



15 August 2012

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 21 February 2012 (the “February 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. Overall returns to secured debenture investors

In our February Report, our estimated range of recoveries to secured debenture investors was 12% to 26% of the principal amount outstanding as at the date of receivership.

As a result of a further re-assessment of the likely level of recoveries from five key remaining loans, we have revised our estimated range of recoveries to **12% to 20%** of the principal amount outstanding to secured debenture investors.

The “low” end of our range remains unchanged. The reduction in the “high” end of the range reflects the considerable uncertainty as to the likely level of recovery from properties securing the five loans. The key issues with these loans are as follows:

- Two loans have significant prior ranking mortgages that will need to be fully repaid prior to any amounts being paid to Strategic. Any action by the prior ranking mortgagees could have a significant impact on the level of potential recovery to Strategic.
- Three loans are secured over proposed bare land coastal subdivisions, where the borrowers are endeavouring to resolve resource consent/title issues so that the properties are saleable in the current market.

Distributions in the receivership to date total 8.5 cents in the dollar, which equates to \$31.3M in total interim distributions. The most recent distribution (1.5 cents in the dollar) was paid to secured debenture investors on 7 May 2012.



Based on the number of properties under contract (and subject to those sales settling), we expect that a further distribution is likely to be made before the end of 2012. As soon as we have sufficient funds to make a further distribution, we will write to investors to confirm the amount and timing of the distribution. We note that the distribution could be delayed if property sales do not settle as scheduled.

We reiterate that realising property in the New Zealand market remains challenging and on a number of the loans, secured over property, it is difficult to assess the level of recovery. This is particularly so for development and coastal properties, of which Strategic is heavily exposed to. These factors will have an impact on the final recoveries that we will be able to achieve for secured debenture investors.

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

For the period 12 March 2010 to 3 August 2012, SFL has received net realisations of approximately \$40M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

The status of Strategic's remaining loans can be categorised as follows:

- a. Loans where the underlying properties have either been sold and settled or are under contract;
- b. Loans where marketing campaigns have commenced for the properties;
- c. Loans where further work is required to resolve certain issues prior to marketing the properties for sale;
- d. Loans where action is being taken against the guarantors; and
- e. Loans where there is a prior ranking mortgagee and Strategic has limited control over the realisation process.

Loans where the underlying properties have either been sold and settled or are under contract

We outline below a summary of loans and related properties that have either been sold and settled or are now under contract for sale since our February Report (we have only included in this list property sales where there are proceeds available to Strategic):

- Two resorts in Rarotonga have now sold and settled with the net proceeds payable to Strategic;
- Development site in central Queenstown has now sold and settled with the net proceeds payable to Strategic;
- One remaining unit in an apartment block in Mt Maunganui has now sold and settled with the net proceeds payable to Strategic;



- A payment arrangement in respect of one of the loans has now been completed – the payment arrangement provided for an initial upfront payment and a large lump sum upon completion of the development. The final payment has now been received by Strategic;
- Large development site in Queenstown is subject to a conditional contract;
- Two residential lots in Northland are now subject to conditional contracts;
- Ten residential lots in Gulf Harbour are now subject to an unconditional contract and scheduled to settle in October 2012;
- Large development site in Fiji is subject to an unconditional contract and is scheduled to settle in October 2012;
- Property located in Fiji has now been sold with funds payable to Strategic over an agreed period of time. In this case Strategic did not hold a first ranking mortgage and did not have control of the sales process. The amount payable to Strategic provides a better outcome than if Strategic had not agreed to the sale;
- One loan where an assignment of Strategic's debt has been entered into (with consideration to be paid to Strategic on settlement of the assignment); and
- Repayment plans entered into with certain guarantors, which provides for funds to be paid to Strategic over an agreed period of time.

Loans where marketing campaigns have commenced for the properties

We outline below loans where marketing campaigns are currently underway for the secured properties:

- House in Northland is being marketed for sale;
- Development site in Fiji is being marketed for sale;
- One residential lot in Gulf Harbour is being marketed for sale; and
- Negotiations are underway on one loan where Strategic has a second mortgage.

We have included in the above list any current marketing campaigns where there are likely to be funds available to Strategic.

Loans where further work is required to resolve certain issues prior to marketing the properties for sale

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 Strategic. We outline these loans below:

- Property located in Northland where the borrower is endeavouring to resolve title issues so that the development can be sold;
- Property located in Australia where an amendment to the resource consent is being sought.

These matters are taking longer than expected to resolve, however, we are anticipating that these issues will be dealt with so that the properties can be marketed towards the end of 2012.



In addition, there are three loans where legal action is being taken to try to recover funds for Strategic. The legal action primarily relates to disputes as to who is entitled to certain funds.

Loans where action is being taken against the guarantors

We are also seeking to maximise the value of any collateral securities (including personal guarantees) that Strategic holds. This can include:

1. Settlement Arrangements

In some cases, we have entered into settlement arrangements with parties, which provides for funds to be repaid to Strategic over an agreed period of time.

Generally settlement arrangements are only entered into where there is no prospect of further recovery from the sale of the property securing the loan and the expected recovery from the settlement is greater than the expected recovery from the liquidation or bankruptcy of the borrower/guarantor.

2. Legal Action

We have taken legal action against some guarantors. Initially we make demand upon the guarantors for repayment of the amounts outstanding. If no acceptable settlement proposal is received, we will then seek summary judgment against the guarantor for the amounts outstanding. If necessary, we will then apply for the guarantor to be bankrupted (in the case of an individual) or liquidated (in the case of a company).

Where guarantors are bankrupted, we have filed claims in their respective bankruptcies and will await the outcome of the bankruptcy process to determine whether there will be any funds available to Strategic.

Loans where there is a prior ranking mortgagee and Strategic has limited control over the realisation process

Where there are prior ranking mortgagees and there is the prospect of recovery to Strategic, 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 Strategic. In a number of those cases, the prior ranking mortgagee has taken action, such as selling the property as mortgagee. In a number of those cases there has been a complete write-off of Strategic's loan.



4. Investigation

In respect of our investigation into the affairs of Strategic, we have focussed on the period February 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 February 2007 to August 2008 period about which we have concerns.

Considerable time and effort has been spent investigating those transactions to understand the background, context and implications of each transaction. We have also given affected parties the opportunity to comment on our concerns.

Together with our legal counsel, we are presently seeking to determine what legal proceedings (and against whom) if any, may be available to us in respect of these matters. We expect to finalise our position before the end of this year.

We have also been in contact with, and provided requested information to, the Financial Markets Authority.

5. Concluding comments

We are focussed on realising the underlying property securing Strategic's loan book so that further distributions can be made to secured debenture investors as soon as possible.

Based on the level of properties under contract (and subject to these sales settling), we expect that a further distribution is likely to be made before the end of 2012.

As soon as we have sufficient funds to make a further distribution, we will write to investors to confirm the amount and timing of the distribution. We note that the distribution could be delayed if property sales do not settle as scheduled.

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

Yours faithfully

A handwritten signature in black ink, appearing to be 'John Fisk', written over a horizontal line.

John Fisk
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 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 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.