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## NOTICE OF 2010 ANNUAL GENERAL MEETING

**PROPERTYFINANCE SECURITIES LIMITED** (the “Company”) hereby gives notice that the Company’s 2010 Annual General Meeting will be held on **Wednesday, 10 November 2010** at the **Heartland Hotel Cotswold, 88-96 Papanui Road, Christchurch, commencing at 10:30am.**

The business to be transacted at the Annual General Meeting (“Meeting”) is as follows:

### AGENDA

1. Tabling of the Company’s audited Financial Statements
2. Directors’ Report on the position of the Company
3. Trustee’s Report
4. Monitor’s Report
5. Financing Adviser’s Report
6. Other business – to consider any other matters that may properly be brought before the Meeting.

### EXPLANATION

On 29 June 2009 the Company’s debenture holders voted in favour of a revised Moratorium. A condition of that Moratorium was:

“12.7 **Annual Meeting:** The Company shall convene in each year a annual meeting (**Meeting**) of Stockholders:

- (a) the Meeting will be held on or before 30 September (or such later date that the Trustee may agree) in any given year with a first Meeting before 30 September 2009;
- (b) notice of the Meeting (**Notice**) will be provided to Stockholders no less than 10 days (excluding the day of posting and the day of the Meeting) before the Meeting. The Notice will state the time, location and agenda for the Meeting;
- (c) the Company will provide to the Trustee no less than 7 days prior to it being posted to Stockholders a copy of the Meeting material and Notice for the Trustee’s review;
- (d) each Meeting will be chaired by the Trustee’s representative and will include:
  - (i) tabling of the Company’s audited financial statements for the preceding year ending 31 March;
  - (ii) a directors report reviewing the position of the Company and progress thereon of the Moratorium;
  - (iii) such other reports that the Trustee may determine.”

## 2010 Financial statements (AS AT 31 MARCH 2010)

### Statement of Comprehensive Income

	Group		Parent	
	2010	2009	2010	2009
For the year ended 31 March 2010	\$'000	\$'000	\$'000	\$'000
Interest and similar income	3,076	5,826	2,878	5,443
Interest and similar expense	-	7,525	-	7,525
<b>Net interest income</b>	<b>3,076</b>	<b>(1,699)</b>	<b>2,878</b>	<b>(2,082)</b>
Other income from ordinary activities	32	41	12	41
<b>Total revenue / expense from ordinary activities</b>	<b>3,108</b>	<b>(1,658)</b>	<b>2,890</b>	<b>(2,041)</b>
Impairment losses	7,129	20,445	9,784	19,411
Receivership and associated costs	-	11	-	11
Operating expenses	2,295	1,707	2,249	1,675
Net loss/(gain) on financial assets and liabilities designated at fair value through the profit or loss	(46,960)	-	(46,960)	-
<b>Profit/(loss) before income tax</b>	<b>40,644</b>	<b>(23,821)</b>	<b>37,817</b>	<b>(23,138)</b>
Income tax expense/(benefit)	-	-	-	-
<b>Profit/(loss) after income tax</b>	<b>40,644</b>	<b>(23,821)</b>	<b>37,817</b>	<b>(23,138)</b>
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the period attributable to members of the parent entity</b>	<b>40,644</b>	<b>(23,821)</b>	<b>37,817</b>	<b>(23,138)</b>
Earnings per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in dollars per share)				
- basic	2.61	(1.53)		
- diluted	2.61	(1.53)		

