

4. Events Leading to Appointment of Liquidators

In July 2004, the law firm of McKay Hill changed their mortgage management structure in that they had been handling mortgage investments through a solicitor's nominee company but changed to an independent mortgage trust as this was considered more flexible and could be independently managed. The company used for this purpose was Central Mortgage Trust Limited and it operated on a very similar basis as before.

During May 2010 the New Zealand Law Society undertook their normal regular review of the McKay Hill trust account. During that review discrepancies were found which resulted in the suspension of Gerald McKay's practising certificate causing the cessation of trading of McKay Hill. They also froze the trust account which was also used by Central Mortgage Trust Limited. The flow on effect of all this meant Central Mortgage Trust Limited was unable to trade and the shareholders passed a resolution putting the company into liquidation.

5. Statement of Affairs

We attach as *Appendix I* a statement of the company's affairs as at the date of our appointment.

This has been prepared from information provided by the directors of the Company, assistance from the Law Society and records obtained from McKay Hill. The Liquidators are not yet able to express an opinion on the validity of that information.

Also attached as *Appendix II* is a list of known creditors as at the date of appointment.

6. Proposals for Conducting the Liquidation

The Liquidators intend to review all available records to gain an understanding of the mortgages, the borrowers and the investors involved. They then intend to hold a meeting of investors in Napier during August 2010 to discuss their findings, matters undertaken to date and an assessment as to where they see the liquidation progressing and likely outcomes for investors.

Furthermore, an investigation will be conducted of the company's books and records to establish if there are any potentially voidable transactions or potential current account issues and to ensure the director has complied with his duties and obligations imposed on him under the Companies Act 1993.

7. Estimated Date of Completion of Liquidation and Notice As To Further Reports

It is not practicable to estimate the date of the completion of the liquidation at this stage. Further reports will be issued six monthly, with a final report at the conclusion of the liquidation.

8. Creditors Meeting

A Liquidator may call a meeting of creditors in order to decide whether an application should be made to the Court to appoint a replacement Liquidator. As this business did not have normal trade creditors the Liquidators consider, in accordance with section 245 of the Companies Act 1993 that no such meeting should be held.

However, a meeting of investors will be called and is currently scheduled for 5 August 2010, in Napier. Formal notice of this meeting will follow in due course.

In accordance with Section 314 of the Companies Act 1993 a creditor or shareholder may request the Liquidators to call a meeting of creditors or shareholders at any time in the course of the Liquidation to vote on a proposal that a Liquidation Committee be appointed to act with the Liquidators. This request must be in writing.

The Liquidators may decline a request by a creditor or a shareholder to call a meeting on the grounds that:

- a) the request is frivolous or vexatious; or
- b) the request was not made in good faith; or
- c) the costs of calling the meeting would be out of proportion to the value of the company's assets.

The decision to decline a request may be reviewed by the Court on the application of any creditor or shareholder.

9. Creditor/Investor Claims

If your terms of trade with the company include reservation of title of goods supplied please contact Steph Harborne of RHB Chartered Accountants Limited on 07 571 6280.

Please complete and return the enclosed Unsecured Creditors Claim form by 3 August 2010 to P O Box 15660, Tauranga, if not done so already. If you believe that you are a secured creditor please contact our Tauranga office and the appropriate forms will be sent to you.

Completion of your claim should be given your urgent attention. If creditors do not lodge a claim with the Liquidators, they are not entitled to share in any distribution to creditors that may be made by the Liquidators.

10. Further Information

If you require any further information or if you have any information that will be of assistance to the Liquidators please contact Steph Harborne in the first instance and if need be she can arrange for one of the Liquidators to make contact.



