

Meltzer Mason Heath

Chartered Accountants practising as insolvency specialists

Refer to: Lloyd Hayward

No. of Company: 1770645

Liquidators' Further Report

ART Apartments Limited (In Liquidation)

For the period to 7 August 2008

Introduction

ART Apartments Limited ("ART Apartments") was placed into voluntary liquidation on 8 February 2008 when Jeff Meltzer, Arron Heath and Lloyd Hayward were appointed joint and several Liquidators.

In accordance with section 255 of the Companies Act 1993 the Liquidators are obliged to report to all creditors and shareholders on the conduct of the liquidation during the preceding six months. This report covers the period to 7 August 2008.

Action to Date

The company is part of a group that operated as the New Zealand franchise of Blue Chip Financial Solutions Limited (now known as Northern Crest Investments Limited). Together with 18 other companies it was placed into liquidation on either 8 or 12 February 2008.

The Liquidators' initial work has been to:

- Take control of all known assets and undertake whatever action is required to realise those assets;
- Take control of available books and records (including a backup of the entire computer system immediately after appointment);
- Advertising notice of the Liquidators' appointment in the major daily newspapers and also the New Zealand Gazette;
- Preparing and filing a First Report to Creditors, including compiling a list of creditors for each company in liquidation;
- Calling and conducting creditors meetings on 26 March 2008 in Auckland for most of the companies.



The Court granted an application from the Liquidators to defer the holding of the first meetings until 26 March 2008 in order for the Liquidators to compile the information necessary to prepare the First Reports and Statements of Affairs;

- Attend informal meetings of investors in Auckland, Tauranga, Christchurch and Invercargill.
- Receive claims from creditors and allocate those claims to the relevant vendor company.
- Deal with numerous enquiries from investors, tenants, property managers, local authorities, building managers, body corporates, utility companies and trade creditors.

In addition the Liquidators have:

- Participated in setting up of the investor help line and seeking the assistance for investors of members of the New Zealand Institute of Chartered Accountants.
- Prepared and published on the Liquidators' website (www.mmh.co.nz) extensive additional information for investors regarding Blue Chip developments and products.

Receipts and Payments

There have been no receipts and no payments during the period covered by this report.

Asset Realisations

In the Liquidators First Report we noted that ART Apartments acted as the lessee, taking leases on short stay apartments from investors. In turn ART Apartments via Bribanc Property Group Limited (in liquidation) ("Bribanc"), acting as property manager, sub-leased the properties on a short term basis.

Prior to the liquidation investors had been advised of Bribanc contracting out of the property management obligations and encouraged to assess their position. Both prior to and subsequent to liquidation significant numbers of investors terminated their property management agreements with Bribanc and their lease arrangement with ART Apartments. We understand that property managers have passed all rentals subsequent to lease termination to investors.

We also noted that there were inter-company debts between various Blue Chip entities now in liquidation, in particular the franchise operating company Mide Limited (In Liquidation). The results of these liquidations to date suggest that there is unlikely to be any realisation from these debts for ART Apartments.

There have been no realisations of assets during the period covered by this report

Dividends

There have been no dividends paid during the period covered by this report.

The following sections of this report incorporate comments relating to all of the Blue Chip companies to which we have been appointed.

The liquidators now have under their control 21 companies in the Blue Chip Group. These companies include those with investors who paid deposits for apartments in complexes yet to be completed. We are working with the Official Assignee's Office who is liquidator of 26 further companies.

Creditors will be aware that the affairs of this group of companies are both intricate and messy. Documents issued by various companies do not correspond with flows of funds and/or the accounting records in those companies. In some cases there is a lack of accounting records and source documents. For this reason the liquidators are seeking further information from management and the directors or former directors of relevant companies.

We are aware of legal steps being undertaken on behalf of a range of individual investors. These steps are separate to those being undertaken by the Liquidators although there are areas where mutual assistance may be possible for the benefit of all creditors with like interests. We have commissioned legal opinions on key issues and have isolated key documents and accounting issues which are in the process of being analysed and researched.