### Statement of Changes in Equity

	Group (\$'000)		
	Share capital	Retained earnings	Total
For the year ended 31 March 2010			
<b>Balance as at 1 April 2008</b>	<b>15,571</b>	<b>(5,871)</b>	<b>9,700</b>
Profit/ (loss) for the period	-	(23,821)	(23,821)
Other comprehensive income	-	-	-
<b>Total comprehensive income for period</b>	<b>-</b>	<b>(23,821)</b>	<b>(23,821)</b>
Transactions with owners in their capacity as owners	-	-	-
<b>Balance as at 31 March 2009</b>	<b>15,571</b>	<b>(29,692)</b>	<b>(14,121)</b>
<b>Balance as at 1 April 2009</b>	<b>15,571</b>	<b>(29,692)</b>	<b>(14,121)</b>
Profit/(loss) for the period	-	40,643	40,643
Other comprehensive income	-	-	-
<b>Total comprehensive income for period</b>	<b>-</b>	<b>40,643</b>	<b>40,643</b>
Transactions with owners in their capacity as owners	-	-	-
<b>Balance as at 31 March 2010</b>	<b>15,571</b>	<b>10,951</b>	<b>26,522</b>
For the year ended 31 March 2010			
<b>Balance as at 1 April 2008</b>	<b>15,571</b>	<b>(6,784)</b>	<b>8,787</b>
Profit/ (loss) for the period	-	(23,138)	(23,138)
Other comprehensive income	-	-	-
<b>Total comprehensive income for period</b>	<b>-</b>	<b>(23,138)</b>	<b>(23,138)</b>
Transactions with owners in their capacity as owners	-	-	-
<b>Balance as at 31 March 2009</b>	<b>15,571</b>	<b>(29,922)</b>	<b>(14,351)</b>
<b>Balance as at 1 April 2009</b>	<b>15,571</b>	<b>(29,922)</b>	<b>(14,351)</b>
Profit/(loss) for the period	-	37,817	37,817
Other comprehensive income	-	-	-
<b>Total comprehensive income for period</b>	<b>-</b>	<b>37,817</b>	<b>37,817</b>
Transactions with owners in their capacity as owners	-	-	-
<b>Balance as at 31 March 2010</b>	<b>15,571</b>	<b>7,895</b>	<b>23,466</b>



## Balance Sheet

	Group		Parent	
	2010	2009	2010	2009
As at 31 March 2010	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>				
Cash and cash equivalents	784	350	784	309
Income tax receivable	178	11	178	9
Development property intended for sale	2,315	3,679	762	819
Related party receivables	2,683	3,589	2,683	7,751
Other receivables	115	427	115	226
Loans receivable	6,658	11,277	6,658	11,277
Mortgage backed securities	41,576	44,781	41,576	44,781
Rated Mortgage Bonds	20	20	20	20
Investment in subsidiaries	-	-	4,411	4,136
Property, plant & equipment	23	205	23	205
Intangible assets	-	100	-	100
Cash held in related trusts	5,623	5,428	-	-
Trust Debtors	829	829	829	829
Financial asset at fair value through profit or loss	275	-	-	-
<b>Total Assets</b>	<b>61,079</b>	<b>70,696</b>	<b>58,039</b>	<b>70,462</b>
<b>Liabilities</b>				
Trade and other payables	185	287	182	283
Amount due to related party	-	-	19	-
Debenture Stock on issue	34,167	84,325	34,167	84,325
Debenture Stock accrued interest				
Trust Creditors	205	205	205	205
<b>Total Liabilities</b>	<b>34,557</b>	<b>84,817</b>	<b>34,573</b>	<b>84,813</b>
<b>Net Assets / (Liabilities)</b>	<b>26,522</b>	<b>(14,121)</b>	<b>23,466</b>	<b>(14,351)</b>
<b>Shareholders Funds</b>				
Share Capital	15,571	15,571	15,571	15,571
Retained Earnings (Deficit)	10,952	(29,692)	7,895	(29,922)
<b>Total Shareholders Funds (Deficit)</b>	<b>26,523</b>	<b>(14,121)</b>	<b>23,466</b>	<b>(14,351)</b>