Kenneth Peter Brown
Joint Liquidator

Appendix I

Central Mortgage Trust Limited (In Liquidation)
Statement of Affairs
as at the Date of the Appointment of the
Liquidators being 1 July 2010

	<i>Notes</i>	<i>Amount</i> \$
Assets		
Mortgages	1.	2,113,868
McKay Hill Trust Account (frozen by the New Zealand Law Society – yet to be reconciled)	2.	Unknown
	3.	<hr/>
		2,113,868
Less Secured Claims		Nil
Less Preferential Claims		
Inland Revenue Department		<hr/> Nil
Surplus before Unsecured Creditors		2,113,868
Less Unsecured Creditors		
Investors	4.	2,113,868
Deficit (before costs of liquidation)		<hr/> NIL <hr/>

Notes

- 1. This is the total of mortgages outstanding from company records. At this early stage the Liquidators are unable to advise an estimated value. Some of these mortgages are second mortgages which may prove harder to collect. Not included in this total is a bundle of mortgages that were being administered by the company for a management fee, but not brokered by it and did not form part of the company's portfolio.*
- 2. The New Zealand Law Society has frozen this account pending their investigations. The Liquidators believe there may be some funds held due to this company but early indications from the New Zealand Law Society are that there may be no realizable value.*
- 3. Because the company operated within the law practice of McKay Hill, there are no assets such as office equipment and no other bank accounts. In addition the company employed no staff.*
- 4. While the mortgages equal the investor balances, this is dependent on the mortgages being realised in full. As some were already in default at the time of the Liquidators appointment and several are second mortgages, it is unlikely the face value will be realized, which will reduce the balance available for investors. In addition, Liquidator and legal costs will further reduce the funds available for distribution. Furthermore investment funds are not covered by the New Zealand Law Society Fidelity Fund.*

Disclaimer

This statement should be read in conjunction with the disclaimer on page one of the above Liquidators report and RHB Chartered Accountants Limited have not audited the report and they, their directors or employees accept no liability to any other party in relying on the information presented. The purpose of the report is to give creditors of the company an indication of the financial position of the company as at the date of appointment of the Liquidators.

**Central Mortgage Trust Limited (In Liquidation)
Schedule of Creditors (Investors) as at 1 July 2010**

Anderson Estate	C/- RA Anderson	541 Main North Road, Bayview	Napier 4104
Beck Estate	C/- McKay Hill		
A Bolton	43 Thomas Place		Foxton Beach 4815
HP Bourke			
Cameron Family Estate	C/- HE Cameron	549 Lyndhurst Road	Hastings 4120
Cormack Trust	C/- R & JM Beck	40 Guys Hill Road	Napier 4110
Edwards Estate	9 Delhi Road		Napier 4110
Edwards (Infant) Trust A	C/- F & D Ormond	164 Newcastle St, Mahia Beach, RD 8	Wairoa 4108
Edwards (Infant) Trust B	C/- F & D Ormond	164 Newcastle St, Mahia Beach, RD 8	Wairoa 4108
R & E Evans	11 The Esplanade	Campbells Bay, North Shore	Auckland 0630
French Estate	4 Bishops Close	Greenmeadows West	Napier 4112
Green Family Trust	C/- AA Green	PO Box 35211, Naenae	Lower Hutt 5041
DP & DM Hartree	RD 6		Puketapu 4186
Heynes Estate	C/- LG Heynes	55 Ferry Road	Clive 4102
LG Heynes	55 Ferry Road		Clive 4102
MA Larsen			
McKay Hill	C/- The Law Society	PO Box 5041, Lambton Quay	Wellington 6145
F & DM Ormond	164 Newcastle St	Mahia Beach, RD 8	Wairoa 4108
Ormond Estate	C/- F & D Ormond	164 Newcastle St, Mahia Beach, RD 8	Wairoa 4108
Ormond (Infant) Trust	C/- F & D Ormond	164 Newcastle St, Mahia Beach, RD 8	Wairoa 4108
AE Perfect	21 Fleming Crescent		Napier 4110
EM Reid	2/196 Vigor Brown St		Napier 4110
DMH Ross-Smith	9 Delhi Road		Napier 4110
HB Stuart	PO Box 111	Frasertown	Wairoa 4160
VM Swailes	2/38 Alamein Crescent	Onekawa	Napier 4110
DR & C Taylor	PO Box 33180	Takapuna	Auckland 0740
Traves Family Trust	32A Tom Parker Ave		Napier 4110
Whitson Estate	C/- JC Whitson	13/32 Wairau Avenue, Avondale	Auckland 1026