

PYNE GOULD CORPORATION LIMITED

INTERIM REPORT

TO 31 DECEMBER 2010



Pyne Gould Corporation



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HALF-YEAR SUMMARY

MILESTONES

- Delivery of the strategic 'Heartland' merger between PGC's wholly owned subsidiary MARAC, and CBS Canterbury and Southern Cross Building Society, to form Combined Building Society.
- An 'investment grade' credit rating obtained for the merged Heartland entity.
- A proposed solution for PGC's PGG Wrightson holding.
- Sound underlying performance from MARAC.
- Payment during the period of a special dividend of 1.5c per share relating to the prior year's result.
- PGC restructured to prepare it for the next stage of its evolution into two listed companies: one focused on banking¹ services (Building Society Holdings Limited or "BSHL"); and the other on wealth and capital management ("Perpetual Group").

KEY FINANCIAL RESULTS

	This Period	Corresponding Period
Net operating profit / (loss)	(\$7.4m)	\$12.6m
Net profit / (loss) after tax	(\$37.2m)	\$10.1m
Total assets	\$1,486.0m	\$1,554.3m
Shareholders' funds	\$430.9m	\$454.4m

¹ None of PGC, BSHL, Combined Building Society or MARAC are a registered bank.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT



Bruce Irvine
Chairman



Jeff Greenslade
Chief Executive Officer

The six months to 31 December 2010 was a period of progress for Pyne Gould Corporation (“PGC”) in delivering on its strategic goals and restructuring the Company to prepare it for the next stage of its evolution into two listed companies: one focused on banking¹ services (Building Society Holdings Limited or “BSHL”); and the other on wealth and capital management (“Perpetual Group”). Achievements included delivery of the strategic ‘Heartland’ merger, obtaining an ‘investment grade’ credit rating for the merged Heartland entity (Combined Building Society) and finding a solution for the PGG Wrightson (“PGW”) holding. Also notable was the sound underlying performance from MARAC along with the payment during the period of a special dividend of 1.5c per share relating to the prior year’s result.

INTERIM FINANCIAL PERFORMANCE

In the six month period under review PGC reported net operating income of \$43.2 million, down from \$49.5 million in the corresponding period in 2009. The underlying operating income was broadly in line with the corresponding period in 2009 when accounting for one-off income of \$5.1 million from the sale in 2009 of property and a fee from Agria (Singapore) Pte (“Agria”) for the termination of the shareholders agreement with Rural Portfolio Investments.

The operating income was underpinned by a solid performance from MARAC, reporting a net operating income of \$31.3 million which was in line with the corresponding period in 2009 of \$32.2 million. Encouragingly, MARAC’s operating income was achieved from higher quality earnings from its core consumer and commercial lending activities as it exited the higher-yielding, yet riskier, commercial property lending market.

A series of one-off costs relating to the restructuring and repositioning of PGC saw it report a net loss after tax of \$37.2 million for the period under review. This compares to a net profit after tax of \$10.1 million for the corresponding period in 2009.

The principal contributor to the loss was the previously foreshadowed \$30.3 million non-cash write down of PGC’s 18.3% holding in PGW, after PGC agreed to accept Agria’s partial takeover offer in respect of all of its holding in PGW (that offer being at 60c per share). PGC had previously equity accounted this investment at 82c per share as it has been (until recently) a long term strategic investment for PGC.

The other contributing factors to the bottom line loss included:

- An increase in costs of \$9.1 million (\$33.5 million compared to \$24.4 million in the corresponding period in 2009). This was mainly due to an additional \$5.1 million of legal and professional fees for the merger and restructuring across the group, increased property management costs of \$1.0 million for the Property Management group, and investment in staff of \$0.7 million.
- An increase in total impairments of \$4.4 million (\$17.0 million compared to \$12.6 million in the corresponding period in 2009). Included within the \$17.0 million were property impairments totalling \$12.7 million (up from \$6.9 million in the corresponding period in 2009) reflecting continuing pressure in the sector. MARAC total impairments were \$6.1 million and RECL total impairments were \$10.9 million.
- A \$1.8 million fall (\$1.1 million loss compared to \$0.7 million profit in the corresponding period in 2009) in PGC’s share of equity accounted earnings from PGW.

Whilst the transition to prepare the Company for the next stage of its evolution has been painful, particularly from an accounting point of view, PGC is now well positioned to return substantial value to shareholders and grow the remaining business.

MERGER OF MARAC

A highlight was the complex but highly successful merger of PGC’s wholly owned subsidiary MARAC, with CBS Canterbury and Southern Cross Building Society, to form

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Combined Building Society, the Heartland strategy. This was a transaction which on completion in early January 2011 saw Standard & Poor's assign an investment grade credit rating to that merged entity. Given the importance of MARAC to the Company's business, the successful delivery of this merger was a key strategic outcome. Combined Building Society, which now includes MARAC, is well positioned to drive growth through servicing the banking¹ needs of Heartland New Zealanders.

The merger has resulted in PGC owning a 72% shareholding in the new merged entity's parent holding company, BSHL, which listed on the NZX under the ticker BSH, on 1 February 2011. It remains the intention to distribute the shareholding in BSHL to PGC shareholders should the Agria offer proceed so that you will become direct owners of BSHL.

It is also important to note that a critical part of this merger process was the deliberate decision to transfer a material portion of the residual real estate exposure of the MARAC book to PGC through a special purpose property vehicle (Real Estate Credit Limited or "RECL") to improve the asset mix and quality of the assets that now form part of Combined Building Society. PGC has the appropriate skills and resources to realise value from these impaired assets, leaving Combined Building Society to focus on positive growth opportunities in its long-term core markets.

DIVIDEND

Payment of a special 1.5c per share dividend was made in December 2010 relating to the prior financial year ending 30 June 2010.

OPERATIONAL RESULTS

MARAC

MARAC delivered a performance that was in line with the same period a year ago, reporting a net profit after tax of \$5.1 million. This result also included one-off merger costs of \$2.2 million and an increase in costs associated with extended participation in the Crown Guarantee Scheme of \$1.0 million.

At the operating level, MARAC's core business of consumer and commercial lending performed well. Whilst the consumer division tracked ahead of the prior period on the back of increased market share in motor vehicles, the commercial division remained steady in what was a subdued market.

Net operating income for the period was \$31.4 million which was in line with the corresponding period in 2009. Pleasingly, a \$2.2 million improvement in the consumer book over the corresponding period in 2009 was recorded, which offset the impact of a drop in income from high-yielding property lending as the company managed down its exposure to this more risky sector.

