



15 July 2007

Dear Shareholder,

**RE: Oakland Investments (Aus) Limited (Oakland)  
Company Report  
April to June 2007**

The 2006-2007 financial year-end has drawn a close to Oakland's first two years of audited performance and I am pleased to announce that the Company continues to remain in sound financial shape.

This most recent quarter's performance is an extension of the results achieved in the first quarter of 2007, rounding out the financial year with yet another profit distribution to Shareholders. Though the return posted is slightly less than that of the first quarter for 2007, it continues to illustrate Oakland's capacity to pay exceptional returns to its Shareholders consistently over time, whilst simultaneously finessing the fundamentals which support the Company's core investment philosophy.

This last point is of obvious interest to Shareholders given the current fragility that has appeared in some quarters of Australia's property fund management sector. In my recent letter to Shareholders on 6 June 2007, I noted that I was not convinced we had seen the last of the failed property schemes in Australia for now. Whilst this should not trigger unnecessary panic for other fund managers, it will certainly put them on notice.

At Oakland, the recent instability seen in some fractions of Australia's fund management industry has only fuelled our desire to become even better at what it is we do; and that is, to consistently deliver positive returns to our Shareholders that adequately reflect the risk taken to achieve such returns. Absolute disclosure of the true nature of this risk is critical to achieving such an objective; something that other recent collapsed fund management groups have failed to do. This is one of the core investment values of Oakland.

Additionally, while Oakland's Directors are committed to maintaining consistency of returns to its Shareholders, it will not do so by compromising capital preservation. Unlike some other property funds in the past, we are not ashamed to openly declare we will patiently endure short periods of lower returns, provided Shareholder capital is not exposed to unnecessary risk.

I am confident that this cautious, but calculated approach to Oakland's Investment Strategy will sit well with the broader Shareholder body and subsequently, I expect this will allow Shareholders to share in consistent returns for greater longevity. It is not difficult to produce excellent returns over short periods, however it takes considerable skill, patience and commitment to deliver sound returns over time, consummate with the risk employed to achieve such returns. Further, it takes a robust, confident and knowledgeable Investment Team to achieve this in the midst of current market conditions and uncertainty. I am confident Oakland will continue to remain up to the task.

So, what has actually improved at Oakland in the last quarter?

1. Funds Under Management grew to just over \$28,000,000 excluding the Westpac Bank Facility and redemptions have remained very respectable;
2. The Westpac Bank facility was used for the first time with over \$2,000,000 in loans advanced through this facility;
3. Total returns for the quarter once again exceeded the coupon rates for the seventh time in the last eight quarters, with Shareholders receiving profit share distributions;
4. The ratio of first to second mortgages across the Oakland Loan Book climbed to 96% first mortgages, up from 92% last quarter;
5. Fund utilisation and average Loan-to-Value Ratios remained respectable, whilst Oakland's Investment Criteria Model evolved even further to include higher levels of scrutiny on valuations, asset values and borrower's capacity to repay;



6. Oakland's security documents and mortgage litigation precedents underwent further overhaul, with significant attention given to recent changes in statutory law associated with securing and recovering mortgage advances;
7. Significant refinement of the origination/credit relationship, ensuring greater transparency of deal presentation and a more accurate understanding of potential borrower's objectives and capacity to repay; and
8. Success in the recovery of certain defaulting loans from previous quarters, increasing gross revenue to Oakland for the quarter. Additionally, exit strategies for several other defaulting loans were negotiated;

Moving on to the actual numbers. For the period from 1 April to 30 June 2007, Oakland was able to declare quarterly dividend and distribution returns to Shareholders, consisting of:

- 2.37% for A Class Shareholders;
- 2.82% for B Class Shareholders;
- 3.43% for C1 Class Shareholders; and
- 4.97% for C2 Class Shareholders.

### **Lending Review**

It has been an interesting reporting period for Oakland from the lending aspect. As highlighted earlier in this report, this quarter saw Oakland utilise the Westpac Bank Facility for the first time, and consequently, the Company began to realise some of the benefits (particularly from a revenue point of view) that such a facility can and will provide, both now and in the future.

In contrast to the exceptional finish to the first quarter of 2007, where utilisation increased to 88%, it was a relatively slow quarter this time around in respect of actual loans advanced. In the future, and as you will see in this report, we will now include the Westpac funds in all discussions relating to utilisation. This will provide a very accurate indication of total fund utilisation.

The injection of the Westpac funds had a significant impact on utilisation results for this quarter. However, this was not the sole cause. In terms of origination, more loan proposals were presented to Oakland this quarter than in any previous quarter. This is a direct reflection of the resources that have been injected into this area of the Oakland business in recent times.

Whilst the volume of funding proposals submitted to Oakland was impressive, there was a notable decline in the quality of such proposals presented. As a result, there was a sharp increase in declined loan proposals for this quarter, directly correlating to lower utilisation of funds.

