

Name
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5 May 2010

**Subject: Strategic Finance Limited (In Receivership) ("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

As you are aware John Fisk and Colin McCloy were appointed receivers of the above Companies by Perpetual Trust Limited (the "Trustee") on 12 March 2010.

Strategic Nominees Limited (In Receivership), Strategic Nominees Australia Limited (In Receivership), Strategic Advisory Limited (In Receivership) and Strategic Mortgages Limited (In Receivership) are all 100% owned subsidiaries of SFL.

SFL issued secured debentures to investors and we are writing to you in your capacity as a secured debenture investor.

Since the commencement of the receiverships we have focussed on ensuring the key assets remain secure and are managed appropriately, investigating the affairs of the Companies (particularly the position in respect of SNL) and forming a view regarding the realisation strategies for the assets. We now take this opportunity to provide you with an update as to progress of the receiverships.

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

2. Events Following Our Appointment

Following our appointment as receivers we attended the Companies' offices to secure the assets and records. Our actions have included:

- Communications with investors and the Trustee
- Securing key assets
- Securing all records of the Companies held at their premises and obtaining an electronic back-up copy of the computer records
- Undertaking an initial investigation into the financial standing of the Companies
- Meeting with key stakeholders including prior ranking chargeholders and borrowers
- Developing an asset realisation strategy in respect of each loan

We have restructured the management of the Companies. All employment/consultant contracts were terminated in accordance with the Receiverships Act 1993 and on-going employment was offered to six staff on a full time basis and four staff on a casual, as required basis. In addition we have retained specialist property and legal advisers to assist with our analysis. We take this opportunity to thank the staff for their continued support. We also note that the directors of SFL have offered their on-going assistance as required without charge to the receivers.

3. Sale of the Loan Book

We have received several expressions of interest regarding the purchase of SFL's loan book (either in whole or in part). We have also contacted the wider PricewaterhouseCoopers network in Australia and Asia to identify other potential interested parties.

We will be running a formal sales process with indicative offers for the loan book due by mid June 2010. This will enable the receivers to assess the level of interest in the loan book and any indicative offers against the expected realisations in the receivership.

Given the sales process currently being undertaken, we do not intend announcing what the potential recovery range may be for secured debenture investors as this could be commercially prejudicial to negotiations with interested parties.

Any potential recovery range will not be announced until after the sales process has been completed.

4. Financial Position of the Companies

The table below summarises the consolidated Statement of Financial Position of the Companies as at 28 February 2010, based on draft, unaudited management information. We emphasise that in the time available to us we have relied upon the information provided and have not independently verified all of this information.

Strategic Finance Limited and its subsidiaries
Consolidated Financial Position for the Group
Draft and unaudited
As at 28 February 2010

	Notes	NZ\$ 000's
Net property loan book	A	229,104
Accounts receivables	B	5,352
Other assets	C	1,101
Bank accounts	D	4,962
Total Assets		240,520
Secured debenture stock	E	367,803
Unsecured deposits	F	1,456
Subordinated notes	G	21,775
Interest payable	H	54,672
Accounts payable and other liabilities	I	6,176
Total Liabilities		451,882
Net Deficit		(211,362)

Source: Draft unaudited management accounts

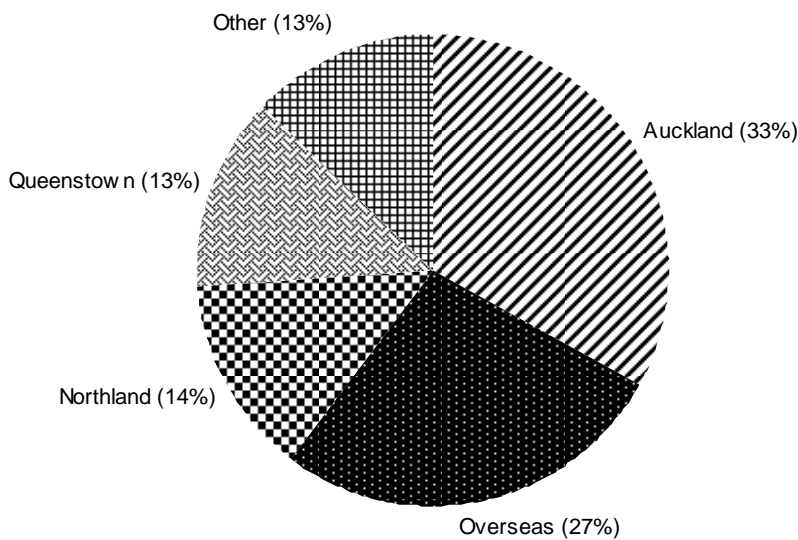
The key elements of the Statement of Financial Position are as follows: -

