

**PROPERTYFINANCE SECURITIES LIMITED  
EXPLANATORY MEMORANDUM AND INVESTMENT STATEMENT  
DATED AS AT 8 JUNE 2009**

**SUMMARY OF MORATORIUM PROPOSAL**

**Introduction**

Propertyfinance securities limited ( the “**Company**”) is proposing an Extraordinary Resolution (“**Resolution**”) to change the Trust Deed applying to all Stock in the Company (“**Moratorium**”).

The Company is currently in breach of its Trust Deed due to it being unable to comply with the terms of its earlier Moratorium passed at a Special Meeting of Stockholders in December 2007. This breach relates to the Company being unable to meet a \$15.0 million principal payment on or before 21 December 2008. At the date of this Memorandum the Company has repaid \$8.8 million resulting in a current shortfall of \$6.2 million. From the time of the breach, the Company has been in discussions with its advisers and with the Trustee. The Trustee waived the Company's breach of its Stock Trust Deed (which arose due to its inability to make the minimum repayment to Stockholders) pending the Company formulating a further restructuring proposal acceptable to the Trustee and holding a Special Meeting to approve this.

In addition to the existing breach the directors also believe that the December 2007 resolution has been made obsolete by intervening events and that it is now highly unlikely that the other terms of the existing wind down can be complied with, in particular the repayment in full of all principal within a three year term ending on 21 December 2010.

If the Resolution is passed at the Special Meeting of Stockholders, then the Company will continue to be wound down under the control of its directors. In the event that the Resolution is not passed, then it is likely that the Company will be placed into receivership by the Trustee for the Stockholders (Covenant Trustee Company Limited).

This combined Explanatory Memorandum and Investment Statement (“**Memorandum**”) sets out the Company's current position, the effect of the proposed Moratorium and considers the two alternative paths open to Stockholders, namely, the continuation of the existing director-led wind down or receivership.

The Trustee has provided to Stockholders a letter setting out the Trustee's position with regard this Moratorium proposal. Stockholders are recommended to consider the Trustee's views when evaluating the merits of this Moratorium proposal.

**Proposed Moratorium Securities**

The securities which are dealt with under the proposed Moratorium are the Company's existing secured Debenture Stock, the terms and conditions of which are proposed to be varied in the way set out in this Memorandum and accompanying Prospectus.

**Existing Breach**

The Resolution will authorise the Trustee to waive any existing breaches of the Trust Deed and in particular the non-payment of debenture principal due to Stockholders on or before 21 December 2008.

**Further Payments**

The Resolution will alter the method of repaying Debenture Stock. The Resolution will allow the Company to make payments to Stockholders at the end of the March, June, September and December quarters of each year. The quarterly payments will be no less than 50% of the Company's net cashflow (after allowance for operating costs). Payments will be applied, **firstly**, towards repayment of principal, until all principal has been repaid and **secondly**, towards payment of accrued interest, until all accrued interest has been paid and **thirdly**, to additional interest to the extent possible from the Company's residual net assets.

### **Interest**

The Resolution provides for the Company to be released from its current obligation to pay all interest accrued prior to 31 March 2009. The amount of this interest is \$12.3 million and largely off-sets impairment write downs of \$14.7 million. The full reasons for this interest write-off are set out on page 23 under “**Interest Forgiveness**”. From 1 April 2009, interest will accrue on Debenture Stock at a rate which is the aggregate of the Official Cash Rate (as published from time to time by The Reserve Bank of New Zealand) plus a margin of 2.0%. Currently the Official Cash Rate is 2.5% per annum. The interest rate will be reset each quarter. Interest will not be compounded. When the Company has repaid in full all principal and accrued interest the Company's audited net assets will be determined and 60 % of the net assets will be payable to Stockholders as additional interest (“Additional Interest”). The remaining 40% will remain in the Company for the benefit of its shareholders.

### **Permitted Trading Activities**

The Company will be permitted to trade to the extent that any action facilitates the realisation of the Company's financing receivables and has been agreed to by the Financing Adviser.

### **Monitor and Financing Adviser**

The Company will retain at all times a suitability qualified and experienced independent accountant as a Monitor to oversee, the minimising of the Company's operating costs and monitor the Company's reporting obligations. The Company will also retain a suitability qualified and experienced Financing Adviser to work with the Company on strategies for the recovery of the finance receivables.

**Full details on each aspect of the abovementioned summary of the Resolution are set out in full in this Memorandum.**

## **MORATORIUM AND RECEIVERSHIP ALTERNATIVES**

In essence, the Resolution is a defining cross road for the Company: on one path the Company will avoid receivership and will be managed by its directors; the other path would result in the Company being placed into receivership.

### **The Receivership Option**

In the event that the Resolution is not passed at the special meeting of Stockholders, it is likely that the Company, being in breach of its Stock Trust Deed and with that breach un-remedied, will be placed in receivership by the Trustee.

If appointed, a receiver would take over the directors' responsibility for managing the Company. The receiver would have similar powers and authorities as the directors. The receiver's task would be to realise all of the Company's assets and to pay the Company's liabilities.

The receiver would be free to follow any collection strategy it so determined in realising the Company's assets.

Out of all moneys realised, the receiver's fees and expenses and certain other claims (to the extent that they have statutory priority) would be paid in priority to Stockholders. The receiver would then repay the remaining funds to Stockholders on a pro-rata basis.

The amount received by Stockholders would depend on the amount recovered by the receiver and the amounts to be paid in priority to Stockholders. The receiver would determine the timing of any payments to be made to Stockholders. Generally receivers make payments only when there are sufficient funds available to make a meaningful payment to Stockholders.

A receiver would provide reports to Stockholders as required by the Receiverships Act 1993.

### **The Moratorium Option**

In the event that the Resolution is passed at the special meeting of Stockholders, the repayment proposal described in this Memorandum will be implemented.

The directors will remain in control of the Company and will be free to follow any collection strategy in realising the Company's assets but must consult with the Financing Adviser and obtain his approval to any action. Further, the director's actions will be monitored by the Monitor who will report monthly to the Trustee. Inappropriate actions or actions not approved by the Financing Adviser can constitute an Event of Review which, if not remedied to the Trustee's satisfaction, can lead to an Event of Default. If an Event of Default occurs, the Trustee can then appoint a receiver.

All costs of managing the Company, including management fees paid to Propertyfinance Group Limited, will be paid in priority to any payments to Stockholders.

The amounts paid to Stockholders are determined by the Moratorium proposal. After deducting any unpaid expenses and an amount of estimated future expenses, 50% of the amount of cash held by the Company would be paid to Stockholders quarterly. The other 50% may be utilised by the Company to make loans or purchase assets, but only if the action facilitates the recovery of the Company's assets.

### **Trustee Letter**

The Trustee has provided to Stockholders a letter setting out the Trustee's position with regard this Moratorium proposal. Stockholders are recommended to consider the Trustee's views when evaluating the merits of this Moratorium proposal.

### **Comparison of Recoveries and Costs**

The directors' comparative projections for the Moratorium and receivership scenarios indicate that the projected total repayment to Stockholders under a Moratorium is \$1.23 (a combination of principal and interest) per \$1.00 of Debenture Stock, compared to \$0.81-\$1.14 under the receivership scenario. In net present value terms, the

projected total repayment is \$0.78 under the Moratorium, compared to \$0.65-\$0.74 under a 3-7 year receivership.

The PFSL directors believe that a timeframe of between 5-7 years would be required to achieve full value for the Company's assets. The directors intend to manage the wind down of the business under a Moratorium within this 5-7 year timeframe and they have accordingly formulated financial projections which include the liquidation of assets to pay Stockholders by 7 years. The Northington Partners report (page 5) expresses the view that if the Company's existing assets were realised over a short period a significant discount in value would be likely. However, the directors' modelling assumes that the receivership process would most likely be completed within a period of 3 and 5 years, although it is not possible to accurately predict the course of action and therefore the timing of recoveries adopted by a receiver. The Northington Partners report (page 24) assumes that a receiver is unlikely to remain in place for longer than 5 years.

The directors' modelling assumes the estimated equity value of the Company increases from its starting value of \$2.1 million to approximately \$4.0 million at the end of the seven year period. 60% of this value (\$2.4 million) is allocated to Stockholders as an additional interest payment, representing approximately \$0.03 per \$1.00 of Debenture Stock.

The Company's directors have projected the comparative costs of the Moratorium and a receivership. These comparative costs are analysed in the Northington Partners report (page 26). The modelling projections indicate that the net costs of managing the Company under the Moratorium will be approximately \$650,000 in years 1 and 2, and \$550,000 for year 3 onwards (the directors consider this can be reduced by \$100,000). The Northington Partners report also notes that the costs assumed under the directors' scenario may reduce substantially compared to base case estimates if it transpires that the scope for active management is lower than initially expected. By contrast, Northington Partners' projections indicate that the net costs under a receivership scenario would be \$350,000 for years 1 and 2 and \$250,000 for year 3 onwards. The Northington Partners report expresses the opinion that the receivership cost estimate were obviously based on very limited information as to the current position of the Company and specifically excludes any allowance for the potential active management of the securitisation assets.

PFSL's directors believe that under a Moratorium there will be available to them recovery strategies which are likely to produce higher recoveries of the Company's financing receivables than would be the case under a receivership. These strategies include:

- the ability to offer first mortgages over existing security properties or existing land owned by the Company;
- the ability to lend to existing clients of the Company or its securitisation programme;
- purchasing existing or new debt notes within the Company's securitisation programme;
- the purchase of security properties; or
- the purchase of other assets with regard to the Company's securitisation programme.

Although the costs of receivership (\$1.95 million over 7 years) are cheaper than under a Moratorium (\$3.5 million over 7 years) the difference arises from expected costs associated with the directors' higher recovery strategies.

These potential benefits of active management are referred to and commented upon on pages 21-23 of the Northington Partners report. The opinion expressed on these matters by Northington Partners can be summarised as follows:

- **The ability to offer first mortgages over existing security property or existing land owned by the Company:** Northington Partners comments that given the small number of Company assets which could potentially benefit from this type of initiative, the overall scale of the likely upside is relatively limited.
- **The ability to lend to existing clients of the Company or its securitisation programme:** Northington Partners comment that in the current property market, it can be expected that there are many circumstances where the ability to restructure existing loans is a very important tool to help avoid crystallising losses and that whilst the strategy is not without risk, the potential upside for Stockholders

may be significant although the successful implementation of the strategy (which involves the provision of further lending to a potentially distressed borrower) clearly rests on the ability to accurately assess the potential loss to the business under a mortgagee sale and the risk of not recovering the original loan.

