

## **Bridgecorp Finance Limited**

(Receivers and Managers Appointed)(Administrators Appointed)

ACN 095 328 948

### **Investor Update**

27 September 2007



# Contents

Section	Page
<b>Contents</b>	
<b>1 Executive Summary</b>	<b>3</b>
<b>2 Bridgecorp Finance Loans</b>	<b>4</b>
<b>3 Convertible Notes</b>	<b>6</b>
<b>4 Inter-company Loans</b>	<b>7</b>
<b>5 Funds Transferred to Bridgecorp NZ</b>	<b>8</b>
<b>6 Directors Report as to Affairs</b>	<b>9</b>
<b>7 Deed of Company Arrangement</b>	<b>10</b>
<b>8 Aged Pension Deeming Exemption</b>	<b>11</b>
<b>9 Interest Statements 2006-07</b>	<b>12</b>
<b>10 Receipts and Payments</b>	<b>13</b>
<b>11 Contact Us</b>	<b>14</b>
<b>Appendices</b>	<b>15</b>
<b>Abbreviations</b>	<b>16</b>
<b>Key Contacts</b>	<b>17</b>

## 1 Executive Summary

- Investors will recall Permanent Nominees (Aust) Limited (“Permanent”) appointed Andrew Love and myself Joint Receivers and Managers of Bridgecorp Finance Limited (“BFL”) (“the Company”) on 3 July 2007. This preceded the appointment of Messrs Carter and Longley of PricewaterhouseCoopers as Joint Administrators (“the Administrators”) of the Company on 4 July 2007.
- There have been a number of matters dealt with since our appointment including but not limited to:
  - Investigating and securing BFL assets
  - Correspondence with the directors and investors
  - Liaising with the Administrators in respect of securing company records
  - Discussions with the Federal Government to secure pension exemptions for elderly investors
- Recovery action in respect of loans to entities directly and indirectly associated with Mr Craig McDermott will significantly influence the outcome for Debenture and Unsecured Note Holders. Current loan amounts outstanding total approximately \$22 million.
- At this point we are unable to estimate, with any degree of accuracy, a return to investors due to the critical and uncertain nature of recoveries in relation to the McDermott related debts.
- Not all BFL assets will be recoverable. Of the outstanding potentially recoverable assets of BFL, we advise they may be dissected as follows:

	Receivers Book Value of Recoverable Assets	Receivers Estimated Realisable Value
	\$000s	\$000s
ASSETS		
McDermott related Loans & Notes	21,900	Unknown
Other Loans	2,366	825
Intercompany Loans	17,551	Unknown
<b>TOTAL ASSETS</b>	<b>41,817</b>	<b>Unknown</b>

- The Administrators’ second meeting of creditors on 31 July 2007 was adjourned for up to 60 days pending receipt of a Deed of Company Arrangement (“DOCA”) proposal from the directors within 21 days. The Administrators subsequently received a summary of the key components of a proposal. The directors have sought and received court approval to allow a further adjournment of the meeting subject to creditor approval. We understand the Administrators are prepared to recommend further adjournment for up to 60 days.
- For income tax purposes, investors have been provided with a payment summary of interest income earned during the 2006/07 financial year. The statements were prepared by BFL prior to entering Administration. They include June 2007 interest which we note has not been paid. We recommend investors seek independent advice as to how this information ought to be dealt with from an income tax perspective and in respect of pension entitlements.

## 2 Bridgecorp Finance Loans

- We are currently in the process of recovering the BFL loan book. The process is proving arduous given that the current “book” represents the result of the past 12 months of “running” it down.
  - All loans currently owing represent second mortgages over various land / residential property developments. The developments are in varying stages of completion and their recoverability is dependant on either the sale of the respective properties or the borrowers’ ability to refinance. Some debts owing represent balances owing after the sale of properties.
  - We have made contact with all but one of the BFL borrowers (Greg Ross) and the respective first mortgagees with a view to maximising recovery of individual loans. Mr Ross’ debt is personally guaranteed by Mr Craig McDermott. We have no idea of Mr Ross’ current location where we are concerned as to his ability to repay the debt.
  - We are in ongoing discussions with Mr McDermott in respect of debts owed to BFL by his various development companies where they are all overdue for repayment.
  - Mr McDermott has been requested to provide further financial information supporting his/his group’s ability on a timely basis to repay debts owing.
  - Should Mr McDermott/his group be unable or unwilling to provide us with an acceptable proposal it will be necessary for us to consider initiating other recovery procedures.
  - We have been able to identify some value in two loans previously thought by Bridgecorp to be unrealisable whereas a number of other loans are expected to realise less than the director’s projections.
- We have inspected a number of the developments representing loans outstanding in order to assess their inherent value with a view to improving the accuracy of our recoverability estimates and the timing thereof. We note that due to reasons of commercial sensitivity we are not in a position to further elaborate on our current views of the recoverability of the McDermott related debts. We summarise our views on the recoverability of other debts (excluding inter-company debts) owing below:

Loan	Book Value	Receivers Esitimated Realisable Value	Estimated Timing of payment
<b>Non-McDermott Related</b>			
	<b>\$000s</b>	<b>\$000s</b>	
Clean Print Pty Ltd	Nil	200	4 months
Consolidated Property Holdings Pty Ltd	Nil	125	2 years
Sterling Guardian Pty Ltd	622	Unknown	Unknown
Bayshore Port Melbourne	1,076	500	6 months
One Spencer Street Pty Ltd	668	Nil	N/A
<b>TOTAL NON-MCDERMOTT RELATED</b>	<b>2,366</b>	<b>825</b>	
<b>McDermott Related</b>			
	<b>\$000s</b>	<b>\$000s</b>	
Bargara Beach Estate Pty Ltd	10,800	Unknown	Unknown
Maxen Developments Pty Ltd (Notes)	9,000	Unknown	Unknown
Greg Ross (Guarantor)	2,100	Unknown	Unknown
<b>TOTAL MCDERMOTT RELATED</b>	<b>21,900</b>		
<b>TOTAL</b>	<b>\$24,266</b>		

## 2 Bridgecorp Finance Loans

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- Throughout the course of 2006, BFL sold (assigned) approximately \$40 million in loans to Bridgecorp Finance (Australia) Limited (“BFAL”). It appears due consideration was paid for the majority of these loans. However, our investigations have disclosed a number of issues which we continue to investigate, namely:
  - The execution of the assignment documentation
  - Apparent failure to pay all monies due on assignment of certain loans
  - Consideration paid not being directly referable to BFAL
- We are currently reviewing our position in respect of the Sterling loan as we believe there maybe the possibility of additional recoveries from the 1<sup>st</sup> mortgagee, previously estimated by Bridgecorp staff of up to approximately \$1 million.

## 3 Convertible Notes

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- BFL had purchased/been issued with \$6.75 million in Convertible Notes (“Notes”) in Maxen Developments Pty Limited (“Maxen”), whose sole director is Mr Craig McDermott. As at 31 May 2007 \$1.775 million in unpaid interest had accrued on the notes in addition to the principal of \$6.75 million which has fallen due for repayment and remains unpaid.
- The security given in support of the notes was:
  - A registered fixed charge over Maxen Developments, the holding company of the McDermott property group. We understand the Maxen Group has a number of current developments which are likely to be successful, and as such profits may “flow up” to Maxen.
  - A personal guarantee from Mr McDermott
  - A cross collateral guarantee in respect of the 12 Mile Beach development currently being undertaken by another McDermott related company which may yield some monies.
- BFL entered into an agreement in May 2007 to sell the Notes to a third party who has subsequently defaulted on the purchase. We are currently pursuing the purchaser regarding its non-performance.
- Similarly to his other group loans owing, Mr McDermott has been requested to provide an exit strategy for the repayment of the the Maxen convertible notes.

## 4 Inter-company Loans

- BFL's balance sheet at 31 May 2007 discloses inter-company loans of \$13.82 million. Additionally, approximately \$3.73 million was transferred to Bridgecorp Limited ("BL") in New Zealand in June 2007 immediately prior to our appointment. The balance of inter-company loans owing is detailed below:

Entity	\$000s
Bridgecorp Holdings Limited ("BHL")	7,916
Bridgecorp Holdings Australia Limited ("BHAL")	5,905
Bridgecorp Limited (NZ) ("BL")	3,730
<b>TOTAL INTER-COMPANY LOANS</b>	<b>\$17,551</b>

- The Administrators have indicated that any recovery from inter-company loans is presently highly unlikely or minimal.
- The vast majority of the assets held by BHL and BHAL are Future Income Tax Benefits and Inter-company loans which, based on information contained in the Administrators' Report to Creditors appears to be largely unrecoverable.
- BFL will rank as an unsecured creditor in the administration of BL and as a result will only receive payment if and when NZ Debenture Holders are paid in full.

## 5 Funds Transferred to Bridgecorp NZ

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- Investors will recall approximately \$3.73 million was transferred from BFL to Bridgecorp Limited in New Zealand via five (5) transactions during the period 5 June 2007 to 15 June 2007. BFL was required under a Court Undertaking given on 17 August 2006 to provide the Trustee with weekly cash flow reports and monthly financial statements. BFL failed to inform the Trustee of the transfers and in fact continued to report the funds remained in the BFL bank account until at least w/e 22 June 2007, being the final week end cash report received by the Trustee from BFL.
- The Receivers of BL and ASB Bank (the bank to which funds were transferred) inform us the monies were disbursed prior to the Bridgecorp Group entering external administration. This money now represents an unsecured inter-company loan to BL from BFL. Based on the information provided by the Administrators to date it appears unlikely any funds will be recovered from inter-company loan accounts as all recoveries will be paid to BL secured creditors (Debenture Note Holders) in the first instance.
- We confirm all relevant information in respect of the transfers have been forwarded to the Australian Securities and Investments Commission ("ASIC") and the Administrators. We have requested ASIC review the information with a view to pursuing the directors for any breaches, if appropriate, of the Court Undertaking given on 17 August 2006.

