

















## PERPETUAL IMAGE

### PERPETUAL GROUP

The Perpetual Group has repositioned itself as a wealth management business. It contributed net profit after tax of \$4.5m for the year ended 30 June 2010, while at the same time supporting the growth of its wealth management business.

### PERPETUAL PORTFOLIO MANAGEMENT

Perpetual Portfolio Management (PPM) provides life-cycle wealth management, including the provision of an advisory network, establishment and management of “best of breed” funds through Perpetual Asset Management (PAM), and professional trustee services across personal and corporate customers through Perpetual Trust. The aim of the Perpetual Group is to build its wealth management business to incorporate the traditional trust business and to broaden that support to customers of MARAC and ultimately heartland New Zealand.

PPM now has eight new funds in operation within its funds management business, with \$279m of funds under management.

### TORCHLIGHT INVESTMENT GROUP

Solid earnings contributions to the Perpetual Group came from the newly established and standalone private equity business, Torchlight Investment Group (TIG), by generating management and transaction fee income above budget.

The acquisition of Equity Partners Asset Management Limited (EPAM), enabled the PGC Group to develop a more comprehensive suite of financial services.

EPAM manages Equity Partners Infrastructure Company No 1 Limited (EPIC) and owns a 10% stake in that company. EPIC holds indirect investments in Thames Water and Moto Hospitality – the leading motorway service area operator in the United Kingdom with 64 sites and a 30% market share. Following the acquisition of EPAM, PGC invested a further \$4.5m in EPIC through the EPIC rights issue.

TIG derives fee income from both arranging and managing assets and investments. TIG successfully raised \$150m through Torchlight Fund No 1 LP (PGC invested \$15m) to make counter-cyclical investments at a time of low liquidity in the banking and investment sectors. TIG now has total funds under management of \$315m. TIG also manages EPIC and RECL – where a number of MARAC property loans were transferred to. While RECL did suffer further loan book impairments of \$7.9m (consisting mostly of \$7.0m interest revenue impairment) progress has been made on this property portfolio. To date, \$10.9m in cash has been realised from the original \$90m impaired property loan portfolio. RECL has also taken control of the underlying properties, through enforcement of securities, on \$41.8m of these loans. This will assist RECL in the efficient realisation of these assets.





### PGG WRIGHTSON

PGC is a cornerstone shareholder in PGG Wrightson, owning an 18.3% shareholding in the farming services company. PGC's commitment to PGG Wrightson was demonstrated last year when PGC supported its capital raising – investing \$33m to help it strengthen its balance sheet. PGG Wrightson reported EBITDA of \$70.5m and net profit after tax of \$23.3m for the year ended 30 June 2010, in line with its PFI of \$73.4m and \$24.1m respectively.

PGC received \$3.9m from its investment in PGG Wrightson from equity accounted earnings offset by the dilutionary impact from the placement of shares to Agria Group, which reduced PGC's holding from 20.7% to 18.3%.

### OTHER

PGC also achieved a gain on the sale of its head office building in Christchurch of \$4.1m, a gain on the sale of 50% of MARAC Insurance to the AA of \$2.5m, and compensation from the Agria Group for the termination of a shareholders' agreement with Rural Portfolio Investments of \$1m.

### OUTLOOK

PGC has built a firm base over the past year from which to grow its core businesses. In the year ahead the Perpetual Group will continue to expand its network and build its funds under management. We expect TIG will continue to seek opportunities especially in the current environment. However, we are reviewing just how TIG fits into our strategy going forward.

Continuing pressure on the finance industry will bring consolidation opportunities for those with financial flexibility. Additionally, there are fewer parties supplying credit to heartland New Zealand. Both these factors offer further growth potential for MARAC.

A key focus for MARAC will be delivering on its strategy to become a New Zealand registered bank through the proposed merger with CBS and SCBS.

Becoming a registered bank will both reduce MARAC's cost of funds and assist earnings growth. In the short term, however, there will be additional costs due to the expense of participating in the Crown Retail Deposit Guarantee Scheme as well as costs associated with the proposed merger. But the expected benefits from delivering on this strategy will, over time, far outweigh the costs.

While obtaining a bank licence is now well within our sights, it is not the end of the journey. It is merely the beginning as we seek to build a strong credible bank to meet the needs of our customers for the long term.

### Jeff Greenslade

Managing Director



## BOARD OF DIRECTORS



**Bruce Irvine** *BCom, LLB, FCA, AF Inst D, FNZIM*

**Independent Director**

Bruce is a professional director and was formerly a partner in the Christchurch office of Deloitte. He has been a director of Perpetual Trust since 1996, was appointed to the PGC Board in 2003 and became Chairman in March 2010.



**Bryan Mogridge** *BSc*

**Independent Director**

Bryan held chief executive and senior management positions for 20 years and has been a director of NZX-listed companies since 1984. He became a director of MARAC in 1992 and was appointed to the PGC Board in 2003.



**George Kerr** *BCom*

**Non-Independent Director**

George Kerr has spent his career in financial services and previously was Chairman of Brook Asset Management and Head of Investments at Sterling Grace Portfolio Management. He was appointed to the PGC Board in August 2008.

George's grandfather was F H Pyne, who was the Manager of Pyne & Co, one of the three founding companies.



**George Gould** *LLB, Graduate London School of Economics*

**Independent Director**

George has extensive experience in the financial and rural services sectors and was Managing Director of Pyne Gould Guinness, leading the merger with Reid Farmers in 2001. He was Managing Director of South Eastern Utilities from 1994 to 2001. He was a director of PGC from 1990 to 2004 and was elected to the Board again in March 2010.

Like George Kerr, George Gould is a descendent of one of the founding families.



**Jeffrey Greenslade** *LLB*

**Non-Independent Director**

Jeff has held senior roles in major banks in New Zealand. He was appointed Chief Executive Officer of MARAC in March 2009 and of PGC in June 2009. He was appointed Managing Director of PGC in December 2009.

### RETIRED DIRECTORS

**Warwick Steel**

Resigned 30 October 2009

**Richard Elworthy**

Resigned 18 December 2009

**Stephen Montgomery**

Resigned 18 December 2009

**Sam Maling**

Resigned 4 March 2010

# CORPORATE GOVERNANCE

The Board and management of Pyne Gould Corporation Limited are committed to ensuring that the Company maintains corporate governance practices in line with current best practice.

