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## ***Receivers' Six Monthly Report on the State of Affairs of***

***Strategic Finance Limited (In Receivership and In Liquidation)***

***Strategic Nominees Limited (In Receivership)***

***Strategic Nominees Australia Limited (In Receivership)***

***Strategic Advisory Limited (In Receivership)***

***Strategic Mortgages Limited (In Receivership)***

Company Numbers:	951477
	632029
	1367148
	925900
	140692

For the six month period 13 September 2010 to 12 March 2011  
Pursuant to Section 24 of the Receiverships Act 1993

***11 May 2011***



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

11 May 2011

**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")**

Please find attached our second six monthly report in relation to the Companies pursuant to Section 24 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 were provided with a separate report on the status of the receiverships on 29 April 2011.

Yours faithfully  
For the Companies



J H R Fisk  
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 24 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.
- Our last report on the receiverships was dated 11 November 2010.

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## **2. Particulars of assets and disposals of receivership property**

### **2.1 Estimate of Gross Recoveries to Secured Debenture Investors**

- In our previous report for the six month period to 12 September 2010 we advised that that our preliminary estimate of the gross recoveries to secured debenture investors from the realisation of SFL’s loan book (prior to costs) was 12% to 35% of the principal amount outstanding to secured debenture investors as at 12 March 2010.
  - As a result of a further re-assessment of the likely level of recoveries, we have revised this range to 12% to 26% of the principal amount outstanding to secured debenture investors.
  - The reduction in the “high” end of the range reflects the following:
    - Re-assessment of the likely level of recovery from a significant second mortgage secured over property in Australia. There is a large amount owing under a prior ranking mortgage and the sell down of the property by the borrower has not occurred as expected.
    - The actual sale price achieved for a property securing one of SFL’s loans was lower than our initial “high” estimate for that loan.
- The revised estimate was communicated to secured debenture investors in our letter to investors dated 29 April 2011.
  - 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 their properties.
  - We will continue to refine and update the estimated recovery range as we realise the loan assets.
  - Pursuant to our rights under Section 24(3) of the Act, we have chosen to omit from this report details of our proposals for disposal of receivership property as we consider that inclusion may materially prejudice the exercise of our duties as receivers.

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## 2.2 *Property Loan Book*

- SFL's major remaining asset is the property loan book. These loans were made to borrowers either directly through SFL or through SNL or SNAL.

### *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:

1. Where SFL holds a first ranking security over the underlying property
  - Where there are no impediments to sale, we are requiring the underlying property (securing the loan to SFL) 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 to the property is required) in

order to make the property saleable and increase the likely recovery to SFL.

- Where appropriate, we have issued demand and Property Law Act notices to enable SFL to realise the underlying property.

2. Where SFL holds a second/third ranking security over the underlying property

- Where there are prior ranking mortgagees and there is the prospect of recovery to SFL, we are working with the borrower and the prior ranking mortgagee to ensure proceeds are maximised.
- We note there are some loans where there is a prior ranking mortgage and there is no prospect of recovery to SFL. In a number of those cases, the prior ranking mortgagee has taken action, such as selling the property as mortgagee.

- In all cases, we are also seeking to maximise the value of any collateral securities (including personal guarantees) that SFL holds. In this respect, we have now entered into settlement arrangements with six parties, and are in negotiations with a

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further party, under which funds will be repaid to SFL over an agreed period of time.

- In a number of cases, the guarantors of the loans to SFL are now bankrupt. In those cases, we have put a claim in the bankruptcy and will await the outcome of the bankruptcy process to determine whether there will be any funds available to SFL.

### ***Receiverships***

- Since our appointment as receivers to the Companies, 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.

### ***Realisations from the Property Loan Book***

- For the period 12 March 2010 to 12 March 2011, gross realisations of approximately \$60M have been recovered from borrowers. Of these realisations, SFL has received approximately \$9.3M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

### ***2.3 Other Assets***

- 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.

### ***3. Particulars of debts and liabilities outstanding and requiring to be satisfied from the property in receivership***

#### ***3.1 Secured debenture investors***

- The secured debenture investors' balance of \$367.8M as at 12 March 2010 represents approximately 12,900 investments held by approximately 10,000 secured debenture investors.
- An initial distribution of 2 cents in the dollar (equating to \$7.4M) was paid to secured debenture investors on 15 September 2010.