## 6 Directors Report as to Affairs

- Two directors of BFL, Gary Urwin and Bruce Davidson, have submitted RATA's detailing the financial position of the company on or about 3 July 2007.
- The two directors have lodged identical RATA's revealing the following:

- Investors should note our view that the estimated recoverable value of assets identified above differs materially from that provided in the directors' in their respective RATA's. The directors' estimated realisable value ("ERV") is, in our opinion, very much a 'best case' scenario.

	Directors Book Value (RATA)	Directors Estimated Realisable Value (RATA)	Receivers Estimated Realisable Value
	\$000s	\$000s	
<b>ASSETS</b>			
McDermott related Loans & Notes	21,162	21,162	Not known
Non-McDermott related Loans	18,442	5,356	825
Intercompany Loans	15,179	7,454	Not known
Cash	7	7	7
Shares in BFL NZ	1	Nil	Nil
Future Income Tax Benefits	6,148	Nil	Nil
<b>TOTAL ASSETS</b>	<b>60,939</b>	<b>33,979</b>	<b>Not known</b>
<b>LIABILITIES</b>			
Debentures	19,488	19,488	19,488
Unsecured Notes, Creditors & Subordinated Debt	10,380	10,380	10,380
<b>TOTAL LIABILITIES</b>	<b>29,868</b>	<b>29,868</b>	<b>29,868</b>
<b>ESTIMATED SURPLUS PRIOR ADMINISTRATION AND REALISATION COSTS</b>	<b>\$31,071</b>	<b>\$4,111</b>	<b>Not known</b>

## 7 Deed of Company Arrangement

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- The Administrators held the second meeting of creditors of BFL on Tuesday 31 July 2007 pursuant to Section 439A of the Corporations Act. The purpose of this meeting was to determine the future of the company in terms of whether to liquidate the company or enter into a Deed of Company Arrangement (“DOCA”). At that time no DOCA proposal had been presented to the Administrators; only the possibility of one being provided.
- Creditors voted to adjourn the meeting for a period of 60 days subject to receipt of a DOCA proposal within 21 days.
- The Administrators received a summary of key components of a DOCA proposal from the directors within the 21 day time limit. They requested the directors provide them with further explanations regarding aspects of the proposal, in the process granting the directors more time to address their concerns.
- The directors have sought and received court approval to allow a further adjournment of the meeting subject to creditor approval. We understand the Administrators are prepared to recommend further adjournment for up to 60 days.
- It should be noted a DOCA typically restricts the opportunity to pursue directors and others in respect of antecedent or uncommercial transactions, whereas such issues can be Examined in a liquidation environment. It is our view on behalf of the Trustee to vote for liquidation at the adjourned second creditors meeting.

## 8 Aged Pension Deeming Exemption

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- Investors will recall an application was made to the Department of Families, Community Services and Indigenous Affairs ("FaCSIA") for investments in BFL to be made exempt from the Aged Pension deeming provisions.
- On 23 July 2007 our application was approved when the Minister made a media release to the effect (attached as Appendix "A").
- The effect of the exemption is to exclude from deeming entitlements interest due but not paid to investors in the calculation of income for aged pension purposes.
- Further, special hardship provisions are available on application to Centrelink to assist pensioners to exclude the deemed value of investments in BFL from assets otherwise assessed in the granting of pensions
- For any queries in relation to Aged Pensions or special hardship provisions investors should contact Centrelink who will be able to assist further.

## 9 Interest Statements 2006-07

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- We sought specialist tax advice and established we were obliged to provide investors with a payment summary of income earned during the 2006/07 financial year for income tax assessment purposes which includes as income interest which has fallen due but has not been paid prior to 30 June 2007.
- The statements had been produced by Bridgecorp prior to our appointment and were sent to investors on 21 August 2007. A number of investors have advised us the statements are not necessarily accurate, however you should note they include June 2007 interest due which has not been paid. Accordingly, it is likely the amount recorded on the statements will be greater than the amount actually received by investors. Having regard to our advice, if investors are still of the view their statements remain inaccurate we recommend they seek independent tax advice on the issue.
- Investors should be aware that all debts, both principal and interest, are frozen for repayment at the date of our appointment. Investors should note that, in time, they will be asked by the Trustee to confirm the extent of debts owing to them.



