

Meltzer Mason Heath

Chartered Accountants practising as insolvency specialists

Refer to: Arron Heath

No. of Company: 1279229

Liquidators' Further Report

Blue Chip New Zealand Limited (In Liquidation)

For the period 16 April 2008 to 15 October 2008

Introduction

Blue Chip New Zealand Limited ("BCNZ") was placed into voluntary liquidation in Auckland on 15 April 2008 when Jeffrey Phillip Meltzer, Arron Leslie Heath and Lloyd James Hayward were appointed joint and several Liquidators.

BCNZ was the former operating company for "Blue Chip" operations in New Zealand; however, with the formation of the Blue Chip New Zealand master franchise in August/September 2007, BCNZ's role as operating company was assumed by Mide Limited and BCNZ's operations were wound down.

(Jeff Meltzer, Arron Heath and Lloyd Hayward are also liquidators of 20 other companies involved in the Blue Chip operation in New Zealand.)

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 16 April 2008 to 15 October 2008.

Action to Date

The Liquidators' initial work has been to:

- Take control of all known assets and undertake whatever action is required to realise those assets.

BCNZ's only assets appear to be receivables from other companies within the Blue Chip Group. The Liquidators' consider it unlikely that these inter-company receivables can be realised for the benefit of creditors.

BCNZ did own some office furniture and equipment and these have been sold at auction.

- Take control of available books and records (including a back up of the entire computer system).



- Advertising notice of the Liquidators' appointment.
- Compiling a list of BCNZ's creditors and preparing and filing a First Report to creditors.

Schedule of Receipts and Payments

A schedule of receipts and payments for the period 16 April 2008 to 15 October 2008 is attached.

Asset Realisations

Office furniture and equipment has realised \$9,359 and a pre-liquidation GST refund of \$35,379 has been received. No other assets have been realised.

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 which we are liquidating.

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 been commenced into the companies' operations both prior to and subsequent to the creation of the New Zealand Blue Chip franchise in August 2007.

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 and 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.
- 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.

Creditors Claims

Even though section 7 of the Liquidators' First Report outlined creditors' entitlements to claim against BCNZ (investors' claims that could be accepted by the Liquidators were claims for guaranteed rental income and alterations compensation payments) many creditors just resubmitted the claim(s) they have made previously against other Blue Chip companies in liquidation. At this stage, with no prospect of a dividend being paid to creditors, the Liquidators have neither accepted nor rejected creditors' claims in the liquidation.

Please contact Arron Heath of this office should you require any further information.

Dated this 16th day of October 2008

A L Heath
Liquidator

Blue Chip New Zealand Limited (In Liquidation)

Receipts and Payments

For the period 16 April 2008 to 15 October 2008

	\$
Receipts	
Furniture and office equipment	9,359.11
Pre-liquidation GST refunds	35,379.43
Advance from shareholder	34,407.55
Interest	605.82
GST refunds	6,622.84
	<u>86,374.75</u>
Payments	
Liquidators' Remuneration	61,442.50
Liquidators' Disbursements	1,606.45
Auctioneer's commission and expenses	2,620.66
Bank fees	0.25
Computer services	642.99
GST paid	7,961.49
	<u>74,274.34</u>
Balance carried forward	<u><u>12,100.41</u></u>

Notes: The funds held are subject to further costs of winding up.