

6 August 2010

Dear Investor

**Subject: Strategic Finance Limited (In Receivership and In Liquidation) ("SFL")
Strategic Nominees Limited (In Receivership) ("SNL")
Strategic Nominees Australia Limited (In Receivership) ("SNAL")
Strategic Advisory Limited (In Receivership)
Strategic Mortgages Limited (In Receivership)
(Collectively, "the Companies")**

1. Introduction

Our last report to secured debenture investors was dated 5 May 2010 (the "May Report"). We take this opportunity to provide you with an update on the progress of the receiverships.

Since our last report, we have prepared our first statutory report on the receiverships in accordance with section 23 of the Receiverships Act 1993.

If you would like a copy of the statutory report, it can be downloaded from our website www.pwc.com/nz/strategicfinance, or from the Companies office website www.companies.govt.nz. Alternatively, a hard copy of the report can be posted to you on request.

This report is subject to the restrictions set out at Appendix I.

2. Interim Distribution to Secured Debenture Investors

We are pleased to advise that an interim distribution of between 1.5 cents and 2.5 cents in the dollar (calculated on your secured debenture investment as at 7 August 2008) will be made by 3 September 2010. The total amount of the interim distribution will be between \$5.5M and \$9.2M. A letter from Perpetual Trust to each secured debenture investor confirming the exact amount of the interim distribution and the payment method (by direct credit or cheque) will be issued approximately one week prior to the distribution.

3. Sale of the Loan Book

We summarise below the sale process run in respect of the sale of the loan book:

- Expressions of interest were received from a number of parties. This included parties who contacted the receivers directly and through the receivers contacting the wider PricewaterhouseCoopers network in Australia and Asia to identify potential interested parties;
- All interested parties were required to execute confidentiality agreements;
- Those parties that executed confidentiality agreements were then provided with initial high-level information on the loan book;
- Those parties that indicated continued interest were provided access to a virtual data room (which contained key information in respect of the loan book);
- Indicative bids were received on 14 June 2010;

- Based on the level of indicative bids the receivers invited certain parties through to the next round of the sales process. This included parties receiving updated valuations on the top 20 loans (by net loan book value); and
- Those parties are now conducting further due diligence on the loan book.

The sales process has been delayed due to the complexity of some of the exposures and the time taken in obtaining valuations on the top 20 loans. We note that updated valuations were a requirement of all interested parties.

One valuation remains outstanding, which relates to a large and complex commercial development. This development secures SFL's largest loan (by net loan book value). Significant time and effort is being expended by the borrower in providing all required information to the valuer. Given the size of the loan, all interested parties have advised that they will be unable to submit final bids until they have received this valuation.

We note that in the majority of cases the updated valuations are at levels significantly below the net loan book value as per SFL's management accounts as at 28 February 2010. As you will appreciate, this has impacted on the level of the indicative offers from the interested parties.

Based on the expected timing of the receipt of the last valuation, we now expect final bids to be received in September 2010. Once the final bids are received, we will assess the final offers against the expected realisations in the loan book and make a decision on whether a sale of the loan book will proceed or, alternatively, whether the receivers will continue to recover the loans.

We are conscious that secured debenture investors are keen to understand what the overall potential recovery range may be. However, given the sales process currently undertaken, any announcement by the receivers could impact on the final bids to be received and be commercially prejudicial to negotiations with interested parties. Accordingly, any potential recovery range will not be announced until after the sales process has been completed.

4. Property Loan Book

The Companies' major asset is the property loan book which consists of 87 loans with a total net book value of \$229.1M as at 28 February 2010. These loans were made to borrowers either directly through SFL or through SNL or SNAL.

Based on discussions with the borrowers, legal advisers and specialist property advisers, we continue to implement individual loan strategies, which we consider will maximise the recoveries to investors. These strategies are continuously assessed and revised as the circumstances of the borrowers alter or where the prior ranking mortgagees take enforcement measures. Potential strategies include:

- Feasibility of partial/full completion of developments in conjunction with the borrower and other lenders;
- Allowing the orderly sell down of properties by the borrower;
- Identification of additional action that may be taken to improve the realisable value of mortgage assets through changes or additions to current property management;
- Potential refinancing by the borrower;
- Formal recovery action through the use of mortgagee powers and enforcement of associated securities; and
- Consideration of settlement proposals received from borrowers and third parties.

