



21 February 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 18 October 2011 (the “October 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 October Report, our estimated range of recoveries to secured debenture investors was between **12% to 26%** of the principal amount outstanding. At this time our assessment of the estimated range of recoveries to secured debenture investors remains unchanged.

Distributions in the receivership to date total 7 cents in the dollar, which equates to \$26M in total interim distributions.

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 in April 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.

Once the marketing campaigns outlined below have been completed, we will be able to further refine the estimated range of recoveries.

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 31 January 2012, gross realisations of approximately \$94M have been recovered from the borrowers. Of these realisations, SFL has received approximately \$32M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

We note that the level of recoveries has been lower over the last four months, due to the Christmas period.

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 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 been sold and settled or are under contract

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

- Two loans where an assignment of Strategic's debt has now occurred (with consideration paid to Strategic for these assignments);
- Four related loans where Strategic's debt was assigned (with consideration paid to Strategic);
- 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;
- Repayment plans entered into with certain guarantors, which provides for funds to be paid to Strategic over an agreed period of time;
- Two resorts in Rarotonga are now subject to unconditional contracts and we are awaiting the necessary regulatory approvals so these sales can settle – we estimate that settlement will occur in April 2012;



- Development site in central Queenstown is now subject to an unconditional contract and scheduled to settle in March 2012; and
- Following a full marketing campaign, negotiations with an interested party continue in respect of a large development site in Queenstown.

Loans where marketing campaigns have commenced for the properties

In our October Report we identified eight loans where we were focussed on realising the underlying property by April 2012. To date, properties securing four of the eight loans have either been sold or are under contract. Properties securing the remaining four loans are all being actively marketed for sale.

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

- An unconditional sale of residential lots in Gulf Harbour, Auckland did not settle and these lots are being marketed for sale again;
- Residential lots and house in Northland are being marketed for sale;
- Two unrelated development sites in Fiji are being marketed for sale; and
- Negotiations are underway on two loans 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; and
- Property located in the North Island where the borrower is seeking to amend the resource consent.

These matters are taking some time to resolve, however, we expect an outcome in respect of these issues within the next two to four months.

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 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 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.

In a number of cases, the guarantors of the loans to Strategic are now bankrupt. In those cases, we have filed 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. In a number of those cases there has been a complete write-off of Strategic's loan.

4. Investigation

In addition to our focus on loan recoveries, we are also completing our investigation into the affairs of Strategic to determine what actions (and against whom) may be available in respect of certain matters identified by us.

Given the size and complexity of Strategic's affairs, this has taken some time to work through and we are working closely with our legal advisers to complete this process as quickly and efficiently as possible.

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 in April 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 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.