

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 12 March 2010 to 12 September 2010

Pursuant to Section 24 of the Receiverships Act 1993

Company Numbers: 951477
632029
1367148
925900
1406962

11 November 2010

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

11 November 2010

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 first 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 18 October 2010.

Yours faithfully
For the Companies



J H F Fisk
Receiver



C T McCloy
Receiver

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1 Introduction

- 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.
- 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.
- 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.
- Our last report on the receiverships was dated 11 May 2010.

2 Events following our Appointment

- Following our appointment as receivers we attended the Companies’ offices to secure the assets and records. Our actions have included:
 - Communications with investors and the Trustee
 - Securing key assets

- Securing all records of the Companies held at their premises and obtaining an electronic back-up copy of the computer records
- Overseeing the Companies’ operations to ensure efficient and effective management.
- Undertaking an initial investigation into the financial standing of the Companies
- Meeting with key stakeholders including prior ranking chargeholders and borrowers
- Developing an asset realisation strategy in respect of each loan
- Overseeing the Companies’ operations to ensure efficient and effective management
- Undertaking a formal sales process in respect of the sale of SFL’s loan book assets.

- We have restructured the management of the Companies. At the date of this report, we currently have four staff on a full time basis and three staff on a part time or contract basis. In addition we have retained specialist property and legal advisers to assist with our analysis and the loan recovery process.

Liquidation of Strategic Finance Limited

- As a result of an application by the Trustee, SFL was placed into liquidation by the High Court on 26 July 2010.
- We advise that liquidators were appointed to preserve certain potential claims that are available to liquidators and not to receivers under the Companies Act 1993.

- The liquidation will not impact on the receivership. The receivers will continue their work, including the loan realisation and sales process currently being undertaken for the benefit of secured debenture investors.
- The receivers and liquidators will work co-operatively together to ensure that any investigations are carried out cost effectively.

3 Particulars of assets and disposals of receivership property

3.1 Property Loan Book

- SFL's major asset is the property loan book which consists of 87 loans made to borrowers either directly through SFL or through SNL or SNAL.
- Based on discussions with the borrowers, legal advisers and specialist property advisers, we continue to implement individual loan strategies, which we consider will maximise the recoveries to investors. These strategies are continuously assessed and revised as the circumstances of the borrowers alter or where the prior ranking mortgagees take enforcement measures. Potential strategies include:
 - Feasibility of partial/full completion of developments in conjunction with the borrower and other lenders;
 - Allowing the orderly sell down of properties by the borrower;
 - Identification of additional action that may be taken to improve the realisable value of mortgage assets through changes or additions to current property management;

- Potential refinancing by the borrower;
- Formal recovery action through the use of mortgagee powers and enforcement of associated securities; and
- Consideration of settlement proposals received from borrowers and third parties.

- 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.

SNL and SNAL matters

- As noted above loans were made to borrowers either directly through SFL or through SNL or SNAL. SNL and SNAL are essentially nominee companies whereby other investors co-participated with SFL in loans.
- We note that where decisions are required on loans made through SNL or SNAL and where there are other investors involved, the receivers have been required to work with the directors of SNL and the other investors. This has added an additional level of complexity to the receivership.

Sale of the Loan Book

- As set out in our first report, we undertook a formal sales process in respect of the sale of SFL's property loan book.
- We summarise below the sale process run in respect of the sale of the loan book:
 - Expressions of interest were received from a number of parties. This included parties who contacted the

receivers directly and through the receivers contacting the wider PricewaterhouseCoopers network in Australia and Asia to identify potential interested parties;

- All interested parties were required to execute confidentiality agreements;
 - Those parties that executed confidentiality agreements were then provided with initial high-level information on the loan book;
 - Those parties that indicated continued interest were provided access to a virtual data room (which contained key information in respect of the loan book);
 - Indicative bids were received on 14 June 2010;
 - Based on the level of indicative bids the receivers invited certain parties through to the next round of the sales process and to submit final offers. This included parties receiving updated valuations on the top 20 loans (by net loan book value).
- We have now completed the sales process and have assessed the final or near final offers against the expected realisations in the loan book.
 - Unfortunately, given that the final or near final offers fell short of even our “low” estimate of gross recoveries from the loan book (see section 4 of this report) we consider that the best possible outcome for secured debenture investors will be achieved via the receivers continuing to realise the loan book. We have consulted with the Trustee regarding the offers that we received and advised it of our conclusions.

- We note that one of the offers also provided for some possible future upside, however, based on the information provided, we considered that any potential upside may be difficult to achieve and so could not be relied on in our overall assessment.
- The reasons cited by bidders for their low offers were as follows:
 - The high proportion of second mortgage positions held by SFL
 - The threat of enforcement action by prior ranking mortgagees
 - The significant risk and uncertainty regarding the level of recovery in respect of many of SFL’s loan exposures and return they would require for these risks
 - The size of the deal and ability to generate returns
 - The complexities of the SNL/SFL loan participation arrangements

Realisations from the Property Loan Book

- For the period 12 March 2010 to 12 September 2010, gross realisations of circa \$39.5M have been recovered from the property loan book. Of these realisations, SFL has received \$4.9M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

3.2 Other Assets

- 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.

