

8 October 2013

Corporate
Trustee Services



(Investor)

(Address)

Dear Capital & Merchant Investor

This letter is to inform you of recent developments in relation to Capital + Merchant Finance Ltd (C+M) (in receivership and in liquidation).

The current situation

As you may have seen in media reports, in August 2012 the C+M Receivers (Brendon Gibson and Grant Graham of KordaMentha) filed a statement of claim in the High Court against Perpetual Trust alleging that Perpetual had breached its duties as trustee of C+M.

In July 2012, in anticipation of the Receivers' Court proceedings being filed, Perpetual applied to the High Court under s46 of the Trustee Act 1956 (the Act) for Public Trust to be appointed as the replacement trustee for C+M (in receivership and liquidation).

At the time Perpetual filed its application, s46 of the Act provided that a trustee who wished to retire might apply to the Court for the appointment of a replacement trustee. In such a case, if the Court thought it appropriate to appoint Public Trust, then Public Trust was obliged to undertake the appointment. Since the application was filed, the law has been amended so that Public Trust does not have to accept such appointments without being indemnified for its costs.

Public Trust was appointed Trustee by the Court in accordance with the Court's ruling dated 6 September 2013.

What the appointment of Public Trust means

In essence, very little has changed about the C+M situation.

C+M is in receivership and liquidation. As Trustee, Public Trust takes on the role of supervising the receivership at its own cost.

The Receivers have already indicated to investors that the only recoverable asset is what might become available if the Receivers are successful with the civil claims they have filed against the retiring Trustee (Perpetual Trust) and other parties. The Receivers' claim is currently set down to be heard in the High Court in April and May 2014.

Other than this, the Receivers are of the view that recovery of any money for debenture holders is unlikely. Based on our initial review of the C+M file from Perpetual Trust as part of our preparation to take on the role, we agree with this assessment.

Given that C+M has no assets, the Receivers' litigation is being externally funded by a litigation funder and, if successful, the litigation funder will be the first to receive payment, as this is how such external funding arrangements are set up.

By law, secured creditors would be next to be paid, and the Receivers (first and second) followed by the Trustee as well as any other secured creditor that had not been paid in full. Any remaining balance would be payable to the investors in C+M.

It is very important to note that even if the Receivers' legal proceedings are successful any monies recovered may well be limited. It will not be known if investors will receive any return until sometime after the Court hearing that is set down for April and May 2014. The judgment delivered after that hearing could also be appealed, which would further delay the outcome.

Next steps

As Trustee, we are required to ensure that actions taken are in the best interest of investors. We will monitor progress with the litigation and meet regularly with the Receivers and their advisors.

Future updates from Public Trust on C+M will be posted on Public Trust's special C+M website (<http://www.publictrust.co.nz/corporate-trustee-services/our-services/capital-merchant-investor-update>).

In addition, we have set up a special 0800 number for C+M investors (0800 002 962). If you have any questions, you can leave your contact details and someone will get in touch with you, or alternatively you can email us on capital-merchant@publictrust.co.nz.

A number of documents are also available on the Companies Office website. These include the six-monthly reports from the Receivers as well as the Liquidators. They can be found here: <http://www.business.govt.nz/companies/app/ui/pages/companies/1180423/documents>.

Yours sincerely



Dennis Church
General Manager
Corporate Trustee Services