

Finance and Leasing Limited (In Receivership)

Receiver's Second Report

Pursuant to Section 24 of the Receiverships Act 1993

12 August 2011

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Important Notice

The information required to complete this report was obtained from company records. Values are based on book values from the financial statements and accounting records of the company.

We have relied on the information provided by the company and on company records in preparing this report. We have not completed any form of audit or verification procedures on the financial information and we do not express any form of audit opinion on the financial information.

We take no responsibility for any incorrect information contained in this report that has been supplied by the company, its officers or other persons. This is a report prepared by the Receivers in terms of Section 24 of the Receiverships Act 1993. This report 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.

Any realisation projections, time taken to complete realisations and related costs were all subject to uncertainty at the time that these projections were prepared. We express no opinion on the likelihood of any projections being achieved. Financial projections are based on assumptions and estimates of future events which cannot be estimated with any certainty. Actual results are likely to be different from projections and the variations could be material since anticipated events frequently do not occur as expected.

In accordance with standard practice neither Deloitte, the Receivers, nor any member or employee of Deloitte, undertakes responsibility arising in any way whatsoever to any person in respect of realisation projections, the related commentary on options available to the receivership, any estimate of outcome for creditors, or any report content based on information supplied by the company, including any errors or omissions herein arising through negligence or otherwise however caused.

1. Introduction

Brett Chambers and Paul Munro of Deloitte were appointed Receivers and Managers (“Receivers”) of all the assets, property and undertakings of Finance and Leasing Limited (“Finance and Leasing” or the “company”) on 18 January 2011 by Perpetual Trust Limited (“the Trustee”) pursuant to a Trust Deed dated 20 October 1986 (as amended) (the “Trust Deed”). The appointment was made under the powers contained in the Trust Deed.

We set out below our report on the state of the company affairs as at 12 August 2011 in accordance with Section 24 of the Receivership Act 1993. This report should be read in conjunction with the Receivers’ previous report. A statement of receipts and payments is attached in Section 6.

2. Receivership Matters

2.1. Events Leading Up to the Appointment of Receivers

Perpetual Trust Limited is the Trustee for the secured debenture stock (and deposits) issued by Finance and Leasing.

New Reserve Bank regulations for finance companies came into force on 1 December 2010 with respect to capital ratio requirements. Finance and Leasing was unable to meet the required covenants on a consistent basis within the required timeframe.

The company had applied to the Reserve Bank for dispensation but the Directors were of the view that would have taken months to process, and in the meantime the Companies Office was unwilling to approve the company’s prospectus. Without a registered prospectus, the company was unable to trade as a finance company and therefore the Directors requested the Trustee to place the company in receivership.

2.2. Impact of the Earthquakes

The Christchurch earthquake in February has had a serious impact on both the operation of the receivership and on the prospects for recovery of depositors’ funds.

Those matters affecting the operation of the Finance and Leasing business post receivership include:

- Restricted access to 154 Tuam Street where Finance and Leasing operations were based. Although the building remains within the restricted cordon, this is no longer impacting the ability of the Receivers to carry out its responsibilities;
- With the lack of access to premises, critical systems were unable to continue immediately. However data and systems were quickly recovered from the Receivers’ off-site back-ups and daily operations recommenced without significant delay;

- In addition to the restricted access to Finance and Leasing premises the Receivers and their legal advisers have also been displaced from their premises and continue to operate from temporary accommodation;
- The offices of the Trustee collapsed in the 22 February earthquake resulting in the destruction of files and correspondence relevant to the Receivers enquiries; and
- The focus on recovery efforts in the city has generally made it difficult to get things done in a timely manner (e.g. property inspections, geotechnical reports, valuations etc.).

In addition to these logistical challenges, the earthquakes will have an impact on the prospects for recovery of funds:

- The financial position of a number of borrowers has been adversely affected making it more difficult to continue to generate income at pre-earthquake levels and therefore having consequences for meeting loan servicing obligations to Finance and Leasing; and
- The earthquake has created considerable uncertainty in the Christchurch property market where Finance and Leasing has exposure to property including development property.

