

PROPERTYFINANCE SECURITIES LIMITED

DIRECTORS' REPORT

SEPTEMBER 2011

INTRODUCTION

This report has been prepared by the Directors of propertyfinance securities limited ("PFSL" or the "Company"), pursuant to the Trust Deed, as amended by the 29 June 2009 Special Meeting.

This report has been prepared for the Annual General Meeting (AGM) of debenture stockholders under the Trust Deed requirements.

The contents of this report are extracts from information previously provided to debenture stockholders in either the Company's Briefing Note publication, the quarterly reports pursuant to the Moratorium Regulations (2009) and/or the Annual Financial Statements.

A copy of this report, together with the aforementioned circulars to debenture stockholders, is available free of charge on the Company's website (www.propertyfinance.co.nz) or by contacting the office on (03) 379 9336.

ANNUAL FINANCIAL STATEMENTS

An extract of the audited Annual Financial Statements is annexed to this report. A full copy of the audited Annual Financial Statements is available on the Company's website www.propertyfinance.co.nz or by contacting the office on (03) 379 9336.

Statement of Comprehensive Income

The reporting group (comprising the Company and its subsidiaries) has recorded a loss of \$6.046m for the year ended 31 March 2011.

A summary is:

	2011 \$'000	2010 \$'000
Revenue	3,270	3,108
Cost	8,515	9,424
Operating loss	5,245	6,316
Net loss (gain) on financial liabilities designated at fair value	801	(46,960)
Profit (loss) after tax	(6,046)	40,644

Impairment Provision

With the reported downturn in property the Company has reviewed the carrying value of its residual on-balance sheet first mortgage loans, land holdings, debt notes and trust debtors. This review resulted in the writing down of these assets. The total impairment was \$7.385m in the period ending 31 March 2011. These comprise:

Impairments	\$m
Loans Receivable	3,132
Development property	501
Mortgage backed securities	3,750
Other	2
Total impairments	7,385

BALANCE SHEET

A summary of the Group's balance sheet as at 31 March 2011 is:

Assets	\$m
Mortgage loans	3.6
Development property intended for sale	1.8
Cash	1.9
Securitisation investments	48.0
Other	0.5
Total assets	55.8

Liabilities	\$m
Secured debenture stock	35.0
Accrued Interest	0.0
Other	0.3
Net assets & shareholders funds	20.5

The balance sheet as at 31 March 2011 year continues to be materially distorted with the requirement that the Company re-state the value of its debenture stock due to the changed terms arising from the Moratorium programme. This requirement is pursuant to the New Zealand International Accounting Standard NZ IAS 39. The strict interpretation and application of NZ IAS 39 results in the use of a discounted cash flow methodology to determine a "fair value".

	Legal outstanding amount at 31/03/11	Accounting "Fair Value" at 31/03/11
Debenture stock	68,797,316	34,967,768
Debenture interest	3,225,209	0

The accounting fair value is entirely different to the legal contractual position between the Company and its debenture holders and the latter is not subject to any change.

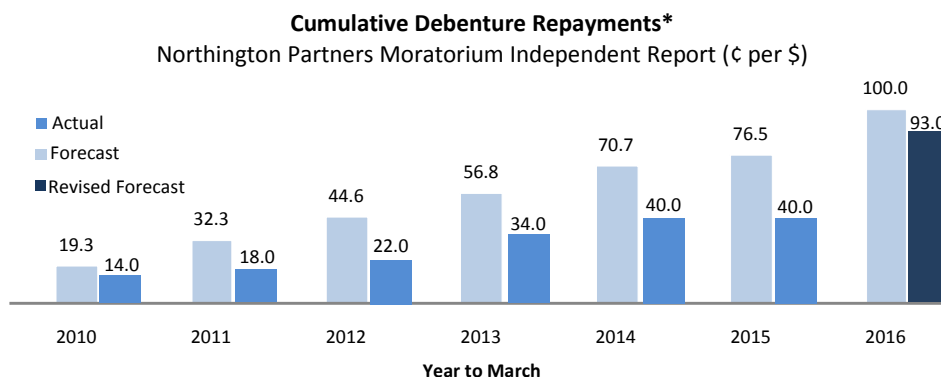
As at 31 March 2011 the Company has a stated equity of \$20.5m, prior to the NZ IAS 39 adjustments the level of shareholder equity was a deficit of (\$16.578)m (after deducting the fair value adjustment of \$37.05m).

In the directors' view this deficit more accurately reflects the commercial position the Company is in as the NZ IAS 39 adjustments will reverse over time.