The Board, to ensure it governs in accordance with the requirements of the Company's Constitution, has established policies and protocols which comply with the corporate governance requirements of the NZX Listing Rules and which are consistent with the principles contained in the NZX Corporate Governance Best Practice Code.

This governance statement outlines the main corporate governance practices applied by the Company as at 26 August 2010. During the year the Board reviewed and assessed the Company's governance structure and implemented a number of changes to ensure its governance practices are consistent with best practice.

The Board considers it has complied with the NZX Corporate Governance Best Practice Code for the year ended 30 June 2010.

This section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance Principles and Guidelines.

The Company's Constitution, and Board and Committee charters are available on the Company's website [www.pgc.co.nz](http://www.pgc.co.nz).

## PRINCIPLE 1 – ETHICAL STANDARDS

The Company expects its directors and staff to act honestly and in good faith, and in the best interests of the Company at all times. They must act with the care, diligence and skill expected of a director or staff member of a Company that has shares that are publicly traded on the NZX and has subsidiaries that issue securities and accept funds from the general public. Directors and staff are required to act honestly and fairly in all dealings with the Company's shareholders, customers, investors and service providers.

Each director and staff member has an obligation, at all times, to comply with the spirit as well as the letter of the law, to comply with the principles of the Company's Corporate Governance Code, the Company's Code of Conduct and the Constitution of the Company, and to exhibit a high standard of ethical behaviour.

The Company's Code of Conduct covers, among other things:

- receipt and use of company assets and property
- receipt and use of company information
- conflicts of interest.

All directors and officers of the Company are required to obtain prior consent before buying or selling shares in the Company and to certify that their decision to buy or sell shares has not been made on the basis of inside information.

The Company's Corporate Governance Code and Code of Conduct are available on the Company's website, [www.pgc.co.nz](http://www.pgc.co.nz).

## PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

### Role of the Board

The Board of directors is responsible for corporate governance and the Company's overall direction. The Board establishes objectives, strategies and an overall policy framework within which the business is conducted. Day-to-day management is delegated to the Chief Executive Officer. The Board regularly monitors and reviews management's performance in carrying out their delegated duties.

The Board schedules monthly meetings. In the year ended 30 June 2010, however, with the Capital Raising and creation of new Boards of directors of the Company and its subsidiary companies, the Board of the Company met 25 times.

### Board Membership, Size and Composition

The Constitution provides that the number of directors must not be more than 10 nor fewer than three, but subject to these limitations the size of the Board is determined from time to time by the Board.

The Board currently comprises five directors, being a non-executive Chairman, the Managing Director and three non-executive directors.

A director is appointed by ordinary resolution of the shareholders, although the Board may fill a casual vacancy in which case the appointed director retires at the next annual meeting but is eligible for re-election. Nominations for election as a director may be made by shareholders up until two months before the date of the annual meeting.

At each annual meeting, one-third of the directors retire from office by rotation. If they wish to continue they may stand for re-election.

Bryan Mogridge and George Kerr are standing for re-election at this year's annual meeting.

### Independence of Directors

A director is considered to be independent if that director is not an executive of the Company and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to the Company.



The Board has determined that all current directors, other than Jeff Greenslade and George Kerr, are independent directors. Jeff Greenslade, as Chief Executive Officer of the Company, and George Kerr, as a substantial security holder in the Company, are non-independent directors.

### **Board Performance Assessment**

The Board undertakes a regular review of its own, its committees' and individual directors' performance. This is to ensure it has the right composition and appropriate skills, qualifications, experience and background to effectively govern the Company and monitor the Company's performance in the interests of shareholders.

The last review was undertaken in 2010 at the time of establishment of the new Board of the Company and certain subsidiaries of the Company.

## **PRINCIPLE 3 – BOARD COMMITTEES**

### **Board Committees**

The Board has three permanently constituted committees to assist the Board by working with management in specific areas of responsibility and then reporting their findings and recommendations back to the Board. Each of these committees has terms of reference which set out the committee's objectives, membership, procedures and responsibilities. Details are available on the Company's website.

Other ad hoc Board committees are established for specific purposes from time to time. During the year a Due Diligence Committee was established to oversee the due diligence process for the preparation of the prospectus for the Capital Raising conducted in 2009.

### **Audit Committee**

The role of the Audit Committee is to assist the Board in:

- discharging its financial reporting and regulatory responsibilities
- ensuring that the ability and independence of the external auditor to carry out its statutory audit role is not impaired
- maintaining effective internal audit and internal control systems.

The Board has determined that Bruce Irvine meets the criteria for being a "financial expert" in accordance with the committee's terms of reference.

### **Remuneration and Appointments Committee**

The role of the Remuneration and Appointments Committee is to:

- oversee a formal and transparent method of recommending director remuneration to shareholders
- assist the Board in establishing remuneration policies and practices for the Company and in discharging its responsibilities for reviewing and setting the remuneration of the Chief Executive Officer and his direct reports
- assist the Board in reviewing the Board's composition and the competencies required of prospective directors, identifying prospective directors, developing succession plans for the Board and making recommendations to the Board accordingly.

### **Risk Committee**

The purpose of this Committee is to oversee the Company's Risk Profile and approve the risk management framework within the context of the risk-reward strategy determined by the Board (on an annual basis).

The Committee's role includes, but is not restricted to, assessing credit risk, liquidity risk, market risk and operational risk, which includes compliance, reputation, strategic and other risks.

### **Corporate Trust Boards**

Perpetual Trust Limited has independent Corporate Trust boards established under the Trustee Companies Act 1967 which are responsible for discharging that company's fiduciary obligations and duties in respect of its corporate trust business. These duties include the acceptance of appointments as trustee or statutory supervisor for corporate trust clients, the performance of all duties and the exercise of discretions under those appointments, and overseeing the corporate trust compliance monitoring processes and procedures. The Corporate Trust boards comprise independent members, none of whom are directors of the Company or any of its subsidiary companies.

Members of the Corporate Trust boards are Keith Familton (Chairman), Euan Abernethy and Keith Rushbrook.

## **PRINCIPLE 4 – REPORTING AND DISCLOSURES**

The Board is committed to ensuring the highest standards are maintained in financial reporting and disclosure of all relevant information.

The Audit Committee oversees the quality and timeliness of all financial reports, including all prospectuses issued by group companies.

The CEO and CFO are required to certify to the Audit Committee that the financial statements of the Company and its subsidiaries present a true and fair view of the Company and comply with all relevant accounting standards.