These impacts were not anticipated at the time of appointment and the full effects of these challenges are only now becoming apparent. The consequences of these impacts will mean that the timeframes initially anticipated for returning funds, and potentially the quantum of funds to be returned to depositors, has deteriorated from our original assessment.

3. Finance and Leasing Loan Book

Since appointment the Receivers have been managing the loan book of Finance and Leasing to ensure loan repayments continue to be made and appropriate actions are initiated for loans in arrears or default. The loan book contains loans for business activities including property development and asset acquisition or retention, and as at 30 June 2011 there were 68 loans in total (79 loans at date of receivership). The nature of the loans is consistent with the description of loans given by the Directors in the most recent prospectus.

Our work in evaluating the loans and realising securities has been complicated by difficulties in obtaining appropriate information from the loan files. In many cases files do not have financial accounts for borrowing companies or registered valuations of secured property, nor do they contain all the correspondence that appears to have been undertaken between Finance and Leasing and the borrowers.

While the initial focus has been to manage and evaluate the loan book to determine how to maximise the potential return to investors, the Receivers have been actively encouraging and approving settlement of loans where full realisation is available. Generally these settlements are for low value loans.

Initially, the Receivers believed that the Finance and Leasing business or the loan receivables could be sold and had prepared information for potential purchasers to provide an assessment of the value they would pay for the different parts of the loan book. Very few interested parties pursued any significant interest in either option. The only pricing discussed represented a significant discount to face value of the receivables.

The Receivers continue to assess all loan receivables and related asset security that may have suffered damage in the earthquake. To date there have been only a few reports of material damage to property.

As at the date of receivership, the assets of Finance and Leasing included gross loan receivables of \$15.9m less the Directors' impairment provision for specific loans of \$1.15m.

Based on the accounting records of the company, the loan book as at 31 December 2010 comprised the following:

LOAN RECEIVABLES – AS AT 31 DECEMBER 2010				
Loan Type	No	Gross Loan Receivable (\$000's)	Impairment Provision (\$000's)	Net Loan Receivable (\$000's)
Commercial	45	\$1,196	\$0	\$1,196
Consumer	16	\$302	\$0	\$302
Hotel Holdings	13	\$7,078	\$0	\$7,078
Land Holdings	1	\$1,450	\$0	\$1,450
Property Development	4	\$5,842	\$1,150	\$4,692
Total	79	\$15,868	\$1,150	\$14,718

In the first report, the Receivers' initial views on the loan book were:

- That the best way to maximise value is by managing individual loans on a case by case basis (particularly in respect of the hotel holdings and property development loans);
- That maintaining close contact with borrowers and actively monitoring their financial position should occur; and
- That the effectiveness of the receivership and therefore the repayment ultimately available to depositors would be dependent on the successful recovery of a small number of very large exposures.

Since the first report, the Receivers have confirmed their initial views as set out above.

The status of the loan receivables as at 30 June 2011 is summarised below:

LOAN RECEIVABLES – AS AT 30 JUNE 2011				
Loan Type	No	Gross Loan Receivable (\$000's)	Impairment Provision (\$000's)	Net Loan Receivable (\$000's)
Commercial	37	\$1,039	\$0	\$1,039
Consumer	13	\$278	\$0	\$278
Hotel Holdings	13	\$7,501	\$0	\$7,501
Land Holdings	1	\$1,562	\$0	\$1,562
Property Development	4	\$6,216	\$1,150	\$5,066
Total	68	\$16,596	\$1,150	\$15,446

The bulk of the loan book comprises a small number of loans with a high dollar value, and in several instances Finance and Leasing has a subordinated security position. As at 30 June 2011, the top ten individual loans exceed \$15m (92% of the book). As illustrated below, substantial client concentration exists with 96.5% of loan balances relating to the top seven client exposures (when related individuals or parties are consolidated) covering 31 of the 68 loans.