- **Purchasing existing or new debt notes within the Company's securitisation programme:** Northington Partners comment that the merits of any such acquisition will need to be carefully balanced and will be subject to scrutiny by the Monitor. They further comment that it may be difficult to conclusively demonstrate that the interests of Stockholders are best served by further investment in mortgage-backed securities. They state that whilst the Stockholders will thereby become exposed to greater risk, the potential upside is limited because the Stockholders will receive no more than the promised interest and principal payments.
- **The purchase of security properties:** Northington Partners comment that forced sales in the current market environment will often crystallise losses that could be at least partially reduced if the property that secures the loan is purchased and held for re-sale at a later date. The success of such acquisitions will depend not only on the nature of the assets and the particular loan exposure but also on the timeframe that is ultimately required before the liquidity and price levels in the property market stabilise.
- **The purchase of other assets with regard to the Company's securitisation programme:** Northington Partners comment that the impact of any such purchase would have a limited impact on the outcomes for Stockholders.

The Northington Partners report also comments on other potential benefits of the Moratorium as follows:

- **Operational and functional relationships:** The Northington Partners report comments that the Company's existing relationships with a number of counterparties will not necessarily be easy to transfer to an alternative manager (i.e. a receiver) with little knowledge of the business and its operations and that accordingly a receiver would incur higher costs as it takes the necessary time to become familiar with the Company's operations and assets.
- **Oversight by Monitor:** Northington Partners comment that the Monitor will effectively act as an advocate for the Stockholders and help to ensure that all business decisions are made in accordance with the rules of the Moratorium.
- **Oversight by Financial Adviser:** Northington Partners comment that the Financial Adviser will help to ensure that all loan intervention activities undertaken by the Company are conducted in a commercial manner and in accordance with the Moratorium rules.
- **Trust management expenses:** Northington Partners express the view that the Company is in a better position to ensure that the ongoing management costs of the securitisation trusts are minimised.

The essential differences between receivership and the Moratorium (Northington Report):

	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	9-42¢
Projected returns (cents per \$ NPV)	65-74¢	78¢	4-13¢
Contractual interest rate	9.33% <sup>1</sup>	OCR+2% <sup>2</sup>	n/a
Interest written off (forgiven)	-	\$12.3m	\$12.3m

<sup>1</sup> Projected returns for receivership include some of the interest contractually payable under receivership but it is projected that either all or a significant portion of this contractual interest will not be paid.

<sup>2</sup> Actual interest rate is OCR+2%, This is 4.5% at the date of the Memorandum, Northington Partners assume the interest rate will average 6.5% over the Moratorium period. To the extent permissible Additional Interest, being 60% of the Company's residual net assets, is payable in addition to the OCR+2%.

#### Notes

- Projected periods and returns are based on the Company's directors' projections. Northington Partners have noted in their report that: "In forming our opinion, we have relied on forecasts, projections and assumptions prepared by the

PFSL (with some adjustments where deemed appropriate) about future events which by their nature are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts and projections upon which we have relied."

- Projected Returns for Moratorium include all interest.
- Projected Returns (cents per \$ NPV) is based on a discount rate of 12%pa.

### **Director's View of the Moratorium**

The directors' Moratorium option reflects the directors' view that the optimum strategy for the Company and therefore its Stockholders is to follow a path which is the most likely to preserve capital value and avoid short term sales of assets, which could result in lower recoveries.

The directors consider that a hold-to-maturity of its mortgage-backed securities will result in higher returns than endeavouring to sell these mortgage-backed securities when there is a very limited market for them. In making this statement, the directors are assuming that a receiver would opt for an earlier sale of these securities. The directors base this assumption on their observation of receivers of other finance companies. They have no knowledge of what strategy a receiver of the Company might actually adopt.

The directors also consider that it would be beneficial to the Company, and therefore the Stockholders, to retain its status as a going concern. The directors consider that a company in receivership will have a stigma attached to it that may lead to less advantageous trading conditions and in particular dealing with the Company's assets.

### **Examples**

The directors' Moratorium proposal strategy is reflected in the following practical examples of the issues which the Company faces:

#### *Lifestyle Security*

A relevant example of the merits of the proposal which the Company's directors are wishing to effect can be shown in respect of the Company's investment in the propertyfinance LS 2005-4 Trust ("LS Trust").

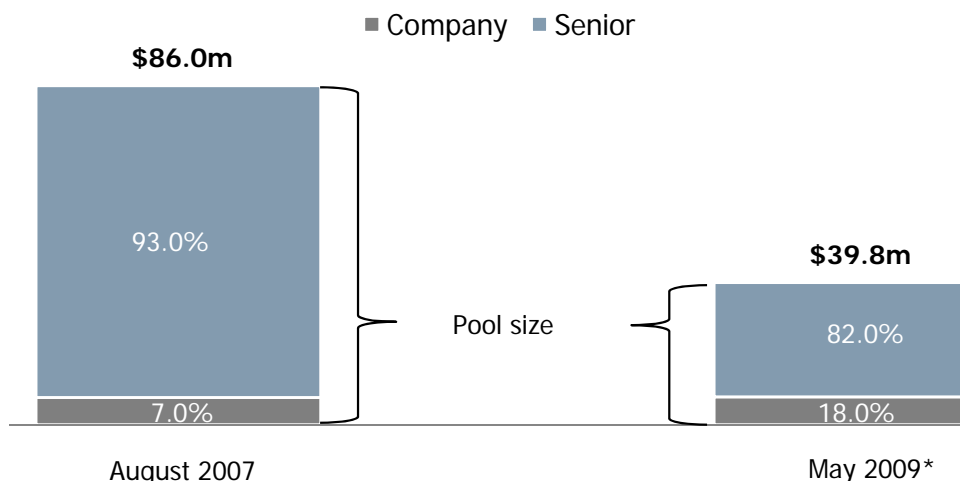
The LS Trust was formed to securitise the Company's Lifestyle Security home equity release loan product. These loans are exclusively secured by first mortgages over New Zealand residential owner-occupied homes owned by over 65 year old borrowers. The LS pool has a wide spread, (over 820), and range of borrowers with security properties spread throughout New Zealand. As at the date of this announcement, the average loan to value ratio was 28.4%.

The Company's directors consider that this portfolio of loans and the underlying security provides exceptional credit strength. However, with the adverse changes in the market, and a focus on liquidity, the saleability (notwithstanding the underlining strength) of the LS Trust's mortgage-backed securities is poor. Compounding the situation is the difficulty in predicting the exact timing as to when borrowers will repay their loans and in turn when the Company will receive back its investment.

The Company's directors consider that any attempt to sell the LS Trust investment in today's economic climate would be at a significant discount to the face value of the investment and dilute potential returns to Stockholders via the transfer of value to a third party. The directors acknowledge that a receiver would not necessarily opt for an early sale.

#### *RM Trust*

An example of how the Company's securitisation investments may improve over time is represented in the RM Trust over the past 20 months; this improvement reflects trust borrowers naturally repaying their loans as they either refinance or sell their homes. As this occurs the senior investor is paid out, meaning the Company moves closer to getting repaid itself and its security position improves. Diagrammatically:



\* Source: NZGT noteholders weekly report 15 May 2009.

This improvement in the level of security as the trust reduces in size can be very material. On the other hand, as time progresses losses can occur which could become very material. One way of measuring this is to consider the level of loss than would be incurred if a certain number of loans defaulted and of those defaulting loans what recoveries could be made against the original home valuation; in a formula it becomes:

$$\text{Loss} = \text{Frequency of Default} \times \text{Loss Given Default}$$

What this means in a practical sense (for the RM Trust) is that 40% of the borrowers from this trust could default and for each default a recovery of 50% of the residential house value is recovered **before** the Company's investment would be completely lost. The directors consider this to be extremely unlikely. Given this approach, the directors' Moratorium strategy is to wait and recover its investment and not sell its RM Trust mortgage-backed securities at a discount to their book value.

To date there have been only minor charge-offs (write-downs in the principal amount of Notes issued by the trust) in the RM Trust (\$66,290) and the directors do not anticipate any material charge-offs to occur.

Having determined the strategy, there are practical steps which the Company can take to hasten the process. An example of this would be encouraging individual trust borrowers to refinance their mortgages.

#### *Direct intervention*

An actual case study of what the Company is achieved is the case of a defaulting development in Takapuna, Auckland, which the directors have actively worked through:

July 08	A stalled 4 unit townhouse complex, company in liquidation, principal bankrupt. The Company is the primary project funder.
Sept 08	High Court approval for the Company to buy property is obtained. Independent advice that sale "as is" would achieve \$1.0m.
Oct 08/Jan 09	the Company contracts project management spends \$1.1m and completes development.
March 09	Completed development goes to market, estimated value \$2.9m.

At the date of this Memorandum the project is complete and the application for new titles has been lodged with Land Information New Zealand. Two of the four units have been unconditionally sold and one other unit is subject to a conditional agreement (total sale value for these units is \$2.075 million). The project financial summary shows that the Company is better off by \$465,227 as a result of the directors' intervention and completing the project versus a sale "as is" of the partially-completed development.

	No intervention	Intervention
Assessed sale price; net of GST and commission	\$858,889	\$2,400,000
<i>Less prior charge</i>	(\$389,114)	-
Cost to complete	-	(\$1,392,000)
Proceeds available to the Company	\$542,773	\$1,008,000
Benefit	-	\$465,227
Principal sum originally advanced	\$1,872,000	\$1,872,000
<i>Loss: with and without intervention</i>	(\$1,329,227)	(\$864,000)

The Company has not intervened to this extent with other loans, however it has worked closely with what are known as the Maymorn and Sunnyvale loans. In both cases these were partially developed land subdivisions. In both cases the Company has supported the completion of the subdivision works where the Company has worked closely with the borrowers and funded the cost to complete. In both cases the subdivisional works have been fully completed and new titles have been issued. The properties are now being marketed and sold in a completed state.

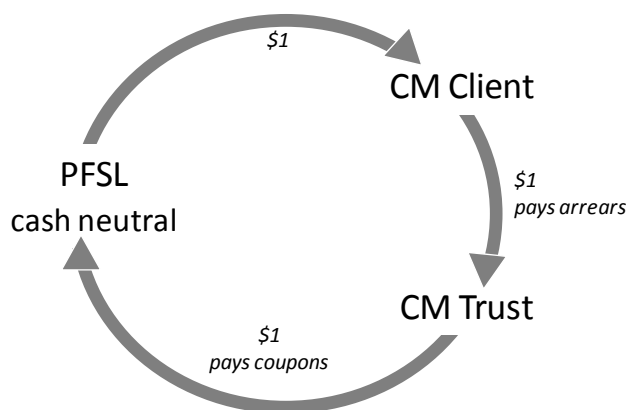
As noted in the Northington Partners report, the Company expects a full recovery of the Sunnyvale facility, including interest (\$1.3 million) and a full recovery of principal for the Maymorn facility (\$3.6 million) but a partial write-off of interest (\$0.5 million).

