
Receivers' Six Monthly Report on the State of Affairs of

Strategic Finance Limited (In Receivership and In Liquidation)

Strategic Nominees Limited (In Receivership)

Strategic Nominees Australia Limited (In Receivership)

Strategic Advisory Limited (In Receivership)

Strategic Mortgages Limited (In Receivership)

For the six month period 13 September 2011 to 12 March 2012

Pursuant to Section 24 of the Receiverships Act 1993

Company Numbers:	951477
	632029
	1367148
	925900
	1406962

12 May 2012





Registrar of Companies
Companies Office
Private Bag 92061
Auckland Mail Centre
AUCKLAND

12 May 2012

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, "the Companies")

Please find attached our fourth six monthly report in relation to the Companies pursuant to Section 24 of the Receiverships Act 1993. A copy of this report has been sent to the Trustee, Perpetual Trust Limited. Secured debenture holders in the Companies were provided with a separate report on the status of the receiverships on 21 February 2012.

Yours faithfully
For the Companies

A handwritten signature in black ink, appearing to read 'J H R Fisk', written over a faint, light-colored signature line.

J H R Fisk
Receiver

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1 Introduction

- 1.1 We, John Howard Ross Fisk and Colin Thomas McCloy, Chartered Accountants were appointed receivers to each of the Companies on 12 March 2010 by Perpetual Trust Limited (“the Trustee”). We were appointed under the terms of a debenture trust deed giving the holder a security interest over all the assets and undertakings of the Companies.
- 1.2 This report has been prepared by us in accordance with and for the purpose of Section 24 of the Receiverships Act 1993 (“the Act”). It is prepared for the sole purpose of reporting on the state of affairs with respect to the property in receivership and the conduct of the receivership.
- 1.3 This report is subject to the restrictions set out at Appendix I. In particular, all information contained in this report is provided in accordance with Sections 26 and 27 of the Act. Furthermore, in preparing this report we have relied upon and not independently verified or audited information or explanations provided to us.
- 1.4 Our last report on the receiverships was dated 10 November 2011.

2 Particulars of assets and disposals of receivership property

Estimate of Gross Recoveries to Secured Debenture Investors

- 2.1 In our previous report for the six month period to 12 September 2011 we advised that that our estimate of the gross recoveries to secured debenture investors from the realisation of SFL's loan book was 12% to 26% of the principal amount outstanding to secured debenture investors as at 12 March 2010.
- 2.2 At this time our assessment of the estimated range of recoveries to secured debenture investors remains unchanged.
- 2.3 As at 12 March 2012, distributions to secured debenture investors totalled 7 cents in the dollar, with a further 1.5 cents in the dollar paid to secured debenture investors on 7 May 2012. This brings total interim distributions in the receivership to date to 8.5 cents in the dollar (which equates to \$31.3M in total interim distributions).
- 2.4 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 SFL 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.
- 2.5 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.
- 2.6 We will continue to refine and update the estimated recovery range as we realise the loan assets.

- 2.7 Pursuant to our rights under Section 24(3) of the Act, we have chosen to omit from this report details of our proposals for disposal of receivership property as we consider that inclusion may materially prejudice the exercise of our duties as receivers.

Property Loan Book

2.8 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 (collectively referred to as "Strategic").

Overall Loan Realisation Strategy

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

- Loans where the underlying properties have either been sold and settled or are under contract;
- Loans where marketing campaigns have commenced for the properties;
- Loans where further work is required to resolve certain issues prior to marketing the properties for sale;
- Loans where settlement arrangements have been entered into with guarantors; and
- 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

- 2.10 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 previous six month 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 SFL over an agreed period of time. In this case SFL did not hold a first ranking mortgage and did not have control of the sales process. The amount payable to SFL provides a better outcome than if SFL 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 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 resort in Rarotonga is now under contract and expected to settle by the end of May 2012; and
 - Large development site in Queenstown is subject to a conditional contract.

Loans where marketing campaigns have commenced for the properties

- 2.9 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.
- 2.10 We have only 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

- 2.11 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 properties 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 Corromandel where the borrower is seeking to amend the resource consent.

- 2.12 These matters are taking some time to resolve, however, we expect an outcome in respect of these issues by the end of June 2012.
- 2.13 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

- 2.14 We are also seeking to maximise the value of any collateral securities (including personal guarantees) that Strategic holds.
- 2.15 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.
- 2.16 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.
- 2.17 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

- 2.18 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.

- 2.19 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.

Realisations from the Property Loan Book

- 2.20 For the period 12 March 2010 to 12 March 2012, Strategic has received net realisations totalling approximately \$31M from the recovery of the loan book.

Other Assets

- 2.21 Other assets comprise fixed assets (primarily office fixtures and fittings and computer equipment) and other non-cash items. Material recoveries from these assets are not anticipated.