CONSOLIDATED EXPOSURE				
Group	Total No of Loans	Total Balance as at 30/06/11	% of Total Loan Book	Security
Client Group A	18	\$9,180,805	55.3%	GSA, property, personal guarantee, vehicles, mortgage of shares
Client Group B	1	\$3,624,766	21.8%	GSA, property
Client Group C	4	\$2,703,323	16.3%	Vehicle, property
Client Group D	1	\$157,577	0.9%	GSA, 2nd mortgage, property
Client Group E	2	\$147,336	0.9%	GSA, camera & video equipment
Client Group F	1	\$135,420	0.8%	Property
Client Group G	4	\$74,624	0.4%	Vehicles and other machinery
Total Top Seven Client Concentrations	31	\$16,023,851	96.5%	

The Receivers have implemented more vigorous collection procedures since being appointed and are taking a pro-active stance, where appropriate, with several borrowers regarding their arrears position. This has resulted in a lower level of arrears in the '90 days or less' category as at 30 June 2011 compared to 18 January 2011.

There has however been a notable increase in the number of loans in the 'over 90 days' in arrears category since 18 January 2011. This increase is largely attributable to several large client exposures where capitalising interest loans have recently matured. Typically Finance and Leasing would renew these loans for a further period. As a consequence of receivership, all maturing loans became due in full and are not being rolled over.

74% of the total loan book value matured in the first quarter of 2011. Where possible, borrowers are repaying their loan or refinancing with another lender, however the ability for many of the larger borrowers to refinance elsewhere is limited.

In relation to each class of loan, the following observations can be made:

Commercial Loans

Finance and Leasing has advanced loans to commercial clients, largely secured over motor vehicles and other equipment. Generally these loans are performing adequately and the majority of the loan balances are less than \$50,000. A small number of non-due advances require significant servicing effort to keep the arrears position under control.

Consumer Loans

There are a small number of consumer loans, largely secured over motor vehicles and boats. In general these loans continue to perform adequately. However the Receivers are maintaining a watching brief over several loans where there is a high risk of default despite a reasonable payment history. Depending on an assessment of security, the Receivers have formed a view that immediate repossession action may be necessary should any arrears emerge.

Hotel and Land Holdings

Finance and Leasing are significantly exposed to a borrower that operates hotels in Hamilton, Rotorua and Auckland. This group is the largest group exposure in the Finance and Leasing loan book (approximately \$9.2m). The security held for advances is a mix of mortgages over shares in the borrowing companies, general security agreements (GSA) and chattel securities.

Finance and Leasing has also advanced a registered first mortgage to this borrower over a residential development property in Hamilton. The borrower has completed some preliminary work including earthworks but construction has not started.

We have instructed valuers to prepare valuation reports on the Hamilton residential development site and the Auckland Hotel. We continue to heavily focus our efforts on this large exposure.

Property Development Loans

Finance and Leasing has interests in two significant property developments in Christchurch. One advance is secured over two titles in Canterbury. The value of the securities is primarily derived from their potential use as a shingle quarry.

With the Receivers authority, the borrower has continued to negotiate with a potential purchaser but this has proved unsuccessful to date. The interested party is reluctant to conclude a sale until a caveat registered against one of the titles is removed, due to concerns over the borrower's ability to give title. We continue to work with the borrower and the interested party.

The exposure to this borrower totals \$2.7m and Finance and Leasing had not provisioned for any loss prior to receivership.