#### ***Timing and amount of second interim distribution to secured debenture investors***

- Since our last statutory report, we have realised a number of loan assets and several further properties owned by SFL's borrowers are now subject to sales contracts that are scheduled to settle by the end of June 2011. Accordingly, subject to settlements occurring as scheduled, a further distribution will be made to secured debenture investors by 31 July 2011.

- At this time, we are not able to confirm the exact amount of the distribution that will be made as it is dependent upon property settlements occurring as scheduled.
- We expect to be able to confirm the amount to be paid to secured debenture investors by 8 July 2011.
- We last wrote to secured debenture investors on 29 April 2011 to update them on the receivership, including the estimated recovery range and the likely timing of a second interim distribution.

#### ***3.2 Preferential Creditors***

##### ***Employee entitlements***

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

##### ***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 in the receiverships of the Companies.



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#### ***4. Amounts likely to be available for other creditors***

- Given the estimated return to secured debenture investors, we regret to advise that there are unlikely to be any amounts available for payment to unsecured creditors, including unsecured depositors and subordinated noteholders.

## 5. Receipts and Payments

- The table opposite sets out the receipts and payments for the Companies from 13 September 2010 to 12 March 2011.
- We note the following in respect of the receipts and payments summarised in the table:
  - As noted earlier in this report, as at 12 March 2011, net proceeds to the Companies (after settlement of prior ranking security holders and sale costs) from the property loan book totalled \$9.3M.
  - Loan expenses includes, where required, payment of body corporate fees, local authority levies, insurance, marketing, maintenance and GST payable on mortgagee sales. Recoveries from the assets for which these costs were incurred are yet to occur in a number of instances.
  - Operational costs include, but are not limited to, staffing, premises, communications, electricity and administration costs.
  - Legal services to date include general receivership advice, loan specific legal requirements, litigation as required, property administration and conveyancing, and loan documentation.

- Other professional fees include valuation costs and advice obtained from specialist property, accounting and tax consultants.

**Strategic Finance Limited and subsidiaries (In Receivership)**  
**Receipts and Payments Summary**  
**For the receivership period from 13 September 2010 to 12 March 2011**

	NZ\$
<b>Receipts</b>	
Brought forward	7,891,280
Receipts from loan book	4,376,690
Receipts from sale of sundry fixed assets	2,410
Income Tax Refunds	849,620
Other receipts	116,022
GST refunds received	370,158
GST on receipts	938
<b>Total receipts</b>	<b>13,607,118</b>
<b>Payment</b>	
Distributions to investors	7,356,057
Loan expenses	923,924
Operational costs	722,789
Liquidators fees	22,703
Legal fees and associated costs	754,965
Other professional fees and associated costs (including valuation costs)	236,303
Receivers' fees	552,187
Trustee fees	93,245
GST on payments	282,036
<b>Total payments</b>	<b>10,944,210</b>
<b>Net funds on hand</b>	<b>2,662,909</b>

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## **6. Other Matters**

### **6.1 Operational Matters**

- We determined that it was more cost effective to outsource SFL's debenture registry as the specialist server that it used to maintain its database required replacement and the estimated replacement cost was \$100,000.
- Accordingly, we have outsourced the administration of the debenture registry to Computershare. This will mean that Computershare will deal with:
  - Address changes
  - Bank account changes
  - Transfers of investments

### **6.2 Investigations**

- As you will be aware, the Securities Commission (now the Financial Markets Authority) is investigating SFL and SNL, as part of its investigation of all failed finance companies. The status of each of these investigations can be viewed on the Commission's website at [www.sec-com.govt.nz](http://www.sec-com.govt.nz)

- We have provided assistance to the Securities Commission including access to the Companies' 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 the Companies 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 may be available (and against whom) to us in respect of these matters.

### **6.3 Concluding Comments**

- We continue to focus on recoveries from the property loans, personal guarantees provided by borrowers and legal action that may be available to us and/or the liquidators.

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- We will write to secured debenture investors in early July to confirm the timing and amount of the second interim distribution.
  - 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 and In Liquidation)**

**C/o PricewaterhouseCoopers**

**PO Box 243**

**Wellington**

**Facsimile: +64 4 462 7492**

**Website: [www.pwc.com/nz/strategicfinance](http://www.pwc.com/nz/strategicfinance)**

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## *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.