

24 April 2020

To Shareholders

Changes at Investment Services Ltd

ISL wishes to advise you that Paul Mephan has stepped down from his CEO and Directors' roles. Paul has been CEO of ISL and Director of the three property companies managed by ISL since 2018. As part of his work, Paul uncovered the fraud and theft of funds from the property companies and ISL. This has resulted in extensive work to recover funds and to pursue legal avenues to bring the previous CEO, Neil Barnes to account. \$1.7M has been recovered so far and we are following up other options for recovery. We are very grateful for the diligence that Paul has shown in this complex task which continues to be an emphasis for the company. We wish Paul well in his future endeavours.

ISL is well advanced in arrangements for a replacement CEO and we will advise you as soon as we are able of the new appointment.

At the 2019 AGMs shareholders requested several changes in the way ISL and the property companies are structured. Work is underway to address these changes. Discussions are underway to appoint independent directors to the property companies and we expect to have new directors in place shortly. Although ISL has the authority to make these appointments, each of the new directors will offer themselves for re-election at the next AGM.

Impact of Covid19

It is apparent that the impact of Covid19 on the commercial property market will be felt for some considerable time. Professional property valuers are not predicting substantial reductions in commercial property market values, but the failure of tenant businesses will obviously put pressure on future rental incomes. Much depends upon the original viability of each business to tolerate a loss of revenue for at least five weeks. Some of our tenants have been prevented from conducting business in their tenancies and have sought rent relief. We are negotiating with these tenants to develop a reasonable share of the rent relief given the specific nature of the property and the tenant.

ISL provided you with detailed reports on the properties earlier this month to ensure you have full information about the impact of the Covid19 on your investment. It will not be evident for some time what the impact of reduced rent will be on investor interests. Our focus will be to maintain tenancies and protect shareholder revenue opportunities for the long term. We will keep you informed.

You have recently received emails from Craig Priscott expressing his concerns about the investment properties and comparing the information contained in our recent advice to you, with the information as contained in the 2019 Annual Report. I would like to provide you with our assurance that ISL has provided you with accurate information and continues to manage your investment to deliver the best possible result. The following report on property investments includes information on some of the issues raised in Craig's email.

Springs Road Property Ltd - Counties Manukau DHB has continued its essential services and has paid full rent throughout. Skill NZ Ltd and Café Concepts Ltd have both paid 50% rent and are expected to continue doing so until the end of the Level 3 lockdown. Neither will realistically be able to operate during Level 3. Skill NZ teaches English to Chinese immigrants. Whilst future immigration is likely to be very limited, the existing students should continue their studies in Level 2. Café Concepts/Dunkin-Donuts will lose trade at the airports, but other outlets should be able to reopen in Level 2. Springs Rd Property is therefore expected to lose approximately \$15K of revenue with no reduction to its outgoings.

Work on this building to upgrade its seismic rating is underway and is expected to be completed by end of 2020. This will bring the building to 90% of National Building Standard (NBS) well above the 67% standard.

Superstore Properties Ltd – Placemakers at Cranford Street, Christchurch have not been able to trade during Level 4. They have paid around 35% of rent. They should be able to reopen in a limited way in Level 3 so full rent should be expected then. The Warehouse at Cameron Road, Tauranga have not paid any rent since Level 4 started (as is the case at most of their sites). At least 50% rent is sought whilst they are in Level 4, but this may be reduced by legal costs. The Warehouse will likely be able to fully trade in Level 3 when full rent should be paid. Superstore Properties is expected to lose approximately \$90K of revenue with no reduction to its outgoings.

There are no problems with seismic issues for these buildings with NBS is currently 67% or above. ISL has regular ongoing contact with the bank which includes consideration of debt levels. There is not a problem with current debt levels.

First NZ Properties Ltd – NZ Yarns at 15 Sheffield Crescent, Christchurch have also paid no rent whilst in Level 4. 50% is sought but with no agreement to date. They are applying to operate whilst in Level 3 when full rent should be expected. The business has improved its operation significantly in recent years and is supported by a national business. It is also subsidised by ancillary sub-tenants. If NZ Yarns agrees to pay 50% for the period in Level 4, First NZ is expected to lose approx. \$50K of revenue.

When the 2019 Annual Report was written, the information regarding the seismic condition of the building was correct. ISL is seeking a Detailed Structural Assessment on 15 Sheffield Crescent and a report is expected in the latter half of 2020. The situation as outlined in the recent property update outlines an accurate picture of the likely outcome.

Investor Payments

ISL is working through the process of preparing for the next investor payments and will advise you of these when the information is available, keeping in mind the issues around Covid-19.

Recovery of Funds from Theft

I am aware that shareholders may be feeling frustrated at the length of time it is taking to conclude the recovery efforts. The cost of all legal work associated with the fraud investigation has been met by ISL and information has been supplied to the Serious Fraud Office for their investigation. You will appreciate that the impending legal considerations means that we have been advised to keep detailed information such as the PWC report confidential at this stage.

ISL efforts have recovered approx. 70% of the total impact of the fraud and further avenues to recover funds are being investigated, at ISL's cost. It has taken some time to get the legal and regulatory permissions to access information which will enable us to identify where funds have been channelled and to take action to retrieve those funds. You can be assured that we are not relaxing our efforts in this regard.

Summary of the financial impact of actions taken to date:

Fraud Impact

<i>ISL (incl legal fees)</i>	\$417,940
<i>Springs Rd Property</i>	\$277,976
<i>Superstore Properties</i>	\$793,630
<i>First NZ Properties</i>	\$966,339
<i>IRD Interest & penalties</i>	\$683,982
<i>Total Impact</i>	\$3,139,867

Actions and Recoveries

<i>ISL removed as claimant</i>	+\$417,940
<i>Interest and penalties removed by IRD</i>	+\$671,506
<i>Cash recoveries</i>	+\$637,998
<i>Total recovery to date</i>	+\$1,727,444

Outstanding

\$1,412,423

Investments held by Barnes (not yet realised)

<i>First NZ Properties 50,802 Shares 2019 NTA</i>	\$334,277
<i>Tasman Development Land (for sale) Valued</i>	\$253,500
<i>Total of assets not yet realised</i>	\$587,777

Yet to be recovered

\$824,646

Any dividends or disbursements related to Barnes shares, while they are under the control of ISL Solicitors, will be returned to the companies in due course to further reduce the shortfall.

Communication Developments

Work has been underway to update the website to bring you and prospective shareholders better access to good information about the properties, performance and opportunities. ISL's objective is to provide investors with frequent updates particularly at this time of change.

We hope you are well and enjoying the relaxing of lock down arrangements.

Kind regards



Michael Millar
Managing Director
Investment Services Ltd