At the date of this report the Company has paid 18¢ for each \$1 of debenture stock principal. Since the commencement of the Moratorium the Company has repaid a further 6¢. The Company has not paid any interest nor will it under the Moratorium plan until firstly all principal has been repaid.

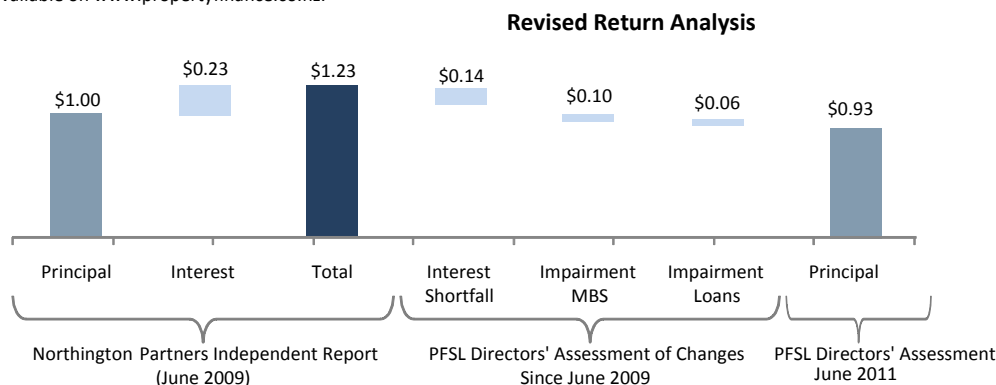
In accordance with the amended Trust Deed the Company works closely with both the Financing Adviser and Monitor in their respective roles.

Whilst the directors' primary concern and initial strategy has been to preserve the Company's assets through a period of considerable upheaval in both the domestic and international markets as has been widely reported in the media. This strategy will, in the medium term, alter so that the focus is on the realisation of these assets at the best possible time and best possible returns for debenture stockholders.



Total paid to date: 18¢ vs. forecast 32.3¢

* Please note these are extracted from the Northington Partners Independent Report and based on the assumptions at that time. A copy of the report is available on www.propertyfinance.co.nz.





- Notes:**
1. The anticipated principal repayment of \$0.85 is based on the net assets held by PFSL at 30 June 2011. The additional \$0.08 repayment is based on future cashflow receipts net of expenses. The total payment is anticipated to be \$0.93.
 2. The Interest Shortfall of \$0.14 has resulted from three causes:
 - a. An assumption that no interest would be earned on the component of assets that are impaired;
 - b. Low bank bill rates over the last year. All Trust Notes bear an interest margin over bank bills so a reduction in the bank bill rate consequently results in reduced interest income to PFSL;
 - c. Under the Securitisation Trusts interest income to Trust Notes held by PFSL is used to protect the trust from losses arising from defaulted loans.
 3. The MBS impairment arises from loan losses with the securitisation trusts:
 - a. CM Trust has been impaired by the equivalent amount of \$0.04 where enforcement action against defaulting loans has resulted in losses to the trust. The Directors' attribute these losses to continued difficult conditions in the commercial property sector with low sale prices and a lack of liquidity including the retreat of lenders from this sector. As a result of the losses to the trust, the carrying value of the trust notes held by PFSL have been impaired;
 - b. RML has been impaired by the equivalent amount of \$0.06 where enforcement action against defaulting loans has resulted in losses to the trust. The Directors' attribute these losses to the effect of the recession causing borrower defaults and subsequent recovery from enforcement action being lower than expected with continued difficult conditions in the residential property sector with low sale prices being achieved. As a result of the losses to the trust, the carrying value of the trust notes held by PFSL, have been impaired.
 4. Impairments on direct loans comprises a range of loans where recovery action has been undertaken and the loan values now reflect expected/actual returns from the loans in today's market.

Christchurch Earthquake

Following the Christchurch earthquakes a number of comments/observations can be provided:

- The Company's management staff has relocated from the Christchurch CBD and have a new operational base up and running. There have been no changes in either our contact details or staff. The Company's key records have been successfully recovered.
- The Company's key Christchurch advisors; legal, audit and monitoring, have all established new offices and are operational albeit with some limitations.
- Our **initial** assessment is that the earthquake will not impact on the Company's direct assets. However it is anticipated that earthquake losses **may** arise in two of the four mortgage trusts that the Company has invested in, from exposures to Christchurch property. Unfortunately it may take some time for the position to crystallize due to Civil Defence restrictions on property access currently in place and while owners work through insurance claims.

