

18 October 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 6 August 2010 (the "August 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. Interim Distribution to Secured Debenture Investors

We confirm that an initial distribution of 2 cents in the dollar (equating to \$7.4M) was paid to secured debenture investors on 15 September 2010. If you are a secured debenture investor and have not yet received your interim distribution, please contact us urgently. **Our contact details are set out at the end of this report.**

3. Sale of the Loan Book

In our August Report, we outlined the sale process that was in place in respect of the loan book. We have now completed the sales process and have assessed the final or near final offers against the expected realisations in the loan book.

Unfortunately, given that the final or near final offers fell short of even our "low" estimate of gross recoveries from the loan book (see section 4 of this report) we consider that the best possible outcome for secured debenture investors will be achieved via the receivers continuing to realise the loan book. We have consulted with the trustee regarding the offers that we received and advised it of our conclusions.

We note that one of the offers also provided for some possible future upside, however, based on the information provided, we considered that any potential upside may be difficult to achieve and so could not be relied on in our overall assessment.

The reasons cited by bidders for their low offers were as follows:

- The high proportion of second mortgage positions held by SFL
- The threat of enforcement action by prior ranking mortgagees
- The significant risk and uncertainty regarding the level of recovery in respect of many of SFL's loan exposures and return they would require for these risks
- The size of the deal and ability to generate returns
- The complexities of the SNL/SFL loan participation arrangements

4. Returns to Secured Debenture Investors

Our preliminary estimate of the gross recoveries to the secured debenture investors from the loan book (prior to costs) is **12% to 35%** of the principal amount outstanding to secured debenture investors as at 12 March 2010.

We emphasise that 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. The property market continues to be challenging and volatile, particularly in respect of development land and bare land subdivisions – both of which are prevalent in the SFL loan book. Borrowers continue to face difficulties in achieving sales or refinancing of the property.

We consider that the “high” range estimate reflects some optimism in the level of loan recoveries, particularly in respect of SFL’s four largest loan exposures (by net loan book value as at 28 February 2010). Given that our estimated “high” range of recoveries from these four loans makes up 56% of the estimated “high” range of the total loan book, any difficulties in respect of the recovery of these four loans will have a significant adverse impact on the overall level of recoveries.

We acknowledge that secured debenture investors will be disappointed at the preliminary estimate of recoveries to them. The broad range and the estimated level of loan recoveries reflect the following key issues:

- Approximately 58% (\$131.4M) of the net loan book (as at 28 February 2010) is secured by way of second mortgage over the underlying property. The extent of prior ranking charges could result in either:
 - The erosion of funds available to SFL through holding costs incurred by the first mortgagee including interest payable to it.
 - Potential immediate enforcement action by the first mortgagee, which in a number of cases, would result in minimal, if any, funds to SFL in the current property market.
- There are a number of loans on bare land development sites where further development funding is required. In a number of cases there are substantial prior ranking lenders and significant further funding and time is required to complete the development.
- Loan concentration risk in Queenstown and Northland, where a number of other distressed lenders are endeavouring to realise a significant number of bare land subdivision/development sites and there is a lack of buyers.
- Issues with loans secured against property located overseas - particularly in Fiji, given the political situation and difficulty in repatriating funds to New Zealand.
- Our assessment of recoveries given loan specific issues. Examples include:
 - Where SFL’s lending is secured over leasehold land
 - The completion of construction already underway and the uncertainty of obtaining funding and/or settlement of pre-sales
- Of SFL’s 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 first mortgagee exercising its power of sale.
- Updated valuations obtained in relation to SFL’s largest loan exposures (by net loan book value as at 28 February 2010)

We will continue to refine and update the estimated recovery range as we realise the loan assets.

5. Property Loan Book

SFL's 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.

For the period 12 March 2010 to 1 October 2010, gross realisations of circa \$42M have been recovered from the property loan book. Of these realisations, SFL has received \$5.4M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

We summarise below the key loan matters dealt with since our August Report:

- Sell down of sections in a residential subdivision in Canterbury;
- 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 lenders;
- Sell down of apartments in two completed developments in Auckland is ongoing, which has reduced the amount outstanding to the prior ranking lenders;
- Continuing negotiations with a number of borrowers regarding possible restructuring of their loans, which would enable some funds to be made available to SFL;
- Appointment of receivers to Tepaki 5 Holdings Limited, Tepaki 6 Holdings Limited and Tepaki 7 Holdings Limited (owner of units in three resorts in the Cook Islands);
- Issuing demand and Property Law Act notices in respect of certain loans to enable SFL to realise the underlying property; and
- Where possible we are also seeking to realise collateral property and enforce personal guarantees.

6. Other Matters

The receivers are conscious of a number of matters raised by investors and other parties in respect of the activities of the Companies prior to the receivership. A thorough investigation is currently being undertaken into the activities and conduct of the Companies and its officers by us. Where appropriate, we are working co-operatively with the liquidator of SFL.

7. Concluding Comments

In the majority of cases the property loans made by the Companies are complex and the amount outstanding to prior ranking charge holders is significant. Accordingly, achieving a significant level of loan recoveries in the short term remains challenging.

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 January 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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PricewaterhouseCoopers
PO Box 243
Wellington
Facsimile: +64 4 462 7492
Website: www.pwc.com/nz/strategicfinance

Yours faithfully



John Fisk
Receiver



Colin McCloy
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 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.