## PRINCIPLE 5 – REMUNERATION

Total remuneration available to non-executive directors is determined by shareholders. The current aggregate approved amount is \$700,000.

In the year ended 30 June 2009, when the Company had one common Board across the group, directors' fees were \$162,500 for the Chairman and \$65,000 for each non-executive director. Additional fees were paid to directors who were members of Board committees. Members of the Audit and Credit Committees\* received \$15,000 and the Chairman of the Audit Committee \$20,000. Members of the Remuneration and Appointments Committee received \$3,000 and the Chairman \$4,000.

On the formation of separate boards in March 2010, the directors' fees were set as follows:

|   |          |
|---|----------|
| PGC Board – Chair                                 | \$80,000 |
| PGC Directors                                     | \$60,000 |
| MARAC Board – Chair                               | \$70,000 |
| MARAC Directors                                   | \$60,000 |
| Audit Committee – Chair                           | \$20,000 |
| Audit Committee – Members                         | \$15,000 |
| Risk Committee – Chair                            | \$25,000 |
| Risk Committee – Members                          | \$20,000 |
| Remuneration and Appointments Committee – Chair   | \$4,000  |
| Remuneration and Appointments Committee – Members | \$3,000  |

The Company's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and there is no requirement for directors to hold shares in the Company.

### Senior Executive Remuneration

The objective is to provide competitive remuneration that aligns executives' remuneration with shareholder value and rewards the executives' achievement of the Company's strategies and business plans.

All senior executives receive a base salary and are also on short-term and long-term incentive plans under which they are rewarded for achieving key performance and operating results.

## PRINCIPLE 6 – RISK MANAGEMENT

The Board ensures that the Company has processes in place to identify and manage risk in the business. The three main types of risk identified are operational, business and market risks. Specific risk management strategies have been developed for each of these areas. The Risk Committee of the Board oversee the risk management strategy.

The Company also has in place insurance cover for insurable liability and general business risk.

## PRINCIPLE 7 – AUDITORS

The Audit Committee is responsible for overseeing the external, independent audit of the Company's financial statements and prospectuses. The Audit Committee ensures that the level of non-audit work undertaken by the auditors does not jeopardise their independence.

The Company also has an internal audit function which is independent of the external auditors. The Audit Committee approves the annual audit programme which is developed in consultation with management of the Company.

## PRINCIPLE 8 – SHAREHOLDER RELATIONS

The Board is committed to maintaining a full and open dialogue with all shareholders.

The Company recognises and appreciates the number of shareholders who have supported the Company over many years and have other relationships with the Company.

Additionally the Company welcomes those new shareholders who joined at the time of the Capital Raising.

## PRINCIPLE 9 – STAKEHOLDER INTERESTS

The Board is committed to ensuring positive outcomes for all stakeholders of the Company and its subsidiaries, be they shareholders, investors, customers, service providers, staff and the general public.

\* The Credit Committee has now been replaced by the Risk Committee.



## FIVE-YEAR SUMMARY

|  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|--|-------------|-------------|-------------|-------------|-------------|
|  | \$000       | \$000       | \$000       | \$000       | \$000       |
| <b>Financial performance</b>                     |             |             |             |             |             |
| Net operating income and equity accounted profit | 109,732     | 69,854      | 106,592     | 88,633      | 195,825     |
| Net profit / (loss) after tax                    | 22,006      | (54,355)    | 44,769      | 36,732      | 66,316      |
| Ordinary dividend                                | -           | 4,930       | 22,574      | 20,584      | 18,612      |
| <b>Financial position</b>                        |             |             |             |             |             |
| Shareholders' funds                              | 466,621     | 184,261     | 261,675     | 239,041     | 220,169     |
| Represented by:                                  |             |             |             |             |             |
| Total assets                                     | 1,561,287   | 1,467,989   | 1,572,844   | 1,450,280   | 1,286,569   |
| Total liabilities                                | 1,094,666   | 1,283,728   | 1,311,169   | 1,211,239   | 1,065,915   |
| Minority interests                               | -           | -           | -           | -           | 485         |
| Net assets                                       | 466,621     | 184,261     | 261,675     | 239,041     | 220,169     |
| <b>Ratios</b>                                    |             |             |             |             |             |
| Earnings per share (weighted average)            | 4.0c        | (55.1c)     | 45.7c       | 37.5c       | 67.7c       |
| Rate earned on average shareholders' funds       | 6.8%        | (24.4%)     | 17.8%       | 16.0%       | 33.6%       |
| Dividend per Share                               | -           | 5.0c        | 23.0c       | 21.0c       | 20.0c       |
| Net tangible assets                              | 405,604     | 129,168     | 236,623     | 213,265     | 199,060     |
| Net asset backing per share                      | \$0.52      | \$1.31      | \$2.41      | \$2.18      | \$2.03      |

Results for 2010 to 2007 are in accordance with NZ IFRS.

Results for 2006 are in accordance with NZ GAAP.

# DIRECTORS' RESPONSIBILITY STATEMENT

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The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group and the Company as at 30 June 2010, and the financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Group and the Company 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 the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Board of Directors of Pyne Gould Corporation Limited authorised the financial statements set out on pages 16 to 53 for issue on 26 August 2010.

For and on behalf of the Board.