Total impairments were \$6.1 million after receiving a \$7.6 million benefit from the RECL Management Agreement.

The period under review was a significant transitional one for MARAC, maintaining operational performance whilst at the same time successfully executing a merger which PGC believes will benefit all stakeholders in the business.

This is the last time MARAC's results will be reported separately as part of the PGC group. In the future MARAC's results will be reported as part of Combined Building Society.

Perpetual and Torchlight

This division is comprised of:

- **Perpetual** (including Perpetual Portfolio Management, Perpetual Asset Management and Perpetual Trust), which offers integrated wealth management, trust and estate services to mainstream clients across the New Zealand market.
- **Torchlight**, which focuses on providing proprietary funds management to high net worth investors and institutions across Australasia.
- **Property Group** (including Real Estate Credit Limited), which owns (and is managing and realising) the ex-MARAC property portfolio transferred to it in 2009; and under the RECL Management Agreement is responsible for managing the remaining MARAC property loan portfolio.

For the period under review, the result for the combined businesses is an after tax loss of \$7.7 million (compared to an after tax profit of \$2.4 million for the corresponding period in 2009). The \$10.1 million turnaround is principally a result of the impact of the RECL Management Agreement (discussed below) and one-off costs associated with restructuring. The majority of the turnaround includes (pre tax):

- Recognition of \$1.0 million property asset impairment expenditure by RECL on the ex-MARAC property portfolio previously transferred to it.
- \$7.6 million impairment for RECL under the RECL Management Agreement with MARAC.
- Recognition of approximately \$1.0 million property asset management and operating expenditure by RECL.
- One-off restructuring costs of approximately \$2.5 million as part of a large investment in people and systems to build the platform for future growth by Perpetual and Torchlight.

In the six month period ended 31 December 2010 Perpetual also acquired \$105 million of funds under advice and established nine new funds. Perpetual now has \$587 million in either funds under advice or management.

Perpetual recorded an after tax loss of \$0.4 million for the period.

Torchlight, comprising the Torchlight Fund and Equity Partners Infrastructure Company ("EPIC"), contributed \$2.9 million of annuity and transaction fee income during the period.

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The Property Group will manage out and realise legacy impaired assets from the ex-MARAC property loan book. Consistent with a focus on strong capital management, these surplus assets will be realised over time to maximise cash proceeds, and it is intended that the resulting proceeds will be invested into the business or returned to PGC shareholders tax efficiently.

It is prudent in the current environment to continue to impair all interest income which accrues on the ex-MARAC impaired property portfolio transferred to it. Accordingly, approximately \$2.3 million pre tax of interest impairments have been recorded. In addition, underlying principal and property revaluation impairments of \$1.0 million pre tax have been made.

On 5 January 2011 RECL, which is within the Property Group, entered into an arrangement with MARAC (the RECL Management Agreement) to manage the remaining non-core property loans of MARAC (that were not previously transferred to RECL) for a period of up to 5 years, and subject to the limited recourse arrangements assume risk of loss on those loans for that period. See page 6 for further details.

PGG Wrightson

PGC expected the contribution to its earnings from its investment in PGW to be flat at the half year, however, given PGW's earnings downgrade on 17 December 2010, PGC's share of PGW's loss was \$1.1 million.

PGC BUSINESS GOING FORWARD

As mentioned above, it remains the intention to distribute the 72% shareholding in BSHL to PGC shareholders should the Agria offer proceed so that you will become direct owners of BSHL. Once the shares are distributed to PGC shareholders it is expected that BSHL will qualify for NZX50 indexation and will therefore attract a broader range of investors. Information about this will be sent to you in due course.

Following the above distribution, MARAC will no longer be part of the PGC group.

The intention is also to dispose of the holding in PGW.

Once these processes have been completed the residual future focus of PGC (the "Perpetual Group") will be on the three activities referred to above under Perpetual, Torchlight and the Property Group.

The completion of the distribution of BSHL shares and disposal of the holding in PGW will also signal a change in the board of PGC – with Bruce Irvine and Jeff Greenslade stepping down from their respective positions as Chairman (in the case of Bruce Irvine) and Executive Director and Chief Executive Officer (in the case of Jeff Greenslade). Bryan Mogridge will take over as Chairman of PGC with the other board members consisting of George Kerr, and further directors to be appointed (including an independent board member).

In addition, should the Agria offer proceed, based on an offer price of 60c per share, PGC will receive a capital return of a minimum of approximately \$32 million (if all other PGW shareholders accept the offer, with the result that the number of shares acquired from PGC are scaled) or a maximum of \$83.2 million (if all of the shares held by PGC are sold into a successful offer). PGC's intention with respect to the cash proceeds from the offer (together with any remaining PGW shares, should scaling apply) is to:

- fund repayment of the Promisory Note owing to MARAC;
- provide working capital and expenses for the ongoing PGC businesses; and
- the balance will be distributed to PGC shareholders or used to provide equity assistance to BSHL, if required.

In conclusion PGC has made significant strides in delivering on the goals it set when it went to shareholders to raise capital at the end of 2009. The ambition to develop a banking¹ operation to serve Heartland New Zealanders is now well developed with the merger between MARAC and the two building societies completed to form Combined Building Society. This led to the merged entity being promptly granted an investment grade credit rating, which is a pre-requisite for banking¹ registration – an application to the Reserve Bank is intended to be by made Combined Building Society in the second half of 2011.

CANTERBURY EARTHQUAKE

At the time of writing this report, Christchurch was struck by the devastating earthquake. Tragically, we lost four Combined Building Society staff (from the MARAC division) in the collapse of the PGC building on Cambridge Terrace and ten staff from Perpetual Trust. A number of other PGC staff also working in this building were seriously injured. Our thoughts and condolences are with affected staff and their families and the people of Christchurch. Our priority has been supporting and helping our staff and their families, and our customers who have been affected by this tragedy.

From an operational perspective, the earthquake has created challenges, however full back-up systems and records were in place, and we are operating business as normal with the support of our other offices located nationwide.

THANK YOU

Finally, we would like to thank you, our shareholders, for your support through this period, and all of our staff, for all the hard work that they have put in to restructuring PGC so that it is well positioned to generate future value for shareholders.