A. Property Loan Book (\$229.1M)

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

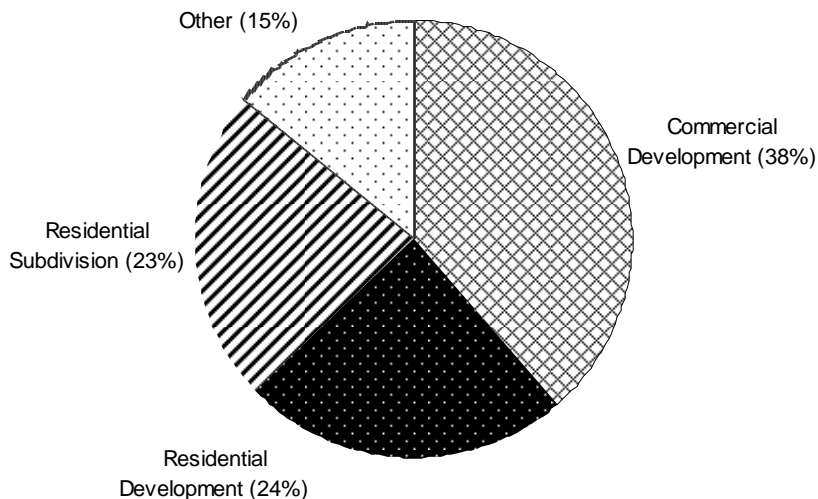
Summarised below is the Companies' loan book portfolio by location and type on a net loan book basis.

Location of securities (by net loan book value)



Source: Companies' records

Type of underlying property security (by net loan book value)



Source: Companies' records

We make the following comments in respect of the nature of the loan book:

- The majority of property securing the loans are located in Auckland and overseas, however, there is also significant concentration in Northland and Queenstown.
- The lending undertaken by the Companies is primarily secured over development land. In the majority of these cases, there are prior ranking chargeholders and further development funding is required to complete the development.
- On most of the loans, interest accruing is added to the loan balance and received on repayment of the loan, as opposed to interest being paid to SFL on a monthly or quarterly basis.
- Approximately 42% (\$96.8M) of the net loan book is secured by way of mortgage with a first ranking priority over the underlying property.
- Approximately 58% (\$131.4M) of the net loan book is secured by way of mortgage with a second ranking priority over the underlying property. On these loan book assets, prior ranking debt totals some \$544.4M. We note that on an individual loan basis, the extent of prior ranking debt ranges from \$0.4M to \$168.5M.
- We note that there are some loans that are secured by mortgage with a third ranking priority; however, the majority of these loans have been fully provisioned.
- We further note that of the 87 loans, approximately 25 of the borrowers are either in liquidation, receivership or the property owned by the borrower is in the process of, or has been, sold by the mortgagee exercising its power of sale.

Overall the property market continues to be challenging and volatile, particularly in respect of development land and bare land coastal subdivisions. Borrowers continue to face difficulties in achieving sales or refinancing of the property. The extent of prior ranking charges and the actions taken by the prior ranking chargeholders could have a material impact upon the level of recovery that we are able to achieve in the receiverships.

We are working with a number of stakeholders to recover these loans. However, it is clear that the recovery process will be a complex and time consuming exercise.

B. Accounts receivable (\$5.4M)

Accounts receivable of \$5.4M relates to prepayments, exit and margin fees and other sundry debtor balances. We are currently assessing the recoverability of the individual accounts receivable balances.

C. Other assets (\$1.1M)

Other assets comprise fixed assets (primarily office fixtures and fittings and computer equipment) and other non-cash items. Material recoveries from these assets are not anticipated.

D. Bank Accounts (\$4.9M)

As at 28 February 2010 funds on hand totalled \$4.9M. At present this amount is not sufficient to enable a payment to be made to secured debenture investors. However, it will be added to the pool of funds to be distributed to secured debenture investors as soon as we have received sufficient further amounts from loan recoveries.

E. Secured debenture investors (\$367.8M)

The secured debenture investors balance of \$367.8M represents approximately 12,900 investments held by approximately 10,000 secured debenture investors.

F. Unsecured depositors (\$1.5M)

The unsecured depositors balance of \$1.5M represents approximately 70 investments held by approximately 65 unsecured depositors.

G. Subordinated note investors (\$21.8M)

The subordinated note investors balance of \$21.8M represents approximately 1,050 investments held by approximately 950 subordinated note investors.

H. Interest payable (\$54.7M)

Interest payable relates to interest that has been accruing on secured debenture stock, unsecured deposits and subordinated notes but has not been paid nor credited to the account of each investor.

I. Accounts payable and other liabilities (\$6.2M)

Accounts payable and other liabilities consist of liabilities and accruals including Resident Withholding Tax, tax, inter-company and trade liabilities. The majority of these liabilities rank as unsecured claims in the receivership and as such they will not be paid out of the amounts that we recover from SFL's loans and other assets.

5. Other Matters

Delisting of SFL's perpetual preference shares ("PPS")

On 24 March 2010, we wrote to the NZ stock exchange ("NZX") requesting SFL's PPS be delisted on the basis that we considered these no longer have any value and that on-going NZX compliance would be onerous. Subsequently NZX delisted SFL's PPS.

Investigations

We will be undertaking a full investigation into the affairs of the Companies and parties associated with it. We will notify the appropriate Government authorities of any potential breaches of legislation or SFL's Trust Deed that come to our attention during the course of the receivership. Those authorities may take such actions as they deem appropriate.

Where our investigations identify any actions which may be taken by the Receivers directly, such actions will be pursued based upon an assessment of the legal position and may include Court action.

6. Concluding Comments

We are conscious that secured debenture investors have not received any payment from SFL for over 18 months and we are working hard to recover the loans in an efficient and orderly manner so that a distribution to secured debenture investors can be made as soon as possible.

We will endeavour to keep investors updated on a regular basis and expect to issue a further report by 30 July 2010 by which stage, we are hopeful that the outcome of the sales process and 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.