**B R Irvine**

Director

26 August 2010



**J K Greenslade**

Director

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

|  | Note   | GROUP          |                 | HOLDING COMPANY |                 |
|--|--------|----------------|-----------------|-----------------|-----------------|
|  |        | 2010<br>\$000  | 2009<br>\$000   | 2010<br>\$000   | 2009<br>\$000   |
| Interest income  | 5      | 152,135        | 174,070         | 694             | -               |
| Interest expense   | 5      | 89,763         | 114,683         | 476             | 1,488           |
| <b>Net interest income / (expense)</b>   |        | <b>62,372</b>  | <b>59,387</b>   | <b>218</b>      | <b>(1,488)</b>  |
| Operating lease income   | 6      | 16,617         | 16,344          | -               | -               |
| Operating lease expenses   | 6      | 10,037         | 11,591          | -               | -               |
| <b>Net operating lease income</b>  |        | <b>6,580</b>   | <b>4,753</b>    | <b>-</b>        | <b>-</b>        |
| Dividend income  |        | 1,365          | -               | 1,000           | 26,491          |
| Fee and other income   | 7      | 35,033         | 19,507          | 7,228           | 2,294           |
| <b>Net operating income</b>  |        | <b>105,350</b> | <b>83,647</b>   | <b>8,446</b>    | <b>27,297</b>   |
| Selling and administration expenses  | 8      | 50,218         | 43,218          | 7,694           | 6,554           |
| Impaired asset expense   | 21, 31 | 31,830         | 98,634          | -               | 11,237          |
| <b>Operating profit / (loss)</b>   |        | <b>23,302</b>  | <b>(58,205)</b> | <b>752</b>      | <b>9,506</b>    |
| Share of equity accounted investees' profit / (loss)                             | 21, 22 | 4,382          | (13,793)        | -               | -               |
| <b>Profit / (loss) before income tax and underwrite</b>                          |        | <b>27,684</b>  | <b>(71,998)</b> | <b>752</b>      | <b>9,506</b>    |
| Underwriting benefit / (expense)   | 28     | -              | -               | 85,000          | (85,000)        |
| <b>Profit / (loss) before income tax</b>   |        | <b>27,684</b>  | <b>(71,998)</b> | <b>85,752</b>   | <b>(75,494)</b> |
| Income tax expense / (benefit)   | 10     | 5,678          | (17,643)        | 25,052          | (27,238)        |
| <b>Profit / (loss) for the year</b>  |        | <b>22,006</b>  | <b>(54,355)</b> | <b>60,700</b>   | <b>(48,256)</b> |
| <b>Other comprehensive income</b>  |        |                |                 |                 |                 |
| Cash flow hedges:  |        |                |                 |                 |                 |
| Effective portion of changes in fair value, before tax                           |        | 6,011          | (6,328)         | -               | -               |
| Income tax expense / (benefit) on the effective portion of changes in fair value |        | 1,803          | (1,898)         | -               | -               |
| <b>Effective portion of changes in fair value, net of income tax</b>             |        | <b>4,208</b>   | <b>(4,430)</b>  | <b>-</b>        | <b>-</b>        |
| Share of associates' other comprehensive income, after tax                       | 21     | (1,818)        | (2,281)         | -               | -               |
| <b>Total comprehensive income for the year</b>                                   |        | <b>24,396</b>  | <b>(61,066)</b> | <b>60,700</b>   | <b>(48,256)</b> |
| <b>Profit / (loss) attributable to:</b>  |        |                |                 |                 |                 |
| Owners of the Company  |        | 22,006         | (54,355)        | 60,700          | (48,256)        |
| <b>Profit / (loss) for the year</b>  |        | <b>22,006</b>  | <b>(54,355)</b> | <b>60,700</b>   | <b>(48,256)</b> |
| <b>Total comprehensive income / (loss) attributable to:</b>                      |        |                |                 |                 |                 |
| Owners of the Company  |        | 24,396         | (61,066)        | 60,700          | (48,256)        |
| <b>Total comprehensive income / (loss) for the year</b>                          |        | <b>24,396</b>  | <b>(61,066)</b> | <b>60,700</b>   | <b>(48,256)</b> |
| <b>Earnings per share from continuing operations</b>                             |        |                |                 |                 |                 |
| Basic earnings per share   | 13     | 4c             | -55c            |                 |                 |
| Diluted earnings per share   | 13     | 4c             | -55c            |                 |                 |

The notes on pages 21 to 53 are an integral part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

|   | Note | Share<br>Capital<br>\$000 | Hedging<br>Reserve<br>\$000 | Retained<br>Earnings<br>\$000 | Total<br>Equity<br>\$000 |
|---|------|---------------------------|-----------------------------|-------------------------------|--------------------------|
| <b>2010 – GROUP</b>   |      |                           |                             |                               |                          |
| <b>Balance at 1 July 2009</b>   |      | <b>87,225</b>             | <b>(6,198)</b>              | <b>103,234</b>                | <b>184,261</b>           |
| <b>Total comprehensive income for the year</b>                                    |      |                           |                             |                               |                          |
| Profit for the year   |      | -                         | -                           | 22,006                        | 22,006                   |
| <b>Other comprehensive income</b>   |      |                           |                             |                               |                          |
| Share of associates' other comprehensive income, after tax                        | 21   | -                         | -                           | (1,818)                       | (1,818)                  |
| Effective portion of changes in fair value of cash flow hedges, net of income tax |      | -                         | 4,208                       | -                             | 4,208                    |
| <b>Total other comprehensive income</b>   |      | <b>-</b>                  | <b>4,208</b>                | <b>(1,818)</b>                | <b>2,390</b>             |
| <b>Total comprehensive income for the year</b>                                    |      | <b>-</b>                  | <b>4,208</b>                | <b>20,188</b>                 | <b>24,396</b>            |
| <b>Transactions with owners, recorded directly in equity</b>                      |      |                           |                             |                               |                          |
| Capital raising proceeds  | 14   | 272,531                   | -                           | -                             | 272,531                  |
| Transaction costs associated with capital raising                                 |      | (14,567)                  | -                           | -                             | (14,567)                 |
| <b>Total transactions with owners</b>   |      | <b>257,964</b>            | <b>-</b>                    | <b>-</b>                      | <b>257,964</b>           |
| <b>Balance at 30 June 2010</b>  |      | <b>345,189</b>            | <b>(1,990)</b>              | <b>123,422</b>                | <b>466,621</b>           |
| <b>2009 – GROUP</b>   |      |                           |                             |                               |                          |
| <b>Balance at 1 July 2008</b>   |      | <b>85,885</b>             | <b>(1,768)</b>              | <b>177,558</b>                | <b>261,675</b>           |
| <b>Total comprehensive income for the year</b>                                    |      |                           |                             |                               |                          |
| Loss for the year   |      | -                         | -                           | (54,355)                      | (54,355)                 |
| <b>Other comprehensive income</b>   |      |                           |                             |                               |                          |
| Share of associates' other comprehensive income, after tax                        | 21   | -                         | -                           | (2,281)                       | (2,281)                  |
| Effective portion of changes in fair value of cash flow hedges, net of income tax |      | -                         | (4,430)                     | -                             | (4,430)                  |
| <b>Total other comprehensive income</b>   |      | <b>-</b>                  | <b>(4,430)</b>              | <b>(2,281)</b>                | <b>(6,711)</b>           |
| <b>Total comprehensive income for the year</b>                                    |      | <b>-</b>                  | <b>(4,430)</b>              | <b>(56,636)</b>               | <b>(61,066)</b>          |
| <b>Contributions by and distributions to owners</b>                               |      |                           |                             |                               |                          |
| Dividends to shareholders   |      | -                         | -                           | (17,688)                      | (17,688)                 |
| Staff share issues  |      | 326                       | -                           | -                             | 326                      |
| Dividend Reinvestment Plan  |      | 1,014                     | -                           | -                             | 1,014                    |
| <b>Total transactions with owners</b>   |      | <b>1,340</b>              | <b>-</b>                    | <b>(17,688)</b>               | <b>(16,348)</b>          |
| <b>Balance at 30 June 2009</b>  |      | <b>87,225</b>             | <b>(6,198)</b>              | <b>103,234</b>                | <b>184,261</b>           |

