

17 December 2010

DOMINION FINANCE GROUP LIMITED (In Receivership & In Liquidation)

Investors Report

Confidential to Investors

Summary

- Enforcements and realisations of securities are nearing completion with 94% having been realised at prices above the total valuations for these properties at the time of our appointment in what have been difficult markets for most securities. This premium is likely to be eroded by reductions from generally poor remaining securities subject to issues that were not apparent at the time of initial valuations but it appears that projected realisations overall will be above initial valuations subject to the matters referred to below;
- A large part of realisations have been necessarily applied to repaying Dominion's debts to an unrelated finance company and other first mortgagees that were secured in priority to Dominion's interest in most of its mortgages;
- Our last report advised that further funds had been applied to support an order obtained from the Court to purchase a first mortgage in order to protect Dominion's interest in a loan security against actions threatened by the first mortgagee. These funds will be recovered from future sales, however we noted that ongoing litigation will delay realisations from this security;
- Realisations to date remain consistent with original projections of total distributions in the range of 10 cents to 25 cents per dollar invested. The bottom end of this range was supported by realisation estimates from property securities based on valuations at the time of our appointment and the top end was supplemented by potential recoveries from litigation which is more contingent – realisations from this are less certain and will take longer;
- Some of the security realisations since our last report had to be made on deferred terms in order to maximise value. This means that we should be in a position to make another receivership distribution of 2.5 cents per dollar invested during February assuming deferred settlements perform. This report therefore notifies you of the next receivership distribution of 2.5 cents per dollar invested to be mailed during the week commencing 28 February;
- Most remaining securities are subject to fundamental issues that make realisation projections, time required to complete realisations and related costs subject to significant uncertainty.
- The distribution notified above will bring distributions to date to the lower end of our initial estimate. This was the amount projected at the time of our appointment from security realisations, with any supplement to this to come from relatively contingent litigation recoveries of the type referred to elsewhere in this report.
- Further realisation from the small number of remaining very difficult loan securities will be possible but the amount or timing of this cannot be estimated at this point. Because of the nature of these securities realisation is not entirely under the receiver's control. While any

estimate from here is subject to various contingencies, we hope that a further distribution of up to 3 cents from loan securities may be possible providing external funding is available for the litigation referred to elsewhere in this report. Given the contingencies referred to above this distribution is unlikely before the latter part of next year.

- Beyond that further recoveries may be possible from litigation which is more contingent – any realisations from this are less certain and will take longer. It is not possible to reliably estimate the extent or timing of potential recoveries from contingent actions of this type and claims relating to the operation of the company prior to its collapse. Litigation of any form is subject to risk regarding cost, timing and recovery.

Progress to Date

Security Realisations

Previous reports contain considerable information of ongoing relevance that is not repeated here. This can be accessed via www.deloitte.com/nz/dominion.

We have realised the majority (94%) of Dominion's realisable securities but only where we considered we were selling into a market that was as good as it would get net of holding costs of capital. Realisation was deferred where there was virtually no market until reasonable value could be achieved. Most securities have now been realised for amounts at or above our initial estimates based on registered valuations at the time of our appointment.

We have previously advised that 83% of Dominion loans were secured by way of second mortgage (or unsecured) requiring the receivership to apply considerable resource to enhancing realisations from securities to pay prior chargeholders in order to realise the remaining surplus for Dominion investors. Because most of the proceeds are paid to prior chargeholders, the cost per dollar of realisation is significant in these circumstances. Nevertheless significant realisations have been achieved from second mortgage securities that registered valuations indicated would realise little if any value for Dominion. Under the terms of a number of loan priority agreements, Dominion is required to process sales even where all the proceeds from the security will go to the first mortgagee. We have completed reviews of 219 settlements to date.

Overall we are very pleased with the realisations above valuations at the time of our appointment achieved to date in what have been difficult markets for most securities. We have previously reported the outcome of loans to 13 developments in progress at the time of our appointment. All of these have now been resolved. The remaining 6% of realisations projected at the time of our appointment largely represent very difficult securities that in most cases will take considerable time to resolve difficult issues, some of which are outside the control of the receivers. Some of these also face very oversupplied markets that could take substantial time to recover.

Other Recoveries

We appreciate the continuing support of investors for our investigations. It is not possible to reliably estimate the extent or timing of potential recoveries from actions of the type referred to below and claims relating to the operation of the company prior to its collapse. Litigation of any form is subject to risk regarding cost, timing and recovery.

Directors & Officers Claim

Initial receivership work identified the potential for claims against parties responsible for administering the affairs of Dominion with further details being contained in our earlier reports. Given the potential cost of litigation, careful preparatory work to maximise the prospects of success and minimise the impact of outgoings on investor distributions is being progressed. However litigation of this nature is generally time consuming, expensive, and extends over a considerable period. We are therefore

exploring the possibility for “litigation funders” to fund this action in consideration for a share of any recoveries. While this may seem expensive as a percentage of recoveries, it is only payable from recoveries. If litigation funding is available on reasonable terms this would enable litigation costs that would otherwise have to be retained from funds to be distributed to investors.