## Statement of Cash Flows

	Group		Parent	
	2010	2009	2010	2009
For the year ended 31 March 2010	\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>				
Receipts from customers	47	38	(25)	38
Payments to suppliers and employees	(1,822)	(1,192)	(1,922)	(962)
Interest received	2,015	5,491	1,761	5,174
Interest paid	-	(1)	-	(1)
Tax (payments) / receipts	(167)	168	(169)	170
<b>Net cash inflow/(outflow) from operating activities</b>	<b>73</b>	<b>4,504</b>	<b>(355)</b>	<b>4,419</b>
<b>Cash flows from investing activities</b>				
Loans and advances to customers	(2,776)	(2,309)	(2,776)	(2,309)
Repayment of loans and advances	5,276	4,933	5,276	4,933
Purchase of property, plant and equipment	(1)	-	(1)	-
Purchase of property for development / Additions	(1,133)	(4,592)	-	(982)
Sale of completed development property	2,273	338	-	622
Investment in subsidiary	(275)	-	(275)	-
Increase in deposits and trust-held cash	(251)	(312)	-	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>3,113</b>	<b>(1,942)</b>	<b>2,224</b>	<b>2,264</b>
<b>Cash flows from financing activities</b>				
Loan advance to related party	-	(169)	-	(4,331)
Loan advance from related party	427	-	1,785	-
Repayment of borrowings to related party	-	(118)	-	(118)
Repayment of borrowings from related party	10	-	10	-
Repayment of Debenture Stock	(3,189)	(2,334)	(3,189)	(2,334)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(2,752)</b>	<b>(2,621)</b>	<b>(1,394)</b>	<b>(6,783)</b>
<b>Net increase/(decrease) in cash held</b>	<b>434</b>	<b>(59)</b>	<b>475</b>	<b>(100)</b>
Add opening cash brought forward	350	409	309	409
<b>Cash held at year end</b>	<b>784</b>	<b>350</b>	<b>784</b>	<b>309</b>

# PROPERTYFINANCE SECURITIES LIMITED

## DIRECTORS' REPORT

OCTOBER 2010

### INTRODUCTION

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

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

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

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

### ANNUAL FINANCIAL STATEMENTS

An extract of the audited Annual Financial Statements has been provided with the Notice of Meeting.

#### Statement of Comprehensive Income

The reported profit for the 31 March 2010 year has been materially distorted with the requirement that the Company re-state the value of its debenture stock due to the changed terms arising from the Moratorium programme. This requirement is pursuant to the New Zealand International Accounting Standard NZ IAS 39. The strict interpretation and application of NZ IAS 39 results in the use of a discounted cash flow methodology to determine a "fair value".

	Legal outstanding amount at 31/03/10	Accounting "Fair Value" at 31/03/10
Debenture stock	68,797,316	32,153,493
Debenture interest	3,225,209	2,013,266

This adjustment then flows into an accounting profit of \$40.6m when clearly the Company did not, in a traditional sense, make any profit on the revaluation of a liability, i.e. its debenture stock.

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

The reporting group (comprising the Company and its subsidiaries) has recorded a profit of \$40.643m for the year ended 31 March 2010.

A summary is:

	\$'000
Revenue	3,108
Cost	9,424
Operating loss	6,316
Net gain on financial liabilities designated at fair value	46,960
Net profit after tax	40,644

#### Impairment Provision

With the reported downturn in property the Company has reviewed the carrying value of its residual on-balance sheet first mortgage loans, land holdings, debt notes and trust debtors. This review resulted in the writing down of these assets. The total impairment was \$7.129m in the period ending 31 March 2010.

### 2010 STATEMENT OF FINANCIAL POSITION

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

Assets	\$m
Mortgage loans	6.7
Development property intended for sale	2.3
Cash	0.8
Securitisation investments	50.7
Other	0.6
<b>Total assets</b>	<b>61.1</b>



Liabilities	\$m
Secured debenture stock	32.2
Accrued Interest	2.0
Other	0.4
<b>Net assets &amp; shareholders funds</b>	<b>26.5</b>