The notes on pages 21 to 53 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

|  | Note | Share<br>Capital<br>\$000 | Hedging<br>Reserve<br>\$000 | Retained<br>Earnings<br>\$000 | Total<br>Equity<br>\$000 |
|--|------|---------------------------|-----------------------------|-------------------------------|--------------------------|
| <b>2010 – HOLDING COMPANY</b>                                |      |                           |                             |                               |                          |
| <b>Balance at 1 July 2009</b>                                |      | <b>87,225</b>             | -                           | <b>23,777</b>                 | <b>111,002</b>           |
| <b>Total comprehensive income for the year</b>               |      |                           |                             |                               |                          |
| Profit for the year  |      | -                         | -                           | 60,700                        | 60,700                   |
| <b>Total comprehensive income for the year</b>               |      | -                         | -                           | <b>60,700</b>                 | <b>60,700</b>            |
| <b>Transactions with owners, recorded directly in equity</b> |      |                           |                             |                               |                          |
| Capital raising proceeds                                     | 14   | 272,531                   | -                           | -                             | 272,531                  |
| Transaction costs associated with capital raising            |      | (14,567)                  | -                           | -                             | (14,567)                 |
| <b>Total transactions with owners</b>                        |      | <b>257,964</b>            | -                           | -                             | <b>257,964</b>           |
| <b>Balance at 30 June 2010</b>                               |      | <b>345,189</b>            | -                           | <b>84,477</b>                 | <b>429,666</b>           |
| <b>2009 – HOLDING COMPANY</b>                                |      |                           |                             |                               |                          |
| <b>Balance at 1 July 2008</b>                                |      | <b>85,885</b>             | -                           | <b>89,721</b>                 | <b>175,606</b>           |
| <b>Total comprehensive income for the year</b>               |      |                           |                             |                               |                          |
| Loss for the year  |      | -                         | -                           | (48,256)                      | (48,256)                 |
| <b>Total comprehensive income for the year</b>               |      | -                         | -                           | <b>(48,256)</b>               | <b>(48,256)</b>          |
| <b>Contributions by and distributions to owners</b>          |      |                           |                             |                               |                          |
| Dividends to shareholders                                    |      | -                         | -                           | (17,688)                      | (17,688)                 |
| Staff share issues   |      | 326                       | -                           | -                             | 326                      |
| Dividend Reinvestment Plan                                   |      | 1,014                     | -                           | -                             | 1,014                    |
| <b>Total transactions with owners</b>                        |      | <b>1,340</b>              | -                           | <b>(17,688)</b>               | <b>(16,348)</b>          |
| <b>Balance at 30 June 2009</b>                               |      | <b>87,225</b>             | -                           | <b>23,777</b>                 | <b>111,002</b>           |

The notes on pages 21 to 53 are an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

|                                     | Note | GROUP            |                  | HOLDING COMPANY |                |
|-------------------------------------|------|------------------|------------------|-----------------|----------------|
|                                     |      | 2010<br>\$000    | 2009<br>\$000    | 2010<br>\$000   | 2009<br>\$000  |
| <b>Assets</b>                       |      |                  |                  |                 |                |
| Cash and cash equivalents           |      | 98,610           | 62,342           | 7,213           | 51             |
| Finance receivables                 | 15   | 1,140,035        | 1,211,217        | -               | -              |
| Operating lease vehicles            | 16   | 42,895           | 36,209           | -               | -              |
| Investment property                 | 17   | 41,838           | -                | -               | -              |
| Other assets                        | 18   | 25,977           | 24,601           | 1,688           | 5,431          |
| Other investments                   | 19   | 30,250           | 10               | -               | -              |
| Advances to subsidiaries            | 28   | -                | -                | 240,515         | 105,466        |
| Deferred tax asset                  | 20   | 23,978           | 30,262           | 300             | 25,630         |
| Investment in associates            | 21   | 118,541          | 78,517           | 111,231         | 78,517         |
| Investment in joint venture         | 22   | 2,124            | -                | -               | -              |
| Shares in subsidiaries              |      | -                | -                | 69,520          | 4,520          |
| Intangible assets                   | 23   | 37,039           | 24,831           | 1,900           | -              |
| <b>Total assets</b>                 |      | <b>1,561,287</b> | <b>1,467,989</b> | <b>432,367</b>  | <b>219,615</b> |
| <b>Liabilities</b>                  |      |                  |                  |                 |                |
| Borrowings                          | 24   | 983,679          | 1,238,709        | -               | 21,450         |
| Other liabilities                   | 25   | 110,987          | 45,019           | 2,701           | 87,163         |
| <b>Total liabilities</b>            |      | <b>1,094,666</b> | <b>1,283,728</b> | <b>2,701</b>    | <b>108,613</b> |
| <b>Equity</b>                       |      |                  |                  |                 |                |
| Share capital                       | 14   | 345,189          | 87,225           | 345,189         | 87,225         |
| Retained earnings and reserves      |      | 121,432          | 97,036           | 84,477          | 23,777         |
| <b>Total equity</b>                 |      | <b>466,621</b>   | <b>184,261</b>   | <b>429,666</b>  | <b>111,002</b> |
| <b>Total equity and liabilities</b> |      | <b>1,561,287</b> | <b>1,467,989</b> | <b>432,367</b>  | <b>219,615</b> |

