



17 October 2007

Dear Shareholder,

**RE: Oakland Investments (Aus) Limited (Oakland)  
Company Report  
July to September 2007**

I am pleased to report that coupon rates for all respective share classes have been paid for this most recent quarter and that the Company continues to remain in sound financial shape.

It is with content that I am able to report on the continued strengthening of Oakland's financial position when taking into account the recent instability of some divisions of Australia's property fund management sector. Oakland has again reinforced its financial position with another positive quarterly performance, paying above industry standard coupon rates to Shareholders for its ninth successive quarter.

As Oakland's coupon rate is higher than most, if not all, of its direct competitors, the Directors' primary objective is to be able to maintain long-term consistency in paying the coupon rate. Whilst there was no payment of profit distribution by the Company this quarter, this is no cause for concern. This only reflects a change by the Directors regarding their policy on profit distributions going forward, which is to pay such on an annual basis. This is much the same manner in which most companies make their dividend distributions and is in line with previous communications in Oakland's Company Reports and as discussed at Oakland's last two Shareholder meetings.

The Company can incur irregularity in its income stream as default interest on outstanding loans can take in excess of 12 months to recover, whilst the term of the average loan is gradually increasing. Given the highest priority of the Directors is to preserve Shareholder capital and ensure the consistent payment of the coupon rates, the policy on an annual profit share distribution will eliminate any unevenness in such payments and ensure the Company is able to continue to meet such priorities long-term.

The Directors are also pleased to note that Funds Under Management (FUM) continues to remain fairly constant at around \$27,000,000-00 (excluding the Westpac Facility). Shareholders should note that there is a new Prospectus currently being drafted for registration with ASIC prior to Christmas, which should see FUM steadily grow again throughout 2008.

Other technical aspects concerning the operation of the lending facilities of Oakland continue to perform extremely well – fund utilisation (including the continued implementation of the Westpac Bank facility) is in excess of 81%, the average Loan to Value Ratio (LVR) of Oakland's Loan Book reduced further this quarter to just over 63%, whilst the ratio of first to second mortgages which Oakland obtains as security, stabilised itself at 95%. These key statistics are reflective of consistent improvements to Oakland's Loan Book over time.

The Company has also appointed an additional team member to assist the Directors in the management of the recovery of securities that enter default. Mr David Parkinson, as Asset Manager, brings a wealth of experience to the position and adds significant value to the future development of the Company.

During this reporting period from 1 July to 30 September 2007, Oakland was able to declare quarterly distribution returns to Shareholders, consisting of:

- **2.27% for A Class Shareholders;**
- **2.65% for B1 Class Shareholders; and**
- **3.15% for C1 Class Shareholders.**



## Lending Review

The results of this quarter have seen a continuation of the positive results achieved in the previous quarter. Whilst the optimum volumes of lending that management aims for were not achieved in this period, the quarter still provided an overall sound result from the Directors' point of view.

For the second successive quarter, the Westpac Bank Facility was utilised with over \$3,000,000 in loans advanced through this Facility. Even with the inclusion of the Westpac Bank Facility, overall fund utilization has increased markedly from the last quarter to in excess of 80%. A significant reason for this has been the increase in the quality of loan proposals presented.

Whilst we appear to be entering a period of broad strengthening in the property market along the eastern seaboard, the Investment Committee will continue its relatively conservative approach to lending, as was discussed in detail in the last quarterly Company Report. This approach may reduce the number of lending transactions completed by Oakland and accordingly, restrict the income generated. However, the Directors believe this is entirely responsible and prudent given the volatility of the broader economy at present and the Directors' commitment to maintaining the integrity of Oakland's lending standards.

In moving forward with these quarterly Lending Reviews, it will not be the intention of the Directors to comment in detail on individual areas of performance, as has been the case in previous reports. Unless there are significant changes in the levels of performance in certain areas, the results will simply be provided as per the table outlined further below, with comments made only where necessary.

The Directors will continue to provide a detailed account on the current status of the defaulting loans managed by Oakland, given this area of the business comprises the highest potential risk to Oakland's Investment Strategy.

As the recovery of defaulting loans is one of the most critical areas of Oakland's business, the role of the Asset Manager is vital in ensuring the ongoing success of the Oakland business model. In conjunction with the Directors, the Asset Manager's fundamental responsibility is to determine the most efficient and profitable path to the recovery of a security taken by Oakland for a loan. This ensures that any loan that enter defaults has the greatest chance of not only recovering the principal advanced, but also maximising the return available through interest accrued as a result of the default.