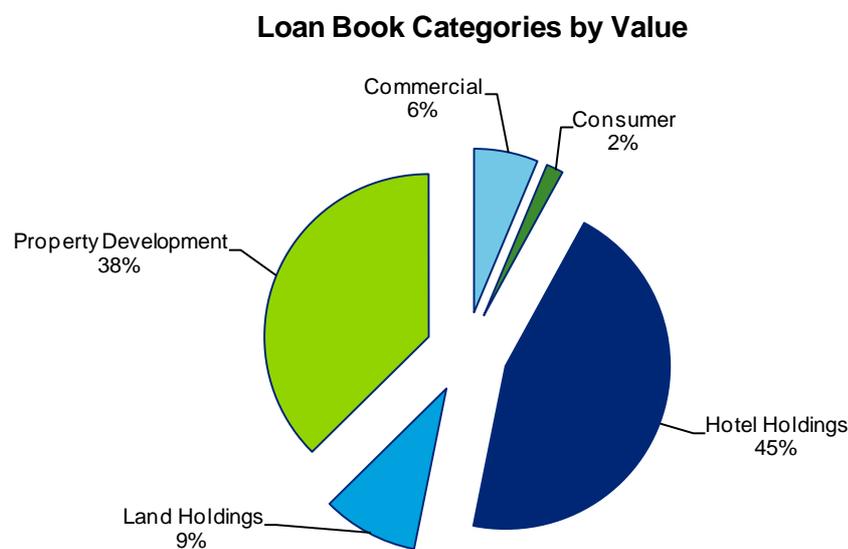
The other property development interest has been managed by Finance and Leasing since the borrower company was placed in liquidation. The property comprises a subdivision in the east of Christchurch. The land report released by the Government on 23 June places this land in the Green Zone. It is close to two Orange Zoned blocks but the report indicates that the land may be built on.

Discussions have taken place with two interested parties following the land report to attempt to negotiate a sale of the subdivision. While the subdivision plan has been consented, further earthworks are now required to lift the building platforms. This exposure will remain difficult to realise because of the uncertainty about demand for land in the eastern suburbs. In the interim we have registered this subdivision with CERA as a potential allotment that may be considered available for either temporary or permanent accommodation for displaced residents. The Receivers are hopeful that the Government buy-out of red-zone properties will enhance demand for these sections and are actively working to bring these to market as quickly as possible.

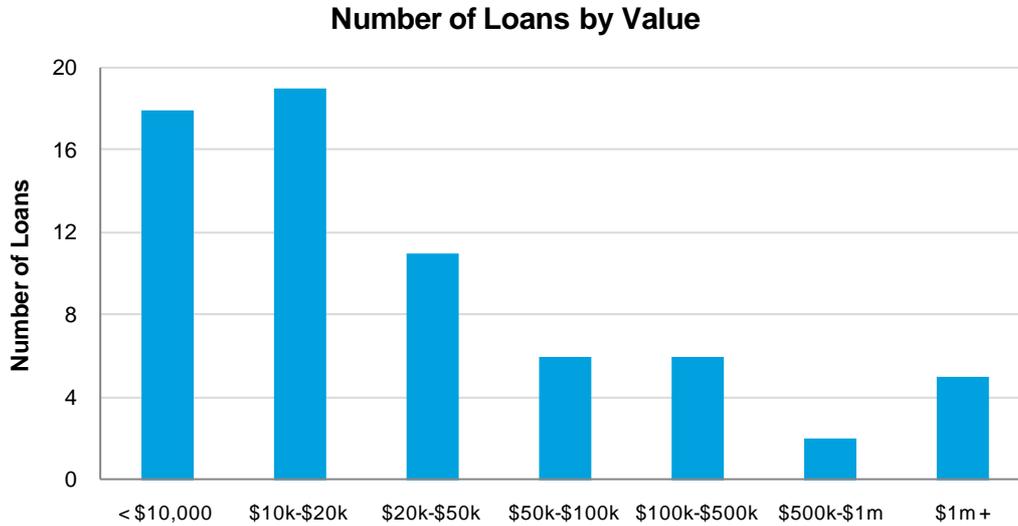
The exposure to this development is \$3.6m.

