

Receivers' First Report on the State of Affairs of
Capital+Merchant Business Investments Limited (In Receivership)
Capital+Merchant Assets Finance Limited (In Receivership)
Capital+Merchant Property Holdings Limited (In Receivership)
- "the Companies"

Pursuant to Section 23 of the Receiverships Act 1993

Company Numbers: 1604754
1613730
1613728

April 2008

Registrar of Companies
Companies Office
Private Bag 92061
Auckland Mail Centre
AUCKLAND

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand
DX CP24073
www.pwc.com/nz
Telephone +64 9 355 8000
Facsimile +64 9 355 8001

April 2008

Capital+Merchant Business Investments Limited (In Receivership)
Capital+Merchant Assets Finance Limited (In Receivership)
Capital+Merchant Property Holdings Limited (In Receivership) – together “the Companies”

Please find attached our first report in relation to the Companies pursuant to Section 23 of the Receiverships Act 1993.

Yours faithfully
For the Companies



C T McCloy
Receiver

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1 Introduction

- Colin Thomas McCloy and John Anthony Waller, Chartered Accountants of Auckland were appointed receivers to each of the Companies by Perpetual Trust Limited (“the Trustee”) on 27 February 2008 under the terms of a security agreement giving the secured party a security interest over all of the assets and undertakings of the Companies.
- We understand that Capital+Merchant Assets Finance Limited and Capital+Merchant Property Holdings Limited have no assets and have never traded and therefore all comments in relation to assets and liabilities relate to Capital+Merchant Business Investments Limited (In Receivership) (“CMBI”).
- This report has been prepared by us in accordance with and for the purpose of Section 23 of the Receiverships Act 1993 (“the Act”). It is prepared for the sole purpose of reporting on the state of affairs with respect to the property in receivership and the conduct of the receivership.
- This report is subject to the restrictions set out at Appendix I. In particular, all information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993. Furthermore, in preparing this report we have relied upon and not independently verified or audited information or explanations provided to us.

2 Events Leading up to our Appointment

- CMBI is an Auckland based finance company which had a registered prospectus and issued secured debenture stock to the general public. It is a subsidiary of Capital+Merchant Group Limited (“CMG”).

- CMBI’s major assets were business loans purchased from Capital+Merchant Business Finance Limited (“CMBF”) through a Loan Acquisition Facility.
- These business loans were then managed by CMBF under a Loan Management and Administration Agreement. Security over these loans was held by CMBF on behalf of CMBI. CMBF also entered into and managed business loans from funding provided by a secured creditor who had security over all of CMBF’s assets.
- Following the threat of enforcement action being taken against CMBF, CMBF sold a sufficient number of loans in value to a third party to repay its loan to its secured creditor. Approximately \$1.1million of loans sold by CMBF were loans owned by CMBI.
- The appointment of receivers to CMBI was made after it was determined it would be unable to meet its payment obligations in relation to maturing investments.

3 Events Following our Appointment

- Upon appointment, we met with former officers of CMBI to obtain all of CMBI records and background information CMBI.
- We have carried out the following actions in respect of the Companies to date:
 - Carried out our statutory obligations under the Act including notifications to various parties of our appointment;
 - Written to all secured debenture investors advising of the receivership and requesting they confirm their outstanding balance;

- Written to all current loan holders advising them of the receivership and that CMBI has now taken over the loans;
 - Reported to the Trustee on the progress of the receivership;
 - Made collections on the outstanding loans; and
 - Sought legal advice and corresponded with numerous parties in relation to the sale of CMBI loans prior to the receivership.
- In the course of the receivership should it be determined that breaches of legislation have occurred, these breaches will be reported to the relevant Government Authorities.

4 Particulars of Debts and Liabilities outstanding at the Date of the Receiverships Requiring to be Satisfied from the Property in Receivership

Class of creditor	Name of creditor	Nature of claim	Note	Amount of claim \$
Secured Debenture Investors	Perpetual Trust Limited	Secured Debentures	1	1,836,034
Preferential creditors	Inland Revenue Department	Unpaid RWT and NRWT	2	15,000
Unsecured creditors	Unknown		3	?

Notes

1. *Principal balance outstanding to **Secured Debenture Investors** at the date of our appointment.*
2. *The RWT and NRWT tax position for the Companies are still being reconciled at the date of this report. This estimated amount is based on previous payments made to the IRD.*

3. *We have note received any unsecured creditors claims to-date, however, it is possible some may exist.*

5 Particulars of Assets Comprising the Property in Receivership

- Below are the particulars of the CMBI’s assets as at the date of our appointment, which have been prepared from the CMBI’s accounting records and information supplied to us by both CMBI and its officers.

Asset Description	Note	Book Value (\$)
Cash at Bank	1	760
Parent Company Loan	2	131,000
Loan Debtors under our control	3	873,987
Loans transferred to Third Party	4	1,097,851
Total		\$ 2,103,598

Note:

1. *Cash at bank on appointment that has been transferred into the receivers bank account.*
2. *A debt owed from its parent company Capital+Merchant Group Limited (“CMG”).*
3. *The book of the loans under our control*
4. *The book value of the loans transferred to a third party prior to the receivership as advised in section 2 of the report.*

- The Loan Debtors under our control are made up 12 loans. We note that some of the loans are impaired and it will be unlikely if recoveries are made in relation to those loans.
- CMG has advised that their only assets are investments in companies in receivership and are therefore unable to repay this loan.

- Please note that we have omitted certain details concerning the realisation of receivership assets, as we believe that their inclusion would materially prejudice the exercise of our functions and in particular our duty to obtain the best value reasonably obtainable in realising the receivership property.

6 Proposals for Disposal of Receivership Property

- We will continue to collect the loan debtors under our control. Where any loan goes into arrears we will consider all available enforcement action options and take any actions that we consider will provide an increased recovery to secured debenture investors.
- We have received detailed legal advice in relation to claims CMBI has against various parties over the sale of CMBI loans prior to receivership. We have been corresponding with some of these parties in an attempt to settle the matter. To date settlement has not been forthcoming.
- As a result we are currently considering all legal avenues and claims available to the receivers against the various parties involved in the sale of CMBI loan debtors.

7 Estimated Return for Secured Debenture Investors

- Due to the issues raised in the report it is too early at this stage to provide an estimate on the quantum and timing of a possible return to secured debenture investors.

8 Amounts Likely to be Available for Payment to Creditors other than Creditors of the Companies having Statutory Preferential Claims

- The process of realising the CMBI's assets is obviously not yet complete. However, from our observations to date, and the estimate of funds available for secured debenture investors we believe that there are unlikely to be any funds available for unsecured creditors.

9 Other Matters

- We will endeavour to keep investors updated on a regular basis. Our next formal update to investors will be issued by the end of July 2008. In the meantime, should investors or other stakeholders have any queries arising from this report, please contact us Nicholas Innes-Jones of this office on (09) 355 8808 or in writing via email, facsimile, or private bag address, as follows:

Capital+Merchant Business Investments Limited
(In Receivership)
c/- PricewaterhouseCoopers
Private Bag 92-162
AUCKLAND
Facsimile: +64 9 355 8013
Email: nicholas.r.innes-jones@nz.pwc.com

Appendix I

Restrictions

- All information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993.
- 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.