



Receivers' Six Monthly Report on the State of Affairs of
Capital + Merchant Investments Limited (In Receivership)
For the six month period from 24 November 2008 to 23 May 2009
Pursuant to Section 24 of the Receiverships Act 1993
Company Number 1641853

July 2009



31 July 2009

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

CAPITAL + MERCHANT INVESTMENTS LIMITED (IN RECEIVERSHIP)

Attached is our six monthly report in relation to Capital + Merchant Investments pursuant to Section 24 of the Receiverships Act 1993. A copy of this report has been sent to Fortress Credit Corporation (Australia) II Pty Limited.

A handwritten signature in blue ink, appearing to read "R G Simpson".

R G Simpson
Receiver

A handwritten signature in blue ink, appearing to read "T W Downes".

T W Downes
Receiver

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Introduction

We, Richard Grant Simpson and Timothy Wilson Downes of Grant Thornton were appointed jointly and severally as receivers and managers of all the assets, property and undertakings of Capital + Merchant Investments Limited (“CMI” or “the Company”) on 23 November 2007 by Fortress Credit Corporation (Australia) II Pty Limited (“Fortress”).

We were appointed under the powers contained within a general security agreement dated 18 December 2006 issued by the Company.

We set out below our six monthly report on the state of the affairs of the Company as required by section 24 of the Receiverships Act 1993.

The property in receivership comprises all of the assets, property and undertakings of the Company, which are now under our control. The assets consist of loans advanced to third parties, secured by way of registered mortgages or general security agreements.

The directors of CMI at the date of our appointment were:

Neal Nicholls
Owen Tallentire

Wayne Douglas resigned as a Director on 15 February 2007.

Particulars of Assets and Disposals of Receivership Property

The table below summarises the reported assets of CMI as at 23 November 2007, based on unaudited management information.

Capital + Merchant Investments Limited Draft Management Accounts Unaudited	As at 23 November 2007 \$000's
Loans and Advances	113,698
CMF	451
Total Assets	114,149

Loans and Advances

The Company's only assets were 16 loans and advances, with a book value of around \$114 million.

All of the loans were for property development projects in various stages of completion. Interest was accrued and capitalised on most of the loan balances.

The table to the right above summarises the priority position of the loans along with our revised realisation estimates.

Loan Book	As at 23 Nov 2007 \$000's	Total Realisations \$000's
1st Mortgage	97,245	43,772
2nd Mortgage	16,453	12,700
Total	113,698	56,472
Paid to Prior Ranking Securities		12,700
Total Recoveries to CMI		43,772

We have continued to work with a number of stakeholders to review realisation strategies to maximise the recovery of the loans.

From these 16 loans, gross recoveries of approximately \$56.5 million had been realised as at 23 May 2009, with \$12.7million of this being paid to prior ranking security holders. Realisation for all 16 of the CMI loans have now been completed and no further recoveries are expected.

Recovery Strategy

Each loan was individually analysed by us to determine the appropriate strategy for maximising realisations. Due to commercial and confidentiality reasons we are unable to provide specific details in respect of individual loans.

We engaged a range of consultants, legal advisers and valuers to assist in the assessment of respective realisation options.

The options considered for each loan included, but were not limited to:

- Refinancing by the borrower;
- Consideration of purchase and/or settlement proposals received;
- Partial/full completion of developments with the assistance of the borrower and other financiers.
- Formal recovery action through the rights attached to securities held;
- An orderly sell down by the borrower; and
- Any other options that may have improved the value of securities held

Difficulties we have encountered with managing the recoveries include:

- Poor quality lending by Capital + Merchant Finance Limited (“CMF”) as the original loans were written by CMF.
- Unavailability of credit due to the decline in the property finance sector.
- A slowing in the property market.
- Decreases in values of assets subject to CMI’s security.

Particulars of Debts and Liabilities Outstanding

Fortress

Fortress is secured by a General Security Agreement dated 18 December 2006.

To date we have repaid Fortress \$40.2 million. Fortress is owed \$16.2 million as at 23 May 2009.

Based upon the information available, we expect that Fortress will not be repaid in full.

Capital + Merchant Finance

We were also appointed receivers of CMF by Fortress on 23 November 2007.

CMF holds participatory interests in the loans and advances of CMI totalling \$65.0 million.

Our initial estimate was that CMF may recover between 1% to 33% of its investment in CMI loans, over time. This preliminary estimated range reflected considerable risks and uncertainties relating to the recoverability of certain loans.

Unfortunately the loan quality, the deteriorating property market and lack of alternative credit to facilitate refinancing options have had an accumulated adverse effect on our ability to recover outstanding loans and assets.

As a consequence our revised estimate of recoveries to CMF is \$nil.

We detail our estimate below:

Capital + Merchant Investments Limited Estimated Realisation	Book Value As at 23 Nov 2007 \$000's	Estimated Realisation July 2008 \$000's	Revised \$000's
Loans and Advances	113,698	48,395	43,772
Total Assets	113,698	48,395	43,772
Less Fortress (excluding interest from receivership date)	48,672	48,672	48,672
Available for CMI/Shortfall to Fortress	65,026	(277)	(4,900)
CMF	65,026	65,026	65,026
Surplus/(Shortfall) to CMF		(65,026)	(65,026)
Estimated Percentage Return to CMF		0%	0%

Receipts and Payments

The table opposite sets out the receipts and payments for the Company from 24 November 2008 to 23 May 2009.

We note the following in respect of the receipts and payments summarised in the table:

- From the 16 Loans, gross recoveries of \$56.5 million had been realised as at 23 May 2009. This figure includes \$3.7million of realisations in the last six months.
- Legal fees to date include general receivership advice, loan specific advice, property administration and transfer, and loan documentation services.
- Realisation costs relates to rates and Body Corporate fees outstanding on properties sold as part of the loan recovery process.
- While CMI has cash of \$986k on hand at 23 May 2009, virtually all of this relates to cash held with regards to ongoing negotiations with the IRD in relation to GST matters.

Capital + Merchant Investments Limited (In Receivership)
Receivers' Receipts & Payments
For the Period: 24-November-08 to 23-May-09 **000's**

Receipts	
Balance brought forward	40,491
Loan Settlements	3,737
Interest from Bank	13
Total Receipts	44,240
Payments	
Balance brought forward	39,550
GST Paid	57
IT Related Costs	6
Legal Fees & Disbursements	49
Loan Advances	2
Realisation Costs	352
Receivers Fees & Disbursements	46
Secured Creditor Repayments - Fortress	3,191
Sundry	1
Total Payments	43,255
Net Funds on Hand	986

Appendix 1

Restrictions

All information contained in this report is provided in accordance with Sections 25 and 26 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 the information provided to us, and have not conducted any form of audit in respect of the Company. 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 and assumptions made as at the date of this report. It is possible that actual outcomes may be significantly different from those disclosed in this report.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information becomes available.

In addition the following should be noted:

- Certain numbers included in tables in this report have been rounded and therefore may not add exactly.
- All amounts are stated in New Zealand dollars.

Appendix 2

Directory

CMI:	Capital + Merchant Investments Limited (In Receivership)
CMF:	Capital + Merchant Finance Limited (In Receivership)
Fortress:	Fortress Credit Corporation (Australia) II Pty Limited, Level 43, 50 Bridge Street, Sydney, NSW 2000, Australia
Receivers:	Richard Simpson and Timothy Downes of Grant Thornton