Composition of Loan Book by Borrowing Type

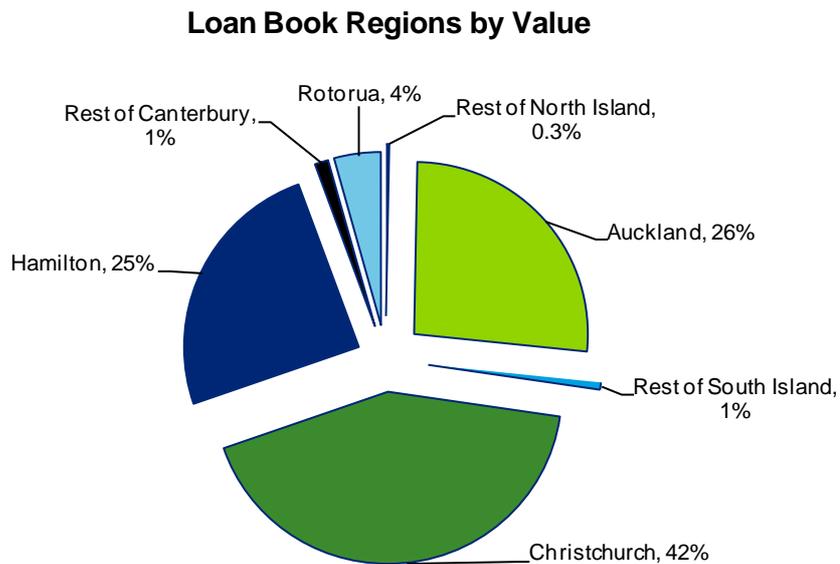
The following graphs show the net loan receivables as at 30 June 2011, by category, exposure and region.



Profile of Loan Book by Loan Size



Geographic Concentration



The Receivers believe releasing specific details of loans and collections to date or other commercially sensitive information would materially prejudice the exercise of their functions and possibly the outcome for secured debenture holders. Accordingly, under Section 24 (3) of the Receiverships Act 1993 the Receivers have omitted specific details in this section.

Land Held for Sale and Other Assets

Finance and Leasing has the following assets held for sale. Typically, these represent assets acquired by the company when loans defaulted. With the exception of one bus, these assets were held by Finance and Leasing at the date of receivership.

- Originally part of a five lot subdivision in the Lake Coleridge township, three lots were unsold at the date of receivership.

A promotion for sale of the properties by deadline private treaty concluded on 23 June 2011. Two offers were accepted by Finance and Leasing. Finance and Leasing's agents are currently pursuing the remaining interest generated by the advertising campaign with a view to realising the remaining section. Realisation of the sections has been hindered by covenants registered against the titles to the sections controlling the nature of improvements that may be built on the property. These have been a deterrent to a number of prospective purchasers who would have constructed low cost accommodation if that were permitted.

Pre-receivership, these sections were on the books of Finance and Leasing at \$236,000. Price indications reflected in the competitive tender process suggest that a loss on realisation is likely.

- Finance and Leasing owns a development property in South Beach, Greymouth. The property was purchased from a Finance and Leasing borrower, in November 2008. The borrower intended to subdivide the 48.7939 hectare property, however financial difficulties precluded this. Finance and Leasing intended to complete the subdivision. Some progress was made by the borrower and Finance and Leasing, including the drafting of engineering designs and the bulk of the road being metalled. Completion of the subdivision floundered as Finance and Leasing elected to focus on other matters.

Pre-receivership, the property was on the books of Finance and Leasing at \$3.1m and was provisioned for a loss of \$0.3m.

- At the date of receivership Finance and Leasing had repossessed three buses. The Receivers have subsequently repossessed a further bus. Two buses have been sold and the Receivers continue to pursue buyer interest in the remaining two buses.

3.1. Disposal of Property

The Receivers have considered various options for the disposal of Finance and Leasing property. Where the options are in the best interests of the secured and unsecured parties, the Receivers have moved quickly to realise these assets.

The Receivers have carried out the following:

- Prepared an information memorandum for the possible sale of the business or loan book;
- Concluded the sale of two sections at Lake Coleridge and negotiating on the sale of the third section;
- Sold motor vehicles repossessed from borrowers in default;

- Continued to review opportunities to divest loan receivables where the loan has not been performing and made determinations of 'hold' or 'sell' positions on securities underpinning impaired loans;
- Taken possession of property secured by mortgage or charge where it was deemed necessary to protect the company's interest; and
- Achieved full settlement of 11 loans.

In many other instances, a quick fix solution is not obvious and may result in crystallising a significant loss on disposal further diminishing returns available to depositors. There is a fine balance between selling quickly and holding until market conditions provide more favourable realisation prospects.