A high level Canterbury regional exposure assessment by Trust is:

Trust Name	RM 2005-1	RML 2005-3	CM 2005-2	LS 2005-4
% of loans within the Canterbury region (by loan principal \$)	7.7%	7.9%	13.8%	19.1%

At this point it would appear that the Company's risk is largely concentrated within the CM 2005-2 Trust where it is exposed to three commercial properties within the Christchurch CBD 'red zone'.

The RM/RML and LS Trusts have loans secured against residential property; it is expected that these exposures will be generally covered under a combination of EQC cover and private insurance minimising any potential losses to the Company.

2009 JUNE MORATORIUM OVERVIEW

Key Points

- Repayment Period – Unscheduled repayments within a seven year period
- Interest Rate on Debentures – OCR plus 2.0%
- Operating Costs – No cost cap, but all costs to be assessed and approved by Monitoring Accountant
- Ability to Trade – Limited to existing loans/underlying assets, with oversight by the Financing Adviser
- Residual Net Asset Sharing – Upon repayment of all principal and accrued interest to the stockholders, 60% of the audited net assets payable as bonus interest



MANAGEMENT FEES ANALYSIS*

Forecast: Northington Report*	\$ per month
Years 1 and 2	\$62,500
Years 3 onwards	\$45,833

Actual costs to date	\$ per month
Actual cost to date (average)	\$91,000

Years 1 and 2 (1 July 2009 – 30 June 2011)	Total management costs
Forecast (Northington \$62,500 x 24)	\$1,500,000
Actual*	\$2,479,000

* This excludes depreciation.

Operating Expenses for year ended 31 March 2011	\$
Management fees	431,750
Consultant fees	144,398
Legal fees	130,940
Trustee fees	127,353
Monitor fees	91,267
Accounting and Audit fees	67,770
Other	136,342
	1,129,820

MORATORIUM STRATEGY

- Before we review the PFSL assets as at 30 June 2011 it is important to do so in light of the Moratorium strategy
- The strategy is to firstly preserve assets/asset values and secondly realise these assets in a orderly manner over time
- Debenture stockholders have signalled strongly their desire to avoid the “fire sale” of assets

MORATORIUM SUMMARY

- Over the past 12 months there has been no material change in the nature of the assets of the Company although it is noted that the carrying values have been further impaired by the Directors
- There has been no material change in the conduct of the Moratorium proposal voted on at the Special Meeting on 29 June 2009
- In the Moratorium material provided to debenture stockholders prior to the June 2009 Special Meeting the Company forecast a total return to debenture stockholders of \$1.23 over the seven year forecast period

Key Assumptions By Scenario

Assumption	The Company Directors' Scenario	Receivership Scenario	Latest Expectation
Interest on debentures	OCR + 2%; average total rate of 6.5% assumed	Accrues at a fixed rate of 9.3%	OCR + 2%; average total rate of 6.5% assumed
Free-cash return	75%	100%	75%
Realisation from MBS	Sold in year 7 at 90% face value	Sold in year 3 at 60% of face value, in year 5 at 70% and year 7 at 80%	Sold in year 7 at 90% face value
Losses within CM Trust	\$3m losses in years 1&2	\$7m losses in years 1 & 2	\$3m losses in years 1&2
Loan life – RM	1 year	2 years	2 years
Loan life – RML	1 year	2 years	2 years
Capital losses on MBS	No further net losses	No further net losses	\$8,069,000 impairment (as at 31/03/11)
Realisation of other assets	Recognised at face value	Sold in year 3 at 10% of face value, in year 5 at 20% and year 7 at 40%	\$6,445,000 impairment (as at 31/03/11)

INTERVENTION STRATEGIES (SINCE JULY 2009)

In addition to the Company's asset management and collection activities the Moratorium specifically provided for the Company to undertake a range of intervention strategies. Each intervention requires the prior approval of the Financing Advisor.

The Moratorium forecast that interventions in the CM Trust would avoid \$4.0m of realised loan losses in the first two years. CM Trust interventions has been the principal activity undertaken however the Company has also undertaken interventions where the direct benefit is not easily measured, an example of this is promotional activity undertaken to clients with residential mortgages to highlight and/or incentivise the repayment of home loans.



No. of Loan Interventions	Benefit*
5 commercial loans	\$3.0-\$3.25m

* The benefit is the directors' assessment after taking account of the known loan balances and likely property realisation values at the time of the intervention. The directors in developing this assessment have relied upon a number of reference points; comprising valuations and/or comparable sales evidence. In each instance the intervention has enabled the borrower to avoid a forced sale scenario. As the subject properties have not been sold the directors assessed benefit cannot be fully substantiated and therefore represents their best opinion at that time.