It is important to highlight the potentially unpredictable nature of cyclical effects that impact Oakland's Investment Strategy. Given Oakland is a niche solution provider for property backed lending scenarios, there is rarely a consistent flow of loan proposals. There can be periods of heightened activity, followed by periods of low activity. There can also be variations in the quality of funding proposals and hence, a high volume of funding proposals will not necessarily correlate to a high utilisation of funds.

What is most important however in all of this is the consistency of the Investment Committee. This quarter has been a testament to the core values and integrity of this Committee, given that there was a decline in loans advanced, despite a significant increase in loan proposals presented. Oakland's Directors, as highlighted earlier in this report, will not compromise Shareholder capital preservation in a bid to target higher revenues for the Company.

Continuing in regards to utilisation, and as I have commented on a number of times previously, Oakland's key objective is to ensure that it only invests in transactions that fit within its strict Investment Criteria Model. As Oakland matures and its processes and systems are continually refined and improved, greater pressure is applied to all loan proposals.



Whilst it is critical to support such development, it is also important to be conscious of the effects that an overly onerous Investment Criteria Model can have on revenue. Oakland certainly does not purport to have little or no risk involved in its lending processes. Quite the contrary. There are clearly identifiable and definable risks associated with Oakland's Investment Strategy and as with all risks, if they are not managed appropriately, they have a tendency of humbling their perpetrators.

The fine art of balancing calculated investment decisions designed to generate value (i.e. revenue), whilst carefully managing the risk associated with such decisions, is the key to becoming a successful manager of money. The Directors of Oakland are acutely respectful of their need to consistently improve every aspect of their entire Investment Strategy; regardless of past successes.

Moving right along, it is important to highlight the positive increase in the ratio of first to second mortgages as a snapshot of Oakland's Loan Book; now sitting at around 96% first mortgages. This is the highest it has ever been. Further to the comments made with respect to utilisation, this ratio is a testimony to the origination team's ability to present quality first mortgage loan proposals at a time when there has been a general decline in the quality of such proposals in the general market

Whilst the Directors are not avoiding second mortgage proposals, it has been shown in the past that second mortgage transactions pose the highest threat to capital loss. Hence in order for Oakland to proceed with any second mortgage transaction, it needs to represent exceptional value. At a time of declining deal quality, the majority of the second mortgage proposals presented simply represent an unacceptable level of risk in comparison to the increased income that may be generated from such a transaction.

Another point worthwhile noting is the decrease in Oakland's average loan size, albeit slightly, for the first time in 12 months. As Oakland matures as a company and capital raising ceases (as per the recent Prospectus expiring), it has been an expectation of the Directors that average loan size would eventually plateau. Whilst average loan size is likely to fluctuate between quarters, the Directors are more than comfortable with its current levels and believe similar average loan sizes will be reported in the future.

In contrast to average loan size during the last quarter, the average Loan-to-Value-Ratio (LVR) of Oakland's Loan Book increased, to 66.51%. Whilst this represents an increase of just over 3.5% on the previous quarter's result, it is still well within the realms of what is acceptable and below that of the maximum 75% LVR imposed under Oakland's Mortgage Indemnity and Impairment Insurance Policy with Lloyds of London.

In the past, we have also reported on the current status of defaulting loans. It is important to note that we do not report a loan as being in default until we have given the borrower at least 30 days to rectify the situation either by bringing the loan back into terms, or by repaying the entire amount owed under their mortgage. Please consider this point when digesting the information below.

At this point in time, Oakland is managing 9 defaulting loans representing a total of \$9,238,577.33 in loans advanced. This figure has increased by just over \$1,700,000 since the last quarterly report. Of the total amount of defaulting loans, only 30% of this amount has been recently considered in default (i.e. in the last 10-15 days). Of the 9 defaulting loans, it is expected that 5 of such (and totaling nearly 50%) of the total amount of defaulting loans owing to Oakland will be fully recovered, including income, within the next 4 weeks.

The vast majority of the remainder of the defaulting loans are expected to be recovered within this forthcoming quarter, with clearly identifiable exit strategies being closely monitored by Oakland. It is possible however, that a portion of these defaults may not be recovered until later in the year, given the extended time frames often required for the full enforcement of a mortgage (i.e. to sell the secured property in order to recover monies advanced by Oakland).

In the past, defaults that have been recovered through the sale of the security property (which have been few), have provided exceptional revenue opportunities for Oakland in most cases. Hence, if managed appropriately, defaulting loans can actually have a positive impact on the Company's bottom line.

Whilst it is not ideal to have to sell a security in order to recover funds owed as a result of a defaulting loan (and it is something that the Directors will try to avoid at all costs), it has also provided an opportunity to stringently test the robustness of our legal professionals and their recovery processes. To date, our mortgage recovery has proved very successful, however the Directors are continually looking for areas where we can improve the process.