4. Amounts Owed by Finance and Leasing

4.1. Amounts Owing to Appointer (On Behalf of Secured Debenture Holders)

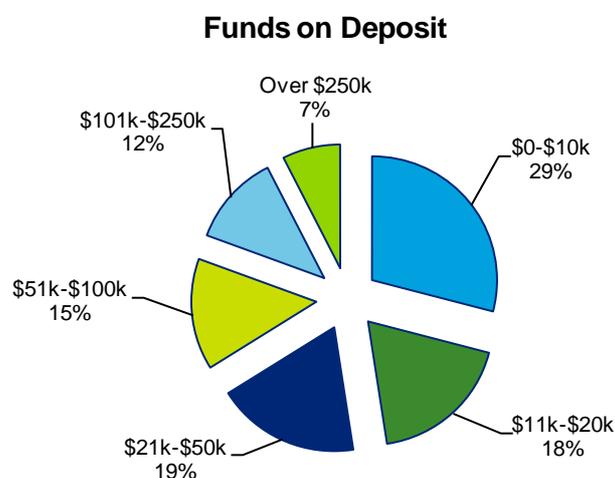
Finance and Leasing had 227 investors and \$17.2m in depositor funds at receivership date (including funds held by the Trustee), with an average deposit of \$76k. All debenture stock is secured under the Trust Deed.

Approximately \$16.5m is invested in secured debentures ("debenture stock") and approximately \$0.7m was held in trust by the Trustee.

Prior to the receivership, the funds of 22 investors were held in trust due to Finance and Leasing not having a registered prospectus. As a consequence, any new deposit or deposits that matured during the period could not be reinvested. Therefore the funds were held by the Trustee until the situation with the prospectus could be resolved.

These funds have been subsequently returned to the investors by the Trustee since they were unable to be accepted by Finance and Leasing.

The chart below shows the distribution of the deposit holder's investments.



4.2. Amounts Owing to Other Preferential Creditors

Finance and Leasing's preferential creditors are its employees and the Inland Revenue Department ("IRD").

The Receivers adopted approximately \$14,000 of employee preferential creditor payments and these were paid by the Receivers during February 2011.

The Receivers are yet to confirm the value of preferential creditor payments owing to the IRD.

4.3. Amounts Owing to Unsecured Depositors

Finance and Leasing had no unsecured deposits as at 18 January 2011.

4.4. Amounts Owing to Unsecured Creditors

Unsecured creditors were notified of the receivership subsequent to our appointment. As at the date of this report the Receivers have received several confirmations from unsecured creditors however we have yet to receive confirmations of debt from all known unsecured creditors.

4.5. Amounts Owing to Redeemable Preference Shareholders

The company has 600,000 Perpetual Cumulative Redeemable Preference Shares (RPS). These shares have a fixed value of \$1.00 each. The RPS rank behind all secured and unsecured creditors of the company and all payments having priority at law, but rank ahead of the ordinary shares of the company.

4.6. Amounts Owing to Ordinary Shareholders

At the date of receivership Finance and Leasing had share capital with a book value of \$3.0m comprising of ordinary shares. These shares have no par value and rank equally with regard to the company's residual assets.

4.7. Amounts Likely to be Available to Secured and Other Creditors

The Receivers noted earlier in this report that the top seven client exposures account for 96.5% of the total loan book. The return of funds to investors ultimately depends on the recovery of monies lent to these seven clients.

Of the 31 loans that make up these seven client groupings, 22 are currently in arrears. Accordingly these loans are the focus of the Receivers' attention. In some cases, the security positions are not strong and in others there has been a significant decline in the value of security held. Those exposures secured by development property are unlikely to be resolved quickly particularly in the current climate.

Determining an estimate of funds likely to be returned to creditors (including secured debenture holders) is therefore fraught with difficulty. However based on current market conditions, the quality of security held and what we have been able to ascertain about borrowers' circumstances, our best **estimate of return to secured debenture holders is a range between 47 cents and 67 cents in the dollar**. The upper end of this range requires a number of assumptions to fall into place. This estimate is by no means a guarantee that the actual return will be in this range. Actual results may vary from the assumptions applied and this could have a material impact on the final recovery. The Receivers will continue to review these assumptions and update the estimate of realisation as the receivership progresses.