Bruce Irvine
Chairman



Jeff Greenslade
Chief Executive Officer

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RECL Management Agreement

Property Group (which includes Real Estate Credit Limited or "RECL") owns the ex-MARAC property portfolio transferred to it in 2009. Under the RECL Management Agreement, RECL is also responsible for managing and realising the remaining MARAC property loan portfolio.

The RECL Management Agreement with MARAC was entered into on 5 January 2011. Key points are:

- RECL manages the remaining non-core property loans of MARAC for 5 years;
- RECL assumes risk of loss on those loans with payment for loss at the end of that 5 years (with limited rights on the part of MARAC to earlier payment);
- RECL's payment obligations are "limited in recourse" to security provided (which includes an \$11 million 5 year zero coupon bond, and \$22 million in security value of other assets (initially real estate or real estate loans);
- PGC is obliged to top up the security pool if there is a shortfall in the \$22 million of security value of other assets;
- An upfront fee was paid by MARAC to RECL of \$11 million (to be amortised over 5 years);
- The annual management fee is \$200k; and
- \$7.6 million of impairments were recognised by RECL under the RECL Management Agreement in the December 2010 financial statements.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of the Group as at 31 December 2010 and the financial performance and cash flows for the period ended on that date.

The directors consider that the interim financial statements of the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates, and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the interim financial statements with the Financial Reporting Act 1993.

The Board of Directors of Pyne Gould Corporation Limited authorised the interim financial statements set out on pages 8 to 27 for issue on 25 February 2011.

For and on behalf of the Board.



B R Irvine

Director



B W Mogridge

Director

25 February 2011

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2010

	Note	Unaudited 6 months Dec 2010 \$000	Unaudited 6 months Dec 2009 \$000	Audited 12 months Jun 2010 \$000
Interest income		68,118	79,194	152,135
Interest expense		40,501	50,507	89,763
Net interest income		27,617	28,687	62,372
Operating lease income		9,225	8,187	16,617
Operating lease expenses		5,755	5,379	10,037
Net operating lease income		3,470	2,808	6,580
Dividend income		-	341	1,365
Fee and other income		12,098	17,685	35,033
Net operating income		43,185	49,521	105,350
Selling and administration expenses	5	33,524	24,382	50,218
Impaired asset expense	6	17,011	12,584	31,830
Operating (loss) / profit		(7,350)	12,555	23,302
Write-down investment in associates - asset held for sale		(30,308)	-	-
Share of equity accounted investees' (loss) / profit		(1,046)	737	4,382
(Loss) / profit before income tax		(38,704)	13,292	27,684
Income tax (benefit) / expense		(1,535)	3,189	5,678
(Loss) / profit for the period		(37,169)	10,103	22,006
Other comprehensive income				
Cash flow hedges:				
Effective portion of changes in fair value, before tax		657	4,763	6,011
Income tax expense on the effective portion of changes in fair value		197	1,429	1,803
Effective portion of change in fair value, net of income tax		460	3,334	4,208
Share of associates' other comprehensive income, after tax	11	1,014	(1,279)	(1,818)
Total comprehensive (loss) / income for the period		(35,695)	12,158	24,396
All comprehensive income for the period is attributable to owners of the Company.				
Earnings per share from continuing operations				
Basic earnings per share	8	-5c	3c	4c
Diluted earnings per share	8	-5c	3c	4c

The notes on pages 13 to 27 are an integral part of these financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2010

	Note	Share Capital \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
December 2010 – Unaudited					
Balance at 1 July 2010		345,189	(1,990)	123,422	466,621
Total comprehensive income for the period					
Loss for the period		-	-	(37,169)	(37,169)
Other comprehensive income					
Share of associates' other comprehensive income, after tax	11	-	-	1,014	1,014
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	460	-	460
Total other comprehensive income		-	460	1,014	1,474
Total comprehensive income for the period		-	460	(36,155)	(35,695)
Transactions with owners, recorded directly in equity					
Dividends to shareholders		-	-	(11,316)	(11,316)
Dividend Reinvestment Plan	9	11,316	-	-	11,316
Total transactions with owners		11,316	-	(11,316)	-
Balance at 31 December 2010		356,505	(1,530)	75,951	430,926
December 2009 – Unaudited					
Balance at 1 July 2009		87,225	(6,198)	103,234	184,261
Total comprehensive income for the period					
Profit for the period		-	-	10,103	10,103
Other comprehensive income					
Share of associates' other comprehensive income, after tax		-	-	(1,279)	(1,279)
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	3,334	-	3,334
Total other comprehensive income		-	3,334	(1,279)	2,055
Total comprehensive income for the period		-	3,334	8,824	12,158
Transactions with owners, recorded directly in equity					
Capital raising proceeds		272,531	-	-	272,531
Transaction costs associated with capital raising		(14,567)	-	-	(14,567)
Total transactions with owners		257,964	-	-	257,964
Balance at 31 December 2009		345,189	(2,864)	112,058	454,383

The notes on pages 13 to 27 are an integral part of these financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2010

	Note	Share Capital \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
June 2010 – Audited					
Balance at 1 July 2009		87,225	(6,198)	103,234	184,261
Total comprehensive income for the period					
Profit for the period		-	-	22,006	22,006
Other comprehensive income					
Share of associates' other comprehensive income, after tax	11	-	-	(1,818)	(1,818)
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	4,208	-	4,208
Total other comprehensive income		-	4,208	(1,818)	2,390
Total comprehensive income for the period		-	4,208	20,188	24,396
Contributions by and distributions to owners					
Capital raising proceeds		272,531	-	-	272,531
Transaction costs associated with capital raising		(14,567)	-	-	(14,567)
Total transactions with owners		257,964	-	-	257,964
Balance at 30 June 2010		345,189	(1,990)	123,422	466,621

The notes on pages 13 to 27 are an integral part of these financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	Unaudited Dec 2010 \$000	Unaudited Dec 2009 \$000	Audited Jun 2010 \$000
Assets				
Cash and cash equivalents		85,145	102,657	98,610
Finance receivables	10	1,094,366	1,203,100	1,140,035
Operating lease vehicles		38,005	37,878	42,895
Investment property		65,256	-	41,838
Other assets		21,295	20,367	25,977
Investments		30,250	16,541	30,250
Deferred tax asset		20,828	27,769	23,978
Investment in associates	11	5,957	110,689	118,541
Asset held for sale	12	83,296	-	-
Investment in joint venture		2,217	-	2,124
Intangible assets	13	39,344	35,283	37,039
Total assets		1,485,959	1,554,284	1,561,287
Liabilities				
Borrowings	14	1,016,843	1,054,595	983,679
Other liabilities		38,190	45,306	110,987
Total liabilities		1,055,033	1,099,901	1,094,666
Equity				
Share capital	9	356,505	345,189	345,189
Retained earnings and reserves		74,421	109,194	121,432
Total equity		430,926	454,383	466,621
Total equity and liabilities		1,485,959	1,554,284	1,561,287

