



ASX Announcement

Friday, April 15, 2011

Dear shareholder,

This letter is an update to my Chairman's Letter included in the Notice of Extraordinary Meeting and Explanatory Memorandum, dated 29 March, 2011.

Your directors' preferred option was (and still is) to realise all assets, to return all funds to shareholders and to wind up the company. As a substantial shareholder, this would also be my preferred outcome. However your directors were unable to achieve this outcome as they were unable to find a buyer of the company's mortgage book.

In your directors' opinion, as outlined at last year's AGM, the next best option was to:

- determine a conservative reserve price for the mortgage book;
- determine the amount of net available cash;
- propose an Equal Access Buy-Back Offer to all shareholders at a price that was the sum of net available cash + the reserve price for the mortgage book + all available franking credits; and
- request the major shareholder to not participate in the Buy-Back Offer (as there would not be sufficient net available cash if all shareholders were to accept the Buy-Back Offer).

To the nearest 1 or 2 cents, the Equal Access Buy-Back Offer price that was the sum of net available cash + the reserve price for the mortgage book + all available franking credits, was \$0.88 per share plus a franking credit of \$0.30 per share.

Listing on ASX, Independent Directors and Dividends

Because directors were offering to distribute all assets to shareholders, I assumed that all or substantially all shareholders would avail themselves of the Buy-Back Offer and that I would be one of the few remaining shareholders. In my Chairman's Letter, I therefore advised that upon completion of the Buy-Back, I intended to:

- request the independent director to resign as a director;
- seek to have the company's shares delisted from the ASX; and
- cease paying dividends

It now appears from press articles and from the number of shares traded on the ASX after the Ex-Entitlement Date, that there will be a material number of remaining shareholders. As a consequence:

- the independent director, Mr John McGuigan, has kindly agreed to not resign as a director of the company;
- the company will not seek to have its shares delisted from the ASX; and

- the company will continue to distribute its assets to shareholders as they are realised over the next 26 years. Because the company has distributed all its capital, all distributions will necessarily be by way of partially franked dividends.

Realisation of the Value of the Mortgage Book

Your directors attempted to sell the mortgage book whilst it had value. All Australian banks plus some 60 + overseas banks and entities were approached. Three of the four major Australian banks are presently warehouse providers to the company. The fourth bank was until recently a warehouse provider to the company. All four banks have an intimate knowledge of the company's mortgage book. All four banks considered and declined the opportunity. Your directors and their advisers were unable to attract a bidder either at the reserve price or at any price. Your directors believe it will be even more difficult to sell the book once it becomes unprofitable.

If your directors cannot sell the mortgage book, they will have no option other than to continue to manage the book for the remainder of its life. The company's mortgage loan book will expire in 2037.

As the mortgage book matures, the company will have an increasing problem with arrears loans. At 31 March 2011, \$177.8m of loans were in arrears. This represented 4.21% of the loan book. As the book matures, the amount of loans in arrears will decline, but not at the same rate as the book declines. As a percentage of the loan book, arrears loans are expected to increase. The graph attached shows the percentage of the mortgage loan book expected to be in arrears.

Unless they are in default, the company cannot compel repayment of its loans. The company is obliged to service its loans (or arrange for its loans to be serviced) for their full term. Servicing of the bondholders and of the mortgage book is presently profitable. Servicing costs are part fixed and part variable. Servicing costs will reduce as the loan book reduces but not at the same rate. The obligation to service bondholders and the mortgage book will soon become a liability.

Independent Expert Report

Whilst not obliged to do so, your directors sought an Independent Expert's Report for the assistance of shareholders. Unfortunately, because of the assumptions made, the Report possibly confused rather than clarified for shareholders the realisable value of the assets of the company.

Uninformed Press Speculation

There has been uninformed press comment as to the value of the company's assets. The net cash on hand of \$243.42m has been verified by the Independent Expert and is detailed in the Independent Expert's Report. The company's only other asset is its mortgage book. The press commentators can therefore only be referring to their valuation of the company's mortgage book. Whilst any valuation is subjective, it is difficult to conceive how the press could arrive at a valuation of the company's mortgage book substantially different from the company's valuation.

The press has also stated that a number of parties, including the ex-CEO of Babcock & Brown and the four major Australian banks, were keen to purchase the company or its assets. The company has received no approach from any person. Your directors would welcome such an approach. Your directors will provide full access to its books and records and will provide all reasonable assistance to any genuine interested party. Your directors will seriously consider any cash offer that would realise for shareholders an amount in excess of \$0.88 per share. As a shareholder, I also would welcome such an approach.

Meeting Confusion

There has been some confusion in the press and in comments being made by some analysts about the purpose of the proposed Extraordinary General Meetings of shareholders to be held on 28 April 2011. Under Section 257C of the Corporations Act 2001, a company must seek shareholder approval for any off-market Buy-Back Offer to purchase more than 10% of the issued capital of the company.

The purpose of the meeting is to seek shareholder approval for the company to make the proposed Equal Access Buy-Back Offer to shareholders. A shareholder approving the offer is under no obligation to subsequently participate in that offer. It would appear to be advantageous to all shareholders to approve the offer.

