



18 October 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”)**

Introduction

Our last report to secured debenture investors was dated 29 April 2011 (the “April 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.

Distributions to secured debenture investors

Since our April Report, we have made two further interim distributions to secured debenture investors as follows:

- 2 cents in the dollar paid on 18 August 2011; and
- 3 cents in the dollar paid on 5 September 2011.

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

If you are a secured debenture investor and have not received the interim distributions referred to above, please contact Computershare as follows:

Address:	Private Bag 92119 Victoria Street West Auckland 1142	Telephone:	(09) 488 8777
		Facsimile:	(09) 488 8787
		Email:	enquiry@computershare.co.nz

1. Overall returns to secured debenture investors

In the April Report we revised our preliminary estimate of the gross recoveries to secured debenture investors from the realisation of Strategic’s loan book to **12% to 26%** of the principal amount outstanding to secured debenture investors as at 12 March 2010.

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



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 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.

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.

For the period 12 March 2010 to 30 September 2011, gross realisations of approximately \$89M have been recovered from the borrowers. Of these realisations, SFL has received approximately \$29M, 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 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 April 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) have now sold and settled;
- Vacant section referred to as being under contract in our April Report has now settled;
- Section and residential house in Queensland, Australia have sold and settled;
- One commercial unit in Auckland has now been sold and settled;
- Sections in Gulf Harbour, Auckland – now sold and settled;
- Three apartments in Auckland have now sold and settled;



- Vacant section in gated community (that was subject to Overseas Investment Office approval) has now sold and settled;
- Resort in Rarotonga has now sold and settled and a second resort in Rarotonga is under contract; and
- Development site in central Queenstown is now subject to an unconditional contract.

Loans where marketing campaigns have commenced for the properties

We have identified eight loans, where we are focussed on realising the underlying property within the next four to six months: We outline these loans below:

- Marketing of one remaining resort in Rarotonga remains on-going;
- Marketing of development site in Queenstown has commenced with a deadline sale date of 23 November 2011;
- An unconditional sale of residential lots in Gulf Harbour, Auckland did not settle and these lots are being marketed for sale again with a closing tender date of 11 November 2011;
- Residential lots and house in Northland will be shortly marketed for mortgagee sale;
- Marketing plans for the sale of two development lots in Fiji are currently being finalised and we expect that marketing will commence prior to Christmas; and
- Two loans where an assignment of Strategic's debt is currently being negotiated.

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 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.

In addition, there are two 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

As noted in our April Report, we are also seeking to maximise the value of any collateral securities (including personal guarantees) that Strategic holds.



In this respect, we have entered into settlement arrangements with six 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 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

As noted in our April Report, 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.

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. At this time, we do not expect to be in a position to make a further distribution to secured debenture investors prior to Christmas 2011.

We expect to issue a further report by 15 February 2012 and at that time will provide an update on our investigations and the timing of a further 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

Yours faithfully

A handwritten signature in black ink, appearing to be 'John Fisk', written over a faint, light-colored signature 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.