The notes on pages 13 to 27 are an integral part of these financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the period ended 31 December 2010

	Note	Unaudited 6 months Dec 2010 \$000	Unaudited 6 months Dec 2009 \$000	Audited 12 months Jun 2010 \$000
Cash flows from operating activities				
Interest and dividends received		61,680	68,003	135,391
Operating lease income received		7,377	7,491	14,604
Proceeds from sale of operating lease vehicles		9,621	5,996	12,377
Fees and other income received		18,698	13,926	14,467
Total cash provided from operating activities		97,376	95,416	176,839
Payments to suppliers and employees		30,079	23,250	39,264
Interest paid		39,739	51,613	91,084
Purchase of operating lease vehicles		14,869	11,913	20,014
Taxation paid		-	-	2,800
Total cash applied to operating activities		84,687	86,776	153,162
Net cash flows from operating activities	7	12,689	8,640	23,677
Cash flows from investing activities				
Proceeds from sale of property		-	7,775	7,775
Net decrease in finance receivables		-	6,008	80,201
Total cash provided from investing activities		-	13,783	87,976
Increase in investment in associates		1,115	33,074	36,096
Purchase of subsidiary		-	-	18,169
Net increase in finance receivables		54,434	-	-
Net increase in investments		-	15,499	20,199
Advance to staff share purchase schemes		-	-	5
Purchase of property, plant, equipment and intangible assets		3,859	8,746	1,374
Total cash applied to investing activities		59,408	57,319	75,843
Net cash flows (applied to)/ from investing activities		(59,408)	(43,536)	12,133
Cash flows from financing activities				
Net increase in borrowings		33,254	-	-
Increase in share capital		6,694	272,531	272,531
Total cash provided from financing activities		39,948	272,531	272,531
Transaction costs associated with capital raising		-	14,567	14,567
Dividends paid		6,694	-	-
Net decrease in borrowings		-	182,753	257,421
Total cash applied to financing activities		6,694	197,320	271,988
Net cash flows from financing activities		33,254	75,211	543
Net increase in cash held		(13,465)	40,315	36,353
Opening cash and cash equivalents balance		98,610	62,342	62,342
Cash balance on deconsolidation of subsidiary		-	-	(85)
Closing cash and cash equivalents balance		85,145	102,657	98,610

The notes on pages 13 to 27 are an integral part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

1 Reporting entity

The interim financial statements presented are the consolidated interim financial statements comprising Pyne Gould Corporation Limited (Company or Holding Company) and its subsidiaries, joint ventures and associates (Group).

All entities within the Group offer financial services. The Group operates and is predominantly domiciled in New Zealand. The registered office address is 233 Cambridge Terrace, Christchurch.

2 Basis of preparation

The financial statements presented here are for the following periods:

At 31 December 2010: 6-month period - unaudited

At 31 December 2009: 6-month period - unaudited

At 30 June 2010: 12-month period - audited

(a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and NZ IAS 34 Interim Financial Statements. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 30 June 2010. By complying with NZ IAS 34 the Group is also in compliance with IAS 34.

The Company and all entities within the Group are profit-oriented entities. The Company is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The interim financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

(b) Basis of measurement

These interim financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency

These interim financial statements are presented in New Zealand dollars, which is the Group's functional currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

(d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts. Actual results may differ from these judgements.

(e) Going concern

The interim financial statements have been prepared on a going concern basis after considering the Company's and Group's funding and liquidity position.

3 Significant accounting policies

(a) Investments in associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for by the Group using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated interim financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Dividends received from associates and jointly controlled entities are recorded in profit or loss. The Company accounts for associates at cost with dividends received recorded in profit or loss.

(b) Investments in subsidiary companies

Subsidiaries are entities controlled by the Group. Investments in subsidiary companies are recorded at cost by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

3 Significant accounting policies (continued)

(c) Interest

Interest income and expense are recognised using the effective interest method in profit or loss. The effective interest rate is established on initial recognition of the financial assets and liabilities, and is not revised subsequently. The calculation of the effective interest rate includes all yield-related fees and commissions paid or received that are an integral part of the effective interest rate.

Interest on the effective portion of a derivative designated as a cash flow hedge is initially recognised in the hedging reserve. It is released to profit or loss at the same time as the hedged item, or if the hedge relationship is subsequently deemed to be ineffective.

(d) Operating lease income and expense

Income from operating lease vehicles is apportioned over the term of the operating lease on a straight line basis.

Operating lease vehicles are depreciated on a straight line basis over their expected life after allowing for any residual values. The estimated lives of operating lease vehicles vary up to five years. Vehicles held for sale are not depreciated but are tested for impairment.

(e) Fee and commission income

Fee income that is integral to the effective interest rate of a financial asset or liability is included in the measurement of the effective interest rate. Other fee income is recognised as the related services are rendered.

Performance management fees are recognised when it is probable that they will be received and they can be reliably measured.

(f) Property, plant, equipment and depreciation

Land and buildings are recorded at cost less accumulated depreciation. Plant and equipment are recorded at cost less accumulated depreciation.

Property, plant and equipment other than land are depreciated on a straight line basis, at rates which will write off cost less estimated residual values over their estimated economic lives as follows:

Buildings	50 years
Plant and equipment	1-13 years

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid assets used in the day-to-day cash management of the Group. Cash and cash equivalents are carried at amortised cost in the Interim Statement of Financial Position.

(h) Tax

Income tax expense for the period comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised in respect of temporary differences between the financial reporting carrying amount of assets and liabilities and the amounts used for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

3 Significant accounting policies (continued)

(i) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to fluctuations in interest rates on variable rate borrowings. The financial instruments are subject to the risk that market values may change subsequent to their acquisition; however such changes would be offset by corresponding, but opposite, effects on the variable rate borrowings being hedged. Derivatives are initially valued at fair value and subsequently remeasured at fair value. Fair value movements of derivatives that are not designated in a qualifying hedge relationship, are recognised in profit or loss.