#### *CM Trust*

The Company's CM Trust represents 25% of the Company's assets. The directors' view is that it is critical to the success of the Moratorium that immediate actions be taken to assist the CM Trust's clients. The Trustee of the CM Trust has very limited options to deal with defaulting clients. The directors consider that they need to develop strategies to avoid the mortgagee sale of CM Trust loans which may be able to be rehabilitated. One of the preferred methods is for the Company to make a fresh loan to the CM Trust client to enable the client to meet its obligations to the Trust. This will allow an opportunity for the Company to work with these clients on the orderly sale of properties.

Due to the unique structure of the securitisation trust, any fresh loan made by the Company to the CM Trust client should be repaid to the Company at the next interest payment date, and if such repayment occurs, the overall effect on the Company is cash neutral. In essence, the Company will have provided the CM Trust client with an interest holiday. However, there are risks to the Company in providing any such fresh loans:

- If the Company makes a further advance to a CM Trust client and notwithstanding this intervention the property still ultimately proceeds to a forced sale and the proceeds from this sale are lower than what could have been achieved before intervention, then this differential is a net cash loss to the Company.
- Whilst the Company must be cash neutral from this intervention strategy while it has an ongoing investment in CM Trust debt notes it may not be cash neutral if an intervention is made where the Company no longer has an investment as the payment would flow to the other investors still remaining. This risk can be monitored closely and is likely to be known before an intervention is made.
- As the Company is only intervening for clients that are stressed it is likely that the Company will only have lower ranking, or no, security for its new advance.
- In some circumstances particularly where the existing mortgage requires NZGT's consent to a subsequent mortgage being given, the cooperation of NZGT as Trustee of the CM Trust to this strategy will be required and such cooperation cannot be guaranteed. To date PFSL has had limited success in obtaining consents from NZGT.
- The key commercial benefit that can be achieved from this CM Trust intervention is that it may allow otherwise sound customers to catch up on arrears and benefit from the lower interest rates now prevailing.



Stockholders should note that the directors' scenario provides for significantly lower bad debts in the CM Trust when compared to the receivership scenario. Under the directors' scenario provision has been made for \$4.0 million in CM Trust bad debts, this compares to \$7.0 million under the receivership scenario.

As the CM Trust represents 25% of the Company's assets this assumption is significant.

The directors' scenario represents active management and/or intervention with CM Trust clients, enabling lower bad debt losses. The permitted intervention and a discussion on this is set out on pages 22-24 of the Northington Partners report.

#### *RML Trust*

The Company's worst performing Trust has been the RML Trust. This Trust was used to securitise residential first mortgages. These mortgages were predominantly of a low documentation nature (so called "low doc"). The mortgages were for both owner-occupied and investment properties with a moderate loan to value ratio on average 79%).

With the benefit of hindsight, the inherent risk of low documentation borrowers was incorrectly assessed.

The future recoverability of the Company's remaining investment cannot be assured at the date of this Memorandum. The recoverability is dependent on competing factors: on one hand the level of bad debts still to be dealt with within the Trust. If bad debts continue at the same rate then the outlook for recovery is poor. On the other hand, if bad debts are kept to an acceptable level and the Trust can continue to generate positive net margins between the lending rate and its cost of funds then the outlook is greatly enhanced.

The directors are very conscious of the RML Trust position and intend to be as active as possible in mitigating future losses.

#### **Alignment of Interest**

The Company's directors are fully committed to repaying Stockholders all of their principal and all of their interest as quickly as possible.

It is the opinion of the directors that they have a strong financial and personal motivation to effect a successful wind down of the business.

The directors also share financial and reputational alignment. The directors are shareholders in Propertyfinance Group Limited.

It is this strong alignment of interest which provides grounds to the directors' recommendation to Stockholders that they should support the Resolution.

The continued involvement of the Company's managing director, Darryl Queen, is key to the success of the Moratorium.

### **Directors' Experience/Specialised Nature of Securitisation Trusts**

Having established the Company's loan securitisation programme over the last few years, the Company's directors are intimately familiar with the Company's assets, customer base, institutional investors, rating agency and all other parties. The Company is in the best position to hold these third parties to account for the benefit of Stockholders.

In respect of non-securitised loans, the directors have the ability to manage and/or conclude the collection of the monies from the loans and land acquired under the securities for defaulting loans.

The directors have in place settled communication, registry management and reporting protocols and the benefits of maintaining these are important, although to date the directors have not enjoyed a good working relationship with Standby Servicers Limited and NZGT who manage the securitisation trusts..

### **Conclusion**

In putting forward this Moratorium to Stockholders, the directors have considered whether Stockholders would be better off if the Company was to be placed in receivership. For the reasons set out above, the directors consider that this would not be the case.

Furthermore, the Company has no unsecured creditors (apart from minor and current trade creditors). It is not a party to any leases, on going supply contracts or agreements, and has no known contingent liabilities. Therefore one of the key benefits of a receiver i.e. exercising a security charge in priority to unsecured creditors, is not relevant in this instance.

When these circumstance are combined with the appointment and benefits of a supervisory procedure under the Moratorium, the directors see no tangible benefit for Stockholders in a receivership.

### **Moratorium Proposals – What Investors Should Consider**

In preparing the Moratorium proposal, the Company's directors have been mindful of the views expressed by the Securities Commission in its December 2008 article entitled "Moratorium Proposals – What Investors Should Consider". In its article, the Securities Commission stated that when considering a moratorium investors should ask themselves certain questions. These questions, and where answers to the questions can be found in either this Memorandum, the Prospectus and/or the Northington Partners report, are set out below:

- 1 How would my rights be different under receivership?** Under a receivership, Stockholders will no longer have the ability to vote on matters pertaining to the management of the Company. A receiver would be appointed to manage the wind-down of the business assets and repay Stockholders with the available proceeds.
- 2 How much am I likely to get under receivership, and when?** The actual quantum and timing of returns to Stockholders under a receivership is impossible to accurately forecast. The Company's directors estimate a possible range of \$0.65-\$0.74 per debenture (in present value terms, including the \$0.10 already paid) over a period of 3-7 years. The actual outcome for Stockholders will be dependent on the performance of the Company's assets and the success the receiver has in liquidating the assets; actual returns may be significantly lower than this indicative range. The downside scenario suggests a range of \$0.52-\$0.58 (in present value terms).
- 3 How much do the directors think I will get under a Moratorium and when?** The Company's directors estimate the return under a Moratorium to be \$0.78 per debenture (in present value terms, including the \$0.10 already paid) over a period of 7 years. The actual outcome for Stockholders under the directors' Moratorium proposal will be dependent on the performance of the Company's assets and the success the directors have in liquidating and/or recovering the Company's assets; actual returns may vary significantly.
- 4 Which is more in my interests, given my investment needs (including payment timeframes)?** This will vary amongst individual Stockholders and will be dependent on each Stockholder's view of the likely outcomes under a wind-down by either the Company's directors or by receivers.

- 5 **What assumptions have the directors made if they say a Moratorium will result in better returns? What are the risks compared with the risks of receivership?** The key assumptions made by the Company's directors are set out below:

*Key Assumptions by Scenario*

Assumption	The Company directors' scenario	Receivership scenario
Interest on debentures	OCT + 2%; average total rate of 6.5% assumed	Accrues at a fixed rate of 9.3%
Free-cash return	75%	100%
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%
Losses within CM Trust	\$3m losses in years 1&2	\$7m losses in years 1 & 2
Loan life – RM	1 year	2 years
Loan life – RML	1 year	2 years
Capital losses on MBS	No further net losses	No further net losses
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%

A discussion on the risks is set out under the heading "What are my risks?" on page 30 of this Memorandum.

- 6 **Who would supervise a Moratorium and report to the Trustee or investors?** The Moratorium stipulates that a Monitor will be retained to assist in overseeing the performance and compliance with the terms of the moratorium. A Financing Adviser will also be retained to specifically assist with strategies regarding the intervention and recoverability of financing receivables.
- 7 **What is the plan to change the Moratorium proposal if there are changes in the Company's situation or economic conditions?** An annual meeting is proposed as part of the Moratorium, at which time the Company's directors will present periodic financial statements and updates on the progress of the Moratorium. Although there is no current plan to change the Moratorium proposal by the Company's directors, the annual meetings will provide a forum for the Stockholders to consider the performance of the Company in light of changes in the Company's situation or economic conditions.
- 8 **Do I get another chance to vote if things aren't going as expected?** Stockholders and the Trustee retain the ability to call a meeting and put forward a resolution that proposes changes to the way in which the Company is managed. This includes the ability to reconsider the appointment of a receiver.
- 9 **Is there an independent expert's report and if so what does it say?** Yes. It is the Northington Partners report enclosed with this Memorandum.
- 10 **Have there been any independent valuations of assets?** The directors have received in the first quarter of this year updated valuations for property held for resale by the Company and of the underlying properties that support its direct loan receivables. The schedules within this Memorandum reflect these market valuations. The mortgage-backed securities have not been valued.
- 11 **If parties related to the Company are contributing assets are there independent valuations?** This is not applicable as no parties related to the Company are contributing assets.
- 12 **What does the Trustee have to say about the Moratorium?** The Trustee concludes that while the directors consider that they will be in a better position than a receiver to maximise realisation of the Company's assets, there is no assurance that they will be able to do this.
- 13 **What are the financial and legal implications for the directors and other related parties under receivership compared with a Moratorium?** There are no known legal implications for the directors and other related parties under receivership compared with a Moratorium. However, Darryl Queen and Barney Sundstrum, being directors of the Company, have significant investments in the Company's shares via their interest in the Company's shareholder, Propertyfinance Group Limited. Accordingly, if the successful implementation of this Moratorium has the effect of keeping the Company

out of receivership and enabling it to restore its financial position to the point that the underlying value of the Company's shares is improved from its present position, they will benefit in that regard.

The Securities Commission also suggested that investors should consider:

- the time period for any returns to investors under the Moratorium as compared to the time period under a receivership scenario; and
- the net present value of the amounts that are expected to be recovered by investors under each option as well as the expected total return.

These matters are dealt with in the Northington Partners report.

A detailed independent comparison of the *"the Company Directors' Scenario"* and the *"Receivership Scenario"* is contained in the Northington Partners report.

### Securities Commission Action

The Company has made roadshow presentations to Stockholders and published briefing notes on its website, about the revised Moratorium proposal. The Securities Commission took the view that the roadshow presentations were likely to mislead investors because they set out only the positive aspects of the restructure proposal and only the negative aspects of the receivership option. Also, in the Commission's view these *"advertisements"* were unlawful because there was no registered prospectus at the time. The Securities Commission therefore made an order banning any further such *"advertisements"*.

Stockholders who attended the roadshow meetings should read this Memorandum, as it replaces the previous statements made by the Company.