As noted in our May report, approximately 58% (\$131.4M) of the net loan book as at 28 February 2010 is secured by way of mortgage with a second ranking priority over the underlying property. In a number of those loans, SFL is heavily dependent upon the actions of prior ranking mortgagees as to what funds, if any, are available to SFL.

We summarise below the key loan matters dealt with since the commencement of the receivership:

- Sale of bare land in Northland;
- Sale of development property in Queenstown;
- Sale of apartment in the Bay of Plenty;
- Sell down of sections in a residential subdivision in Canterbury is on-going with three sections sold and a further section subject to a conditional sale;
- Sale of apartment and marina berth located in Coromandel;
- Sell down of sections in a number of residential sub-divisions in Wellington is ongoing and has reduced the amount outstanding to the prior ranking security holders;
- Sell down of apartments in two completed developments in Auckland is ongoing, which has reduced the amount outstanding to the prior ranking security holders;
- Appointment of receivers to Tepaki 1 Limited (owner of 3 units in the Cook Islands);
- Restructure of a loan where there are prior ranking security holders. We consider that this restructure represents the only opportunity for SFL to achieve some recovery of its loan; and
- Continuing negotiations with a number of borrowers regarding possible restructuring of their loans, which would enable some funds to be made available to SFL.

5. Liquidation of Strategic Finance Limited

As a result of an application by Perpetual Trust, SFL was placed into liquidation by the High Court on 26 July 2010.

We advise that liquidators were appointed to preserve certain potential claims that are available to liquidators and not to receivers under the Companies Act 1993.

The liquidation will not impact on the receivership. The receivers will continue their work, including the loan realisation and sales process currently being undertaken for the benefit of secured debenture investors.

The receivers and liquidators will work co-operatively together to ensure that any investigations are carried out cost effectively.

6. Other Matters

Stock Transfers

We note that a number of amendments to the Trust Deed were required before stock transfers requested during the receivership period could be completed. The amendments to the Trust Deed have now been agreed and the outstanding stock transfers will be completed over the next few weeks and prior to the first interim distribution.

As the stock transfers will not be completed prior to issuing this report, this report may be sent to the existing stockholder. We appreciate investors' patience during this period.

SNL and SNAL matters

As noted above loans were made to borrowers either directly through SFL or through SNL or SNAL. SNL and SNAL are essentially nominee companies whereby other investors co-participated with SFL in loans.

We note that where decisions are required on loans where there are other investors involved, the receivers have been required to work with the directors of SNL and the other investors. This has added an additional level of complexity to the receivership.

7. Concluding Comments

Overall, achieving loan recoveries remains challenging due to market conditions and, in certain cases, enforcement action by prior ranking security holders has resulted in nominal or no recoveries for SFL.

We are pleased to announce the first interim distribution and we are focussed on recovering loans so that further distributions can be made to secured debenture investors as soon as possible.

It is difficult to provide guidance on when the next distribution will be made. However, we are committed to making distributions to secured debenture investors as funds become available.

We will endeavour to keep investors updated on a regular basis and expect to issue a further report by 29 October 2010, by which stage, we will be able to advise investors of the outcome of the sales process and we expect that the nature and timing of future distributions will become clearer. In the meantime, should investors or other stakeholders have any queries arising from this report, please contact us in writing via our website, facsimile, or postal address, as follows:

Strategic Finance Limited (In Receivership)
PricewaterhouseCoopers
PO Box 243
Wellington
Facsimile: +64 4 462 7492
Website: www.pwc.com/nz/strategicfinance

Yours faithfully



John Fisk
Receiver



Colin McCloy
Receiver

Appendix I

Restrictions

- The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.
- We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Companies. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.
- The statements and opinions expressed in this report are based on information available as at the date of the report.
- We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.
- We have relied on forecasts and assumptions prepared by the Companies about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.
- In addition the following should be noted:
 - Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
 - Unless otherwise stated all amounts are stated in New Zealand dollars.