Fair value movements of the effective portion of a qualifying hedge derivative, are recognised directly in other comprehensive income and held in the hedging reserve in equity. The amount recognised in equity is transferred to profit or loss in the same period as the hedged cash flow affects profit or loss, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative are recognised immediately in profit or loss. Fair value movements of a derivative designated as a fair value hedge are recognised directly in profit or loss together with the hedged item.

(j) Investment property

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both). Investment property is initially recognised at its fair value, with subsequent changes in fair value recognised in profit or loss.

Fair values are supported by independent valuations or other similar external evidence, adjusted for changes in market conditions and the time since the last valuation.

(k) Finance receivables

Finance receivables are initially recognised at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

(l) Investments

Investments consist of equity investments that do not have a quoted market price in an active market.

Investments are carried at fair value, with fair value changes recognised in other comprehensive income, unless the Group has determined that the fair value cannot be reliably determined.

If the fair value cannot be reliably determined, the investments are carried at cost. The Group will consider whether objective evidence exists that an impairment loss has been incurred on these assets, and provide for impairment losses in profit or loss as necessary.

(m) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(n) Financial assets and liabilities

Classification

Financial assets and liabilities are classified in the following accounting categories:

Financial assets/liabilities	Accounting category
Finance receivables	Loans and receivables
Other investments	Available for sale
Other financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading (or qualifying hedges as described above in Note 3 (i))

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

3 Significant accounting policies (continued)

(n) Financial assets and liabilities (continued)

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

(o) Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable net assets and contingent liabilities of the subsidiary. When the fair value of the identifiable net assets and contingent liabilities exceeds the cost of an acquisition, the resulting discount is recognised immediately in profit for the period. Goodwill is tested for impairment at least annually, and is carried at cost less accumulated impairment losses.

Identifiable intangible assets

Identifiable intangible assets include software, brands, licences, management contracts and advisor books. Identifiable intangible assets are recognised only where they have been acquired from a third party (either separately or as part of a business combination). They are initially recognised at cost, and subsequently tested for impairment and amortised over their useful lives. The estimated useful lives of the Group's intangible assets have been assessed as follows:

Software	3-4 years
Licences	5 years
Statutory right and brand	Indefinite useful life
Management contracts	30 years
Advisor books	10 years

(p) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses. Depreciation is on a straight line basis, at rates which will write the vehicles down to residual value over their economic lives of up to five years.

(q) Impaired assets and past due assets

Impaired assets are those loans for which the Group has evidence that it will incur a loss and will be unable to collect all principal and interest due, according to the contractual terms of the loan.

The term 'collectively impaired asset' refers to an asset where an event has occurred which past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its expected losses.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

3 Significant accounting policies (continued)

(q) Impaired assets and past due assets (continued)

Restructured assets are assets where the Group expects to recover all amounts owing although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract, and the amended terms are not comparable with similar new lending. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

(r) Employee benefits

Annual leave entitlements are accrued at amounts expected to be paid. Long-service leave is accrued by calculating the probable value of future entitlements. Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

(s) Share schemes

The Company and the Group provide benefits to staff in the form of share-based payments, whereby staff provide services in exchange for shares. Currently the following schemes are in place.

General staff share purchase scheme

Under this scheme the Company makes available an interest-free loan to all staff to enable them to purchase Company shares, with the loan repayable over three years. The shares are issued at a price agreed by the Directors and held in trust until the end of the loan term and the loan is repaid. As the fair value of the shares approximates the issue price, no expense is recognised.

Discretionary share schemes

Under these schemes the Company undertakes to transfer a specific number of shares to various key staff of the Group at a specified future date on that staff member achieving certain criteria. The shares are issued at a price agreed by the Directors and held in trust until all the conditions are satisfied. The expected benefit is expensed over the period over which any conditions are required to be met.

(t) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(u) Borrowings

Bank borrowings and debenture stock are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(v) Financial guarantees

Financial guarantees (underwrites) written are accounted for as insurance contracts. The guarantee payment received is initially capitalised and is subsequently amortised on a straight line basis over the life of the guarantee. A liability is recognised when a payment under the guarantee becomes payable.

(w) GST

As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

3 Significant accounting policies (continued)

(x) Statement of cash flows

The Interim Statement of Cash Flows has been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure. Cash and cash equivalents consist of cash and liquid assets used in the day-to-day cash management of the Group.

(y) Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a gain from a bargain purchase.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(z) Comparative balances

Where necessary comparative amounts have been reclassified so that the information corresponds to the classification presented for the current period.

(aa) Changes in accounting policies

There have been no material changes in accounting policies in the current period.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

3 Significant accounting policies (continued)

(ab) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended 31 December 2010, and have not been applied in preparing these interim financial statements. The new standards identified which may have an effect on the financial statements of the Group going forward are:

Standard and description	Effective for annual periods beginning on or after	Expected to be initially applied in year ending
NZ IAS 1 Presentation of Financial Statements, which clarifies that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, either in the statement of changes in equity or in the notes.	1 Jan 2011	30 June 2012
NZ IAS 34 Interim Financial Reporting, which adds examples to the list of events or transactions that require disclosure under NZ IAS 34, and removes references to materiality.	1 Jan 2011	30 June 2012
NZ IFRS 7 Financial Instruments: Disclosures, which adds an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.	1 Jan 2011	30 June 2012
NZ IAS 12 Income Taxes, which introduces a presumption that an investment property is recovered entirely through sale.	1 Jan 2012	30 June 2013
NZ IFRS 7 Financial Instruments: Disclosures, which adds additional disclosures about the transfer of financial assets.	1 July 2011	30 June 2012
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets.	1 Jan 2013	30 June 2014

These standards are not expected to have a significant impact on the financial statements of the Group. The Group currently has no plans to early adopt these standards.

4 Segmental analysis

Segment information is presented in respect of the Group's operating segments, which are those used for the Group's management and internal reporting structure.