3 Particulars of debts and liabilities outstanding and requiring to be satisfied from the property in receivership

Secured debenture investors

- 3.1 The secured debenture investors' balance of \$367.8M (as at 12 March 2010) represents approximately 12,900 investments held by approximately 10,000 secured debenture investors.
- 3.2 To date, we have made four interim distributions to secured debenture investors totalling 8.5 cents in the dollar, which equates to \$31.3M.
- 3.3 We last wrote to secured debenture investors on 21 February 2012 to update them on the receiverships.

Preferential Creditors

Employee entitlements

- 3.4 Based on the information available from the Companies' records, employee preferential entitlements relating to salaries and wages and accrued holiday entitlements as at the date of receivership were calculated at approximately \$52k and have been paid.

Inland Revenue Department ("IRD")

- 3.5 The IRD has advised that it will not be filing a claim in the receiverships.
- 3.6 We are not aware of any other preferential claims in the receiverships of the Companies.

4 Amounts likely to be available for other creditors

- 4.1 Given the estimated return to secured debenture investors, we regret to advise that there are unlikely to be any amounts available for payment to unsecured creditors, including unsecured depositors and subordinated noteholders.

5 Receipts and Payments

5.1 The table opposite sets out the receipts and payments for the Companies from 13 September 2011 to 12 March 2012.

We note that further receipts from the loan book were received in late March/early April 2012, which enabled a fourth distribution to be made to secured debenture investors on 7 May 2012. These receipts and the fourth distribution are not reflected in the table opposite.

5.2 We note the following in respect of the receipts and payments summarised in the table:

- As noted earlier in this report, as at 12 March 2012, net proceeds to Strategic (after settlement of prior ranking security holders and sale costs) from the property loan book totalled circa \$31M.
- Loan expenses includes, where required, payment of body corporate fees, local authority levies, insurance, marketing, maintenance, dealing with resource consent issues and GST payable on mortgagee sales. The majority of these expenses have been incurred in respect of five loans, four of these loans are now under contract or have been sold and accordingly we would expect these costs to reduce over the next six months.
- Operational costs include, but are not limited to, staffing, premises, communications, electricity and administration costs.
- Legal services to date include general receivership advice, loan specific legal requirements, litigation as required, property administration and conveyancing, and loan documentation.

- Other professional fees include valuation costs and advice obtained from specialist property, accounting and tax consultants as required.

Strategic Finance Limited and subsidiaries (In Receivership)	
Receipts and Payments Summary	
For the receivership period from 13 September 2011 to 12 March 2012	
	NZ\$ 000's
Opening Balance	
Receipts	
Brought forward	2,036,214
Receipts from loan book	2,146,661
Other receipts	201,085
Total receipts	4,383,960
Payment	
Loan expenses	(479,991)
Operational costs	(247,708)
Insurance	(1,748)
Legal fees and associated costs	(291,980)
Other professional fees and associated costs (including valuation costs)	(31,946)
Receivers' fees	(181,115)
Disbursements	(15,760)
Trustee fees	(47,515)
Foreign Exchange movements	(38,991)
GST on payments	(103,340)
Total payments	(1,440,093)
Net funds received	2,943,867

6 Other Matters

Investigations

6.1 As you will be aware, the Financial Markets Authority is investigating SFL and SNL, as part of its investigation of all failed finance companies. The status of each of these investigations can be viewed on the FMA's website at:

www.fma.govt.nz/laws-we-enforce/enforcement/prosecutions-and-proceedings

6.2 In respect of our own investigation, we have focussed on the period February 2007 to August 2008 (when payments to investors were suspended).

6.3 Given the financial position of the Companies during this period, we have identified several transactions undertaken during the February 2007 to August 2008 period about which we have concerns.

6.4 Considerable time and effort has been spent investigating those transactions to understand the background, context and implications of each transaction.

6.5 Together with our legal counsel, we are assessing those concerns with a view to deciding, what legal proceedings (and against whom), if any, may be available to us in respect of these matters.

7 *Concluding Comments*

- 7.1 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. We are also focussed on advancing our investigation as outlined in section six of this report.
- 7.2 We note that a fourth interim distribution was paid to secured debenture investors on 7 May 2012.
- 7.3 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)

C/o PricewaterhouseCoopers

PO Box 243

Wellington

Facsimile: +64 4 462 7492

Website: www.pwc.com/nz/strategicfinance

Appendix 1

Restrictions

- All information contained in this report is provided in accordance with Sections 26 and 27 of the Receiverships Act 1993.
- 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 the Companies. 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 prepared by the Companies 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.
- In addition the following should be noted:
 - Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
 - Unless otherwise stated all amounts are stated in New Zealand dollars.