INVESTOR RETURNS

(i) Expectations 29 June 2009 Moratorium Explanatory Memorandum

	Receivership	Moratorium	Difference
Projected period	3-7 years	7 years	0-4 years
Costs over projected period (7 years)	\$1.95m	\$3.5m	\$1.55m
Projected returns (cents per \$)	\$0.81-\$1.14	\$1.23	9-42c
Projected returns (cents per \$ NPV)	65-74c	78c	4-13c
Contractual interest rate	9.33%	OCR+2%	n/a
Interest written off (forgiven)	-	\$12.3m	\$12.3m

(ii) Moratorium Expectations 30 June 2011

	Expectation
Projected period from commencement	7 years
Costs over projected period (7 years)	\$3.4m
Moratorium costs year (1 July 2009 – 30 June 2011)	2,537,809*
Current asset backing (cents per \$)	0.85c
Projected returns (cents per \$ NPV)	0.59c
Contractual interest rate	OCR + 2%
Interest written off (forgiven)	\$12.3m

* excluding impairments

SECURITISATION PROGRAMME

Propertyfinance RM 2005-1 Trust	Aug-2007	31-Mar-2009	31-Mar-2011	30-Jun-2011
Pool size	86,043,257	42,456,876	24,913,976	23,494,077
Number of loans	323	162	96	90
Average by size	283,971	284,945	276,822	276,401
Average loan to value ratio	95.2%	95.0%	94.0%	93.9%
Owner occupied	100%	100%	100.0%	100.0%
90-day arrears	-	5.3%	3.8%	4.1%
Charge-offs**	-	110,000	405,554	415,554

Propertyfinance RML 2005-3 Trust	Aug-2007	31-Mar-2009	31-Mar-2011	30-Jun-2011
Pool size	317,006,497	317,006,497	74,430,020	67,902,589
Number of loans	1,031	1,031	288	269
Average loan size	385,653	357,240	330,800	323,346
Average loan to value ratio	78.5%	78.5%	78.4%	79.2%
Owner occupied	426	287	167	153
Investment	288	200	121	116
90-day arrears	3.3%	13.0%	7.6%	7.1%
Charge-offs**	-	6,453,855	11,887,745	13,179,311

Propertyfinance CM 2005-2 Trust	Aug-2007	31-Mar-2009	31-Mar-2011	30-Jun-2011
Pool size	157,212,541	111,380,862	85,672,758	84,270,020
Number of loans	114	72	57	57
Average loan size	1,588,005	1,687,589	1,616,467	1,590,000
Average loan to value ratio	68.7%	69.4%	67.3%	67.0%
90-day arrears	-	14.6%	10.5%	10.8%
Charge-offs**	-	110,240	4,660,472	4,660,472



Propertyfinance LS 2005-4 Trust	Aug-2007	31-Mar-2009	31-Mar-2011	30-Jun-2011
Pool size	75,749,913	62,917,325	54,561,776	53,015,798
Number of loans	980	813	685	670
Average loan to value ratio	16.1%	28.5%	33.5%	33.6%
Average age of borrower	77	79	80	80

* This information is supplied by The New Zealand Guardian Trust Company Limited through its noteholder monthly reports.

** Charge-offs are the impairment charge against the Company's investment due to losses within the underlying loan portfolio. At this time and based on available information the Company assumes these impairments are actual losses on the relevant investment.

The Board of Directors
Propertyfinance Securities Limited
Christchurch

2011 FINANCIAL STATEMENTS

(as at 31 March 2011)

Statement of Comprehensive Income

For the year ended 31 March 2011	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest and similar income	3,206	3,076	2,987	2,878
Net interest income	3,206	3,076	2,987	2,878
Other income from ordinary activities	64	32	11	12
Total revenue / expense from ordinary activities	3,270	3,108	2,998	2,890
Impairment losses	7,385	7,129	5,956	9,784
Operating expenses	1,130	2,296	1,119	2,249
Net loss/(gain) on financial assets and liabilities designated at fair value through the profit or loss	801	(46,960)	801	(46,960)
Profit/(loss) before income tax	(6,046)	40,643	(4,878)	37,817
Income tax expense/(benefit)	-	-	-	-
Profit/(loss) after income tax	(6,046)	40,643	(4,878)	37,817
Other comprehensive income	-	-	-	-
Total comprehensive income for the period attributable to members of the parent entity	(6,046)	40,643	(4,878)	37,817
Earnings per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in dollars per share)				
- basic	(0.39)	2.61		
- diluted	(0.39)	2.61		