### Performance of Securitisation Trusts

Since August 2007 when the Company was placed in receivership, the performance of the Company's four securitisation trusts has varied; in general terms the Company is pleased with the performance of the LS and RM Trusts, in that they have not suffered any charge-offs against the Company's investment. However the performance of the Company's RML and CM Trusts has been disappointing. Both of the later two Trusts has had its lower rated notes downgraded as set out below.

RML Trust	Original rating*	Current rating*
Class D	BBB	BB
Class E	BB	CCC/DR2
CM Trust		
Class D	BBB	BB+
Class E	BB	B
Class F	B	B-

\* Fitch Ratings Australia Pty Limited ([www.fitchratings.com.au](http://www.fitchratings.com.au))

## COMPANY BACKGROUND

The Company was formed in May 2001 to act as a specialist property finance Company. Its lending activities broadly fell into three distinct categories:

- Bridging and short term mortgage lending where loans were normally for a period of less than 12 months;
- Property development finance; and
- “Branded” products involving long term mortgage lending over owner/occupied residential property and tenanted commercial property.

The Company is a wholly-owned subsidiary of Christchurch-based NZAX-listed Company Propertyfinance Group Limited. The Debenture Stock is not guaranteed by Propertyfinance Group Limited.

In November 2004, the Company changed its lending policy to require first mortgage security for all future lending. The Company also introduced a policy to restrict the amount of loans advanced for property development purposes to a total of 15% of the Company’s total tangible assets.

In 2005, the Company further evolved when it established a loan securitisation funding programme. The securitisation programme enabled the Company to bundle together groups of like mortgages and to sell these bundles to special purpose trusts. The special purpose trusts funded their purchases of the mortgages by issuing debt notes in the wholesale money market.

The securitisation programme involved the Company establishing four of these special purpose trusts, enabling the Company to compete in the mainstream mortgage markets by selling its products through mortgage brokers.

The Company’s total assets under management grew quickly from \$77 million as at 31 March 2005 to over \$533 million as at March 2007.

In August 2007, the Company experienced severe liquidity challenges when there were disruptions in the money markets both domestically and internationally, as has been widely reported in the media. The liquidity squeeze which the Company encountered resulted in the need to protect all stakeholders and the directors made the difficult decision to request the Trustee to appoint receivers to the business.

On 29 August 2007, Messrs Grant Graham and Brendon Gibson of KordaMentha were jointly appointed receivers of the Company.

The Company successfully put in place a restructuring of its Debenture Stock in late 2007. This restructuring was approved by an Extraordinary Resolution of Stockholders. As a consequence of the approval of the restructuring, the Company was removed from receivership on 18 February 2008.

The principal terms of the December 2007 Extraordinary Resolution required the Company to:

- use the proceeds from asset realisations to make principal repayments to Stockholders as these assets were realised over a three year term, with the requirement to make payments of a minimum aggregate amount in each year being \$15,000,000 to Stockholders by December 2008, a further \$15,000,000 by December 2009 and the balance of the Debenture Stock plus accrued interest by December 2010;
- accrue interest to all Stockholders at a new rate of 9.33% from 1 July 2007 to the end of the principal repayment term, payable at the end of the principal repayment term;
- make a bonus payment of interest calculated at 0.67% per annum over the term of wind-down, payable at the end of the principal repayment term, to the extent that there were sufficient surplus funds;
- be controlled by its directors, with any routine management and compliance obligations performed by Propertyfinance Group Limited under a management contract. During the three-year moratorium period, the Company could not:
  - trade, except to the extent necessary to service existing loans and to realise its assets for the benefit of Stockholders;

- issue any new Debenture Stock;
- employ any staff;
- make any distributions to its shareholders;
- provide any new loans;
- pay any remuneration to its directors; or
- pay a monthly management fee of more than \$20,000 per month.

The repayment commitment which the Company entered into in December 2007 assumed that the majority of the Company's assets would be collected or sold during the 3 year moratorium period, without significant losses being incurred.

However, since December 2007 financial markets have continued to deteriorate, contrary to the directors' expectations when the existing moratorium was put in place.. In particular:

- the Company has experienced a dramatic increase in defaults by its borrowers; and
- the market for the mortgage-backed securities which the Company holds under its securitisation programme which had virtually disappeared in December 2007 has not recovered.

Coupled with the fact that the return to the Company on the mortgage-backed securities is lower than the existing interest rate (9.33% per annum) payable to Stockholders, the Company's directors have concluded that the existing moratorium programme leaves the Company in an unsustainable position.

There is no prospect of the Company being able to comply with its payment requirements under the existing moratorium.

## THE COMPANY'S CURRENT POSITION

### Market Conditions

As has been well reported in all forms of media, both international and national economic conditions remain extremely difficult. New Zealand has not been immune to these global challenges and is now in a recession, with growing levels of unemployment, falling growth rates and impacts on almost all elements of the wider economy.

In a recent speech the Governor of the NZ Reserve Bank, Dr Alan Bollard, commented that "we think that what we are seeing now is worse than anything since World War II<sup>1</sup>".

Within the banking and finance sectors liquidity has tightened, and there has been a marked reduction in general residential house prices, volumes of sales and days to sell.

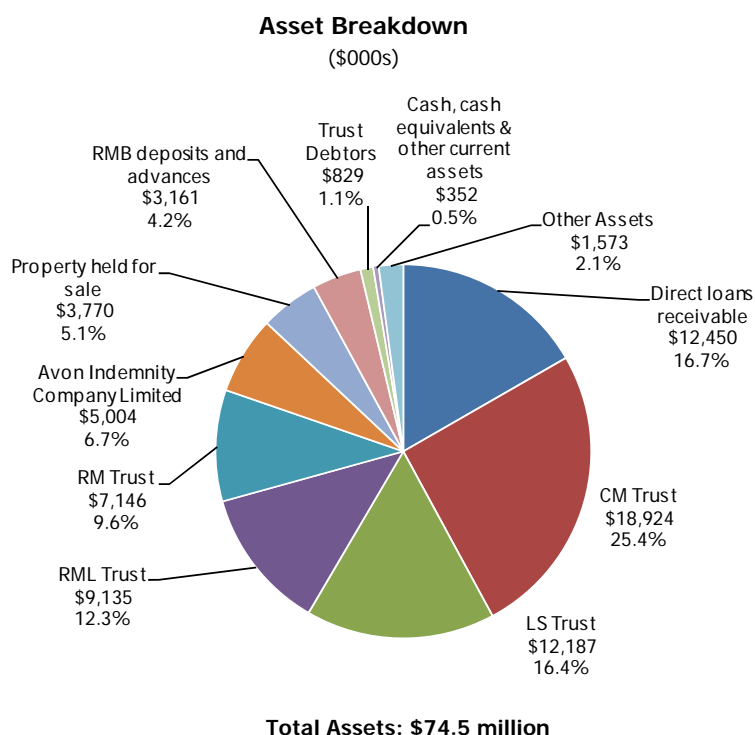
The seriousness and uniqueness of the current situation was witnessed when the New Zealand Government put in place a retail and wholesale deposit guarantee scheme in October 2008 with the purpose of providing stability to the financial system within New Zealand.

It is against this economic back drop that the Company's directors have considered, first, the Company's current position and secondly, likely conditions in the New Zealand property and finance sectors in the medium term.

The Company's directors wish to address these market realities head on and put in place a prudent and sustainable wind down plan which enables the Company to avoid receivership and to be put on a stable platform.

### Current Position

A snap shot of the Company's asset position as at 31 March 2009 (taken from unaudited management accounts) is as follows:



Note: All of the Company's assets and loans (including securitised loans) are in New Zealand.

<sup>1</sup> Wellington, 29 January 2009.

## Securitisation Trusts

Prior to August 2007, the Company's securitisation programme allowed the Company to write, long-term first mortgages, generally on a 30-year table basis. These mortgages were in turn funded within each securitisation trust by the issue of long-term debt notes (having a legal life of not less than 30 years). Since the receivership of the Company in August 2007, no further securitisation business has been undertaken by the Company.

With the disruption to the credit markets, the Company's directors are hopeful that the commercial life of a good part of these loans may be longer than originally anticipated. An increased loan life is beneficial, as the securitisation trusts would receive the loan margin for a longer period. It is likely that as a result of the changes to the property market within New Zealand there will be higher than expected bad debts within each trust; however, there is a reasonable possibility that a sound long-term mortgage book will evolve after these bad debts have been dealt with and that the resultant mortgage book will accrue value to the Company.

An example of this is represented by the Company's Primefirst 30-year table commercial first mortgages, which were originated and then securitised in the Propertyfinance CM 2005-2 Trust. Such commercial borrowers now more easily understand the benefits of a long term 30 year mortgage as they are unlikely to be able to re-finance on better terms and conditions in either the current, or expected market.

These factors are referred to in the Northington Partners report (page 7)

### *The Company's investments in the securitisation trusts*

The notes held by the Company are almost entirely the lowest-rated notes issued by each of the four trusts. This means that the notes held by the Company are the first to bear any losses that exceed profits within the trust, suffered by the trusts as a result of loan defaults and principal losses.

Therefore, the Company's future financial position depends largely on the performance of the investments which the Company has made in the securitisation trusts.

With the adverse changes in the banking and credit markets, the Company's directors consider that it is highly unlikely that the Company's mortgage-backed securities (investments in a range of debt notes issued by the securitisation trusts) could be sold and that the optimum strategy at this time is for the Company to hold these investments while at the same time proactively looking at strategies to restructure the underlying trusts.