The notes on pages 21 to 53 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

|  | Note | GROUP          |                 | HOLDING COMPANY  |                 |
|--|------|----------------|-----------------|------------------|-----------------|
|  |      | 2010<br>\$000  | 2009<br>\$000   | 2010<br>\$000    | 2009<br>\$000   |
| <b>Cash flows from operating activities</b>                  |      |                |                 |                  |                 |
| Interest and dividends received                              |      | 135,391        | 138,827         | 1,694            | 16,500          |
| Dividends received from associates                           |      | -              | 6,869           | -                | 6,869           |
| Rental and fees received from subsidiaries                   |      | -              | -               | 1,500            | 1,826           |
| Operating lease income received                              |      | 14,604         | 16,103          | -                | -               |
| Proceeds from sale of operating lease vehicles               |      | 12,377         | 14,373          | -                | -               |
| Taxation refund  |      | -              | -               | -                | 770             |
| Fees and other income received                               |      | 14,467         | 19,507          | 628              | 468             |
| <b>Total cash provided from operating activities</b>         |      | <b>176,839</b> | <b>195,679</b>  | <b>3,822</b>     | <b>26,433</b>   |
| Payments to suppliers and employees                          |      | 39,264         | 46,723          | 6,748            | 5,574           |
| Interest paid  |      | 91,084         | 116,705         | 485              | 1,448           |
| Purchase of operating lease vehicles                         |      | 20,014         | 9,176           | -                | -               |
| Taxation paid  |      | 2,800          | 5,971           | -                | -               |
| <b>Total cash applied to operating activities</b>            |      | <b>153,162</b> | <b>178,575</b>  | <b>7,233</b>     | <b>7,022</b>    |
| <b>Net cash flows from operating activities</b>              | 12   | <b>23,677</b>  | <b>17,104</b>   | <b>(3,411)</b>   | <b>19,411</b>   |
| <b>Cash flows from investing activities</b>                  |      |                |                 |                  |                 |
| Proceeds from sale of property                               |      | 7,775          | -               | 7,775            | -               |
| Net decrease in other investments                            |      | -              | 11              | -                | -               |
| Net decrease in finance receivables                          |      | 80,201         | 98,614          | -                | -               |
| <b>Total cash provided from investing activities</b>         |      | <b>87,976</b>  | <b>98,625</b>   | <b>7,775</b>     | <b>-</b>        |
| Net increase in advances to subsidiaries                     |      | -              | -               | 200,334          | -               |
| Increase in investment in associates                         |      | 36,096         | -               | 33,074           | -               |
| Purchase of subsidiary                                       |      | 18,169         | -               | -                | -               |
| Net increase in other investments                            |      | 20,199         | -               | -                | -               |
| Advance to staff share purchase schemes                      |      | 5              | 138             | 5                | 138             |
| Purchase of property, plant, equipment and intangible assets |      | 1,374          | 2,123           | 303              | 997             |
| <b>Total cash applied to investing activities</b>            |      | <b>75,843</b>  | <b>2,261</b>    | <b>233,716</b>   | <b>1,135</b>    |
| <b>Net cash flows from investing activities</b>              |      | <b>12,133</b>  | <b>96,364</b>   | <b>(225,941)</b> | <b>(1,135)</b>  |
| <b>Cash flows from financing activities</b>                  |      |                |                 |                  |                 |
| Increase in share capital                                    |      | 272,531        | 1,340           | 272,531          | 1,340           |
| <b>Total cash provided from financing activities</b>         |      | <b>272,531</b> | <b>1,340</b>    | <b>272,531</b>   | <b>1,340</b>    |
| Transaction costs associated with capital raising            |      | 14,567         | -               | 14,567           | -               |
| Dividends paid   |      | -              | 17,688          | -                | 17,688          |
| Net decrease in borrowings                                   |      | 257,421        | 42,729          | 21,450           | 1,550           |
| <b>Total cash applied to financing activities</b>            |      | <b>271,988</b> | <b>60,417</b>   | <b>36,017</b>    | <b>19,238</b>   |
| <b>Net cash flows from financing activities</b>              |      | <b>543</b>     | <b>(59,077)</b> | <b>236,514</b>   | <b>(17,898)</b> |
| <b>Net increase in cash held</b>                             |      | <b>36,353</b>  | <b>54,391</b>   | <b>7,162</b>     | <b>378</b>      |
| Opening cash balance / (deficit)                             |      | 62,342         | 7,951           | 51               | (327)           |
| Cash balance on deconsolidation of subsidiary                |      | (85)           | -               | -                | -               |
| <b>Closing cash balance</b>                                  |      | <b>98,610</b>  | <b>62,342</b>   | <b>7,213</b>     | <b>51</b>       |

The notes on pages 21 to 53 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 1 Reporting entity

The financial statements presented are the consolidated financial statements comprising Pyne Gould Corporation Limited (Company or Holding Company) and its subsidiaries, joint ventures and associates (Group). Reliance is placed on the Group continuing as a going concern.

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

### (a) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate to profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

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 financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

These 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. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the financial statements, refer to note 31 - Credit risk exposure.

### (e) Going concern

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

A subsidiary of the Company, MARAC Finance Limited (MARAC) currently has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011. This helps provide it with a range of significant funding options to support further growth of the business.

## 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 3 Significant accounting policies (continued)

### (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.

### (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 Statement of Financial Position.

### (h) Tax

Income tax expense for the year 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 year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 FINANCIAL STATEMENTS

For the year ended 30 June 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 year 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) Other investments

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

Other 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; refer to note 29 – Fair value.

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) Financial assets and liabilities

#### **Recognition**

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 3 Significant accounting policies (continued)

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.

### **Classification**

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

| <b>Financial Assets/Liabilities</b> | <b>Accounting Category</b>          |
|-------------------------------------|-------------------------------------|
| 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                    |

### (n) 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 year. 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 and management contracts. 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 has been assessed as follows:

|                           |                        |
|---------------------------|------------------------|
| Software                  | 3–4 years              |
| Licences                  | 5 years                |
| Statutory right and brand | Indefinite useful life |
| Management contracts      | 30 years               |

### (o) 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.

### (p) Impaired assets and past due assets

Impaired assets are those loans for which the Group has evidence that it has incurred 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 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 FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 3 Significant accounting policies (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.

The Company maintains an underwriting deed with its subsidiary MARAC Finance Limited to provide security for certain identified and not yet identified losses arising on impaired assets. Where MARAC Finance Limited identified that a provision was required in relation to a particular loan or a group of loans, the existence of the Company's underwrite was taken into account in determining the value of the provision.

For further information about credit impairment provisioning refer to note 31 - Credit risk exposure.

### (q) Employee benefits

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

### (r) 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.

### (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) 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.

### (u) 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 3 Significant accounting policies (continued)

### (v) 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.

### (w) Statement of Cash Flows

The 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.