Operating segments

The Group operates predominantly within New Zealand and comprises the following main operating segments:

Financial services	Motor vehicle, commercial plant, equipment and business, rural, marine and leisure financing, and insurance services.
Trustee services	Perpetual Wealth Management comprising advice, asset management and the provision of trustee services.
Portfolio asset management	Torchlight Investment Group, a specialist opportunity and situations manager including real estate and loan assets recovery.
Rural services	Rural and horticultural supplies, livestock sales, irrigation and pumping, seeds and nutrition, real estate, funds management and rural finance.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

4 Segmental analysis (continued)

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
(Loss) / profit for the period			
Financial services	3,687	5,112	12,923
Trustee services	(398)	1,267	2,577
Portfolio asset management	(7,340)	1,105	1,978
Rural services	(31,389)	377	3,898
Unallocated	(1,729)	2,242	630
Total Group (loss) / profit for the period	(37,169)	10,103	22,006
Net operating income and share of equity accounted profit			
Financial services	29,440	31,500	67,174
Trustee services	8,129	7,711	15,834
Portfolio asset management	5,604	5,241	16,777
Rural services	(1,081)	377	4,258
Unallocated	47	5,429	5,689
Total Group net operating income and equity accounted profit	42,139	50,258	109,732
Total impaired asset expense			
Financial services	6,094	10,850	23,916
Portfolio asset management	10,917	1,734	7,914
Total Group impaired asset expense	17,011	12,584	31,830
Total assets			
Financial services	1,245,636	1,274,229	1,275,351
Trustee services	4,708	3,435	4,515
Portfolio asset management	125,766	131,085	137,512
Rural services	83,296	110,689	111,231
Unallocated	26,553	34,846	32,678
Total Group assets	1,485,959	1,554,284	1,561,287

5 Selling and administration expenses

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
Personnel expenses	15,144	13,506	26,658
Superannuation	185	232	384
Directors' fees	350	322	677
Audit fees	118	141	491
Audit-related fees	116	44	330
Depreciation - property	-	49	49
Depreciation - plant and equipment	309	185	667
Amortisation expense	718	430	903
Loss on disposal of assets	-	3	3
Operating lease expense as a lessee	1,027	668	1,824
Legal and professional fees	7,263	2,165	4,696
Other operating expenses	8,294	6,637	13,536
Total selling and administration expenses	33,524	24,382	50,218

Audit-related fees include professional fees in connection with trustee reporting, due diligence, review of prospectus documentation for accounting advice and review work completed.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

6 Impaired asset expense

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
Property finance receivables individual impairment	13,296	1,227	16,947
Property finance receivables collective impairment	(945)	5,747	4,532
Other assets individually assessed for impairment	4,378	3,657	6,662
Assets assessed for impairment on a collective basis	282	1,953	3,689
Total impaired asset expense	17,011	12,584	31,830

7 Reconciliation of (loss) / profit after tax to net cash flows from operating activities

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
(Loss) / profit for the period	(37,169)	10,103	22,006
Add / (less) non-cash items:			
Depreciation expense	309	234	716
Amortisation expense	718	430	903
Impaired asset expense	17,011	12,584	31,830
Net write-down of investment in associates	30,308	-	360
Share of equity accounted investees' loss / (profit)	1,046	(737)	(4,382)
Deferred tax	3,150	93	6,284
Accruals, capitalised interest and prepaid items	(6,323)	(7,285)	(23,971)
Total non-cash items	46,219	5,319	11,740
Add / (less) movements in working capital items:			
Operating lease vehicles	4,885	(1,669)	(6,686)
Other assets	5,192	(6,584)	(3,834)
Current tax	(4,217)	2,615	1,724
Other liabilities	(2,221)	2,953	2,880
Total movements in working capital items	3,639	(2,685)	(5,916)
Add / (less) items classified as investing activities:			
Gain on sale of assets and investments	-	(4,097)	(4,153)
Total items classified as investing activities	-	(4,097)	(4,153)
Net cash flows from operating activities	12,689	8,640	23,677

8 Earnings per share

The calculation of basic and diluted earnings per share at 31 December 2010 is based on the loss for the period of \$37,169,000 (December 2009: profit of \$10,103,000; June 2010: profit of \$22,006,000), and a weighted average number of shares on issue of 780,308,062 (December 2009: 323,602,000; June 2010: 547,946,000).

The earnings per share calculated based on the closing number of shares (refer note 9) rather than the weighted average number of shares, results in basic and diluted earnings per share of -5c at 31 December 2010 (December 2009: 1c; June 2010: 3c).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

9 Share capital

	GROUP		
	Dec 2010 000	Dec 2009 000	Jun 2010 000
Number of issued shares			
Opening balance	773,522	98,597	98,597
Shares issued during the period	-	674,925	674,925
Dividend Reinvestment Plan	30,419	-	-
Closing balance	803,941	773,522	773,522

The shares have equal voting rights and rights to dividends and distributions and do not have a par value.

During the period ended 31 December 2010, the Company issued 30,418,732 new shares at 37.2 cents per share as part of the Dividend Reinvestment Plan.

During the period ended December 2009, the Company issued 591,577,740 new shares at 40 cents per share to existing shareholders, placed 69,627,907 new shares at 43 cents per share to institutions and investors, and issued 13,719,904 shares at 43 cents per share to existing shareholders under a Share Purchase Plan. The total new capital raised was \$272,531,000.

10 Finance receivables

	Notes	GROUP		
		Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
Gross finance receivables		1,132,131	1,223,436	1,173,915
Less allowance for impairment	6	(37,765)	(20,336)	(33,880)
Total finance receivables		1,094,366	1,203,100	1,140,035

11 Investment in associates

	Notes	GROUP		
		Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
Carrying amount at beginning of period		118,541	78,517	78,517
Additional investment in associates		1,115	33,074	38,004
Decrease in investment in associates		-	(360)	(360)
Equity accounted earnings of associates before tax		(1,023)	697	6,166
Share of associates' income tax benefit / (expense)		(116)	40	(1,908)
Share of associates' other comprehensive income		1,014	(1,279)	(1,818)
Foreign currency translation		30	-	(60)
Reclassify to asset held for sale	12	(113,604)	-	-
Carrying amount at end of period		5,957	110,689	118,541
Goodwill included in carrying amount of associates		5,233	49,977	54,069
Total assets of associates		4,800	1,590,125	1,531,491
Total liabilities of associates		2,514	993,812	893,581
Total income of associates		650,965	583,252	1,151,082
Total net profit / (loss) after tax of associates		(6,076)	4,059	23,304

Van Eyk Research Limited

In May 2010, the Group purchased a 31.9% shareholding in Van Eyk Research Limited, an investment research and funds management company based in Australia. A further 6.2% was purchased in September 2010 increasing the total investment to 38.1%, for a cost of AUD\$850,000 (NZD \$1,089,000). The purchase price included AUD\$1.6 million (NZD \$1.8 million) which is payable over 18 months and has been included in other liabilities. The balance included in other liabilities at 31 December 2010 is \$1.4m.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

11 Investment in associates (continued)

PGG Wrightson Limited (PGGW)

On 23 December 2010, the Company signed a Lock-Up Deed with Agria (Singapore) Pte Limited (Agria), by which the Company agreed (subject to the conditions detailed in the Lock-Up Deed) to sell its shares into a partial takeover offer proposed to be made by Agria for the acquisition of an additional 38.3% of the shares in PGGW at 60 cents per share. As the offer is a 'partial takeover offer', the acceptance of the Company's shares under the offer will be subject to scaling, which may result in the Company continuing to own some shares following the closing of the offer.

