

23 March 2011

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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 30 November 2010 and we were due to report again by 28 February 2011. This report has been delayed whilst the receivers awaited information from the Inland Revenue regarding the basis for their potential preferential 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.

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 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 now provided us with the basis of their potential preferential claim and we have taken taxation advice in respect of this matter. Our preliminary taxation advice is that, on the information reviewed to date, there is a very sound basis to deny the IRD’s preferential claim.

The next steps in respect of this matter are as follows:

- We will obtain final taxation advice in relation to the IRD’s preferential claim;
- If the preliminary advice is confirmed we will respond to the IRD and advise them why the preferential claim should be rejected. We expect to be in a position to respond to the IRD by the end of March 2011;
- If the matter is not resolved and the IRD files its preferential claim we may, subject to advice, reject the claim and enter into the formal taxation dispute resolution process with the IRD; and
- If the matter is not resolved through the formal taxation dispute resolution process we may, subject to advice, challenge the preferential claim in the High Court.

The process to resolve this issue is subject to legislative and administrative timeframes. We will endeavour to agree appropriate timeframes with the IRD to ensure the matter is resolved as quickly as possible.

The IRD has issued a formal information request for access to the Companies’ electronic documents held by us in our capacity as receivers. A large number of these documents are subject to claims of confidentiality that are disputed by the IRD. The IRD has applied to the Wellington District Court for an order to resolve the claims of confidentiality. We will endeavour to ensure that reasonable time frames are set for this process.

Impact of the IRD Audit on Interim Distributions to Secured Debenture Investors

As noted in our previous report, the IRD has 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 or until we have sufficient funds available from loan recoveries to cover both the IRD's potential preferential claim and to make a further interim distribution to secured debenture investors.

We are very conscious of the impact of the IRD audit on Lombard's secured debenture investors. We note that we are holding funds of approximately \$4M (equivalent to 3.6 cents in the dollar to secured debenture investors). These funds cannot be distributed until IRD's potential preferential claim is resolved.

Returns to Secured Debenture Investors

In our November 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.

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 \$62.1M have been recovered from the property loan book as at 13 March 2011. Of these realisations, LF&I have received \$17.1M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

The status of the loan realisations as at 11 March 2011 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
Total	27

We are endeavouring to have the property loan book fully realised by 31 December 2011. Where personal guarantees have been provided, we are seeking to enforce those personal guarantees either through repayment arrangements or court action.

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 11 March 2011 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 certain defaulting loans.

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.

Investigations

As reported previously, the Securities Commission has issued criminal and civil proceedings under the Securities Act against certain LF&I directors. We understand that the criminal proceedings will be heard

in October 2011. We understand that a date has yet to be set for the civil proceedings; however, these proceedings will be heard after the criminal proceedings.

Separate to the above Securities Commission proceedings, our investigations into claims that may be brought by the Companies against third parties are in their final stages. Based on our current factual and legal assessment, it is likely that claims will be issued against third parties, with a view to making recoveries for the benefit of investors. We are not able to comment further on the exact nature of those claims at this stage because to do so may prejudice the claims.

Concluding Remarks

We are keen to progress the IRD potential preferential claim as quickly as possible. However, as noted previously, the timing of this will be largely driven by the IRD and potentially the Courts. The funds held by us while we await resolution of the IRD potential claim will continue to accumulate interest.

As you will be aware we normally report to secured debenture investors every three months. However, given the cost of issuing reports to investors, we propose that our next report will be the earlier of 30 September 2011 or when substantial progress has been made in the resolution of IRD's 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:

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Yours faithfully



John Fisk
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.