



## *Covenant Trustee Company*

9 September 2011

To the Stockholders  
Propertyfinance Securities Limited

Dear Stockholder

### **PROPERTYFINANCE SECURITIES LIMITED: SECOND ANNUAL GENERAL MEETING 2011 TRUSTEES REPORT TO DEBENTURE HOLDERS**

Covenant Trustee Company acts as Trustee on behalf of all Debenture holders in Propertyfinance Securities ("PSFL" or the "Company"). This letter is prepared in connection with the Annual General Meeting of Stockholders to be held on 30<sup>th</sup> September 2011.

The Debenture holders agreed to a new moratorium proposal in June 2009, which enabled the Company to continue operating and avoid receivership. The moratorium proposal envisaged that the Company would be wound down over a period of seven years and that all outstanding principal and interest would be repaid by June 2017. As part of this proposal Debenture stockholders "forgave" \$12.3m interest owed by PFSL to them, and a number of changes were made to the Trust Deed. One of those changes was the addition of clause 12.7 which required the Company to convene an annual meeting of Debenture holders. We are reporting to you under section 12.7 (d) of the Trust Deed.

#### **The Moratorium Monitor and Financing Adviser**

We have worked closely with the Directors of PSFL, the Moratorium Monitor and the Financing Adviser. They have reported separately to you, we recommend you read these reports.

**Moratorium Monitor** – The Monitor's role is to review the Company's financial position and performance and report to us monthly. In order to reduce moratorium costs we have reduced the frequency of these reports to quarterly with effect on March 2011.

**Financing Adviser** – The Financing Adviser advises and agrees on strategies relating to the recovery of the financing receivables and advise and agree on any intervention actions, and report to the Monitor and ourselves.

#### **Performance of the Moratorium**

The Company has made significant operating losses. The outcome of these losses for you as investors is a reduction in the principal and interest you will receive. The moratorium proposal forecasted repayment of \$1.23 per dollar of principal (\$1 of principal and \$0.23 of interest). The directors of PSFL are now forecasting repayment of only \$0.85 per dollar of principal and no interest (\$0.98, 31/03/10).

Since June 2009, PFSL has repaid (\$0.04 per dollar of principal) to Debenture holders, this brings the total to 18 cents since the first moratorium proposal was approved in December 2007. The slower repayment will reduce the Net Present Value (NPV) of your investment.

The lower than expected repayments are a function of the total proceeds that the directors of PFSL have been able to generate from the Company's assets. There has been over \$11.5m in charge offs to PFSL's assets since March 2009, particularly to the notes held in Mortgage Backed Securities (MBS), and loan receivables (other assets). The Moratorium Monitor, Grant Thornton ("Monitor"), will report to you separately.

### **Costs of the Moratorium**

The directors of PFSL provided cost projections for the moratorium proposal in June 2009. The total costs of the moratorium as set out on page 26 of the June 2009 Northington Partners report were forecast to be \$750,000 per annum in the first 2 years. The total cost of the moratorium (including fees paid to the Trustee, the Monitor, the Financing Adviser and other external advisers) for the year ended 31 March 2011 was \$1,157,000. This overrun in the moratorium costs does not compare favourably with the estimated costs of a receivership (\$350,000 per annum). The Trustee, PFSL, the Monitor and the Financing Adviser are to have discussions soon after the annual meeting of Stockholders, with a view to identifying ways in which these costs can be reduced.

### **Benefits of the Moratorium**

The moratorium proposal forecast that interventions in the CM Trust would avoid \$4m of realised loan losses in the first two years. The directors of PFSL have assessed the benefit to date to be between \$3m and \$3.25m. It is very difficult to independently and objectively assess this figure and these benefits are yet to be realised and therefore properly quantified.

### **Conclusion**

In June 2009 the Debenture holders voted in favour of the moratorium option as against a receivership option. The purpose of this AGM is to consider how the moratorium has progressed since June 2009 and to give you an opportunity to express your views on the key issues.

### **Covenant Trustee Company Limited**



Graham Miller  
**MANAGING DIRECTOR**