### (x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2010, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Group are listed below:

- NZ IFRS 8 *Operating Segments*, has been amended to clarify that segment information with respect to total assets is required only if it is reported to the chief operating decision-maker, effective 1 January 2010.
- NZ IAS 7 *Statement of Cash Flows*, which clarifies that only expenditure that results in the recognition of an asset can be classified as cash flow from investing activities, effective 1 January 2010.
- NZ IAS 36 *Impairment of Assets*, which clarifies that the largest unit to which goodwill should be allocated is the operating segment level, effective 1 January 2010.
- NZ IAS 39 *Financial Instruments: Recognition and Measurement*, which provides additional guidance on embedded derivatives and clarifies the treatment of cash flow hedges, effective 1 January 2010.
- NZ IFRS 2 *Share-based Payments – Group cash-settled share-based payment transactions*, which requires the entity receiving goods or services in a share-based payment transaction to account for the transaction in its financial statements, effective 1 January 2010.
- NZ IFRS 9 *Financial Instruments*, which specifies how an entity should classify and measure financial assets, effective 1 January 2013.

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.

### (y) Comparative balances

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

### (z) Changes in accounting policies

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

The following new standards and amendments to standards have been adopted from 1 July 2009 and have been applied in the preparation of these financial statements.

- NZ IAS 1 *Presentation of Financial Statements* (revised 2007) effective as of 1 July 2009. Since the change in accounting policy only affects presentation aspects, there is no impact on any of the amounts recorded in the current or comparative financial years in the financial statements.
- NZ IFRS 3 *Business Combinations* (revised) effective as of 1 July 2009. The main impact of the adoption of changes to NZ IFRS 3 is that costs such as legal fees, due diligence fees and other professional and consulting fees no longer form part of the measurement of the cost of the acquisition and are expensed as incurred.
- NZ IFRS 7 *Financial Instruments: Disclosures* (revised) has resulted in additional disclosures concerning fair value measurement and liquidity risk.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 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:

|                                   |  |
|-----------------------------------|--|
| <b>Financial services</b>         | Motor vehicle, commercial plant, equipment and business, marine and leisure financing and insurance services.  |
| <b>Trustee services</b>           | Personal trust, estate and asset administration and corporate trustee services.  |
| <b>Portfolio asset management</b> | Portfolio management services. Provision of asset and fund management, particularly specialised asset funds. Includes loan and real estate assets in progress of recovery. |
| <b>Rural services</b>             | Rural and horticultural supplies, livestock sales, irrigation and pumping, seeds and nutrition, real estate, funds management and rural finance.                           |

|   | GROUP            |                  |
|---|------------------|------------------|
|   | 2010<br>\$000    | 2009<br>\$000    |
| <b>Profit / (loss) for the year</b>                                 |                  |                  |
| Financial services  | 12,923           | (39,957)         |
| Trustee services  | 2,577            | 3,314            |
| Portfolio asset management  | 1,978            | -                |
| Rural services  | 3,898            | (13,793)         |
| Head office   | 630              | (3,919)          |
| <b>Total Group profit / (loss) for the year</b>                     | <b>22,006</b>    | <b>(54,355)</b>  |
| <b>Net operating income and share of equity accounted profit</b>    |                  |                  |
| Financial services  | 67,174           | 68,517           |
| Trustee services  | 15,834           | 16,150           |
| Portfolio asset management  | 16,777           | -                |
| Rural services  | 4,258            | (13,793)         |
| Head office   | 5,689            | (1,020)          |
| <b>Total Group net operating income and equity accounted profit</b> | <b>109,732</b>   | <b>69,854</b>    |
| <b>Total impaired asset expense</b>                                 |                  |                  |
| Financial services  | 23,916           | 98,634           |
| Portfolio asset management  | 7,914            | -                |
| <b>Total Group impaired asset expense</b>                           | <b>31,830</b>    | <b>98,634</b>    |
| <b>Total assets</b>   |                  |                  |
| Financial services  | 1,275,351        | 1,358,123        |
| Trustee services  | 4,515            | 3,955            |
| Portfolio asset management  | 137,512          | -                |
| Rural services  | 111,231          | 78,517           |
| Head office   | 32,678           | 27,394           |
| <b>Total Group assets</b>   | <b>1,561,287</b> | <b>1,467,989</b> |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 5 Net interest income / (expense)

|  | GROUP          |                | HOLDING COMPANY |                |
|--|----------------|----------------|-----------------|----------------|
|  | 2010<br>\$000  | 2009<br>\$000  | 2010<br>\$000   | 2009<br>\$000  |
| <b>Interest income</b>                       |                |                |                 |                |
| Bank deposits                                | 974            | 388            | 437             | -              |
| Finance receivables                          | 151,161        | 173,682        | -               | -              |
| Advances to subsidiaries                     | -              | -              | 257             | -              |
| <b>Total interest income</b>                 | <b>152,135</b> | <b>174,070</b> | <b>694</b>      | <b>-</b>       |
| <b>Interest expense</b>                      |                |                |                 |                |
| Retail debenture stock                       | 66,640         | 67,685         | -               | -              |
| Bank borrowings                              | 18,903         | 41,335         | 476             | 1,488          |
| Other funding costs:                         |                |                |                 |                |
| - Net interest expense on cash flow hedges   | 4,220          | 5,521          | -               | -              |
| - Other derivatives held for risk management | -              | 142            | -               | -              |
| <b>Total interest expense</b>                | <b>89,763</b>  | <b>114,683</b> | <b>476</b>      | <b>1,488</b>   |
| <b>Net interest income / (expense)</b>       | <b>62,372</b>  | <b>59,387</b>  | <b>218</b>      | <b>(1,488)</b> |

Included within interest on finance receivables is \$17.4m (2009: \$7.7m) on individually impaired assets.

