

Receivers' First Report on the State of Affairs of

Strategic Finance Limited (In Receivership)

Strategic Nominees Limited (In Receivership)

Strategic Nominees Australia Limited (In Receivership)

Strategic Advisory Limited (In Receivership)

Strategic Mortgages Limited (In Receivership)

Pursuant to Section 23 of the Receiverships Act 1993

Company Numbers: 951477
632029
1367148
925900
1406962

11 May 2010

Registrar of Companies
Companies Office
Private Bag 92061
Auckland Mail Centre
AUCKLAND

11 May 2010

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")

Please find attached our first report in relation to the Companies pursuant to Section 23 of the Receiverships Act 1993. A copy of this report has been sent to the Trustee, Perpetual Trust Limited. Secured debenture holders in the Companies have been provided with a separate update.

Yours faithfully
For the Companies



J H F Fisk
Receiver



C T McCloy
Receiver

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1 Introduction

- We, John Howard Ross Fisk and Colin Thomas McCloy, Chartered Accountants were appointed receivers to each of the Companies on 12 March 2010 by Perpetual Trust Limited (“the Trustee”). We were appointed under the terms of a debenture trust deed giving the holder a security interest over all the assets and undertakings of the Companies.
- This report has been prepared by us in accordance with and for the purpose of Section 23 of the Receiverships Act 1993 (“the Act”). It is prepared for the sole purpose of reporting on the state of affairs with respect to the property in receivership and the conduct of the receivership.
- This report is subject to the restrictions set out at Appendix I. In particular, all information contained in this report is provided in accordance with Sections 26 and 27 of the Act. Furthermore, in preparing this report we have relied upon and not independently verified or audited information or explanations provided to us.

2 Events Leading to our Appointment

- SFL is a Wellington based finance company which had a registered prospectus and issued secured debenture stock, unsecured deposits and subordinated notes to the general public.
- 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.

- On 7 August 2008 SFL withdrew its prospectus and subsequently suspended all repayments to investors. The decision to suspend repayments was made due to concerns about the liquidity of SFL and its ability to meet its ongoing payment obligations to investors and other creditors.
- On 2 December 2008, SFL’s directors proposed a moratorium that, inter alia, rescheduled principal payments to investors over a five year period, introduced some new governance, lending and reporting covenants, including repayment milestones. This moratorium proposal was subsequently passed by the requisite majority of investors and the Trust Deed was accordingly amended to reflect the moratorium proposal on 22 December 2008.
- In January 2010, SFL announced to its investors that it would be unable to meet its milestone payment on 7 January 2010. It also advised that as a result of further provisioning, its total loan book value (net of provisioning) had fallen below 75% of the aggregate of principal monies owed to debenture holders, depositors and subordinated note holders. Both of these were “Review Events” under the moratorium terms.
- Following negotiations between SFL and the Trustee, the Trustee concluded that it was in the best interests of investors that a receiver be appointed to the Companies.

3 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
 - Overseeing the Companies' operations to ensure efficient and effective management.
 - 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
 - Overseeing the Companies' operations to ensure efficient and effective management.
- 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.

4 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.

5 Financial Position

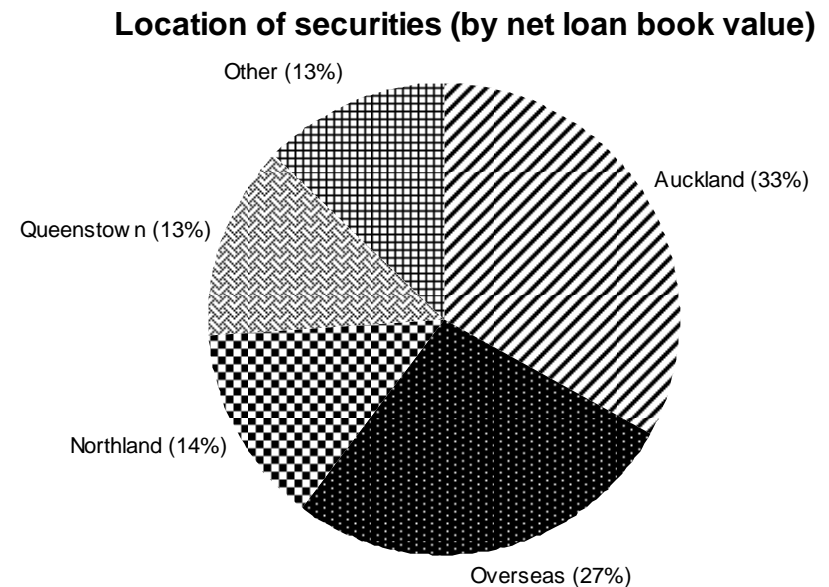
- The table below summarises the consolidated Statement of Financial Position of the Companies as at 28 February 2010, based on draft, unaudited management information. We emphasise that in the time available to us we have relied upon the information provided and have not independently verified all of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

- The key elements of the financial position of the Companies are discussed on the following pages. Please note that we have omitted certain details concerning the realisation of receivership assets, as we believe that their inclusion would materially prejudice the exercise of our functions and in particular, our duty to obtain the best price reasonably obtainable.

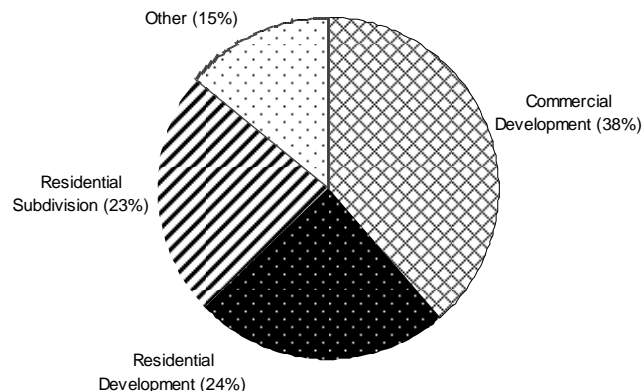
A. Property Loan Book (\$229.1M)

- 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.



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, income 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.

6 Amounts owing to creditors with preferential claims

6.1 Employee entitlements

- Based on the information available from the Companies' records, employee preferential entitlements relating to salaries and wages, accrued holiday entitlements and redundancy entitlements as at the date of receivership were calculated at approximately \$52k and have been distributed.

6.2 Inland Revenue Department (“IRD”)

- The IRD has advised that it will not be filing a claim in the receiverships.
- We are not aware of any other preferential claims.

7 Amount and Timing of Dividend to Secured Debenture Investors

- As noted in section 4 of this report, we are currently undertaking a sales process in respect of SFL’s loan book.
- Any potential recovery range and the timing of any payment will not be announced until after the sales process has been completed.

8 Amounts likely to be available for other creditors

- Regrettably, we consider that there are unlikely to be any amounts available for payment to unsecured creditors, including unsecured depositors and subordinated noteholders.

9 Other matters

9.1 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.

9.2 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.

9.3 Information provided by the company

- The directors of the Companies co-operated fully in making available the information required by the receiver to complete this report.

10 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:

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

Appendix I

Restrictions

- All information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993.
- 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.