa \$59.1M have been recovered from the property loan book as at 26 November 2010. Of these realisations, LF&I have received \$16.8M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

The status of the loan realisations as at 26 November 2010 is summarised below:

| Status  | Number of loans |
|---|-----------------|
| All property assets now realised                | 14              |
| Loan repayment plan in place                    | 1               |
| Sell down process currently being undertaken    | 9               |
| Enforcement action being taken to recover loans | 3               |
| <b>Total</b>                                    | <b>27</b>       |

Where personal guarantees have been provided, we are seeking to enforce those personal guarantees either through repayment arrangements or court action. We note that in respect of 7 of the 27 loans, the director of the borrower is bankrupt.

As noted in our previous reports, receivers were appointed to several borrower entities in order to take control of developments and manage either the future development or sell down process. We outline below the status of these receiverships.

*Liardet Apartments Limited (In Receivership) – (loan balance as at 10 April 2008 totalled \$3.9M) and Der Rohe Holdings Limited (In Receivership and In Liquidation) – (loan balance as at 10 April 2008 totalled \$7.2M)*

- All assets have now been realised with the net proceeds paid to LF&I.

*Brooklyn Developments No.1 Limited (In Receivership) (“BD1”) and Brooklyn Views Limited (In Receivership) (“BVL”) - (combined loan balance as at 10 April 2008 totalled \$42.6M)*

- The BD1 development comprised 38 completed houses (of which 36 had been sold), 12 partially completed houses and the balance as bare land. 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.
- Receivers were appointed to BD1 on 10 July 2008 and to BVL on 29 September 2008.
- 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
  - arranged for the demolition of two partially completed houses that had been exposed to the elements for some time prior to receivership. The receivers of BD1 initially thought that one of the dwellings could be salvaged, however, they were unable to obtain sign off from the contractors for the work carried out pre-receivership.
  - undertook a comprehensive marketing campaign in respect of the remaining development site. Following negotiations the development site was sold and the net proceeds were paid to LF&I.
- The receivers of BVL have been focussed on negotiating a rezoning of the BVL land with the Wellington City Council and other stakeholders. BVL's receivers are hopeful that the

rezoning issue will be resolved prior to Christmas 2010, which will then allow the land to be marketed for sale in early 2011.

*Monaco Village Limited (In Receivership and Liquidation) ("MVL") - (loan balance as at 10 April 2008 totalled \$3.8M)*

- 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.
- A realisation process in respect of the units is on-going.

## **6. 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 26 November 2010 totalled approximately \$2.1M. We note that the majority of the loans have now been collected and enforcement action is being taken in respect of ten defaulting loans.

## **7. 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.

## **8. Investigations**

The Securities Commission has issued criminal and civil proceedings under the Securities Act against certain LF&I directors.

A review of actions available to the receivers, which may result in recoveries for investors, is also well advanced. Until our lawyers have reached a conclusion on these matters, we are currently unable to provide any further details. We note that, in some cases, the Securities Commission criminal proceedings will take precedence over other proceedings.

## **9. Concluding Remarks**

Whilst we have sufficient funds on hand to make a small further distribution, we are disappointed that we are not able to do so prior to Christmas 2010. We will be endeavouring to progress the IRD potential preferential claim as quickly as possible, however, we note that the timing of this will be largely driven by the IRD and potentially the Courts. The funds held by us whilst awaiting resolution of the IRD potential claim will continue to accumulate interest.

We are focussed on the recovery of the remaining nine loans, where a sell down of the underlying property assets is on-going. Where the loan is secured over bare land (including coastal subdivisions and development sites), achieving recoveries remains challenging in the current property market. In addition to loan recoveries, we continue to focus on other remedies that are available to us to recover further funds for investors.

We will keep investors updated on a regular basis, and expect to issue a further report by 28 February 2011. Provided that the IRD has set out the basis of their claim by early February 2011, we will be able to update investors in our next report on the status of the potential preferential claim.

**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:**

**Lombard Finance & Investments Limited (In Receivership)**  
**PricewaterhouseCoopers**  
**PO Box 243**  
**Wellington**  
**Facsimile: +64 4 462 7492**  
**Website: [www.pwc.com/nz/lombard](http://www.pwc.com/nz/lombard)**

Please note that the Companies' operations will be closed over the Christmas period, from Friday 24 December 2010, reopening on Monday 17 January 2011. Accordingly, enquiries submitted during this period may not be responded to until after 17 January 2011.

We thank you for your ongoing support and patience through this difficult process and wish you and your families a happy and safe holiday season.

Yours faithfully



John Fisk  
Receiver



Colin McCloy  
Receiver

**Restrictions**

- 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.