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Recovery

Finance and Leasing Limited
(In Receivership)

Receiver's Third Report

Pursuant to Section 24 of the Receiverships Act 1993

29 February 2012

This report has been prepared on the basis of limitations set out on page 1.

Contents

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 29 February 2012 in accordance with Section 24 of the Receivership Act 1993. This report should be read in conjunction with the Receivers' previous reports. 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 2011 has had a serious impact on both the operation of the receivership and on the prospects for recovery of depositors' funds.

A summary of those matters affecting the operation of the Finance and Leasing business post receivership was included in the Receivers' second report. The logistical challenges referred to in that report have now been resolved or mitigated, however the impact on the prospects for recovery of funds persist, especially for the exposures that Finance and Leasing has in the Christchurch property market.

That impact was not anticipated at the time of appointment. The consequences of these impacts is 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 29 February 2012 there were 47 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. The security taken in respect of loans advanced by Finance and Leasing includes mortgages over shares which have proved difficult to realise in any meaningful way.

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.

The Receivers have continued to actively encourage and approve settlement of loans where full realisation is available. Generally these settlements are for low value loans. Maximising recovery from the larger, more complicated exposures is our primary focus. The biggest risk to returning depositor funds continues to be the exposure to a small number of large underperforming 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 and the Receivers are therefore no longer actively pursuing a sale of the loan receivables.

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 ($000's)				
Loan Type	**No**	**Gross Loan Receivable**	**Impairment Provision**	**Net Loan Receivable**
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 forming that view, the Receivers now have a fuller appreciation of the quality of security taken by Finance and Leasing in respect of advances made.

The status of the loan receivables as at 29 February 2012 is summarised below:

LOAN RECEIVABLES – AS AT 29 FEBRUARY 2012 ($000's)				
Loan Type	No	Gross Loan Receivable	Impairment Provision	Net Loan Receivable
Commercial	23	$648	$0	$648
Consumer	9	$137	$0	$137
Hotel Holdings	12	$7,203	$0	$7,203
Land Holdings	1	$1,198	$0	$1,198
Property Development	2	$7,133	$1,150	$5,983
Total	**47**	**$16,319**	**$1,150**	**$15,169**

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 29 February 2012, the top ten individual loans exceed $15m (94% of the book). Although the amount of the top ten exposures has not changed significantly, the percentage of the book that they comprise is increasing as the remainder of the book is being repaid at a proportionally greater rate.

As illustrated below, substantial client concentration exists with 98.3% of loan balances relating to the top five client exposures (when related individuals or parties are consolidated) covering 24 of the 47 loans. The client exposures which were referred to as "Client Group F" and "Client Group G" in the last Receivers' report have since been settled.

CONSOLIDATED EXPOSURE ($000's)				
Group	Total No of Loans	Total Balance as at 29 Feb 12	% of Total Loan Book	Security
Client Group A	17	$8,502	52.1%	GSA, property, personal guarantee, vehicles, mortgage of shares
Client Group B	1	$3,882	23.8%	GSA, property
Client Group C	3	$3,373	20.7%	Property
Client Group D	1	$166	1.0%	GSA, 2nd mortgage, property
Client Group E	2	$125	0.7%	GSA, camera & video equipment
Total Top Five Client Concentrations	**24**	**$16,048**	**98.3%**	

The Receivers continue to utilise the more vigorous collection procedures implemented since being appointed and are taking a pro-active stance, where appropriate, with borrowers regarding their arrears positions.

There has 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 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.

86% of the total loan book value has matured and is now due in full. Where possible, borrowers are repaying their loan or refinancing with another lender, however the ability of borrowers to refinance elsewhere is limited for many of the larger exposures.

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. These loans have continued to perform adequately and the majority of the loan balances are less than $50,000. There are however still a small number of advances which 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. There are however several loans over which the Receivers are continuing to maintain a watching brief due to a high risk of default. The realisation strategies being adopted by the Receivers include consideration of the value and nature of the security. Where the security is weak and likely to be difficult to realise, every effort is made to rehabilitate the loan so that realisation proceeds are maximised. In many cases repossession of the asset and then disposal has been necessary.

Hotel and Land Holdings

Finance and Leasing has a significant exposure to a borrower that operates hotels in Auckland, Hamilton and Rotorua. This group is the largest group exposure in the Finance and Leasing loan book (referred to as "Client Group A" above) at approximately $8.5m.