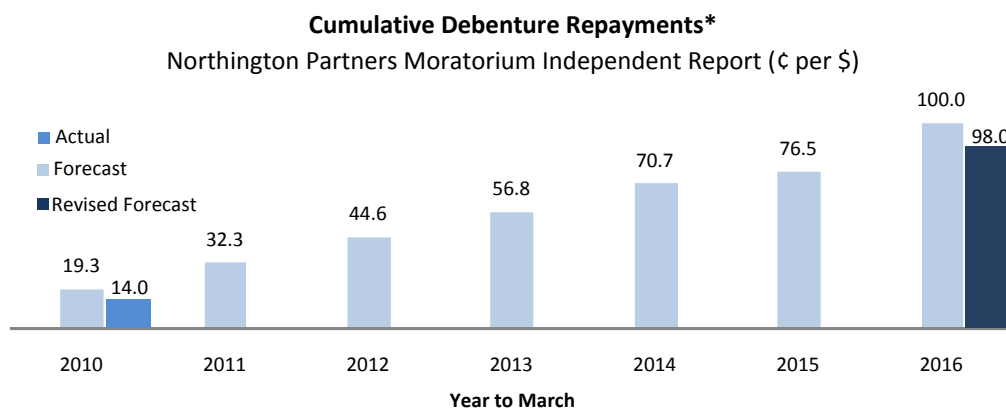
Due to the NZ IAS 39 adjustment previously noted, the Company's balance sheet is also impacted by, and in particular with, the Company having a stated equity of \$26.5m, prior to the NZ IAS 39 adjustments the level of shareholder equity was a deficit of (\$11.334)m (after deducting the fair value adjustment of \$37.856m).

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

At the date of this report the Company has paid 14¢ for each \$1 of debenture stock principal. Since the commencement of the Moratorium the Company has repaid a further 2¢. The Company has not paid any interest nor will it under the Moratorium plan until/unless firstly all principal has been repaid.

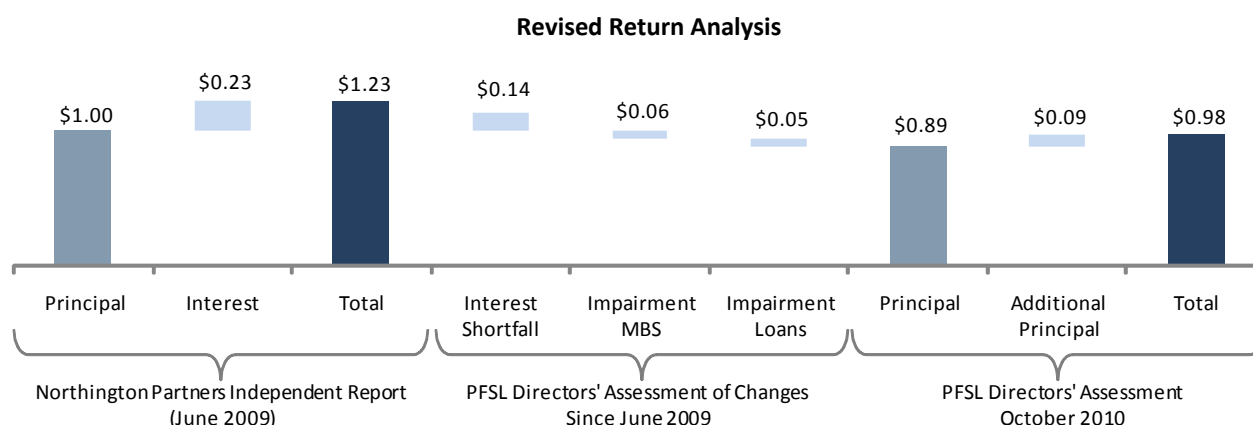
In accordance with the amended Trust Deed the Company works closely with both the Financing Adviser and Monitor in their respective roles.

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



**Total paid to date: 14¢ vs. forecast 19.3¢**

\* Please note these are extracted from the Northington Partners Independent Report and based on the assumptions at that time. A copy of the report is available on [www.propertyfinance.co.nz](http://www.propertyfinance.co.nz).



- Notes:**
- The anticipated principal repayment of \$0.89 is based on the net assets held by PFSL at 30 September 2010. The additional \$0.09 repayment is based on future cashflow receipts net of expenses. The total payment is anticipated to be \$0.98.
  - The Interest Shortfall of \$0.14 has resulted from three causes:
    - An assumption that no interest would be earned on the component of assets that are impaired;
    - Low bank bill rates over the last year. All Trust Notes bear an interest margin over bank bills so a reduction in the bank bill rate consequently results in reduced interest income to PFSL;
    - Under the Securitisation Trusts interest income to Trust Notes held by PFSL is used to protect the trust from losses arising from defaulted loans.