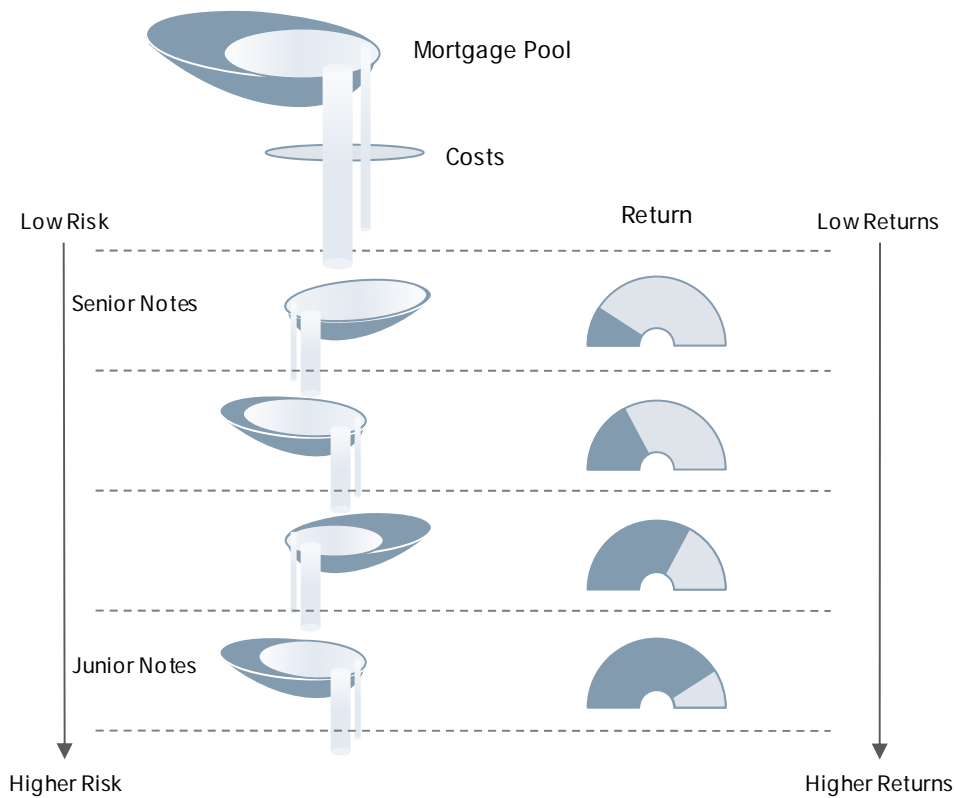
In general terms, there are two possible outcomes for the Company's securitisation investments:

- either the level of bad debts and costs within each trust over time erodes the value of the Company's notes; or
- the performance of the trusts over time allows the Company's notes to be repaid in full and therefore be to the benefit of Stockholders.

Due to the long-term nature of the underlying mortgages within each trust, the outcome may not be known for some years, until the senior notes which rank ahead of the Company's notes are repaid.

A schematic diagram of how securitisation cash flows work is set out; in essence the income from the pool of mortgages is paid out in a sequential pattern.

### The waterfall effect of securitisation



### The Company's Mortgage-Backed Securities as at 20 May 2009

	Margin over BKBM*	Face Value	Charge -offs	Current Stated Amount	%
<b>Propertyfinance RM 2005-1 Trust</b>					
Class B	1.25%	280,000		280,000	
Class C	3.50%	13,618		13,618	
Class D	4.00%	6,290,000		6,290,000	
Class E	4.50%	346,290	66,290	280,000	
		6,929,908	66,290	6,863,618	14.6
<b>Propertyfinance CM 2005-2 Trust</b>					
Class E	4.00%	6,145,000		6,145,000	
Class F	4.00%	945,000		945,000	
Class G	4.00%	11,500,000	12,687	11,487,313	
Class H	4.00%	400,000	130,000	270,000	
		18,990,000	142,687	18,847,313	40.2
<b>Propertyfinance RML 2005-3 Trust</b>					
Class E	4.50%	6,980,000		6,980,000	
Class F	4.00%	9,028,333	6,979,411	2,048,922	
Class G	4.00%	400,000	400,000	-	
		16,408,333	7,379,411	9,028,922	19.2
<b>Propertyfinance LS 2005-4 Trust</b>					
Class A2	1.25%	1,742,015		1,742,015	
Class A4	5.00%	276,807		276,807	
Class B	5.00%	8,982,207		8,982,207	
Class C	6.00%	1,186,017		1,186,017	
		12,187,046		12,187,046	26.0
		<b>54,515,287</b>	<b>7,588,388</b>	<b>46,926,899</b>	<b>100%</b>

\* BKBM: 90 day wholesale interest rate – currently 2.8% per annum.

### ***Securitisation trust management***

Upon the receivership of the Company in August 2007, the Company's role in the day to day servicing and management of the securitisation trusts was terminated.

Today, these functions of servicing and management are undertaken by subsidiary companies of Deloitte (Standby Servicers Limited) and The New Zealand Guardian Trust Company Limited ("NZGT") (NZGT Trust Management Limited) respectively.

In the opinion of the Company's directors, these servicing functions are remunerated at historical levels that are now not consistent with market rates, as has been highlighted in the Northington Partners report.

The directors believe that a key task after the restructure is approved will be to seek a review of the trust management functions, namely the issue of current and future costs and the manner in which delinquent loans are managed. However, it should be noted that the Company has no legal right to insist on a change of the management of the securitisation trusts. For 14 months prior to the date of this Memorandum, the directors have attempted to engaged with NZGT regarding the review of the management of the trusts. However, no progress has been made in this regard as at the date of this Memorandum.

### ***Securitisation current performance***

A recent summary of the loan assets of the four securitisation trusts (unaudited, as at 31 March 2009) is as follows\*:

<b>Propertyfinance RM 2005-1 Trust</b>	<b>Aug-07</b>	<b>31-Mar-09</b>	<b>Change</b>
Pool size	\$86.0m	\$42.4m	(\$43.4m)
Number of loans	323	162	(161)
Average by size	\$283,971	\$284,945	(\$974)
Average loan to value ratio	95%	95%	0
Owner occupied	100%	100%	0
90-day arrears	3.7%	5.3%	1.6%
Subject to enforcement	0	\$1.7m	\$1.7m

<b>Propertyfinance RML 2005-3 Trust</b>	<b>Aug-07</b>	<b>31-Mar-09</b>	<b>Change</b>
Pool size	\$317.0m	\$169.3m	(\$147.7m)
Number of loans	1,031	585	(446)
Average loan size	\$385,653	\$365,718	(\$19,935)
Average loan to value ratio	78%	79%	1%
Owner occupied	\$171.2m	\$87.3m	(\$83.9m)
Investment	\$145.8m	\$82.0m	(\$63.8m)
90-day arrears	1.6%	9.9%	8.3%
Subject to enforcement	0	\$24.8m	\$24.8m
Charge-offs (as at 10 May 2009)	0	\$7.4m	\$7.4m

<b>Propertyfinance CM 2005-2 Trust</b>	<b>Aug-07</b>	<b>31 Mar-09</b>	<b>Change</b>
Pool size	\$157.2m	\$111.3m	(\$45.9m)
Number of loans	114	72	(42)
Average loan size	\$1.5m	\$1.68m	\$0.18m
Average loan to value ratio	69%	69%	0%
90-day arrears	0	14.6%	14.6%
Subject to enforcement	0	\$16.6m	\$16.6m
Charge-offs	0	\$0.14m	\$0.14m

<b>Propertyfinance LS 2005-4 Trust</b>	<b>Aug-07</b>	<b>31-Mar-09</b>	<b>Change</b>
Pool size	\$46.1m	\$52.7m	\$6.6m
Number of loans	980	828	(152)
Average loan to value ratio	16.1%	28.4%	12.3%
Average age of borrower	77 years	78 years	1 year
90-day arrears	0.0%	0.0%	0
Subject to enforcement	0	0	0

\* This information is supplied by NZGT through its noteholder monthly reports.

### **Charge off**

The securitisation trusts pay coupons on a quarterly basis. If in any given quarter there is insufficient income and/or bad debts within a trust then the lower ranked debt notes may not receive some or all of their coupon entitlement and to the extent that bad debts exceed any earnings then lower notes will be automatically written down by the trust so that it remains solvent; this periodic write-down facility is referred to as a "charge-off".

Uniquely with securitisation trusts is that any charge-off can be recharged, i.e. made good from any future earnings within the trust.

Consequently while a charge-off is a strong indicator of a likely impairment the actual position may not crystallise for a number of years until the long term performance can be fully ascertained.

### **On-Balance Sheet Assets**

The Company's on-balance sheet non-securitisation assets are:

	(\$ millions)						
Asset Type	Aug-07	Transfers	Repayments	Additions	Interest	Losses	31-Mar-09
Loans	23.3	(3.9)	(7.2)	2.6	3.3	(5.6)	12.5
Property held for resale	1.1	3.9	(0.7)	1.1	–	(1.6)	3.8
	<b>24.4</b>	<b>\$0.0</b>	<b>(7.9)</b>	<b>3.7</b>	<b>3.3</b>	<b>(7.2)</b>	<b>16.3</b>

### **Year end asset review**

The Company's directors anticipate that the Company's audited financial statements for the financial year ended 31 March 2009 will include write downs of the book values of a number of the Company's on-balance sheet assets to reflect market values at year end. The numbers set out above are after adjustments have been made to take into account the most recent registered current market valuations which the Company undertook in the preparation of its year end financial statements.

In addition, due to the Company no longer having access to the accounting records of each securitisation trust and that audited financial statements for the securitisation trusts have not been prepared by NZGT since 31 March 2006, the Company will need to impair a number of its securitisation assets, as it has no grounds to be able to substantiate their carrying value.

Summarised below is the projected net asset position of the Company prior to the Moratorium proposal together with the adjustments that would be made if the Moratorium proposal is implemented and the then new position of the Company.

**Estimated net asset position as at 31 March 2009 (\$'000)**

	Pre-Moratorium 31-Mar-09	Waive Interest	Eliminate Effective Interest Rate	Proposed Impairments	Post-Moratorium 31-Mar-09
<b>Assets</b>					
Cash and cash equivalents	352				352
Term deposits & cash in Trusts	5,004				5,004
Expense reserve deposits - RMB Trusts	1,050				1,050
Advance to RMB Trusts – issue expenses	2,111				2,111
Accrued interest	296				296
Related party receivables	247				247
Sundry debtors & advances	546				546
Property held for sale	4,770			(1,000)	3,770
Loans receivable	12,450			-	12,450
Mortgage-Backed Securities	55,322		186	(8,117)	47,392
Trust debtors	6,392			(5,563)	829
Intangible assets – software	100				100
Property, plant & equipment	205				205
Income tax prepayment	179				179
Deferred tax asset*	-				-
	<b>89,024</b>	<b>-</b>	<b>186</b>	<b>(14,679)</b>	<b>74,531</b>
<b>Liabilities</b>					
Trade and other payables	282				282
Debenture repayments outstanding	13				13
Debenture Stock	82,890	(12,339)	1,423		71,974
Trust creditors	947			(742)	205
	<b>84,132</b>	<b>(12,339)</b>	<b>1,423</b>	<b>(742)</b>	<b>72,474</b>
<b>Net assets</b>	<b>4,892</b>	<b>12,339</b>	<b>(1,237)</b>	<b>(13,937)</b>	<b>2,057</b>

\* Deferred tax asset of estimated \$3.6 million has not been recognised.

A detailed analysis of these projections is contained in the Northington Partners report. In particular, the Northington Partners report concludes that there is insufficient information available to determine a precise range of values for the mortgage-backed securities held by the Company. Based on the information available, Northington Partners concluded that the proposed level of impairment as assessed by the Company's directors may be optimistic. The other conclusions drawn in the Northington Partners report are that:

- it is difficult to assess whether the carrying values of the loan receivables are reasonable given the level of uncertainty affecting the New Zealand property market;
- the projected carrying value of properties for development or resale appears reasonable, assuming an orderly sales process; and
- the Avon Indemnity Fund asset will be realised by the Company as long as the relevant funds are not required to top up capital losses on the senior mortgage-backed securities.