Since the last report two assets of this group have been realised being a residential development site in Hamilton and a hotel operation in Auckland. Three other smaller hire purchase loans have been refinanced by the borrower. The remaining security held for the advances is a mix of mortgages over shares in the borrowing companies and chattel securities.

The nature of the remaining securities makes realisation complex. It is likely to take some time to ensure that recovery from these loans is maximised. In addition, the borrower is disputing the validity of the mortgages of shares and that dispute may take some time to resolve.

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.

The borrower sought to dispose of the securities but its negotiations with a potential purchaser foundered and consequently the Receivers have been dealing directly with that party. Realisation of the securities has been significantly delayed due to complications with a prior mortgage. The Receivers have obtained an interim injunction compelling the prior chargeholder to discharge its mortgage and negotiations with the interested party have recommenced.

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 2011 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.

Neither of the parties we referenced in our previous report have pursued their interest in the incomplete subdivision, citing the deterioration of the land following the aftershocks and potential de-population of the east-side as reasons not to proceed.

The Receivers have been making arrangements to put the property on the market and attract potential purchasers who have been displaced from the Red Zone but who have funds from the government buyout of their properties.

In preparing the property for sale it became apparent that two important matters should be addressed by the Receivers prior to sale. They are:

1. Securing an easement over the two lots not owned by Finance and Leasing to allow for storm water discharge from the remaining subdivision lots (this will be essential for completion of the subdivision and if not done is likely to be reflected in the pricing of potential purchasers).

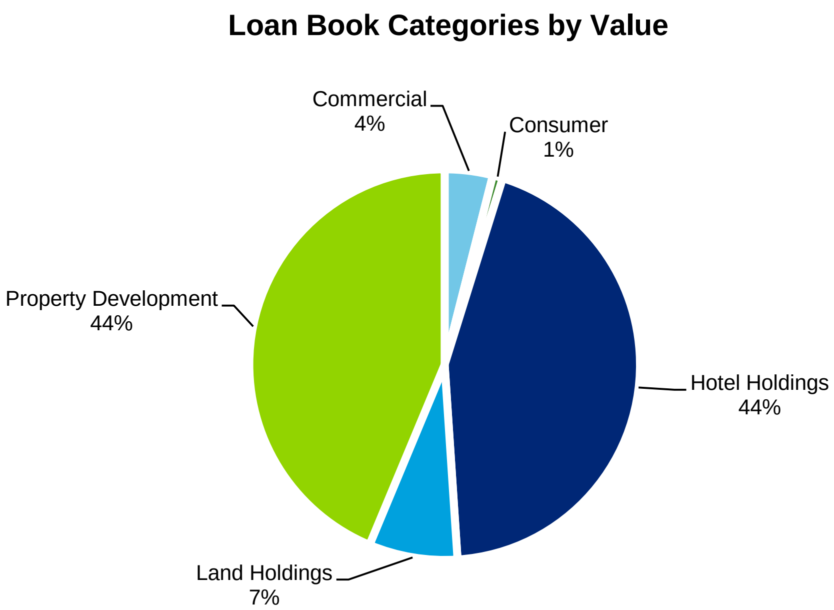
2. Completing further geo-tech analysis of the land following the June and December aftershocks.

There have been delays in advancing both of these matters but progress is now being made and it is expected that the subdivision can go to market within a matter of weeks. The Receivers are hopeful that this will be good timing for developers seeking to capitalise on demand for affordable sections.

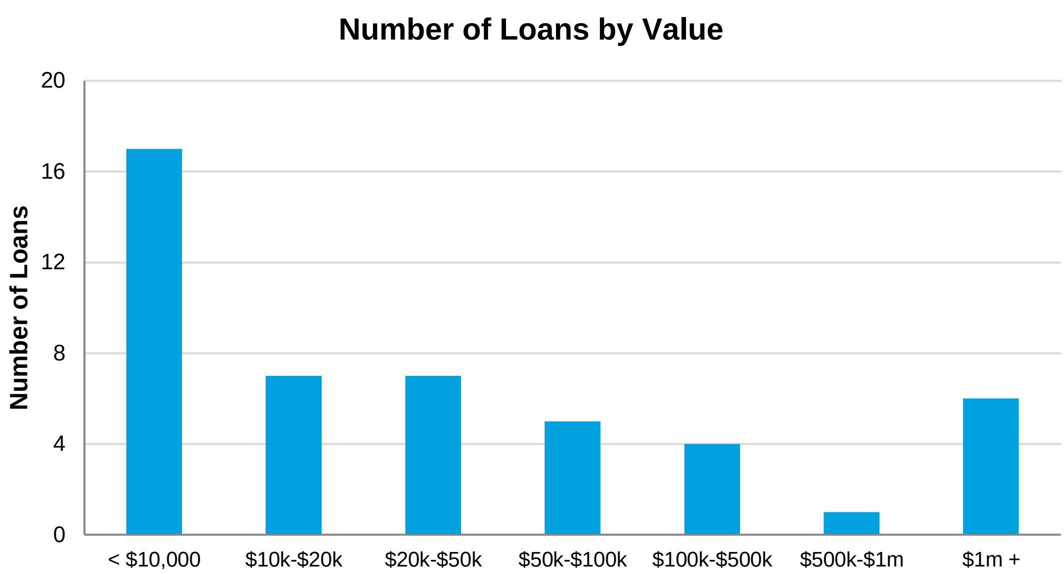
Despite possible demand for sections, the Receivers believe that there will be a significant shortfall between realisation proceeds and the carrying value in the books of Finance and Leasing.

