

BRIEFING NOTES

December 2010

Dear «Salutation»

Welcome to this quarter’s Briefing Notes. Notwithstanding the ongoing volatility in the New Zealand finance sector, the quarter under review has witnessed progress in preserving value and un-winding the propertyfinance securities limited (the Company) business.

As reported to you previously the Company has in essence two distinct parts to its asset base; firstly the direct property/loans that it owns and secondly the investments in the four mortgage trusts.

Total assets as at 31 December 2010 are \$58.0m this compares with \$60.1m as at 30 September 2010.

During the quarter a number of additional asset impairments have occurred reducing the asset backing per \$1 of original debenture stock principal to \$0.87. A summary of these impairments is:

Securitisation Mortgage Trusts	\$1,402,619
Loans	640,839
	\$2,043,458

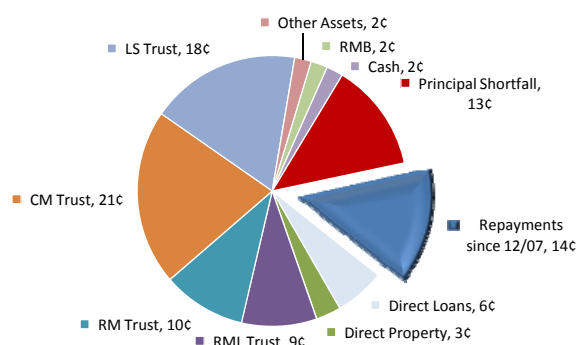
These impairments result from loan losses either within a securitisation trust that has impacted on the value of the Company’s investment or loans held directly by the Company

Distributions

Whilst the Company has cash balances of \$1.64m as at 31 December 2010 **no** distributions are able to be made until a number of financing strategies the Company has underway are concluded.

Where is Your Money?

As a guide to understanding where the Company has invested its assets, we have set out below the latest pie graph, reflecting the current position as at 31 December 2010.



Total Assets as at 31 December 2010: \$58.0 million

The segment denoted “Principal Shortfall” represents the current shortfall of principal to Stockholders if the Company’s assets were realised at current book values.



Direct Assets

During the quarter two significant direct loans were progressed; the first was a historical development loan that was subject to High Court proceedings initiated by the borrower. The Company has now resolved this matter and the proceedings have been discontinued. The Company will recover in full the principal amount of its loan but forego part of its interest.

The Directors are satisfied with the outcome and the settlement was duly approved by the Moratorium Financing Adviser.

A first mortgage loan on an Auckland commercial property, which had defaulted, lead to an unsuccessful mortgagee tender in December. An application has been prepared for the High Court to buy in this property. The Company is working with both its Financing Adviser and real estate agents to undertake some minor works with a view to undertaking a “non-mortgagee sale” as soon as practicable.

There have been no other material changes in the direct loans.

Securitisation Trusts

The Company has today some 87% of its residual assets invested in its securitisation Trusts.

The Company’s principal focus remains on working with its advisors on avenues to accelerate the winding down of these Trusts so that distributions can be made to the Company and in turn to Stockholders. The Company is also concerned to make sure that the Trusts are being managed on a timely and cost effective basis.

During the quarter it was pleasing to report that the Company made significant progress developing a working relationship with the trustee of the propertyfinance securitisation programme (New Zealand Guardian Trust Company Limited) that will enable more active joint involvement in unwinding these trusts.

A current summary of the four Trusts is:

Trust Name	Asset Type	Initial Size* (\$)	Today’s Size (\$)	PFSL Investment (\$)
RM 2005-1	Residential 1 st mortgages	86,043,257	25,506,118	8,296,027
RML 2005-3	Residential 1 st mortgages	317,006,497	82,648,291	7,008,663
CM 2005-2	Commercial 1 st mortgages	157,212,541	87,416,873	17,836,058
LS 2005-4	Home Equity / Residential 1 st mortgages	75,749,913	55,724,317	14,442,448

* 29/08/07 at receivership.

Expanding on each Trust:

■ RM Trust

Comprises a pool of residential first mortgages for owner-occupied homes.

This pool of mortgages has reduced substantially from \$86.0m (311 loans) at receivership to \$25.5m today (98 loans). The Company has \$8.3m invested in this Trust and based on the information available today expects a full recovery of this investment over time.

Average Loan Size	\$277,240
90 day arrears (current)	3.60%

The Company has conducted two promotional campaigns encouraging borrowers within this trust to refinance.

■ RML Trust

Comprises a pool of residential first mortgages for both owner-occupied and investment properties.

This pool of mortgages has reduced substantially from \$317m (1,031 loans) at receivership to \$82.6m today (310 loans). The Company has \$7.0m invested in this Trust. The Company is presently unable to access the detailed information required to fully assess the recoverability of the Company’s investment in this Trust.



Based on the information available, this investment is at risk and has therefore been written down in the Company's accounts. Our best assessment at this time is that a partial recovery will be made over time.

Average Loan Size	\$341,522
90 day arrears (current)	5.00%

▪ **CM Trust**

Comprises a pool of commercial first mortgages for commercial properties.

This pool of mortgages has reduced substantially from \$157.2m (114 loans) at receivership to \$87.4m today (56 loans). The Company has \$16.7m invested in this Trust. It is expected that the value of this investment will need to be written down in the near future. However, based on the information we currently have access to, it is expected that most of this investment will be recovered over time.

Average Loan Size	\$1,618,022
90 day arrears (current)	11.90%

▪ **LS Trust**

Comprises a pool of first mortgages for owner-occupied properties.

This pool of mortgages has reduced from \$75.7m (980 loans) at receivership to \$55.7m today (705 loans). The Company has \$14.5m invested in this Trust. Over time, the Company expects a full recovery of its investment.

Average Loan Size	\$73,076
90 day arrears (current)	0%

Cash Movements – Quarter Ended 31 December 2010

	(\$)
Opening cash	1,329,848
Net cashflow	317,058
Closing cash	1,646,906
Management fees	103,500
Distribution	Nil
Official cash rate	3%

Moratorium Regulations

With effect from 31 January 2010, finance companies which are under a moratorium must comply with the Securities (Moratorium) Regulations 2009.

These Regulations set out the minimum standards for periodic reporting to Stockholders and are a **mandatory** requirement. Both the timing of the reports and content is set out within the Regulations.

Statements

We have not included a revised statement of your investment at this time; updated statements will be provided after the next payment is made.

However, if you have any queries in this regard or require any clarification please do not hesitate to contact us.

Information

All correspondence is available on the Company's website, www.propertyfinance.co.nz.

We are happy to address any queries that you may have. Please feel free to call us on 03 379 9336 or if it is more convenient, by email to catherine@propertyfinance.co.nz.



Thank you.

Darryl Queen
Managing Director

Disclaimer

The Company makes every effort to ensure the accuracy of the information provided at the date of publication, however, due to the non-availability of key information and changes in market conditions no warranty or representation can be provided regarding the accuracy of such information.