Given the Company's intention to sell its PGGW shares as at 31 December 2010, this investment has been classified as held for sale and written down to 60 cents per share.

During the year ended 30 June 2010, the Company participated in the PGGW capital raising, contributing \$33.1 million of new capital. The associate also made a private placement which resulted in the Company's investment being diluted to 18.3% (loss on dilution \$360,000).

12 Asset held for sale

The carrying value of the Company's investment in PGGW was \$113.6 million as at 31 December 2010, based on equity accounted earnings. However upon initial classification as held for sale, this investment has been written down to \$83.3 million being the Company's best estimate of the fair value less costs to sell. This has resulted in a \$30.3 million impairment charge which is recognised in profit or loss for the period.

13 Intangible assets

	GROUP		
	Dec 2010	Dec 2009	Jun 2010
	\$000	\$000	\$000
Licence	1,700	-	1,900
Computer software	1,433	810	901
Statutory right & brands	12,901	12,901	12,901
Goodwill	13,547	13,547	13,547
Advisor books	2,108	-	-
Management contracts	7,655	8,025	7,790
Total intangible assets net book value	39,344	35,283	37,039

During the period ended 31 December 2010, Perpetual Portfolio Management Limited acquired two advisor books for \$2.1 million.

Impairment of intangible assets

Statutory right and brands are considered to have an indefinite life. The statutory right and brands of \$3.4 million is allocated to Perpetual Trust Limited, which is included in the Trustee services segment. Brands of \$9.5 million are allocated to MARAC Financial Services Limited (MFSL) consolidated group which is included in the Financial services segment. During the period both the statutory right and the brands have continued to be used in the Group's business and the Group invested further in them to maintain their value.

Goodwill of \$2.4 million was allocated to Perpetual Group Limited (PGL) and \$11.1 million was allocated to the MFSL consolidated group. Each of these subsidiaries is considered to be a cash-generating unit for the purpose of impairment testing. The operations of MFSL are included in the Financial Services segment and PGL is included in the Portfolio asset management segment.

Impairment testing of goodwill and the statutory right and brands were performed by comparing the recoverable value of the cash-generating unit to which the intangible asset is allocated, with the current carrying amount of its net assets, including intangible assets.

The recoverable amount was determined based on its value in use. No impairment losses were recognised against the carrying amount of the statutory right, brands or goodwill for the period ended 31 December 2010 (December 2009: nil; June 2010: nil).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

14 Borrowings

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
Bank borrowings sourced from New Zealand	12,187	8,300	5,000
Debenture stock sourced from New Zealand	826,868	864,905	796,435
Debenture stock sourced from overseas	28,510	32,077	32,946
Securitised borrowings sourced from New Zealand	149,278	149,313	149,298
Total borrowings	1,016,843	1,054,595	983,679

The Group has bank facilities totalling \$408.3 million (December 2009: \$352.5 million; June 2010: \$353.3 million). There is no significant concentration of debenture funding to any particular region within New Zealand.

MARAC Finance Limited's bank borrowings and debenture stock borrowings (which include secured bonds) rank equally and are secured over MARAC Finance Limited's non-securitised assets in terms of its Trust Deed dated 9 March 1984 in favour of The New Zealand Guardian Trust Company Limited as trustee for the stockholders. Other bank borrowings are secured by a general security interest over the assets of the Holding Company and specific subsidiary companies.

Investors in MARAC ABCP Trust 1 rank equally with each other and are secured over the securitised assets of the Trust.

15 Special purpose entities

MARAC PIE Fund and MARAC Retirement Bonds Superannuation Fund

The Group controls the operations of MARAC PIE Fund, a portfolio investment fund that invests in MARAC Finance Limited debenture stock. The Group controlled the operations of MARAC Retirement Bonds Superannuation Fund, a superannuation scheme that invested in MARAC Finance Limited debenture stock. The Group wound up the Retirement Bonds Superannuation Fund with effect from 31 October 2010.

Investments by these funds are represented in debenture stock borrowings as follows.

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
MARAC Retirement Bonds Superannuation Fund	-	9,857	5,922
MARAC PIE Fund	8,148	11,870	8,763

MARAC ABCP Trust 1 Securitisation

The Group has securitised a pool of receivables comprising commercial, motor vehicle and marine loans to the Trust. The Group substantially retains the credit risks and rewards associated with the securitised assets, and continues to recognise these assets and associated borrowings on the Statement of Financial Position. Despite this presentation in the financial statements, the loans sold to the Trust are set aside for the benefit of investors in the Trust.

	GROUP		
	Dec 2010 \$000	Dec 2009 \$000	Jun 2010 \$000
Bank balance - Securitised	4,487	6,624	3,608
Finance receivables - Securitised	161,255	157,946	160,853
Borrowings - Securitised	(149,278)	(149,313)	(149,298)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

16 Related party transactions

(a) Transactions with related parties

Included within finance receivables is a \$673,000 (December 2009: nil; June 2010: \$633,000) loan to a related party, PGG Wrightson Seeds Limited.

The Group provided administrative assistance to MARAC Insurance Limited, receiving \$39,000 (December 2009: nil; June 2010: nil) in management fee income and received insurance commission from MARAC Insurance Limited of \$262,000 (December 2009: \$235,000, June 2010: \$524,000).

As at 31 December 2010, MARAC Insurance Limited had \$2,596,000 (December 2009: nil; June 2010: \$2,524,000) invested in the Group's debenture stock; this balance is included in other liabilities. Interest expense of \$262,000 was paid to MARAC Insurance Limited during the period.

All transactions were conducted on normal commercial terms and conditions.

(b) Transactions with key management personnel

Key management personnel, being directors of the Group and staff reporting directly to the Managing Director, and the immediate relatives of key management personnel transacted with the Group during the period as follows.