Composition of Loan Book by Borrowing Type

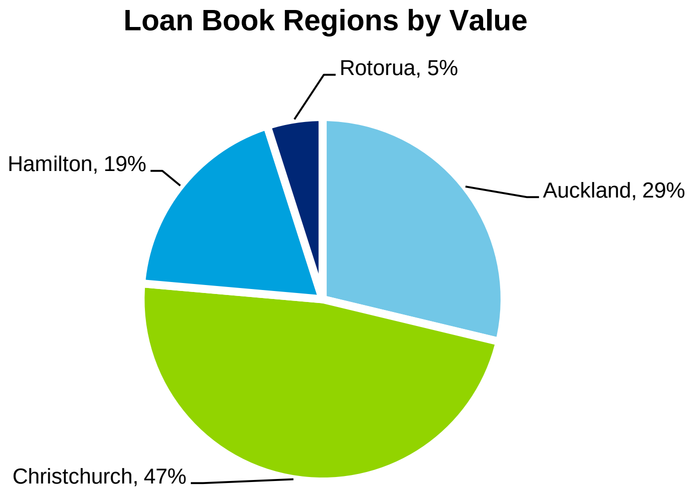
The following graphs show the net loan receivables as at 29 February 2012, by category, exposure and region.



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. Offers for all three sections were accepted by Finance and Leasing but one of those sales did not proceed. Some residual interest in the sections did not translate into any acceptable offers and the remaining section is being remarketed.

  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 which was purchased from a Finance and Leasing borrower in November 2008. The property is currently being marketed.

  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. Three buses have been sold and the Receivers continue to pursue buyer interest in the remaining bus.

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 appointor, the Receivers have moved quickly to realise these assets.

The Receivers have concluded sales of a number of securities to date. Realisation of remaining securities for borrowers in default is ongoing but in some 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.

Settlement of 32 loans has been completed since 18 January 2011.

4. Amounts Owed by Finance and Leasing

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

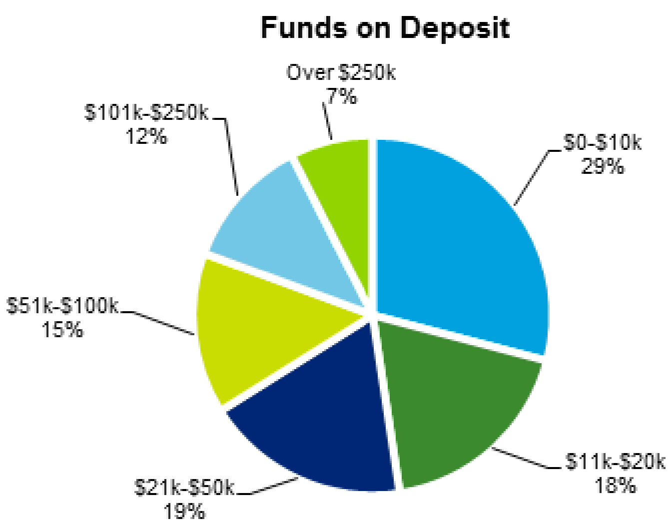
Finance and Leasing had 227 investors and $17.2m in depositor funds at receivership date (including funds held by the Trustee), with an average deposit of $76k. All debenture stock is secured under the Trust Deed.

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 in the process of confirming 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 confirmations from unsecured creditors for approximately $45,000.

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 five client exposures account for 98.3% of the total loan book. The return of funds to investors ultimately depends on the recovery of monies lent to these five clients.