Statement of Changes in Equity

For the year ended 31 March 2011	Group (\$'000)		
	Share capital	Retained earnings	Total
Balance as at 1 April 2009	15,571	(29,692)	(14,121)
Profit/ (loss) for the period	-	40,643	40,643
Other comprehensive income	-	-	-
Total comprehensive income for period	-	40,643	40,643
Transactions with owners in their capacity as owners	-	-	-
Balance as at 31 March 2010	15,571	10,951	26,522
Balance as at 1 April 2010	15,571	10,951	26,522
Profit/(loss) for the period	-	(6,046)	(6,046)
Other comprehensive income	-	-	-
Total comprehensive income for period	-	(6,046)	(6,046)
Transactions with owners in their capacity as owners	-	-	-
Balance as at 31 March 2011	15,571	4,905	20,476
	Share capital	Retained earnings	Total
For the year ended 31 March 2010			
Balance as at 1 April 2009	15,571	(29,922)	(14,351)
Profit/ (loss) for the period	-	37,817	37,817
Other comprehensive income	-	-	-
Total comprehensive income for period	-	37,817	37,817
Transactions with owners in their capacity as owners	-	-	-
Balance as at 31 March 2010	15,571	7,895	23,466
Balance as at 1 April 2010	15,571	7,895	23,466
Profit/(loss) for the period	-	(4,877)	(4,877)
Other comprehensive income	-	-	-
Total comprehensive income for period	-	(4,877)	(4,877)
Subsidiary retained deficit acquired on amalgamation	-	(862)	(862)
Transactions with owners in their capacity as owners	-	-	-
Balance as at 31 March 2011	15,571	2,156	17,727



Balance Sheet

As at 31 March 2011	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Assets				
Cash and cash equivalents	1,881	784	1,880	784
Income tax receivable	1	178	1	178
Development property intended for sale	1,814	2,315	840	762
Related party receivables	2,629	2,683	2,629	2,683
Other receivables	94	115	61	115
Loans receivable	3,623	6,658	3,623	6,658
Mortgage backed securities	38,732	41,576	38,732	41,576
Rated Mortgage Bonds	20	20	20	20
Investment in subsidiaries	-	-	4,411	4,411
Property, plant & equipment	11	23	11	23
Intangible assets	-	-	-	-
Cash held in related trusts	5,841	5,623	-	-
Trust Debtors	829	829	829	829
Financial asset at fair value through profit or loss	275	275	-	-
Total Assets	55,750	61,079	53,037	58,039
Liabilities				
Trade and other payables	101	184	98	182
Amount due to related party	-	-	39	19
Debenture Stock on issue	34,968	34,167	34,968	34,167
Trust Creditors	205	205	205	205
Total Liabilities	35,274	34,556	35,310	34,573
Net Assets	20,476	26,523	17,727	23,466
Shareholders Funds				
Share Capital	15,571	15,571	15,571	15,571
Retained Earnings	4,905	10,952	2,156	7,895
Total Shareholders Funds	20,476	26,523	17,727	23,466

Statement of Cash Flows

For the year ended 31
March 2011

	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash flows from operating activities				
Receipts from customers	(22)	47	(42)	(25)
Payments to suppliers and employees	(1,227)	(1,822)	(1,215)	(1,922)
Interest received	1,858	2,015	1,638	1,761
Tax (payments) / receipts	177	(167)	177	(169)
Net cash inflow/(outflow) from operating activities	786	73	558	(355)
Cash flows from investing activities				
Loans and advances to customers	(598)	(2,776)	(598)	(2,776)
Repayment of loans and advances	494	5,276	494	5,276
Purchase of property, plant and equipment	-	(1)	-	(1)
Purchase of property for development / Additions	-	(1,133)	-	-
Sale of completed development property	-	2,273	-	-
Sale of Mortgage backed Securities	274	-	274	-
Investment in subsidiary	-	(275)	-	(275)
Increase in deposits and trust-held cash	(219)	(251)	-	-
Net cash inflow/(outflow) from investing activities	(49)	3,113	170	2,224
Cash flows from financing activities				
Loan advance from related party	-	427	8	1,785
Repayment of borrowings from related party	360	10	360	10
Repayment of Debenture Stock	-	(3,189)	-	(3,189)
Net cash inflow/(outflow) from financing activities	360	(2,752)	368	(1,394)
Net increase/(decrease) in cash held	1,097	434	1,096	475
Add opening cash brought forward	784	350	784	309
Cash held at year end	1,881	784	1,880	784