3. The MBS impairment arises from loan losses with the securitisation trusts:
  - a. CM Trust has been impaired by the equivalent amount of \$0.02 where enforcement action against defaulting loans has resulted in losses to the trust. The Directors' attribute these losses to continued difficult conditions in the commercial property sector with low sale prices and a lack of liquidity including the retreat of lenders from this sector. As a result of the losses to the trust, the carrying value of the trust notes held by PFSL have been impaired;
  - b. RML has been impaired by the equivalent amount of \$0.04 where enforcement action against defaulting loans has resulted in losses to the trust. The Directors' attribute these losses to the effect of the recession causing borrower defaults and subsequent recovery from enforcement action being lower than expected with continued difficult conditions in the residential property sector with low sale prices being achieved. As a result of the losses to the trust, the carrying value of the trust notes held by PFSL, have been impaired.
4. Impairments on direct loans comprises a range of loans where recovery action has been undertaken and the loan values now reflect expected/actual returns from the loans in today's market.

## 2009 JUNE MORATORIUM OVERVIEW

### Key Points

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

### MANAGEMENT FEES ANALYSIS\*

Forecast: Northington Report*	\$ per month
Years 1 and 2	\$46,667
Years 3 onwards	\$36,250

Actual costs to date	\$ per month
Actual cost to date (average)	\$42,000
Current monthly cost	\$30,000

Years 1 and 2	Total management costs
Forecast (Northington \$46,667 x 24)	\$1,120,008
Expected (\$42,000 x 15 + \$30,000 x 9)	\$900,000
Benefit	\$220,008

Year 1	Total moratorium costs
Forecast (Northington)	\$750,000
Actual	\$1,450,000
Loss	\$700,000

\* This cost analysis compares management fees (excluding audit, Monitor and Financing Adviser, legal) as forecast on page 26 of the Northington Partners Independent Report with actual management fees charged. Accordingly this is not a complete analysis of costs as it does not include, for example, trustee fees, depreciation and/or bad debts, all of which would have been incurred in either a moratorium or receivership scenario.

### MORATORIUM STRATEGY

- Before we review the PFSL assets as at 30 June 2010 it is important to do so in light of the Moratorium strategy
- The strategy is to firstly preserve assets/asset values and secondly realise these assets in a orderly manner over time
- Debenture stockholders have signalled strongly their desire to avoid the "fire sale" of assets

### MORATORIUM SUMMARY

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



## Statement of Financial Position as at:

Assets	Mar-2010	Jun-2010
Cash and cash equivalents	784	1,204
Term deposits & cash in Trusts	5,623	5,672
Expense reserve deposits - RMB Trusts	1,050	1,050
Advance to RMB Trusts – issue expenses	1,633	1,608
Accrued interest	20	0
Sundry debtors & advances	115	60
Property held for sale	2,315	2,315
Loans receivable	6,658	6,682
Mortgage-Backed Securities	41,576	42,011
Trust debtors	829	0
Property, plant & equipment	23	22
Income tax prepayment	178	1
Financial asset at fair value through P&L	275	275
Deferred tax asset*	0	0
	<b>61,079</b>	<b>60,900</b>

Liabilities	Mar-2010	Jun-2010
Trade and other payables	185	88
Debenture Stock	34,167	34,936
Trust creditors	205	0
	<b>34,557</b>	<b>35,024</b>
Net assets	26,522	25,876

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

The contractual liability to debenture holders principal is \$68.797m plus accrued interest to 30 June 2010 of \$3.995m, totalling \$72.792m. The fair value of the debenture stock liability including interest totals \$34.937m.

The \$1.23 comprised \$1 of principal and \$0.23 of interest. The expected principal repayment is now 98c. At the date of this report the carrying value of the Company's assets has reduced due to impairment charges, resulting in a revised principal backing of \$0.89 for each dollar of debenture stock. The level and source of these additional impairment charges is set out below.