4 Preliminary estimate of gross recoveries to secured debenture investors

- Our preliminary estimate of the gross recoveries to the secured debenture investors from the loan book (prior to costs) is **12% to 35%** of the principal amount outstanding to secured debenture investors as at 12 March 2010.
- We emphasise that there are still considerable uncertainties relating to the recoverability of the property loans which will have an impact on the final recoveries that we will be able to achieve for secured debenture investors. The property market continues to be challenging and volatile, particularly in respect of development land and bare land subdivisions – both of which are prevalent in the SFL loan book. Borrowers continue to face difficulties in achieving sales or refinancing of the property.
- We consider that the “high” range estimate reflects some optimism in the level of loan recoveries, particularly in respect of SFL’s four largest loan exposures (by net loan book value as at 28 February 2010). Given that our estimated “high” range of recoveries from these four loans makes up 56% of the estimated “high” range of the total loan book, any difficulties in respect of the recovery of these four loans will have a significant adverse impact on the overall level of recoveries.
- We acknowledge that secured debenture investors will be disappointed at the preliminary estimate of recoveries to them. The broad range and the estimated level of loan recoveries reflect the following key issues:
 - Approximately 58% (\$131.4M) of the net loan book (as at 28 February 2010) is secured by way of second

mortgage over the underlying property. The extent of prior ranking charges could result in either:

- The erosion of funds available to SFL through holding costs incurred by the first mortgagee including interest payable to it; or
 - Potential immediate enforcement action by the first mortgagee, which in a number of cases, would result in minimal, if any, funds to SFL in the current property market.
- There are a number of loans on bare land development sites where further development funding is required. In a number of cases there are substantial prior ranking lenders and significant further funding and time is required to complete the development.
 - Loan concentration risk in Queenstown and Northland, where a number of other distressed lenders are endeavouring to realise a significant number of bare land subdivision/development sites and there is a lack of buyers.
 - Issues with loans secured against property located overseas - particularly in Fiji, given the political situation and difficulty in repatriating funds to New Zealand.
 - Our assessment of recoveries given loan specific issues. Examples include:
 - Where SFL’s lending is secured over leasehold land

- The completion of construction already underway and the uncertainty of obtaining funding and/or settlement of pre-sales
- Of SFL's 87 loans, approximately 25 of the borrowers are either in liquidation, receivership or the property owned by the borrower is in the process of, or has been, sold by the first mortgagee exercising its power of sale.
- Updated valuations obtained in relation to SFL's largest loan exposures (by net loan book value as at 28 February 2010)
- We will continue to refine and update the estimated recovery range as we realise the loan assets.

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

5.1 Secured debenture investors

- The secured debenture investors' balance of \$367.8M represents approximately 12,900 investments held by approximately 10,000 secured debenture investors.
- An initial distribution of 2 cents in the dollar (equating to \$7.4M) was paid to secured debenture investors on 15 September 2010.
- We last wrote to secured debenture investors on 18 October 2010 to update them on the receivership, including the outcome of the sales process and the estimated preliminary recovery range.

- It is difficult to provide guidance on when the next distribution will be made. However, we are committed to making distributions to secured debenture investors as funds become available.

5.2 Preferential Creditors

Employee entitlements

- 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 distributed.

Inland Revenue Department ("IRD")

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

6 Amounts likely to be available for other creditors

- 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.

7 Receipts and Payments

- The table opposite sets out the receipts and payments for the Companies from 12 March 2010 to 12 September 2010.
- We note the following in respect of the receipts and payments summarised in the table:
 - As noted earlier in this report, as at 12 September 2010, net proceeds to the Companies (after settlement of prior ranking security holders and sale costs) from the property loan book totalled \$4.9M.
 - Loan expenses includes, where required, payment of interest on prior ranking serviced debt, body corporate fees, local authority levies, insurance, marketing, maintenance and GST payable on mortgagee sales. Recoveries from the assets for which these costs were incurred are yet to occur in a number of instances.
 - 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 transfer, and loan documentation.
 - Other professional fees include valuation costs and advice obtained from specialist property, accounting and tax consultants.

Strategic Finance Limited and subsidiaries (In Receivership)
Receipts and Payments Summary
For the receivership period from 12 March 2010 to 12 September 2010

	NZ\$
Receipts	
Receipts from loan book	4,871,687
Receipts from sale of sundry fixed assets	27,858
Income Tax Refunds	395,748
Other receipts	183,949
GST refunds received	105,607
GST on receipts	9,950
Total receipts	5,594,798
Payments	
Loan expenses	468,177
Payment of preferential entitlements	51,601
Operational costs	629,556
Liquidators fees	8,889
Legal fees and associated costs	343,555
Other professional fees and associated costs (including valuation costs)	214,387
Receivers' fees	448,008
Disbursements	64,771
Trustee fees	212,191
GST on payments	178,409
Total payments	2,619,543
Net funds received	2,975,256
Opening bank balance (NZD)	4,919,583
Less: Foreign Exchange Gain/(Loss)	3,558
Closing balance pre distribution	7,891,280
Less: First Interim Distribution to secured debenture investors (made on 15 September 2010)	7,356,057
Closing Balance	535,222

8 Other matters

8.1 Investigations

- The receivers are conscious of a number of matters raised by investors and other parties in respect of the activities of the Companies prior to the receivership. A thorough investigation is currently being undertaken into the activities and conduct of the Companies and its officers by us. Where appropriate, we are working co-operatively with the liquidator of SFL.

8.2 Concluding Comments

- In the majority of cases the property loans made by the Companies are complex and the amount outstanding to prior ranking charge holders is significant. Accordingly, achieving a significant level of loan recoveries in the short term remains challenging.
- It is difficult to provide guidance on when the next distribution will be made. However, we are committed to making distributions to secured debenture investors as funds become available.
- We will endeavour to keep investors updated on a regular basis and expect to issue a further report to secured debenture investors by 29 January 2011. 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 I

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.