Notwithstanding that the Company complied with all audit requirements the Company's auditors were unable to issue an unqualified audit report in respect of the financial statements for the year ended 31 March 2008.

This audit qualification arose because the Company no longer held the financial records for the securitisation trusts programme and could not obtain the required information. This meant that the Company's directors and auditors could not form an opinion as to the values of the securitisation trust notes held by the Company and other balances owing to the Company by those trusts.

The same qualification is likely to be made by the Company's auditors in respect of the financial statements for the year ended 31 March 2009.

## MORATORIUM PROPOSAL

Set out in this section of the Memorandum is discussion on the effect of the Resolution for either the Company and/or Stockholders. Stockholders may wish to refer to the Notice when considering this discussion. Each heading contains a cross reference to the relevant section of the Notice. The discussion follows the order of the relevant issues as set out in the Resolution.

### Maximum Liabilities Test [3]

The deletion of clause 6.1(a) of the Trust Deed will remove the Company's obligation to ensure that total liabilities do not exceed 95% of total tangible assets.

This amendment reflects the wind down nature of the Company's business. Removal of this clause will mean that the Company will not be in breach of the Trust Deed solely as a result of the value of its investments falling in the future.

### Prior Charge Limitation [4 and 5]

Under clause 6.1(b) of the Trust Deed, the Company is permitted to create prior charges securing up to 7.5% of total tangible assets.

The Company wishes to retain the flexibility provided by the prior charge allowance, but has agreed to reduce the allowance to 5.0% of total tangible assets.

The Company's wholly-owned charging subsidiary, Avon Indemnity Company Limited, has provided a security interest over a cash deposit in favour of NZGT with respect to a limited indemnity arrangement with the Company's securitisation programme. The amount of the cash deposit at present is approximately \$5 million. After the restructuring, this prior charge would not be included in the prior charge calculation as it would breach the test at some point due to the reducing size of the Company and its total assets.

### Liquidity Report [6]

The deletion of Clause 7.1(e)(ii) of the Trust Deed will remove the Company's obligation to deliver a monthly liquidity report to the Trustee. This amendment reflects the wind down nature of the Company's business.

### Events of Default and Review [7, 8 and 12.8]

The Moratorium proposal includes an "Event of Review" mechanism. An Event of Review is defined as:

- the resignation of either the Monitor or the Financing Adviser;
- any director ceasing to hold office as a director of the Company for any reason;
- the Company failing to pay any amount due under the Moratorium proposal and not remedying such default within 14 days;
- the identification of any material liabilities that were not known at the commencement of the Moratorium and which may, in the reasonable opinion of the Monitor (in consultation with the Trustee), materially and adversely affect the financial position of the Company or the returns to Stockholders; and
- the Monitor reporting to the Trustee that:
  - the Company has not complied with any recovery strategy agreed with the Financing Adviser or has implemented a recovery strategy or intervention action which has not been agreed with the Financing Adviser; or
  - the performance of the employees or directors of the Company with respect to the Moratorium is unsatisfactory.

If any of the above should occur, then the Company and the Monitor must promptly notify the Trustee. Subject to consulting with the Company (for a period of 14 to 28 days) immediately following receipt of notice (the period can be reduced with the Company's consent) the Trustee is entitled to treat such event as an Event of

Default if it is not satisfied with the outcome of such consultation, allowing the Trustee to enforce its security on behalf of Stockholders.

Clauses 8.1(a) and (b) of the Trust Deed are deleted to reflect the fact that non-payment is an Event of Review and clause 8.1(v) is amended so that it is consistent with the Event of Review procedure. Otherwise all existing Events of Default remain in effect.

### **Revised Payment Terms [section 12.1]**

Under the Resolution, the repayment of Debenture Stock is changed from the pre-determined target methodology which was used in the December 2007 Extraordinary Resolution to a “pay as you can” basis.

The payment amount will be determined by a formula which requires that no less than 50% of the preceding quarter's net cash flow be paid to Stockholders. In calculating the net cash flow, allowance will be made for the Company's operating costs and an operating cost reserve that is to be maintained by the Company. The residual 50%, to the extent required, may be used by the Company in respect to its permitted trading activities.

This change in methodology recognises that the precise timing of the Company's asset realisation programme is unable to be predicted with any degree of accuracy and is dependent in many cases on market events.

The payment priority between Debenture Stock principal and interest remains unchanged. The Company will first make partial repayments of principal, until all principal has been repaid, and then payments of interest until all interest has been paid.

All payments, of either principal or interest, are to be made on an equal and pro rata basis between Stockholders.

Future payments will be made on the 15<sup>th</sup> day following the end of the quarters ended March/June/September and December in each year.

The Company will report to Stockholders within 30 days of the end of each quarter on the net cash receipts of the Company, operating costs and payments made to Stockholders.

### **Interest Rate [12.1 (b) and 12.1 (e)]**

Under the existing Extraordinary Resolution, interest accrues at 9.33% plus a further bonus interest rate of 0.67%, to the extent the Company's profits permit.

With the substantial reduction in market interest rates since the date of this plan and bearing in mind that the Company generally receives interest income based on floating rates, the Company's directors wish to revise the method by which interest accrues to investors to a floating rate.

If the Resolution is passed, Stockholders will receive interest at a rate which is the aggregate of the Official Cash Rate (as published by The Reserve Bank of New Zealand) and a margin of 2.0%. At the current Official Cash Rate of 2.5%, this would equate to an interest rate of 4.5%.

The rate will be reset on the first day of each quarter ended March/June/September and December. Accrued interest will be payable after the Company has first paid all principal outstanding.

On the date that all of the principal and accrued ordinary interest has been paid to Stockholders the Company will prepare an audited balance sheet. 60% of the audited net assets of the Company will then be paid to Stockholders as Additional Interest. This Additional Interest will be paid quarterly as the Company's net cash flow permits. The remaining 40% will be retained by the Company for the benefit of shareholders. This is considered by the directors to be an appropriate incentive to the Company's shareholders for them to continue their support of the Company during the moratorium period.

There is no assurance that there will be positive net assets once all principal and ordinary interest has been paid and therefore no assurance that any Additional Interest will be paid.

### Interest Forgiveness [12.1 (a)]

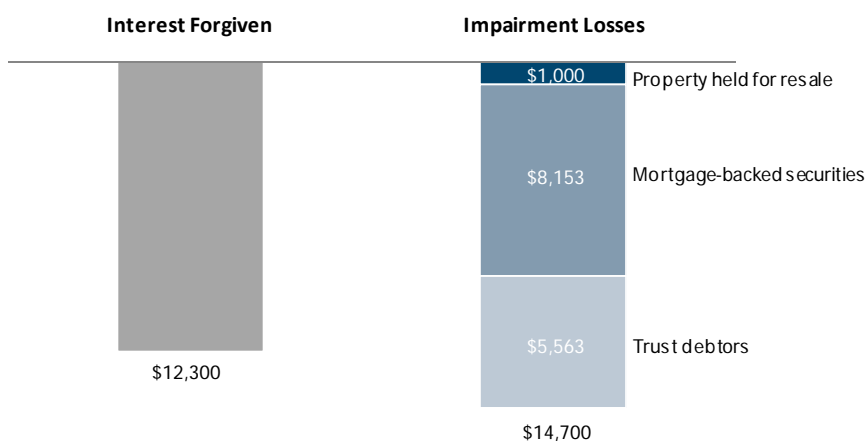
The Resolution provides for Stockholders to forgive interest of \$12.3m which has accrued on Debenture Stock during the 21 months prior to 31 March 2009. The directors consider that the forgiveness of interest is necessary to maintain the Company's financial sustainability and therefore its status as a going concern during the operation of the Moratorium.

If the interest is not forgiven, the projected equity in the Company at the completion of the Moratorium is likely to be negative and the return to the Company will be zero. Given the possible length of time that will be needed to complete the Moratorium, Northington Partners comment (page 30 of their report) that it is unrealistic to expect that the Company's directors will choose to remain in place unless there is a good chance of a reasonable return once the Stockholders have been repaid.

From the Stockholders' point of view, forgiveness of the outstanding accrued interest is the price that will be paid under the Moratorium in order to preserve the potential for a higher total repayment over time. In Northington Partners' view, unless the concession is made, the only alternative is to appoint a receiver; importantly, although the existing accrued interest will not be written off under this scenario, Stockholders are unlikely to be any better off.

Full details on the financial adjustments and position are set out in the section "The Company's Current Position" on page 15 of this Memorandum.

The Company is requesting that Stockholders forgive this accrued interest so that this income to the Company can largely off set impairment losses which the Company has incurred.



This interest forgiveness will not impact on Stockholders in the first instance as the Company is obligated to firstly repay all of the Stockholders' principal. However Stockholders should be aware and consider carefully that in the event that the Company is able to repay all of the principal and all of the accrued interest and has residual net assets, then 40% of those residual net assets will ultimately flow to the shareholder and be lost by the Stockholder. Stockholders need to consider that risk against the overall benefits and risks of the proposed Moratorium.

The tax liability incurred by the Company as a result of this interest forgiveness will be offset against the tax deduction arising from the write down in value of a number of the Company's assets.

### Permitted Trading Activities [12.2 (d)]

The Company's directors believe that it will be beneficial for the Company to have a limited ability to trade through the Moratorium period.

The directors have not sought any discretion to commence fresh lending activities. However, it is considered to be very important that they have a limited range of tools to deal with existing security properties and/or clients in both the Company and the securitisation programme.

As long as any actions facilitate the realisation of the financing receivables and have been agreed to by the Financing Adviser then the Company will be permitted to trade and in particular lend and/or acquire assets that meet the following criteria;

- First mortgage loans over existing security property and property owned by the Company;
- Loans to existing clients of the Company and/or clients of the Company's securitisation programme;
- The purchase of existing and/or new debt notes within the Company's securitisation programme;
- The purchase of other assets with regard to the Company's securitisation programme;
- The purchase of existing securitised first mortgages;
- The purchase of security property.

The directors believe that this enhanced management flexibility will in turn tend to lead to higher asset realisation levels.

General examples of how these permitted activities may be invoked include:

- Providing first mortgage loans to purchasers of defaulting property. In the current market conditions, having the ability to provide this type of facility may have a materially positive impact on recovery values;
- Purchasing new or existing debt notes in the securitisation programme. As the securitisation programme reduces in size it may be possible to restructure the trusts to the ultimate benefit of the Company;
- By purchasing defaulting security properties. Having these properties actively managed and then presented to the market without the stigma associated with a mortgagee sale process should enhance realisations.

An analysis of these proposed permitted activities is contained on pages 21-22 of the Northington Partners report.