As at the 30th September 2007, Oakland was managing 12 defaulting loans totalling just over \$13,000,000. Whilst this is an increase in the volume of defaulting loans since the last quarterly Company Report, it is important to note that this is a notional figure only, with loans being added to this cumulative total throughout the quarter, in addition to previous defaulting loans being recovered or re-paid.

Over the last quarter, \$6,382,500 worth of defaulting loans were recovered from five loans. A significant result within this figure is that one of the five defaulting loans was the longest running default on Oakland's books. This result is in line with the expectations forecasted in the previous quarterly Company Report.

Moving forward, it is expected that six further defaulting loans will be recovered in full within the next quarter, totalling close to 50% of the outstanding capital held within the cumulative defaulting loan amount by Oakland. Of the six defaulting loans likely to be still in default at the end of the next quarter, there is no cause for concern at this stage. The majority of these loans have only recently entered default, with clearly defined exit strategies having been identified for all but two of these loans.

Of the two loans in default that currently do not have clearly defined exit strategies, one appears as though it may pose a threat to capital loss, albeit on a minimal basis. Whilst Oakland has never made a capital loss on any transaction since inception, it is somewhat unreasonable to think that such will never occur considering the nature of the industry in which Oakland operates. This risk has always been clearly defined by the Directors and it is for this reason that Oakland has a Mortgage Indemnity Policy in place with Lloyd's of London.



Fortuitously, the Policy with Lloyd's that was arranged by the Directors will indemnify Oakland for up to 100% for any capital loss on the principal loan amount advanced (defined by the conditions of the Policy – see the Prospectus). Whilst every effort will always be made to keep any such loss to a minimum, if required, the Directors will make a claim for any shortfall on the principal advanced, directly with Lloyds. Consequently, the impact of any future capital loss on any specific loan should be kept to a minimum.

Whilst reporting a potential loss from one of the current defaulting loans is not ideal and is certainly a rare event, there are flow on benefits to the processes and systems within Oakland's Investment Criteria Model. As our lending procedures are constantly being refined and improved, it is often not until you are presented with an unexpected scenario that you can add further risk mitigation strategies to what is already a very sound Investment Criteria Model. As a result, whilst a loss is not ideal, provided the loss can be kept to a minimum (and the Lloyd's Mortgage Indemnity Insurance will mitigate this even further), the improved risk mitigation techniques employed as a result of the learning, will add considerable strength to Oakland's Investment Criteria Model over time.

Finally, it is important to note that defaulting loans recovered in the last quarter have continued to provide attractive income benefits to the Company, which has contributed in no small way to Oakland's ever growing Balance Sheet and consistent profitability.

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

**Table 1 – Lending Summary July - Sep 2007**

Utilisation Rate (Mortgage to Cash Ratio)	Ratio 1st to 2nd Mortgages	Average Loan Size	Average Loan to Value Ratio
81.05% (including the Westpac Facility)	95% First Mortgages	\$1,104,612	63.46%

**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%

Whilst a crystal ball would be beneficial when determining the overall direction of the property market along the eastern seaboard, it does seem that there is some stability and general strengthening entering the market. Overall, most areas of the eastern seaboard saw small increases in property values over the last quarter with South East Queensland continuing to show strong growth. The level of strong developer/land sub-division activity is continuing and land prices overall seem to remain on the increase. The predominant driver of this being shortage of available stock.

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

The Directors do not believe there will be any substantial change to the Company's Investment Strategy in the next 6 months.

The only item of any subsequence that the Directors will proceed to alter in the impending product offering will be that the Company will only look to take first registered mortgages (as opposed to first and second mortgages)



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as securities for future loan offerings through the next Prospectus. This is not an alteration of any real substance to current business operations as the ratio of first to second mortgages is presently 95%.

As for the release of the next product offering, the Directors propose that the Prospectus (being Oakland's third Prospectus) will offer eight further classes of shares with slightly lower rates than that being offered to existing Shareholders. The product will however, represent exceptional worth by industry standards, when considering other current offers available in the market.

I would like to confirm with Shareholders this years' Annual General Meeting (AGM), which is being held on 24 October 2007 at 2-00pm, at the Christie Corporate Centre in Brisbane. Notices and Agendas have already been sent to all Shareholders, so we look forward to seeing you there. If for any reason you are unable to attend, we would appreciate if you could complete and return the Proxy available from the Company's website.

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.

Regards,

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