	GROUP		
	Dec 2010	Dec 2009	Jun 2010
	\$000	\$000	\$000
Debenture investing:			
Maximum balance	872	3,510	5,096
Closing balance	787	2,511	721
Key management personnel compensation:			
Short-term employee benefits	2,312	2,037	5,618
Share-based payments	37	36	157
Total	2,349	2,073	5,775

17 Staff share ownership arrangements

General staff share purchase scheme

During the period there were no shares transferred by the Trustees to the Trust in respect of the general staff share scheme (December 2009: 3,600; June 2010: 3,600). At 31 December 2010 the Trustees held 22,215 fully paid up shares (December 2009: 22,215; June 2010: 22,215). The fair value of these shares is \$8,664 (December 2009: \$10,663; June 2010: \$8,886).

Discretionary staff share schemes

During the period the Trustees transferred 36,436 shares to participants on them achieving the conditions and was issued with 3,073 shares from participating in the Company's Dividend Reinvestment Plan. At 31 December 2010 the Trustees held 103,082 shares on behalf of staff (December 2009: 285,460; June 2010: 136,445).

Directors' retirement share scheme

During the period, the Trustees paid for an additional 7,170 new shares and were issued with 8,251 shares from participating in the Company's Dividend Reinvestment Plan. At 31 December 2010 the Trustees held 229,215 shares on behalf of Directors (December 2009: 352,968; June 2010: 213,794).

18 Contingent liabilities

	GROUP		
	Dec 2010	Dec 2009	Jun 2010
	\$000	\$000	\$000
Letters of credit, guarantees and performance bonds	2,743	3,296	6,772
Commitments to further investment	750	-	750
Capital commitments	-	-	227
Total contingent liabilities	3,493	3,296	7,749

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

19 Subsequent events

Business acquisition

On 5 January 2011:

- MARAC Financial Services Limited, a wholly owned subsidiary of PGC, exchanged its shareholding in MARAC and its investment in MARAC JV Holdings for further shares in Building Society Holdings Limited (BSHL). The agreed consideration of \$206,769,000 converted to the issue of 3.94 fully paid shares in BSHL in exchange for each MARAC share.
- Combined Building Society, a wholly owned subsidiary of BSHL, acquired all of the assets and engagements of SCBS and CBS for the total agreed consideration of \$79,574,000.
- Combined Building Society acquired all of the shares in MARAC through BSHL transferring its shareholding in MARAC to Combined Building Society (through BSHL No. 1 Limited as intermediate holder).

<i>Fair value of consideration transferred at acquisition date</i>	GROUP
	05 Jan 11
	\$000

Shares issued, at fair value	79,574
Consideration transferred	79,574

<i>Identifiable assets acquired and liabilities assumed</i>	GROUP
	Fair value
	05 Jan 11
	\$000

Assets	
Cash and cash equivalents	207,126
Investments	21,540
Finance receivables	669,689
Other assets	12,075
Intangible assets	155
Total assets	910,585

Liabilities	
Borrowings	841,335
Other liabilities	9,817
Contingent liabilities	-
Total liabilities	851,152

Total net identifiable assets	59,433
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Total consideration transferred	79,574
Fair value of identifiable net assets	59,433

Goodwill	20,141
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Goodwill on acquisition of \$20.1 million has arisen due to expected benefits of the newly formed financial services group. Combined Building Society has the benefits of scale and scope and is expected to be value enhancing for all shareholders and offers a better outcome than could be expected as standalone entities.

Goodwill of \$20.1 million has not been allocated to individual cash-generating units as at 5 January 2011 as the adjustments in respect of the acquisition have only been provisionally determined as at the balance sheet date. The Group expects to complete the allocation during the 2011 calendar year.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

19 Subsequent events (continued)

Impact of merger

As a result of the merger, the Company will recognise the disposal of 27.79% of its carrying value of MARAC, in exchange for 72.21% of the market value of CBS and SCBS. If the carrying value of the MARAC shareholding disposed of is higher than the fair value of assets acquired, this will result in a loss. The amount of any loss is dependent on an assessment of the fair value amounts, which have not yet been finalised. Events subsequent to balance date (such as further trading, or in-specie of PGC shareholding) will likely give further evidence as to the fair value of the stock. The Company retains control of MARAC, therefore any loss on disposal will be recognised as a movement in equity.

Subsequent to this, the Company intends to distribute directly to the Company's shareholders its entire 72.21% stake in Building Society Holdings Limited. The value of the in-specie distribution will be measured at fair value. As the Company loses control of MARAC, any difference between the carrying value and fair value of the Building Society Holdings Limited shares redistributed will be recorded through profit or loss.

Transfer of borrowings

On 5 January 2011, debenture stock held by MARAC was transferred into Combined Building Society deposits. The Combined Building Society deposits are issued in terms of a Master Trust Deed, Supplemental Trust Deed (Accounts) and Supplemental Trust Deed (Bonds), each dated 29 October 2010, and a Supplemental Trust Deed dated 14 December 2010, all with Trustee Executors Limited as trustee in respect of deposits.

Credit rating

On 5 January 2011, Combined Building Society received a credit rating of BBB- (Outlook Stable) from Standard & Poor's.



Independent Auditor's Review Report

To the Shareholders of Pyne Gould Corporation Limited

We have reviewed the accompanying interim financial statements in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The interim financial statements provide information about the past financial performance of Pyne Gould Corporation Limited ("the Company and Group") and its financial position as at 31 December 2010.

Directors' responsibilities

The Directors are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2010 and the results of its operations and cash flows for the six month period ended on that date.

Reviewer's responsibilities

It is our responsibility to express an independent opinion on the interim financial statements presented by the Directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of the Company and Group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services in relation to general accounting and tax advice to the Group. Partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the Group. There are however, certain restrictions on borrowings which the partners and employees of our firm can have with the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Company and Group or any of its subsidiaries.

Review Opinion

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements do not give a true and fair view of the financial position of the Group as at 31 December 2010 and the results of its operations and cash flows for the period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 25 February 2011 and our opinion is expressed as at that date.

A handwritten signature of the KPMG firm, written in black ink.

KPMG
Auckland

Pyne Gould Corporation Ltd

Bruce Irvine	Chairman
Jeff Greenslade	Managing Director
George Kerr	Director
Bryan Mogridge	Director
George Gould*	Director

Executives

Jeff Greenslade	Chief Executive Officer
Sean Kam	Chief Financial Officer
Craig Stephen	Chief Investment Officer
Michael Jonas	General Counsel
Colin Hair	Company Secretary

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Lane Neave

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Bank of New Zealand

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*Resigned 31 January 2011



Pyne Gould Corporation

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