### **Reporting and annual meeting[12.1(g) and 12.7]**

The Resolution provides for:

- The Company to report to Stockholders no later than 30 days after the end of each quarter report on the net cash receipts of the Company for the quarter just ended, together with details on operating costs and Stockholder payments; and
- The Company to convene an annual meeting of Stockholders in each year, to be held on or before 30 September in any given year.

### **Supervision of the Company during the Moratorium Period [12.5 and 12.6]**

The Trustee will continue to have the supervision powers that exist under the Trust Deed. In addition, except as set out in the Resolution, all other aspects of the Trust Deed will continue to apply.

Under the Moratorium proposal, the Company will appoint a Monitor and Financing Adviser.

The Monitor will keep the financial position and performance of the Company under review. In particular, the Monitor will:

- advise the Trustee if the Company materially breaches any term of the Trust Deed (including the terms of the Moratorium);
- have power to investigate any matters the Trustee may reasonably request, and must report to the Trustee any offence it becomes aware of under the statutes referred to in clause 12.5(c) of the Moratorium;
- review the collectability of the loan book against forecast cashflow;

- report on strategies to collect the loan book;
- monitor the performance of directors and employees of the Company;
- review the operating costs of the Company (with the intention of ensuring that they are minimized);
- confirm the funds available for distributions to Stockholders at the end of each quarter; and
- provide monthly reports to the Trustee and the Company on progress during the Moratorium.

The Financing Adviser will advise and agree on strategies relating to the recovery of the financing receivables and advise and agree on any intervention actions, and report to the Monitor and Trustee.

The directors support the appointment of the Monitor and Financing Adviser and believe that not only will it be helpful with regard to governance of the Company's business but will also provide, if necessary, depth to the knowledge base of the Company's affairs and continuity of that knowledge, in the event of further changes for whatever reason, to the Company.

Grant Thornton, Chartered Accountants, of Christchurch have been appointed as the initial Monitor.

The Financial Adviser is Park Rise Consulting Limited. The principal of this company is Murray Greer who was formerly the head of property finance at ANZ bank and has 38 years of banking experience.

### **General**

The Resolution also addresses other consequential matters relating to the principal matters described above.

### **Independent Expert's Report**

The Trustee has commissioned a report on the proposed Moratorium from Northington Partners.

A full copy of that report is attached to this Memorandum.

Northington Partners Limited of Level 13, 52 Swanson Street, Auckland carries on business in investment banking. Northington Partners Limited has given its consent and has not withdrawn that consent, before the delivery of this Memorandum for registration under section 41 of the Securities Act 1978, to the distribution of this Memorandum, with information regarding the Northington Partners report included in the form and context in which it is included.

Whilst Northington Partners Limited is a professional adviser to the Company, neither Northington Partners nor any officer or employee of Northington Partners Limited is or is intended to be a director, officer or employee of the Company.

## THE INVESTMENT STATEMENT

This Memorandum is also an Investment Statement for the purposes of the Securities Act 1978 and the Securities Regulations 1983. It has been prepared as at 8 June 2009.

This Investment Statement relates to a Moratorium (“**Moratorium**”) proposal by propertyfinance securities limited (the “Company”) in respect of all debt securities of the Company issued under a Stock Trust Deed dated 14 August 2001 between the Company and Covenant Trustee Company Limited, as varied by Deeds dated 6 September 2005 and 18 February 2008 (together the “Trust Deed”). This Investment Statement should be read in conjunction with the Short Form Prospectus dated 8 June 2009 (“**Prospectus**”), the combined Explanatory Memorandum and Investment Statement (which this Investment Statement forms part of) dated 8 June 2009 (“**Memorandum**”), and the Notice of Meeting dated 9 June 2009 (“**Notice**”) issued by the Company in connection with the Moratorium proposal.

The purpose of this Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to resolve to approve the Extraordinary Resolution which contains the terms of the further Moratorium proposal. This Investment Statement also brings to the attention of existing Stockholders the fact that other important information about the secured Debenture Stock is available. Further copies of this Investment Statement, Prospectus and Notice may be obtained, free of charge, from Propertyfinance Securities Limited.

This Investment Statement is intended for use only in connection with the offer in New Zealand. It is not to be sent or given to any person outside New Zealand in circumstances in which the offer, distribution or use of this Investment Statement would be unlawful.

## IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

### Choosing an Investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

	<b>Page</b>
Engaging an Investment Adviser	27
What sort of investment is this?	27
Who is involved in providing it for me?	28
How much do I pay?	29
What are the charges?	29
What returns will I get?	29
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Can the investment be altered?	32
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In addition to the information in this document important information can be found in the current registered Prospectus for the investment. You are entitled to a copy of that Prospectus on request.

### **Engaging an Investment Adviser**

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to investments offered by one or more particular financial institutions; and
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. Information about fees and remuneration must include:

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.
- 
- An investment adviser commits an offence if he or she does not provide you with the information required.

### **What sort of investment is this?**

No new securities are being offered under this Investment Statement. This Memorandum and the Prospectus, which is available to Stockholders, set out a proposal for a further restructuring of the Debenture Stock already issued by the Company. The Debenture Stock are debt securities issued under the Trust Deed entered into between the Company as issuer and Covenant Trustee Company Limited as Trustee for holders of Debenture Stock.

### ***Priority of existing Debenture Stock***

The Debenture Stock are secured by a charge over the Company's assets and rank in point of priority:

- ahead of the Company's shareholders;
- ahead of the Company's unsecured obligations;
- equally with all other Debenture Stock now issued by the Company under the Trust Deed;
- behind any prior charges permitted under the Stock Trust Deed – the Stock Trust Deed permits the Company to issue prior charges of up to 7.5% ( the Extraordinary Resolution if passed will reduce this to 5.0%) of the Company's total tangible assets but, at the date of this Investment Statement, the amount secured by prior charges is \$5.004 million; and
- behind any preferential creditors of the Company.

### **Moratorium Proposal**

The Memorandum, Prospectus and Notice contain details of a proposal for a further restructure by the Company of Debenture Stock already issued to existing Stockholders (**Stockholders**). If the Extraordinary Resolution which sets out the terms of the Moratorium is approved by Stockholders, the Company will continue to be wound down by its directors.

Further details of the Moratorium are set out in the Memorandum, Prospectus and Notice. Stockholders should be aware that under the Moratorium, the Company will:

- use the proceeds from asset realisations to make principal repayments to Stockholders as these assets are realised, with the requirement to make payments of a minimum aggregate (no less than 50%) amount of the net cash flow at the end of each quarter;
- seek approval from Stockholders to the forgiveness of all accrued interest up to 31 March 2009;
- accrue interest to all Stockholders at a new rate being the sum of the Official Cash Rate plus 2%, payable after all principal has been firstly paid by way of the quarterly instalments;
- make a further payment of Additional Interest, being 60% of the audited net assets of the Company at the time all principal and accrued interest has been paid. This further Additional Interest is payable by quarterly payments to the extent possible from its net cash flow.

During the wind-down period the Company will be controlled by its directors, with any routine management and compliance obligations performed by the Company's parent Propertyfinance Group Limited under a management contract. During the seven-year wind-down period, the Company will not:

- trade, except to the extent necessary to service existing loans and to realise its assets for the benefit of Stockholders;
- issue any new Debenture Stock; or
- make any distributions to its shareholders.

In a practical sense, Stockholders have two options:

- approve the Extraordinary Resolution at the meeting, which will allow the directors' wind down to continue with the ordinary realisation of the Company's assets over time;

OR

- refuse to approve the Extraordinary Resolution at the meeting, which would leave the Company's assets to be managed and wound-down by receivers.

It is important to note that under both scenarios the assets of the Company will be the same. Accordingly, it is a question of how to best deal with those assets and by whom.

### **The Extraordinary Resolution**

The Memorandum, Prospectus and Notice set out the meeting details of the Extraordinary Resolution which Stockholders are being asked to vote on. If the Extraordinary Resolution is passed at the Special Meeting of Stockholders, the Company will continue to wind-down its operations under the control of its directors.

### **Who is involved in providing it for me?**

The Company is the issuer and promoter:

propertyfinance securities limited  
Level 2  
104 Victoria Street  
Christchurch

The Trustee, who holds security over the Company on behalf of Debenture Stock holders, is:

Covenant Trustee Company Limited  
Level 34, Vero Centre  
48 Shortland Street  
PO Box 4243  
Auckland

### **Company's Activities**

Details on the Company's background and current position are set out on page 15 of this Memorandum.

### **How much do I pay?**

This Investment Statement does not relate to a new investment by Stockholders in the Company. No further consideration is payable by Stockholders in connection with the matters set out in this Investment Statement.

### **What are the Charges?**

#### ***Fees***

No fees or charges are payable by Stockholders in relation to the proposed Moratorium.

The Company will bear all accounting, legal and brokerage expenses in respect of the Moratorium .

The Company will engage its parent Company Propertyfinance Group Limited to provide management services to the Company. Propertyfinance Group Limited will be paid a monthly management fee for these services. This fee will vary from time to time and will be dependent on the actual services required by the Company.

All management fees paid to Propertyfinance Group Limited will be subject to review by the Monitor.

Neither the Company nor any other person is entitled to alter any of the charges applicable to your investment.

### **What returns will I get?**

If the Extraordinary Resolution is passed enabling the Moratorium of the Debenture Stock to proceed, the distributions described below will be payable to Stockholders.

The estimated operating costs of the Company during the Moratorium are set out on page 5 and on page 26 of the Northington Partners report. All of these costs, whilst being operating expenses which will be borne by the Company, will ultimately reduce the net returns to Stockholders.

#### ***New term***

The terms and conditions of all Debenture Stock held by Stockholders will convert to a new non-defined term enabling the Company to make payments to Stockholders as it receives cash from the realisation of its assets.

### **Payout Procedure**

**Step 1:-** At the end of each quarter the Company will calculate the amount of cash that can be distributed to Stockholders; this must be **no less** than 50% of net cash after allowance for operating costs.

**Step 2:-** Each quarter payments are distributed as **principal** until all principal owing to Stockholders is paid in full.

**Step 3:-** After all principal has been paid the quarterly distributions are applied to accrued interest until all accrued interest has been paid in full.

**Step 4:-** When **all** principal and **all** accrued interest has been paid to Stockholders the Company will then be liable to pay Stockholders Additional Interest (being 60% of the then net assets of the Company).

This Additional Interest will be paid quarterly (to the extent possible) until paid in full.

#### ***Payments***

All payments of interest and principal will be paid by the Company to Stockholders by cheque or direct credit to the bank accounts nominated by Stockholders.

#### ***Withholding Tax***

The base interest rate and additional interest rate are gross rates from which the Company is required to deduct withholding tax unless Stockholders have supplied the Company with a Certificate of Exemption. The Company will deduct tax at the applicable rate of withholding tax.

Stockholders will be notified at the time of each payment of principal and interest, and upon final repayment, of the amount of withholding tax deducted for the relevant period.

