



29 April 2011

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 28 January 2011 (the “January 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.

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

In our January Report, we advised that we hoped a further distribution would be able to be made to secured debenture investors by 31 July 2011.

Since our January Report, we have realised a number of loan assets and several further properties owned by Strategic’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.

### **2. Overall returns to secured debenture investors**

In the January Report we advised that our preliminary estimate of the gross recoveries to secured debenture investors from the realisation of Strategic’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 Strategic’s loans was lower than our initial “high” estimate for that loan.

The New Zealand property market remains difficult and there are still considerable uncertainties relating to the recoverability of many of the loans secured over property, which will have an impact on the final recoveries that we will be able to achieve for secured debenture investors.

We will continue to refine and update the estimated recovery range as we realise the loan assets. 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 22 April 2011, gross realisations of approximately \$70M have been recovered from the borrowers. Of these realisations, SFL has received approximately \$13M, 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 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 settlement arrangements have been entered into with 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 sold and settled or are under contract***

As noted in our January Report, where possible, we are requiring the properties (securing the loan to Strategic) to be marketed to enable the loan to be repaid (to the extent possible). In this respect, we outline below properties that have either been sold and settled or are now



under contract for sale since our January Report (we have only included in this list property sales where there are proceeds available to Strategic):

- Bare land residential lots owned by Rakaia River Holdings Limited (In Receivership) – one lot has sold and settled and the balance of the lots are subject to an unconditional contract – scheduled to be completed by the end of June 2011;
- Two bare land residential lots in Queensland, Australia have sold and settled;
- Remaining residential apartments located in Takapuna have now been sold with the prior ranking mortgagee repaid in full and the proceeds from the sale of the last apartment has been paid to Strategic;
- Four apartments in North Auckland have sold and settled;
- Two remaining residential units in an apartment complex in Auckland have been sold and settled;
- One commercial unit in Auckland has now been sold and settled; and
- A vacant section in Northland is under contract.

***Loans where marketing campaigns have commenced for the properties***

Marketing campaigns for a number of properties have been initiated either by SFL as mortgagee or by the borrower. These include:

- One remaining unit in Tauranga – remedial works currently being completed;
- Sections in Gulf Harbour, Auckland – offers are currently being received;
- Section and residential house in Queensland, Australia – marketing campaign commenced;
- Marketing of resorts/units in Rarotonga has commenced; and
- Vacant section in Queenstown – marketing campaign has commenced.

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 overseas where the guarantor has sought to prevent Strategic from marketing the property for sale;
- Property located overseas where an amendment to the resource consent is being sought;
- Property located in the South Island where there are resource consent issues to be resolved; and



- Property located in the North Island where the borrower is seeking to amend the resource consent.

#### ***Loans where settlement arrangements have been entered into with guarantors***

We are also seeking to maximise the value of any collateral securities (including personal guarantees) that Strategic holds. In this respect, we have now entered into settlement arrangements with six parties, and are in negotiations with a further party, under which funds will be repaid to Strategic over an agreed period of time.

In a number of cases, the guarantors of the loans to Strategic 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 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.

#### **4. Investigations**

As you will be aware, the Securities Commission is investigating Strategic, 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)

In addition, together with SFL's liquidators, we are carrying out our own investigations, and for that purpose we have provided information to our legal counsel to determine what actions (and against whom) may be available in respect of certain matters identified by us.

#### **5. 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



### **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.

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

Yours faithfully

A handwritten signature in black ink, appearing to read 'John Fisk', written over a light gray rectangular background.

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.