## 10 Receipts and Payments

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- Attached as Appendix “B” is a summary of Receipts and Payments for the period 3 July 2007 to 27 September 2007.
- Recoveries to date have been minimal.



## 11 Contact Us

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- We remind investors of the various means of contacting the Receivers with any queries:
  - **Phone:** 02 9286 9816
  - **Email:** [bridgecorp@fh.com.au](mailto:bridgecorp@fh.com.au)
  - **Website:** [www.ferrierhodgson.com.au](http://www.ferrierhodgson.com.au) and follow the links
- We will respond to all investor queries and concerns as soon as possible.
- We will also continue to post updates on the website as to the progress of our efforts.



## Appendices

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### Appendix

- A**      **FACSLIA Press Release – Aged Pension Deeming Exemptions Granted**

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- B**      **Summary of Receipts and Payments**

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## Abbreviations

Abbreviation	Description
\$	Australian Dollars
the Administrators	Messrs Carter and Longley of PricewaterhouseCoopers, Joint Administrators of Bridgecorp Finance Limited
ASIC	Australian Securities and Investments Commission
BFL	Bridgecorp Finance Limited
BHAL	Bridgecorp Holdings Australia Limited
BHL	Bridgecorp Holdings Limited
BL	Bridgecorp Limited
the Company	Bridgecorp Finance Limited
ERV	Estimated Realisable Value
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FH	Ferrier Hodgson
Permanent	Permanent Nominees (Aust) Limited
the Receivers	Messrs Silvia and Love of Ferrier Hodgson, Joint Receivers and Managers of Bridgecorp Finance Limited

## Key Contacts

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Andrew Love  
**Partner**  
**Phone: 02 9286 9999**  
**Fax: 02 9286 9888**  
**andrew.love@fh.com.au**

Office Location  
**Sydney, Australia**  
**Level 13, Grosvenor Place**  
**255 George Street**  
**Sydney NSW 2000**  
**DX 10103**  
**Sydney Stock Exchange**



Brian Silvia  
**Principal**  
**Phone: 02 9286 9999**  
**Fax: 02 9286 9888**  
**brian.silvia@fh.com.au**

Office Location  
**Sydney, Australia**  
**Level 13, Grosvenor Place**  
**255 George Street**  
**Sydney NSW 2000**  
**DX 10103**  
**Sydney Stock Exchange**



## Media Release

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### **MAL BROUGH MP**

**Minister for Families, Community Services and Indigenous Affairs  
Minister Assisting the Prime Minister for Indigenous Affairs**

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Monday, 23 July 2007

#### **Assistance for Age Pensioners Who Invested in Bridgecorp**

The Howard Government has moved to provide assistance for Age Pensioners who had investments with Bridgecorp Finance Limited. As a result of this decision, many people may now receive an increase in their pensions.

Minister for Families, Community Services and Indigenous Affairs, Mal Brough, today announced the measure that will assist Age Pensioners affected by the company's collapse.

"As a result of the appointment of Administrators and the freezing of investments earlier this month, Bridgecorp investors on the Age Pension will be exempt from the deeming provisions," Minister Brough said.

"The deeming exemption means that any financial investment an Age Pensioner has in Bridgecorp will be exempt from the deeming rules. Only the actual income, if any, earned by the investment will be assessed."

Minister Brough said that in addition to the deeming provision, there are also hardship provisions for people in severe financial hardship which may apply to those affected by the Bridgecorp collapse.

"The special hardship provisions assist pensioners who are assessed under the assets test and who hold an asset that cannot be realised," Minister Brough said.

"Providing the applicant has all the relevant information available, Centrelink can process an Assets Hardship application on the same day.

"I would urge anyone affected by the Bridgecorp collapse to contact Centrelink to ensure they test their eligibility on 13 2300.

"Centrelink also has a network of social workers available who can provide additional assistance and referrals to other support services."

**Minister's media contact: Kevin Donnellan 0408 491 956**

**Bridgecorp Finance Limited**  
**(Receivers and Managers Appointed) (Administrators Appointed)**  
**ACN: 095 328 948**  
**Summary of Receipts and Payments**  
**3 July 2007 to 27 September 2007**

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	Receipts to Date		Payments to Date
<b>Receipts</b>	<b>\$</b>	<b>Payments</b>	<b>\$</b>
Cash on hand at appointment	4,592.37	Meeting Costs (Investor Meeting)	3,624.00
Loan repayments	41,338.94	Printing, Stationery and Postage Costs (Investor Mailouts)	4,754.66
<b>TOTAL RECEIPTS</b>	<b>45,931.31</b>	<b>TOTAL PAYMENTS</b>	<b>8,378.66</b>
		Cash at bank	<b>37,552.65</b>