### What are my Risks?

Stockholders cannot become liable to pay any amount in addition to your initial investment even if the Company is placed in receivership or becomes insolvent. Stockholder's principal risks are therefore that:

- The Company may not be able to realise all of its assets in the manner and/or for the value contemplated by the directors and so payments of principal and interest may not be received at all, and Stockholders will be unable to recoup their original investment amount.
- Given the unique position the Company is in, the risk sector and considerations thereon for investors are different in that the assets and affairs of the Company are being wound down by the directors.

### Restructuring Proposal Risks

Risks	Risk Management Responses
<p><b>Assumptions Incorrect:</b> The assumptions on which the directors' proposal is based prove to be incorrect.</p>	<p>The assumptions have been prepared by the directors. These assumptions represent the directors' assessment of the most likely outcome at the date of this Investment Statement.</p>
<p><b>Breach of Trust Deed:</b> The Company breaches its Trust Deed and is placed in receivership.</p>	<p>The Extraordinary Resolution provides more flexibility for the Company to be wound down, over time, by the directors. It is far less likely that under this scenario receivership could occur.</p>
<p><b>Management Services:</b> The Company, during its wind-down period, will be reliant on the provision of management services from its parent company Propertyfinance Group Limited.</p>	<p>As the Company is being wound down its reliance and need for management services is reduced. In addition, the Company's principal assets, being investments in mortgage-backed securities, are investments in third party securitisation trusts that have a standalone management structure. The Company has the flexibility if required to employ or contract staff directly and not be reliant on Propertyfinance Group Limited.</p>

### Industry Risks

In common with all lending institutions, the Company faces risks specific to the finance industry. Those risks principally include the matters detailed below.

Risks	Risk Management Responses
<p><b>External Risks:</b> On a general level, the Company is exposed to a wide range of events outside of the Company's control such as environmental risks and disasters, general economic downturn, regulatory risks and country risks. Such events may impact on the ability of either the Company's borrowers to meet their obligations or borrowers from the securitisation trusts the Company has invested in.</p>	<p>The Company has mitigated or limited this exposure to external risk in a number of ways, including the spread of loans between regions and type; being residential, commercial and reverse mortgage lending, limiting exposure to development loans, developing a securitisation programme that provides long term fixed margin funding, maintaining a first mortgage strategy and incorporating specific provisions in the extraordinary resolution to enable the Company to purchase defaulting security properties, have them managed and re presented to the market for sale outside a mortgage sale process.</p>
<p><b>Interest Margin Risk:</b> As the Company's profitability depends on maintaining an appropriate margin between its cost of funds and the return from lending activities and other investments, it is exposed to an adverse movement in interest rates.</p>	<p>The Company has set the new interest rate based on a floating benchmark (Official Cash Rate) reflecting the floating rate benchmark that applies to note investments held in the securitisation programme.</p>

### ***Company-Specific Risks***

In addition to industry wide risks, the Company is, to a greater or lesser extent than other lenders, exposed to other risks as a result of its particular activities.

The principal Company-specific risks are set out below.

Risks	Risk Management Responses
<p><b>Property Values:</b> The Company's lending activities are all New Zealand property-based and accordingly the performance of the property sector affects the Company. A substantial decline in property values may affect the performance of the borrowers and/or adversely affect the Company's security position either directly or through the securitisation programme.</p>	<p>The Company has limited this risk by principally having a first mortgages-only strategy. This risk applies primarily in respect of existing loans but may also arise in respect of new loans which are written by the Company as part of the "permitted activities" which will be permitted if the Extraordinary Resolution is passed. Where borrowers make regular scheduled principal repayments, on loans, this risk steadily diminishes.</p>
<p><b>Securitisation Trusts:</b> As detailed earlier in this Memorandum, the Company has invested in debt notes issued from the securitisation trusts the Company established. The notes held by the Company rank behind debt notes issued to institutional investors and accordingly a shortfall for any securitisation trust could lead to loss to the Company.</p> <p>The ability of the trusts as issuers of the mortgage-backed securities to pay interest and principal on the mortgage-backed securities when due will depend in large part on timely and sufficient receipts under or in respect of the loans and mortgages which are the effective security for the mortgage-backed securities. In particular, the trusts have the ability to increase the mortgage interest rates payable by the borrowers from the trusts. The trusts would do this to maintain the credit rating on those of the mortgage-backed securities issued by the trusts which have a credit rating (these securities are not generally held by the Company) but this action could have a negative impact on the value of the mortgage-backed securities held by the Company. This action is currently beyond the control of the directors.</p>	<p>The Company has only invested in securitisation trusts holding loans secured by registered first mortgages and cash at bank. The securitisation trusts hold mortgages originating from the Company's past lending activities and accordingly the Company was fully aware of the risk profile of any trust before investing in it.</p>
<p><b>Securitisation Trust Management:</b> When the Company was placed in receivership this automatically removed the Company from the day to day servicing and management of the Company securitisation trusts. These roles and services are now provided by subsidiary companies of Deloitte and The New Zealand Guardian Trust Company Limited.</p> <p>The repayment of the Company's debt note investments in the respective trusts may be impacted upon by the level of fees and costs charged to the trusts for these services and the actions of the service providers in managing delinquent accounts.</p>	<p>A specific function of the directors during the wind down will be the monitoring of these functions, to check that they comply with all legal requirements and to seek recourse if necessary.</p> <p>The actions of the servicer and management companies are subject to normal commercial conduct.</p>
<p><b>Possible Sale of Debt Notes:</b> The risk of the Company having to sell its debt notes at less than the price anticipated by the directors will be paid for them, due to a downgrade in the rating of debt notes, interest rate movements, supply and demand or for other reasons.</p>	<p>The directors have an incentive to maximise returns so that the residual equity for shareholders is preserved. The Extraordinary Resolution provides flexibility so the Company can employ strategies that maximise likely returns.</p>
<p><b>Intervention Risks:</b> As noted earlier in this Memorandum, there are risks to the Company of intervening to provide financial assistance to distressed borrowers, or otherwise taking actions such as purchasing secured properties.</p>	<p>This risk is limited by reason of the role of the Monitor and Financing Adviser in overseeing the actions of the Company's directors.</p>

### **Can the Investment be Altered?**

Neither you nor the Company have any right to alter the investment without the agreement of the other party.

The Trustee may vary the Trust Deed in the following cases:

- If in the opinion of the Trustee the alteration is made to correct a manifest error or is of a formal or technical nature or is convenient for the purposes of obtaining or maintaining a quotation of any Debenture Stock on a stock exchange;
- If the alteration is authorised in accordance with the Trust Deed by a resolution passed at a meeting of Debenture Stock holders holding not less than 75% of the voting rights at the meeting;
- If the Trustee is of the opinion that such alteration is not and is not likely to become prejudicial to the general interests of the Debenture Stock holders; or
- If the alteration is required to comply with any law.

### **How do I cash in my investment?**

#### ***Repayment by Instalments***

Your investment (together with any accrued interest) will be repaid by the Company in instalments as cashflows permit during the wind-down of the Company's affairs as described in the Prospectus and Memorandum. You may be required to present your Investment Certificate to the Company.

#### ***Early Termination***

In accordance with the terms of the Extraordinary Resolution, repayments of principal and payments of interest to Stockholders are made on a pro rata basis. There is consequently no ability for Stockholders to request early repayment of the investment.

#### ***Sale***

You may sell your investment in the Debenture Stock. A transfer must not result in you or the transferee holding a Debenture Stock for less than \$1,000. The Company may refuse to register a transfer of Debenture Stock if:

- The Register is closed;
- A duly completed Transfer and the relevant Debenture Stock Certificate is not left at the registered office of the Company; or
- The Board decides, in its absolute discretion, to refuse to register a transfer.

The Company does not consider there is an established market for the sale of the Debenture Stock investment.

The Company is not seeking listing of the Debenture Stock on the New Zealand Stock Exchange or any other Exchange.

### **Who do I contact with enquiries about my investment?**

The Managing Director  
propertyfinance securities limited  
Level 2, Propertyfinance Building  
104 Victoria Street, PO Box 868  
Christchurch 8140  
Phone: (03) 379 9336  
Fax: (03) 379 4256  
Email: mail@propertyfinance.co.nz

**Is there anyone to whom I can complain if I have problems with the investment?**

The Managing Director  
propertyfinance securities limited  
Level 2, Propertyfinance Building  
104 Victoria Street  
PO Box 868, Christchurch  
Ph: (03) 379 9336  
Fax: (03) 379 4256

Corporate Business Manager  
Covenant Trustee Company Limited  
Level 34, Vero Centre  
48 Shortland Street  
P O Box 4243, Auckland  
Ph: (09) 302 0638  
Fax: (09) 302 1037

There is no Ombudsman to whom complaints can be made for this type of investment.

***What other information can I obtain about this investment?***

Other information about the investment and the Company is contained in the Prospectus, the Memorandum, the Notice and the latest financial statements of the Company. You can obtain those documents free of charge from the Company or by downloading the documents from the Company's website at [www.propertyfinance.co.nz](http://www.propertyfinance.co.nz). The Prospectus and Annual Report can also be obtained by inspecting the public Register at the Companies Office of the Ministry of Economic Development (website [www.companies.govt.nz](http://www.companies.govt.nz)).

You can also request copies of the following documents from the Company at its registered office at Level 2, Propertyfinance Building, 104 Victoria Street, Christchurch:

- The Register of Securities (except for when the Register is closed).
- The Company's financial statements registered under the Financial Reporting Act 1993 and the unaudited interim financial statements to 30 September 2008.
- Documents registered under the Securities Act 1978.
- The Company's latest Annual Report.
- The Trust Deed and amendments.

The Company may not charge a fee for providing copies of the above documents except as permitted by regulations under the Securities Act 1978 and photocopying costs (up to 20¢ per page) if you require a copy of the Register of Securities.

The Company will send you a Withholding Tax Deduction Certificate at the time of each payment of interest (which will only occur once all principal has been paid). The Company will also send you a six monthly update of the financial position of the Company and a summary of the Company's annual results.

## DIRECTORY

<b>Issuer</b>	propertyfinance securities limited
<b>Registered Office</b>	Level 2, Propertyfinance Building 104 Victoria Street Christchurch
<b>Directors</b>	Barnaby Innes Sundstrum 19 Mayfly Lane Clearwater Harewood Christchurch  Darryl Bruce Queen 70 Matai Street West Riccarton Christchurch
<b>Auditor</b>	Ernst & Young 227 Cambridge Terrace Christchurch
<b>Issuer's Solicitors</b>	Buddle Findlay Level 13, Clarendon Tower 78 Worcester Street PO Box 322 Christchurch
<b>Trustee</b>	Covenant Trustee Company Limited Level 34, Vero Centre 48 Shortland Street Auckland