Whether shareholders wish to subsequently participate in the Buy-Back offer will depend, amongst other things, on their tax position, on their view as to ultimate value of the company and their view as to how long they are prepared to wait to realise that value.

Shareholders will recall that before the Buy-Back offer was announced, the company's shares were trading at a VWAP of \$0.696.

On Friday 8 April 2011, the company received a notice from shareholders holding over 5% of the company's capital, requiring the company to call a meeting of shareholders within two months of that date. The company will comply with that requisition. The date of that meeting has not yet been determined but is likely to be early June 2011. The requisitionists have advised that, at that meeting, they intend to propose that two of the present directors of the company be removed and be replaced by three directors proposed by them. Directors will keep shareholders informed and will advise shareholders as soon as they have further information.

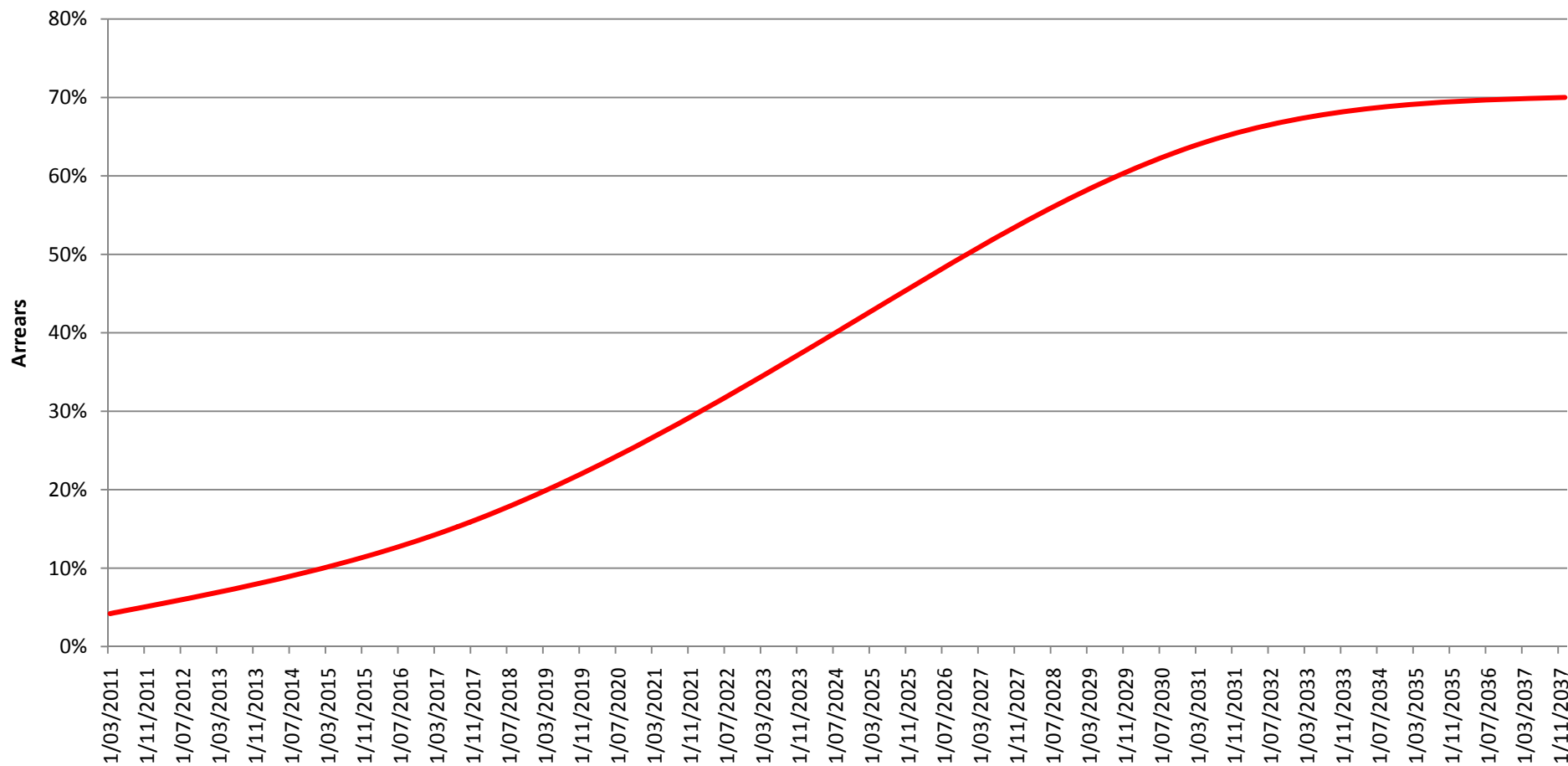
Yours faithfully

John Kinghorn
Chairman

Further media enquiries

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Expected Arrears Loans as a Percentage of the Loan Book



Assumptions

- (1) constant economic conditions
- (2) continuation of current bank lending practices