



21 December 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 15 August 2012 (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. Timing and amount of fifth interim distribution to secured debenture investors**

In our August Report, we advised that we hoped a further distribution would be able to be made to secured debenture investors by the end of December 2012.

We have received confirmation that a property settlement has occurred as at the date of this report. As a result, we will pay out a further distribution of 1.5 cents in the dollar to secured debenture investors on Monday 24 December 2012 (provided the settlement funds are received and cleared). We will not write separately to secured debenture investors to advise of this payment.

Once the 1.5 cents in the dollar has been distributed, secured debenture investors will have received 10 cents in the dollar during the receivership to date.

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

In our August Report, our estimated range of recoveries to secured debenture investors was 12% to 20% of the principal amount outstanding as at the date of receivership.

At this time our assessment of the estimated range of recoveries to secured debenture investors remains unchanged.

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.

#### **4. 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 14 December 2012, SFL has received net realisations of approximately \$41M, 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 further work is required to resolve certain issues prior to marketing the properties for sale; and
- c. Loans where the only remaining security is guarantees.

#### ***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 August Report (we have only included in this list property sales where there are proceeds available to Strategic):

- Two residential lots in Northland have now sold and settled with the net proceeds payable to Strategic;
- Ten residential lots in Gulf Harbour have now sold and settled with the net proceeds payable to Strategic;
- Residential house located in Kerikeri has now sold and settled with the net proceeds payable to Strategic;
- 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);
- Development site in Fiji is subject to an unconditional contract;
- Large development site in Queenstown has now sold and settled with the net proceeds payable to Strategic; 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 further work is required to resolve certain issues prior to marketing the properties for sale***



There are five key remaining loans where the underlying properties are not under contract or subject to any arrangement. These are as follows:

- 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;
- Property located in Fiji where title issues are being dealt with; and
- Two properties where Strategic has a second mortgage and there are substantial amounts owing to the first mortgagee. In both of those cases we are working with the borrower to negotiate the best possible outcome for Strategic.

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. These legal proceedings are all scheduled to be heard in the first half of 2013.

#### ***Loans where the only remaining security is guarantees***

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

We have now dealt with the majority of the guarantors of loans either by way of settlement arrangements (which provides for funds to be repaid to Strategic over an agreed period of time) or making demand and issuing legal proceedings to recover funds.

There are approximately five guarantors that we have yet to reach agreement with, or take enforcement action on, and this will be a focus in early 2013.

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.

## **5. Investigation**

We outline below the status of our investigations into the affairs of the Company.

In relation to claims against the directors, we have prepared and provided to the directors of SFL a draft statement of claim. We are now engaged in settlement discussions with the directors on a without prejudice and confidential basis in accordance with a formal process.

If settlement cannot be reached, we expect that court proceedings will be issued in April 2013.

We are still assessing potential claims against two third parties. The first potential claim is under investigation, with relevant documents presently being provided to the receivers for review. The second potential claim is subject to a legal review process. We expect to update secured debenture investors on what action will be taken on these potential claims in early 2013.

## **6. Concluding comments**



There are two main areas of focus in the receivership for the early part of 2013:

- Realising the remaining underlying property securing Strategic's loan book so that further distributions can be made to secured debenture investors as soon as possible; and
- Dealing with the potential claims as outlined in section 5 above.

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.co.nz/strategic-finance](http://www.pwc.co.nz/strategic-finance)**

We advise that our offices are closed from 24 December 2012 and will reopen on 14 January 2013 and therefore any correspondence received from 24 December 2012 will be responded to upon our return on 14 January 2013.

Yours faithfully

A handwritten signature in black ink, appearing to be 'John Fisk', written in a cursive style.

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.