## Key Assumptions By Scenario

Assumption	The Company Directors' Scenario	Receivership Scenario	Latest Expectation
Interest on debentures	OCR + 2%; average total rate of 6.5% assumed	Accrues at a fixed rate of 9.3%	OCR + 2%; average total rate of 6.5% assumed
Free-cash return	75%	100%	75%
Realisation from MBS	Sold in year 7 at 90% face value	Sold in year 3 at 60% of face value, in year 5 at 70% and year 7 at 80%	Sold in year 7 at 90% face value
Losses within CM Trust	\$3m losses in years 1&2	\$7m losses in years 1 & 2	\$3m losses in years 1&2
Loan life – RM	1 year	2 years	1 year
Loan life – RML	1 year	2 years	2 years
Capital losses on MBS	No further net losses	No further net losses	\$4,319,000 impairment (as at 31/03/10)
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%	\$2,810,000 impairment (as at 31/03/10)

## PFSL'S PARENT COMPANY

On 31 May 2010 the Company's sole shareholder, propertyfinance group limited (PFG), passed a shareholder resolution to delist from the NZX and be placed in voluntary liquidation. This resulted in a write off of a loan to PFG of \$270,687.



## INTERVENTION STRATEGIES (SINCE JULY 2009)

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

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

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

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

## INVESTOR RETURNS

### (i) Expectations 29 June 2009 Moratorium Explanatory Memorandum

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

### (ii) Moratorium Expectations 30 June 2010

	Expectation
Projected period from commencement	7 years
Costs over projected period (7 years)	\$3.4m
Moratorium costs year 1	\$1.45m
Current asset backing (cents per \$)	0.91c
Projected returns (cents per \$ NPV)	0.67c
Contractual interest rate	OCR + 2%
Interest written off (forgiven)	\$12.3m

## SECURITISATION PROGRAMME

Propertyfinance RM 2005-1 Trust	Aug-2007	31-Mar-2009	31-Mar-2010	30-Jun-2010
Pool size	86,043,257	42,456,876	28,775,467	27,332,947
Number of loans	323	162	108	103
Average by size	283,971	284,945	284,906	281,783
Average loan to value ratio	95.2%	95.0%	94.7%	94.3%
Owner occupied	100%	100%	100%	100%
90-day arrears	-	5.3%	4.3%	3.3%
Charge-offs**	-	110,000	347,598	357,598

Propertyfinance RML 2005-3 Trust	Aug-2007	31-Mar-2009	31-Mar-2010	30-Jun-2010
Pool size	317,006,497	317,006,497	104,317,685	95,469,074
Number of loans	1,031	1,031	389	349
Average loan size	385,653	357,240	338,694	347,160
Average loan to value ratio	78.5%	78.5%	78.6%	79.2%
Owner occupied	426	287	232	207
Investment	288	200	157	147
90-day arrears	3.3%	13.0%	7.6%	6.6%
Charge-offs**	-	6,453,855	10,583,870	10,771,921



<b>Propertyfinance CM 2005-2 Trust</b>	<b>Aug-2007</b>	<b>31-Mar-2009</b>	<b>31-Mar-2010</b>	<b>30-Jun-2010</b>
Pool size	157,212,541	111,380,862	91,261,620	89,690,392
Number of loans	114	72	62	59
Average loan size	1,588,005	1,687,589	1,576,476	1,630,734
Average loan to value ratio	68.7%	69.4%	68.4%	68.4%
90-day arrears	–	14.6%	5.2%	4.0%
Charge-offs**	–	110,240	3,569,205	3,579,205

<b>Propertyfinance LS 2005-4 Trust</b>	<b>Aug-2007</b>	<b>31-Mar-2009</b>	<b>31-Mar-2010</b>	<b>30-Jun-2010</b>
Pool size	75,749,913	62,917,325	59,324,986	58,498,202
Number of loans	980	813	751	736
Average loan to value ratio	16.1%	28.5%	30.6%	31.3%
Average age of borrower	77	79	79	79

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

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

The Board of Directors  
Propertyfinance Securities Limited  
Christchurch