

26 April 2010

## **DOMINION FINANCE GROUP LIMITED (In Receivership & In Liquidation)**

### **Investors Report**

#### **Confidential to Investors**

### **Summary**

- Enforcements and realisations of securities have progressed well with 84% having been realised at 26% above valuations 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, resulting in projected realisations overall of around 9% 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;
- Further funds have 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 ongoing litigation will delay this;
- Realisations to date remain consistent with original projections of total distributions in the range of 10 cents to 25 cents per dollar invested;
- This report includes the two weeks notice required prior to the next receivership distribution of 2.5 cents per dollar invested to be mailed during the week commencing 24 May;
- The timing of further distributions depends on the timing and outcome of remaining realisations. We note below that most remaining securities are subject to fundamental issues that make realisation projections, time taken to complete realisations and related costs subject to significant uncertainty. While we believe that realisation projections are slightly conservative based on information currently available, the time that will be required to realise is very uncertain. We will provide a further update around October regarding timing of the next distribution. At this stage we are not certain that another distribution will be possible this year.

### **Progress to Date**

We have realised the majority of Dominion's realisable securities by way of enforcement 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 has been deferred where there is virtually no market.

Progress to 9 March can be summarised as:

	<b>\$000</b>	<b>% of Original Estimate</b>
Sales Settled (195 Properties)	196,187	
Paid to First Mortgagees or GST	161,934	
Realised and Settlement Received	34,253	80%
Realised and to be settled (net of GST)	1,750	4%
Realised to Date	36,003	84%
To Be Realised (refer below)	7,028	16%
Initial Receivership Projections (excludes NSFL and Negotiable SSA's)	<b>43,031</b>	<b>100%</b>

We have previously noted 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. 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 195 settlements to date.

Overall we are very pleased with the realisations achieved to date at 26% above valuations at the time of our appointment 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 but two of these have now been resolved. The remaining 16% 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.

### **Directors & Officers Claim**

We outlined our approach to this in our 27 November 2009 report to Investors. We have now completed supporting information that will form the basis of the first part of a claim if the merits of this are supported by our lawyers after their review of the work completed to date. If legal review supports a claim we will progress discussions with litigation funders on the basis previously advised.

### **Claims Against Valuers**

We have made claims against two valuers that we believe over valued properties in support of a number of second mortgage advances that should not have been made. 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 of 26% 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 generally poor remaining securities subject to issues that were not apparent at the time of initial valuations, resulting in a projected outcome overall around 9% above initial valuations.

It is possible that this could be improved slightly going forward but 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 does not assume any recovery from actions against directors, valuers or other financiers. However realisation projections, 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 24 May. 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](http://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](http://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](http://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.

### **DOMINION FINANCE GROUP LIMITED (In Receivership & In Liquidation)**

*Rod Pardington*

**R G Pardington**  
**Receiver and Manager**  
**Personal Liability Excluded**