The liquidators will then determine how to progress matters for the benefit of creditors both generally, and in particular, ways which may assist individual classes of creditors.

Investigations

Inquiries have been made and investigations have commenced into the companies' operations both prior to and subsequent to the creation of the New Zealand Blue Chip franchise in August 2007. (The master franchisee, Mide Limited, was placed in liquidation on 27 February 2008. Blue Chip New Zealand Limited was placed in liquidation on 15 April 2008.)

Those inquiries include:

- Discussions with directors, former directors and ex-employees
- Preliminary review of available financial records
- Assessment of causes of failure
- Assessment of potential recovery of assets
- Tracing of investor funds
- Liaison with Government agencies

The results of the inquiries can be summarised as follows:

1. Investor deposits for earlier developments were paid into a bank account in the name of Blue Chip New Zealand Limited and were not held in solicitors' trust accounts.

2. A special condition of sale in the Sale and Purchase Agreement allowed for early release of the deposit for which the investor received compensation of 9.3% per annum.
3. Investor deposits paid for apartments for the Turner & Waverley Streets, St Martins Lane and Parkside (Emily Place) development properties were paid into a Blue Chip New Zealand bank account. These properties were not owned and were not to be developed by any of the companies of which Jeff Meltzer, Arron Heath & Lloyd Hayward are the liquidators. The developments did not proceed and were sold. The deposits were not returned to investors. The apartments sold originally by Blue Chip did not transfer to the new developers.

Subsequent to the sale of the developments Blue Chip sold apartments for the new developers pursuant to an underwrite agreement. Deposits for these sales are held in solicitors' trust accounts.

The Parkside (Emily Place) development did not proceed.

4. Investor deposits paid into the Blue Chip New Zealand Limited bank account (see 1, above) were probably used to fund joint venture payments, interest payments and other compensation to investors, and royalties under a Supply Agreement between Blue Chip New Zealand Limited and Ingot Holdings Limited. Ingot Holdings Limited is a company associated with Mr Mark Bryers and is outside of the Blue Chip Group of companies. It was renamed Marinc Limited and is now in liquidation. Investigations are continuing on the use of the monies by Blue Chip New Zealand Limited and/or by Ingot Holdings Limited.
5. The companies that investors purchased properties from have no assets other than a debt from Blue Chip New Zealand Limited. There is little likelihood that this intercompany debt can be recovered for the benefit of creditors.

Investigations into the actions of the companies' directors and the flow of funds into and from Blue Chip New Zealand Limited are ongoing. As a result of those investigations, further issues have been identified and form part of the ongoing investigation. Substantial progress has been made in compiling information to enable an effective analysis to be conducted of the operations of a number of companies in the Blue Chip Group.

Funding and Recovery

The Liquidators have been granted an allocation of funds from the Liquidation Surplus Account. Funds from the account can be used for legal or other expert advice and are being used by the Liquidators to investigate whether the companies' activities breached any provisions of New Zealand legislation.

The Liquidators have sought the advice of senior counsel on the merits of pursuing a particular course of action for the benefit of creditors and are currently awaiting an opinion from counsel.

The Liquidators are continuing to liaise with various Government agencies empowered to deal with breaches of legislation or to investigate possible fraudulent activity.

Outstanding Matters

- Realisation of assets as and when identified.
- Continued investigation of possible actions and areas for recoveries for the benefit of creditors.
- Subject to funding, initiating appropriate recovery actions as identified.
- Attending to investor queries.
- Liaising with Government agencies.

Other Actions

A large number of investors have enlisted in investor groups to either:

- Review the possibility of taking action against financial advisers, lawyers, valuers and other professionals that may have been involved in the investment process; or
- Seek to have their Sale and Purchase Agreement cancelled and their deposit returned.

Such groups provide the best avenue for possible recovery in those circumstances. Their actions are independent of and complementary to the work the Liquidators are currently undertaking.

Please contact Lloyd Hayward of this office should you require any further information.

Dated this 5th day of September 2008

L J Hayward
Liquidator