The Receivers are not in a position to give any estimate of the timeframe in which investors will receive any distribution of funds from receivership recoveries. To date there have been no significant asset realisations.

The Receivers continue to accrue interest on deposits held but it is unlikely that any interest will be paid to debenture holders.

The Receivers do not expect any funds will be available to repay redeemable preference shareholders, unsecured creditors or ordinary shareholders.

5. State of Affairs

5.1. Assets

The assets of Finance and Leasing principally comprise its loan book assets, cash, land, and other assets including office equipment and computers used to carry on business activities.

According to the company records, the primary assets of Finance and Leasing relate to loan receivables. As at 30 June 2011 the loan receivables are as follows:

Loan Receivables	Book Value ('000s)
Gross Loan Receivables	16,596
Less: Impaired Loans	(1,150) ¹
Loan Receivables Net of Impairments	15,446
Less: Other Accruals	(289)
Total Book Value of Loan Receivables	15,157

The only other assets recorded in the latest financial position of the company available as of 30 June 2011 are:

Other Assets	Book Value ('000s)
Bank	144
Accruals and Other Receivables	133
Office Equipment / Computers	4
Land and Other Assets Held For Sale	3,192
Deferred Tax	343 ²
Total Other Assets	3,816

Total assets are therefore recorded at a book value of \$19m as of 30 June 2011 and are made up of:

Total Assets – Summary	Book Value ('000s)
Loan Receivables	15,157
Other Assets	3,816
Total Assets	18,973
Exclude Bank	(144)
Total Assets (Excluding Bank)	18,829

¹ This represents impairment provisions made by the Directors' prior to the receivership

² It is unlikely that the deferred tax asset will be realised

5.2. Summary of Debts and Liabilities

Particulars of debts and liabilities as of 30 June 2011:

Debts and Liabilities	Book Value ('000s)
Secured Creditors	
Perpetual Trust (for Debenture Holders) ¹	17,237
Preferential Creditors ²	100
Unsecured Creditors	
Unsecured Debenture and Deposit Holders	-
Creditors ³	45
Redeemable Preference Shares	600
Total	17,982

Notes:

1. The 'Secured Creditors' amount shown above includes accrued interest.
2. Includes an estimate of preferential amounts owed to the IRD. Approximately \$14,000 has been distributed to preferential creditors since appointment.
3. All creditors (both secured and unsecured) were notified of the receivership at appointment and were provided Confirmation of Debt forms to complete. We have not yet received all creditor claims.

5.3. Encumbrances Over the Property in Receivership

Particulars of encumbrances over the property in receivership are registered on the PPSR. A search of the PPSR dated 13 July 2011 revealed that the Trustee holds a registered interest.

5.4. Any Default by the Grantor in Making Information Available

There has been no default by the Grantor in making information available.

6. Receipts and Payments

Receipts and Payments for Finance and Leasing Limited (In Receivership) 18 January 2011 to 31 July 2011 (all figures excluding GST)

Receipts	\$
Loan Receipts	292,919
Net Proceeds from the Sale of Assets	111,018
Interest Received	977
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Total Receipts in the Period	\$404,914
Payments	
Capitalised Loan Costs:	
Rates	(1,101)
Maintenance	(1,622)
General Expenses	(878)
Interest and Bank Fees	(481)
IT Software and Support	(3,100)
Legal Fees Receivership Related	(24,819)
Other Professional Fees	(10,976)
PPSR, Title Searches, Registrations and Releases	(9)
Rates	(3,239)
Rent and Car Parks	(8,917)
Receivers Fees	(216,956)
Salaries, Wages and Contractor Fees	(35,317)
Telephone and Communications	(946)
Trustee Fees	(37,600)
Vehicle Costs	(745)
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Total Payments in the Period	\$(346,706)
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NET RECEIPTS IN THE PERIOD (EXCLUDING GST)	\$58,208
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7. Receivers' Contact Details

The Receivers can be contacted at the address below.

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