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**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 March 2014 to 12 September 2014

Pursuant to Section 24 of the Receiverships Act 1993

Company Numbers:      951477  
   632029  
   1367148  
   925900  
   1406962





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

6 November 2014

**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 ninth 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, Corporate Trust Limited. (We note that as at 19 December 2013, Perpetual Trust Limited was replaced as Trustee of the Companies by Corporate Trust Limited). Secured debenture holders in the Companies were provided with a separate report on the status of the receiverships on 8 September 2014.

Yours faithfully  
For the Companies

A handwritten signature in black ink, appearing to read 'J H R Fisk', with a large, stylized flourish at the end.

J H R Fisk  
Receiver

## **1 Introduction**

- 1.2 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. 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.
- 1.3 As at 19 December 2013, Perpetual Trust Limited was replaced as Trustee of the Companies by Corporate Trust Limited (“the Trustee”)
- 1.4 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.
- 1.5 This report is subject to the restrictions set out at Appendix 1. 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.
- 1.6 Our last report on the receiverships was dated 12 May 2014.

## **2 Legal claims against third parties**

- 2.1 A settlement agreement with the former directors and auditors of the Companies was reached in June 2014 for \$22 million. The agreement became unconditional on 8 August 2014.
- 2.2 As part of the settlement, the directors have undertaken that, without the prior written approval of the FMA, they will not act as a director or promoter of a public issuer for five years or accept appointment as a CEO or CFO (or equivalent) of a public issuer for three years.
- 2.3 The agreement settles claims made by the Receivers against Strategics directors for alleged breaches of duties under the Companies Act 1993 and claims against the auditors for the 31 December 2007 audit. It also settles claims made by the FMA against Strategics directors for alleged breaches of the Securities Act 1978.
- 2.4 The settlements are made without any admission of liability by any party, and encompass all claims as between the Receivers, FMA, Trustee, liquidators, directors and auditors.

## **3 Particulars of assets and disposals of receivership property**

### ***Estimate of Gross Recoveries to Secured Debenture Investors***

- 3.1 In our previous report for the six month period to 12 March 2014, we advised that our estimate of the gross recoveries to secured debenture investors from the realisation of SFL’s loan book was 12% to 20% of the principal amount outstanding to secured debenture investors as at 12 March 2010.

3.2 Following the settlement with the directors and auditors we have reviewed this estimate and now believe the estimated range of recoveries to secured debenture investors will be between 17% and 21% of the principal amount outstanding to secured debenture investors as at 12 March 2010.

3.3 Distributions in the receivership to date total 14 cents in the dollar, which equates to \$51.5M in total interim distributions.

### ***Property Loan Book***

3.4 At the time of our appointment, SFL's major remaining asset was the property loan book. These loans were made to borrowers either directly through SFL or through SNL or SNAL (collectively referred to as "Strategic").

### ***Loans where further work is required to resolve certain issues prior to marketing the properties for sale***

3.5 In our previous six month report, we advised that there were five key remaining loans where the underlying properties are not under contract or subject to any arrangement. The current status of these loans is as follows:

- Property located in Northland where the borrower is endeavouring to resolve title issues so that the development can be sold. We expect these title issues to be resolved in the near future;
- Property located in Australia where an amendment to the resource consent has been approved. This property is currently being offered for sale by Tender;
- Property located in Fiji where title issues are still being dealt with and is subject to litigation; and
- Two properties where Strategic has a second mortgage and there are substantial amounts owing to the first mortgagee. On one property, receivers have been appointed and we expect that there will be no funds available to Strategic. In relation to the second property, we are working with the borrower to negotiate the best possible outcome for Strategic.

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

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

3.7 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.

3.8 There are further guarantors where we are working towards a resolution of Strategic's claims under the guarantees as quickly as possible.

3.9 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.

3.10 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.

### ***Realisations from the Property Loan Book***

3.11 For the period 12 March 2010 to 12 September 2014, Strategic has received net realisations totalling approximately \$49.6M from the recovery of the loan book.

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## ***4 Particulars of debts and liabilities outstanding and requiring to be satisfied from the property in receivership***

### ***Secured debenture investors***

- 4.1 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.
- 4.2 To date, we have made seven interim distributions to secured debenture investors totalling 14 cents in the dollar, which equates to \$51.5M.
- 4.3 We last wrote to secured debenture investors on 8 September 2014 to update them on the receiverships.

### ***Preferential Creditors***

#### ***Employee entitlements***

- 4.4 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")***

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

## ***5 Amounts likely to be available for other creditors***

- 5.1 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.

## 6 Receipts and Payments

- 6.1 The table opposite sets out the receipts and payments for the Companies from 13 March 2014 to 12 September 2014.
- 6.2 We note the following in respect of the receipts and payments summarised in the table:
- Net funds received includes \$NZD1.5M which is currently held in our solicitors trust account in Fiji pending regulatory approval to transfer to New Zealand.
  - As noted earlier in this report, as at 12 September 2014, net proceeds to Strategic (after settlement of prior ranking security holders and sale costs) from the property loan book totalled circa \$49.6M.
  - Other receipts include the funds received to date following the settlement agreement reached with the directors and auditors of the company
  - 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. These costs continue to reduce as the properties securing the loan book are sold.
  - Operational costs include, but are not limited to, investor registry and administration costs.
  - Legal services paid in the last six months primarily relate to enforcement action and legal advice in relation to assessing and pursuing claims against third parties, property administration and conveyancing in relation to the sale of property.
  - Trustee fees cover the period September 2013 to August 2014.
  - 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 March 2014 to 12 September 2014**

	NZ\$ 000's
<b>Opening Balance</b>	
<b>Receipts</b>	
Brought forward	3,509
Receipts from loan book	1,139
Other receipts	16,047
GST refunds received	130
<b>Total receipts</b>	<b>20,826</b>
<b>Payment</b>	
Distributions to investors	14,712
Loan expenses	234
Operational costs	35
Legal fees and associated costs	549
Other professional fees and associated costs (including valuation costs)	62
Receivers' fees	178
Disbursements	23
Trustee fees	100
GST on payments	142
<b>Total payments</b>	<b>16,035</b>
<b>Net funds received</b>	<b>4,791</b>

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## **7 Other Matters**

- 7.1 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](http://www.pwc.com/nz/strategicfinance)**

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## **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.