

28 January 2011

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, “Strategic”)**

1. Introduction

Our last report to secured debenture investors was dated 18 October 2010 (the “October Report”). We take this opportunity to provide you with an update on the progress of the receiverships.

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

2. Returns to Secured Debenture Investors

In the October Report we advised that our preliminary estimate of the gross recoveries to secured debenture investors from the loan book (prior to costs) was **12% to 35%** of the principal amount outstanding to secured debenture investors as at 12 March 2010. Currently our assessment of that range remains unchanged.

We are disappointed, at this time, not to be in a position to announce when a further distribution might be possible. However, we are hopeful that the outcome of the marketing campaigns currently being undertaken and resultant sale proceeds will enable the receivers to make a further distribution to secured debenture investors within the next six months. We emphasise that the outcome of these sales campaigns will determine the timing and amount of the next distribution to secured debenture investors.

There are still considerable uncertainties relating to the recoverability of the property loans which will have an impact on the final recoveries that we will be able to achieve for secured debenture investors. As you may be aware from media commentary, the property market continues to be challenging and borrowers continue to face difficulties in achieving property sales or to re-finance.

We will continue to refine and update the estimated recovery range as we realise the loan assets. We note that, for the purposes of this report, no allowance has been made for potential claims and subsequent recoveries that may arise from our investigations.

3. Property Loan Book

SFL's major asset is the property loan book which consists of 87 loans. These loans were made to borrowers either directly through SFL or through SNL or SNAL.

For the period 12 March 2010 to 15 January 2011, gross realisations of circa \$55M have been recovered from the property loan book. Of these realisations, SFL has received circa \$9M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

Overall Loan Realisation Strategy

We have assessed in detail potential realisation strategies in respect of each of the loans. Based on discussions with the borrowers, our legal advisers and specialist property advisers we are implementing individual loan strategies, which we consider will maximise the recoveries to investors. In summary these strategies are:

Where Strategic holds a first ranking security over the underlying property

- Where there are no impediments to sale, we are requiring the underlying property to be marketed for sale and the loan (to the extent possible) repaid.
- In some cases, further work is required (such as rectifying resource consent issues or where remedial work is required) in order to make the property saleable and increase the likely recovery to Strategic.
- Where appropriate, we have issued demand and Property Law Act notices to enable Strategic to realise the underlying property.

Where Strategic holds a second/third ranking security

- Where there are prior ranking mortgagees and there is the prospect of recovery to Strategic, strategies include:
 - Where the development is complete, working with the borrower and the prior ranking mortgagee to ensure proceeds are maximised.
 - Allowing further development funding by either the existing prior ranking mortgagee or a new funder to enable certain developments to be completed.

In all cases, we are also seeking to realise or maximise the value of any collateral security including personal guarantees.

Receiverships

Since our appointment as receivers to Strategic, we have appointed receivers to borrower entities where additional matters have to be addressed that have affected the recovery of loans. These appointments include:

- Appointment of receivers to Tepaki 5 Holdings Limited, Tepaki 6 Holdings Limited and Tepaki 7 Holdings Limited (the "Tepaki Group"). The Tepaki Group owns units in three resorts in the Cook Islands. Appointment of receivers to the Tepaki Group has stabilised the management of the resorts, improved reporting to SFL and enabled them to undertake an orderly sell-down process of the assets.
- Appointment of receivers to Rakaia River Holdings Limited ("Rakaia"). Rakaia owns a number of lots within a completed subdivision located in Queenstown. Receivers have been appointed to manage the sell-down process of the lots and to deal with issues relating to the management of the common areas at the subdivision.

Marketing Campaigns

Marketing campaigns for a number of properties have been initiated either by SFL as mortgagee or by the borrower. These include:

- Coastal property subdivision in Northland – Deadline closing date of late February 2011

- One remaining unit in apartment block in Tauranga – remedial works currently being completed and will then be marketed for sale in early February 2011
- Sections in Gulf Harbour, Auckland – offers are currently being received
- Rakaia River Holdings Limited (In Receivership) – initial sales campaign commenced with deadline of 28 February 2011
- Remaining units in apartment block in Auckland – sales campaign is on-going
- Sections and residential house in Queensland, Australia – marketing campaign commenced
- Tepaki Group – marketing of resorts/units in Rarotonga has commenced

We have not included in the above list any current marketing campaigns where there are unlikely to be funds available to SFL.

4. Investigations

As you may be aware, the Securities Commission is investigating Strategic. We have provided assistance to the Securities Commission including access to Strategic's records and providing certain analysis as requested.

In respect of our own investigation, we have initially focussed on the period December 2007 to August 2008 (when payments to investors were suspended).

Given the financial position of Strategic during this period, we have identified several transactions undertaken during the December 2007 to August 2008 period which we consider warrant further investigation. One of these transactions is being investigated by SFL's liquidator and the rest are being investigated by the receivers.

We have now referred our findings to date to our legal counsel to determine what actions (and against whom) may be available to us in respect of these matters.

5. Concluding Comments

We are committed to recovering as much as we can from the property loans, personal guarantees provided by borrowers and legal action that may be available to the receivers.

In the short term we are focussed on recovering sufficient funds to make a further distribution to secured debenture investors within the next six months.

We thank you for your ongoing support and patience through this difficult process.

We will endeavour to keep investors updated on a regular basis and expect to issue a further report by 29 April 2011. 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:

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Yours faithfully



John Fisk
Receiver

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 Strategic. 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 Strategic 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.