It is important to note that the borrower is given every opportunity to provide a satisfactory repayment option through their own devices. For the majority of the time, this occurs via a refinance. However, the longer funds remain unpaid, the greater the risk of capital loss. As a result, if a borrower is unable to re-pay funds borrowed through their own endeavors despite every opportunity to do so, it is imperative Oakland is able to take possession of the property and realise the debt it is owed.

In line with the ever improving Investment Criteria Model, the default recovery process is continually being strengthened and improved through constant communication with our external advisors, lawyers and industry experts. This is a key area of focus within the Oakland business model.

Of the two defaulting loans highlighted in the last report for which clearly defined exit strategies were not defined at the date of that report, one of these loans has been partially satisfied and a deed of arrangement has been entered into by the borrowers to re-pay the remainder of the principal within 30 days. The second loan now has a conditional exit strategy which should result in full repayment of the loan within the next 21 days.

Again, there are no current defaulting loans which appear to pose any current real threat to capital loss for Oakland. Over the last quarter, Oakland recovered in excess of \$4,868,000 worth of defaulting loans. The Directors, whilst ever mindful of the level of defaults expressed within Oakland, feel that the current default management processes are achieving excellent results for the Company in capital and revenue return.

Please see the current summary of the key Oakland Loan Book statistics below, as compared to the previous quarter.

**Table 1 – Lending Summary Jan-Mar 2007**

Utilisation Rate (Mortgage to Cash Ratio)	Ratio 1st to 2nd Mortgages	Average Loan Size	Average Loan to Value Ratio
88%	92% First Mortgages	\$1,115,289	62.98%

**Table 2 – Lending Summary Apr-Jun 2007**

Utilisation Rate (Mortgage to Cash Ratio)	Ratio 1st to 2nd Mortgages	Average Loan Size	Average Loan to Value Ratio
70.75% (including the Westpac Facility)	96% First Mortgages	\$1,084,866	66.51%

In the last quarterly report we made few comments on the state of the current property market, primarily due to the fact that we were a little unsure of what was unfolding. The picture is becoming clearer - it seems South East Queensland may be experiencing a 'mini - boom' with demand for inner suburban dwellings and commercial office space within the CBD showing definite signs of further strengthening.

In slight contradiction to the South East Queensland market, NSW still seems to be relatively 'flat' albeit with the Eastern Suburbs, northern beaches and most Harbour side suburbs still showing good growth. Sound growth is also being experienced in many areas of Metropolitan Melbourne.

As has been suspected by the Directors of Oakland for over 6 months, we may be entering a period of general strengthening within the property market across the eastern seaboard, which could continue for up to 2 years. This does not mean that lending guidelines can be relaxed in any capacity and if anything, the Directors have been very cautious in the last 6 months.



**OAKLAND**  
INVESTMENTS



Whilst Oakland has been very successful through the relatively flat (and at times declining) property market of the last 2.5 years and the core strategy of the business is designed to make money relatively independent of the direction of the market, there is no doubt that demand for a mortgage finance product such as Oakland offers, increases in a growing market. We are confident that deal proposal volumes and quality will increase in the next 6 months.

### **Future Business and Investment Strategy**

Whilst the Directors do not envisage any substantial changes to the Company's core Investment Strategy in the near to medium term, it does expect to expand its current lending scope to include medium-term loans (i.e. 12-24 months) with similar time constraint issues that represent the majority of Oakland's current lending. This should put Oakland in a position whereby it can increase total funds under management to around \$80M in the next 12-18 months. Oakland is confident of also expanding its current relationship with Westpac during this time.

Oakland Mark II (Oakland's third Prospectus) is scheduled for release at the end of August 2007 and although it will not offer the same rates of returns that are being enjoyed by current Oakland Shareholders, it will represent excellent value when rated with the rest of the industry. We look forward to providing more information regarding this product as the lodgement date approaches and given that the current demand for the Oakland product continues to rise, we expect that the impending Prospectus will be fully subscribed faster than any previous Oakland offering. As always, all current and loyal Shareholders will be the first to have access to this offering.

The only other point of any significant note is the potential for Oakland to include small volumes of related party lending within its current Investment Strategy. Although Oakland has not expanded here in the past and is unlikely to ever expose its Loan Book to related party lending volumes any greater than 10% of the total value of the Loan Book, the Directors have also identified some exciting opportunities within this scope.

However, given this area of lending also presents different aspects of risk and conflict that need to be carefully considered, the Directors will not proceed any further without further notifying Shareholders. Further information regarding any such advancements will be provided in due course.

Otherwise, I would like to draw your attention to this years' Annual General Meeting (AGM). Dates and venue details will be sent out well in advance, so please keep an eye out. This years' AGM will provide a great opportunity for current Investors to find out more about Oakland's expansion plans for the near to medium future, in addition to providing an excellent avenue to network with many other successful and like minded Shareholders.

Once again, we are always here to answer any queries you may have, so please call us on 1300 303 684 should you have any questions.

I look forward to writing to you again soon.

Regards,

Brook Monahan  
**Managing Director**  
**Oakland Investments (Aus) Limited**