Of the 24 loans that make up these five client groupings, 16 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.

The Receivers have remodelled previous estimates of realisation having regard to deteriorating market conditions, actual realisations to date and the financial position of borrowers and determined that a return in the range 35 cents to 60 cents in the dollar may be possible. To achieve returns at the higher end of this range could take more than 3 years to achieve since they are dependent on future earnings of borrowing entities.

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 propose that an initial distribution can be made within a month of this report based on recoveries made to date. However the timeframe for any further distributions beyond this initial distribution is uncertain.

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 29 February 2012 the loan receivables are as follows:

Loan Receivables	Book Value (‘000s)
Gross Loan Receivables	16,319
Less: Impaired Loans	*(1,150)*[1]
Loan Receivables Net of Impairments	**15,169**
Less: Other Accruals	*(176)*
Total Book Value of Loan Receivables	**14,993**

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

The only other assets recorded in the latest financial position of the company available as of 29 February 2012 are:

Other Assets	Book Value ('000s)
Bank	2,244
Accruals and Other Receivables	118
Office Equipment / Computers	3
Land and Other Assets Held For Sale	3,018
Deferred Tax	343[2]
Total Other Assets	**5,726**

Total assets are therefore recorded at a book value of $19m as of 29 February 2012 and are made up of:

Total Assets – Summary	Book Value ('000s)
Loan Receivables	14,993
Other Assets	5,726
Total Assets	**20,719**
Exclude Bank	(2,244)
Total Assets (Excluding Bank)	**18,475**

5.2. Summary of Debts and Liabilities

Particulars of debts and liabilities as of 29 February 2012:

Debts and Liabilities	Book Value ('000s)
Secured Creditors	
Perpetual Trust (for Debenture Holders)[1]	17,543
Preferential Creditors[2]	100
Unsecured Creditors	
Unsecured Debenture and Deposit Holders	-
Creditors[3]	45
Redeemable Preference Shares	600
Total	**18,288**

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. In addition to the book value of creditors, there is a significant potential liability which the receivers are disputing. The amount of that liability is dependant on the outcome of litigation.

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

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 15 March 2012 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)
1 August 2011 to 29 February 2012 with comparisons

(all figures excluding GST)

	1 August 2011 to 29 February 2012	18 January 2011 to 31 July 2011
Receipts	$	$
Loan Receipts	2,095,643	292,919
Net Proceeds from the Sale of Assets	11,957	111,018
Interest Received	4,957	977
	________	________
Total Receipts in the Period	**$2,112,557**	**$404,914**
Payments		
Capitalised Loan Costs:		
Rates and other expenses	10,598	991
Maintenance	1,936	1,622
General Expenses	1,861	12,166
Interest and Bank Fees	422	508
IT Software and Support	2,597	3,100
Legal Fees Receivership Related	3,752	24,819
Other Professional Fees	5,320	10,976
Rates on Finance and Leasing Assets	4,110	3,349
Receivers Fees	100,312	209,458
Salaries, Wages and Contractor Fees	3,342	39,525
Telephone and Communications	485	946
Travel expenses	238	901
Trustee Fees	13,974	37,600
Vehicle Costs	3,131	745
	________	________
Total Payments in the Period	**$152,078**	**$346,706**
	________	________
NET RECEIPTS IN THE PERIOD (EXCLUDING GST)	**$1,960,479**	**$58,208**
	========	========

7. Estimate of Receipts and Payments

Estimate of Receipts and Payments for Finance and Leasing Limited (In Receivership) (all figures excluding GST)

In modeling potential returns from the receivership, the Receivers have made the following estimates of receipts and payments for the next 12 month period and for a further 12 months beyond that. It is not anticipated that the receivership will be wound up in this timeframe because some of the larger exposures will clearly take some time to unwind.

	12 Months to 1 March 2013	12 Months to 1 March 2014
Receipts	$	$
Loan Receipts and Net Proceeds from Sale of Assets	3,105,000	1,357,000
	________	________
Total Receipts in the Period	**$3,105,000**	**$1,357,000**
Payments		
Receivers Fees	120,000	90,000
Preferential Creditors	100,000	-
Other Professional Fees	50,000	25,000
Other Expenses	30,000	10,000
	________	________
Total Payments in the Period	**$300,000**	**$125,000**
	________	________
NET RECEIPTS IN THE PERIOD (EXCLUDING GST)	**$2,805,000**	**$1,232,000**
	========	========

8. Receivers' Contact Details

The Receivers can be contacted at the address below.

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About Deloitte