NZAX ANNOUNCEMENT

To:	Market Information Services / Listed Company Relations, NZX (announce@nzx.com; lcr@nzx.com)
From:	Darryl Queen Managing Director
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Issuer	propertyfinance group limited (PFG)
Subject	**PFG Capital Reconstruction and Merger**

Propertyfinance Group (PFG) has today announced a major proposal in direct response to the global credit crunch that is dramatically affecting the New Zealand property and finance markets.

PFG is planning to merge with its main subsidiary, Propertyfinance Securities Limited (PFSL), to form a simplified and robust company better able to withstand continuing changes and challenges in the property and finance markets.

The outcome

The restructured PFG will:

- Retain its NZAX listing
- Have over 3500 shareholders
- Be debt free
- Be registered as a Portfolio Investment Entity (PIE).

Proposal rationale

The PFG Board is of the view that the New Zealand property markets will continue to be buffeted by falling real values, materially reduced liquidity and changes in the availability of mortgage finance, due to both the much smaller number of non-bank lenders and the tightening of bank lending criteria.

In the last quarter of 2008, it became evident that these market changes will have a much deeper impact than at first thought and were of a long-term nature.

The PFG Board believes that any hope that property prices or liquidity would improve in the foreseeable future were misplaced.

In formulating this merger proposal, the PFG Board also concluded that the restructuring of PFSL in late 2007 needed to be revisited.

The lower liquidity in the property markets, when combined with the reduced ability of borrowers to refinance, meant that customers would be slower repaying their mortgages and in turn PFSL would not be able to repay its stockholders as quickly as had been anticipated in 2007.

PFG offer

The merger proposal will be effected by the parent company, PFG, amalgamating with its subsidiary, PFSL and thereby assuming PFSL's liability to its holders of secured debenture stock and other creditors. PFG would then offer to swap the debenture stock into PFG ordinary and preference shares. Concurrently, PFG would make an offer to its existing redeemable preference shareholders, to swap their shares into PFG ordinary shares. PFG's existing unsecured creditors would be settled either by issuing shares or a discounted cash settlement, as a pre condition to the merger proceeding.

The outcome would be that PFSL's secured debenture stock holders would own approximately 90% of the post-merger PFG and would forego accrued but unpaid interest. Before the merger, the PFG ordinary shares will be consolidated by retaining one share for every 3.33 shares currently held. The new ordinary shares will be issued at a nominal issue price of 50¢ per share. In total, PFSL's debenture stockholders would therefore have received a $0.09 cash payment per $1.00 of debenture stock (already paid under the existing PFSL restructuring proposal) and would in addition receive (for each $1.00 of debenture stock) a 1 year fixed term preference share, equivalent to 11c, with the balance of 80¢ in PFG ordinary shares.

The result will see the new PFG being debt free with fully paid tradeable shares listed on the NZAX. PFG will use its cashflow to provide regular dividends through the tax efficient PIE frame work.

Best option

PFG's Managing Director, Mr Darryl Queen, says there are only two pathways – PFG capital reconstruction and merger or liquidation and receivership.

In considering the merger proposal the PFG Board explored the alternative of liquidating the business. Given the complex structure and many years before the customers ultimately repay their mortgages, the costs of liquidation would be prohibitive and these would heavily discount likely investor returns.

"The Board sees this capital reconstruction and merger proposal as the only viable pathway open to the Company. It is clear that property market conditions are continuing to deteriorate and this proposal will allow our various stakeholders to protect their investment while providing a dividend bearing tradeable security", says Mr Queen.

The new structure will allow PFG's management to focus on its customers and in particular borrowers through its securitisation programme.

"It is critical that the Group protects the unique position it has of having long term low cost funding within its securitisation programme by developing programmes to help our borrowers survive these market changes. It is in no one's interest to see borrowers default and have properties fire-sold in this market."

PFG is now working on the statutory steps to hold a meeting of its debenture holders.

For the proposal to proceed the Company must get a 75% vote in favour.

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