Claims Against Valuers

We have noted that Dominion was capitalising unpaid interest to increasingly unrecoverable loan balances and including this interest in profit. In all but a very small number of cases there were no valuations on file other than those apparently arranged by the borrower at the time the loan was proposed. Without an independent valuation there was no reliable benchmark against which recovery prospects of defaulted loans could be evaluated. We have advised that these two pre receivership practises were major contributors to the extent of loss implicit in the receivership recovery estimates that were based on new registered valuations of properties “securing” Dominion advances at the time of our appointment. We are now progressing claims in relation to two valuation companies responsible for a number of valuations supporting significant Dominion second mortgage loans to developers. These claims have now effectively progressed to litigation against insurer interests. As expected, this will not be quick or cheap but significant loss resulted from negligent valuations. Both these claims are now subject to Court proceedings which could take a lengthy period to determine.

Estimated Outcome

We based our initial estimate of outcome on a very careful evaluation of each loan. Most of these required new valuations. The more challenging assets were also cross checked against real estate agent appraisals.

The initial realisation estimates have proven to be very reliable. The additional work realising securities referred to in this report has achieved a premium above valuations at the time of our appointment on realisations to date. This is likely to be eroded by downwards revisions of estimated realisations from a small number of generally poor remaining securities subject to issues that were not apparent at the time of initial valuations resulting in a projected outcome overall better than initial valuations. The small number of remaining securities are mainly very difficult assets involving disputes and/or facing very illiquid markets. In some cases significant legal and other costs were required to preserve Dominion interests. The additional costs incurred in achieving the premium above original valuations are significantly less than the premium realised.

Some enforcements as second mortgagee are subject to the actions of others, resulting in considerable uncertainty which can affect returns to investors. Overall we believe that our initial distribution estimates of 10 cents to 25 cents per dollar invested remain relevant. The bottom of this range is based on realisations from securities and does not assume any recovery from actions against directors, valuers or other financiers. This has been largely achieved subject to receipt of some deferred settlement proceeds which will fund a further distribution of 2.5 cents per dollar in February to reach the 10 cent initial estimate of realisations from loan securities. Further realisation from the small number of very difficult loan securities referred to above may be possible but the amount or timing of this cannot be estimated at this point. Because of the nature of these securities realisation is not entirely under the receiver's control. While any estimate from here is subject to various contingencies, we hope that a further distribution of up to 3 cents from loan securities may be possible. Given the contingencies referred to above this distribution is unlikely before the latter part of next year.

Beyond this any recoveries will come from the directors and officers and valuer claims referred to above. However litigation of this nature is generally time consuming, expensive, and extends over a considerable period. Generally this would need to be funded from funds that would otherwise be distributed to investors – in this case the potential distribution late next year. We are therefore exploring the possibility for “litigation funders” to fund this action in consideration of a share of any recoveries. While this may seem expensive as a percentage of recoveries, it is only payable from

recoveries. If litigation funding is available on reasonable terms this would enable funding for litigation costs that would otherwise have to be retained from funds to be distributed to investors.

Realisation projections from here, time taken to complete realisations and related costs are all subject to significant uncertainty. Accordingly, we express no opinion on the likelihood of these estimates being achieved nor undertake any responsibility regarding any estimate of outcome. All financial projections are based on assumptions and estimates of future events which cannot be estimated with any certainty. Actual results are therefore likely to be different from projections and the variations could be material since anticipated events frequently do not occur as expected.

Distribution

We are pleased to notify you of a distribution of 2.5 cents per dollar invested to be mailed during the week commencing 28 February subject to settlement of unconditional sales currently in place being made as expected. This notice constitutes a Trustee notice of distribution to investors under Clause 8.13 of the debenture trust deed.

Further Information

We have previously provided details of the receivership website developed at the time of our appointment (www.deloitte.com/nz/dominion). The Receivers' statutory reports are filed on-line at the Companies Office and can be viewed free at the Companies' Office website www.companies.govt.nz.

We will post further updates and matters of relevance to investors on the receivership website as appropriate.

In the meantime:

- for further information please visit the website www.deloitte.com/nz/dominion;
- if you have questions please use the email facility on the website or call +64 9 306 0410 for investor queries. All other queries should be directed to +64 9 306 0411 or facsimile +64 9 306 0404.

Confidentiality

This report is confidential to the Trustee and debentureholders and is not to be reproduced or used for any other purpose without our prior written consent in each case. We do not accept any liability whatsoever to any party from any use of, or reliance on, this report.

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Rod Pardington

R G Pardington
Receiver and Manager
Personal Liability Excluded