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12 May 2008

Dear Investor

**Capital+Merchant Business Investments Limited (In Receivership) - "CMBI"**

**1. Introduction**

As you are aware Colin Thomas McCloy and John Anthony Waller were appointed joint and several receivers of CMBI on 27 February 2008.

We take this opportunity to provide you with an update on the progress of the receivership since our initial letter to you dated 3 March 2008.

**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. CMBI Assets on Receivership**

The table below summarises CMBI's assets at the date of receivership:

Asset Description	Note	Book Value (\$)
Cash at Bank	A	760
Parent Company Loan	B	131,000
Loan Debtors under our control	C	873,987
Loans transferred to Third Party	D	1,097,851
<b>Total</b>		<b>\$ 2,103,598</b>

In relation to the table we note the following points:

- A The cash at bank that has been transferred into the receivers' bank account.
- B The Parent Company Loan is owed by CMG. CMG has advised that their only assets are investments in companies in receivership are therefore unable to repay this loan.
- C The Loan Debtors under our control were previously managed by CMBF. On receivership we terminated the loan management agreement between CMBI and CMBF and took control of these Loan Debtors. There are 12 loans in this category. We note that some of the loans are impaired and it will be unlikely if recoveries are made in relation to those loans. We are making every effort to maximise recoveries from these loans.
- D The Loans transferred to a Third Party are the loans referred to in section 2 of this update. We have received detailed legal advice in relation to claims CMBI has against various parties over the sale and transfer of these 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 and transfer of these loans.

**4. 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. We hope to provide you with further information in this regard in our next update to you.

**5. 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 June 2008. In the meantime, should investors or other stakeholders have any queries arising from this update, please contact Nicholas Innes-Jones of this office on (09) 355 8808 or in writing via email, facsimile, or private bag address, as follows:

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Yours faithfully  
 Capital+Merchant Business Investments Limited (In Receivership)



Colin McCloy  
 Receiver