## 6 Net operating lease income

|                                       | GROUP         |               |
|---------------------------------------|---------------|---------------|
|                                       | 2010<br>\$000 | 2009<br>\$000 |
| <b>Operating lease income</b>         |               |               |
| Lease income                          | 14,545        | 16,344        |
| Gain on disposal of lease vehicles    | 2,072         | -             |
| <b>Total operating lease income</b>   | <b>16,617</b> | <b>16,344</b> |
| <b>Operating lease expense</b>        |               |               |
| Depreciation on lease vehicles        | 9,314         | 10,463        |
| Direct lease costs                    | 723           | 908           |
| Loss on disposal of lease vehicles    | -             | 220           |
| <b>Total operating lease expenses</b> | <b>10,037</b> | <b>11,591</b> |
| <b>Net operating lease income</b>     | <b>6,580</b>  | <b>4,753</b>  |

## 7 Fee and other income

|                                   | GROUP         |               | HOLDING COMPANY |               |
|-----------------------------------|---------------|---------------|-----------------|---------------|
|                                   | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Management fee income             | 13,315        | 4,532         | 1,500           | 1,826         |
| Trustee fee income                | 8,772         | 8,725         | -               | -             |
| Gain on sale of property          | 4,100         | -             | 4,100           | -             |
| Other income                      | 8,846         | 6,250         | 1,628           | 468           |
| <b>Total fee and other income</b> | <b>35,033</b> | <b>19,507</b> | <b>7,228</b>    | <b>2,294</b>  |

On 31 March 2010, MARAC JV Holdings Limited (MJV) purchased MARAC Insurance Limited from a wholly owned subsidiary of the Company, MARAC Financial Services Limited (MFSL). MJV is jointly owned by MFSL and the New Zealand Automobile Association Limited. As a result of the sale, a gain of \$2.5m has been included in other income for the year ended 30 June 2010. Refer to notes 9 and 22 for more information.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 7 Fee and other income (continued)

On 30 June 2010, the Group purchased GMAC New Zealand Limited's (GMAC) retail motor vehicle financing book for \$70.3m. The acquisition date of the book was 31 May 2010, with settlement occurring on 30 July 2010. The fair value of the identifiable assets and liabilities acquired has been determined to be \$2.2m above the purchase price, taking into account comparative market interest rates and an allowance for impairment. The gain arising from the purchase of the GMAC book has been included in the Group's other income for the year ended 30 June 2010.

## 8 Selling and administration expenses

|  | Note | GROUP         |               | HOLDING COMPANY |               |
|--|------|---------------|---------------|-----------------|---------------|
|  |      | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Personnel expenses                               |      | 26,658        | 23,216        | 3,218           | 3,046         |
| Superannuation                                   |      | 384           | 330           | 21              | 53            |
| Directors' fees                                  |      | 677           | 664           | 677             | 664           |
| Audit fees                                       |      | 491           | 339           | 33              | 30            |
| Audit-related fees                               |      | 330           | 87            | 40              | -             |
| Depreciation - property                          |      | 49            | 145           | 49              | 145           |
| Depreciation - plant and equipment               |      | 667           | 620           | 17              | 27            |
| Amortisation expense                             | 23   | 903           | 637           | 100             | -             |
| Rental costs                                     |      | 33            | 101           | 33              | 40            |
| Loss on disposal of assets                       |      | 3             | -             | -               | -             |
| Operating lease expense as a lessee              |      | 1,824         | 1,318         | 154             | -             |
| Other operating expenses                         |      | 18,199        | 15,761        | 3,352           | 2,549         |
| <b>Total selling and administration expenses</b> |      | <b>50,218</b> | <b>43,218</b> | <b>7,694</b>    | <b>6,554</b>  |

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

## 9 Significant controlled entities, associates and interests in jointly controlled entities

| Significant subsidiaries                          | Nature of business                     | 2010<br>% held | 2009<br>% held |
|---|--|----------------|----------------|
| Perpetual Trust Limited                           | Trustee services                       | 100%           | 100%           |
| Perpetual Group Limited                           | Holding company                        | 100%           | 0%             |
| and its subsidiaries:                             |  |                |                |
| Perpetual Portfolio Management Limited            | Funds management                       | 100%           | 0%             |
| Perpetual Asset Management Limited                | Asset management                       | 100%           | 0%             |
| Torchlight Investment Group Limited               | Holding company                        | 100%           | 100%           |
| and its subsidiaries:                             |  |                |                |
| Equity Partners Asset Management Limited          | Asset management                       | 100%           | 0%             |
| Ferrero Investments Limited                       | Holding company                        | 100%           | 0%             |
| Equity Partners Infrastructure Management Limited | Asset management                       | 100%           | 0%             |
| Torchlight (GP) 1 Limited                         | Asset management                       | 100%           | 0%             |
| Torchlight Management Limited                     | Asset management                       | 100%           | 0%             |
| Real Estate Credit Limited                        | Property financing                     | 100%           | 0%             |
| Corporate Trust of New Zealand Limited            | Trustee services                       | 100%           | 0%             |
| MARAC Financial Services Limited                  | Investment holding company             | 100%           | 100%           |
| and its subsidiaries:                             |  |                |                |
| MARAC Finance Limited                             | Motor vehicle and commercial financing | 100%           | 100%           |
| MARAC Securities Limited                          | Arranging structured finance           | 100%           | 100%           |
| MARAC Investments Limited                         | Property and commercial financing      | 100%           | 100%           |
| MARAC Insurance Limited                           | Insurance services                     | 0%             | 100%           |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 9 Significant controlled entities, associates and interests in jointly controlled entities (continued)

|                                    |   | 2010<br>% held | 2009<br>% held |
|------------------------------------|---|----------------|----------------|
| <b>Nature of business</b>          |   |                |                |
| <b>Associates</b>                  |   |                |                |
| PGG Wrightson Limited              | Rural services                          | 18.3%          | 20.7%          |
| Van Eyk Research Limited           | Investment research and fund management | 31.9%          | 0%             |
| <b>Jointly controlled entities</b> |   |                |                |
| MARAC JV Holdings Limited          | Holding company                         | 50%            | 0%             |

On 18 June 2010, Perpetual Asset Management Limited changed its name to Torchlight Investment Group Limited.

On 31 March 2010, MARAC Insurance Limited was sold to MARAC JV Holdings Limited. For more information, refer notes 7 and 22.

In May 2010 a 31.9% holding in Van Eyk Research Limited was purchased; refer to note 21 for more details.

In August 2009, Equity Partners Asset Management Limited was purchased; refer to note 35 for further information.

## 10 Tax

|  | GROUP         |                 | HOLDING COMPANY |                 |
|--|---------------|-----------------|-----------------|-----------------|
|  | 2010<br>\$000 | 2009<br>\$000   | 2010<br>\$000   | 2009<br>\$000   |
| <b>Current tax (benefit) / expense</b>                     |               |                 |                 |                 |
| Current year   | (830)         | 12,364          | (278)           | (1,876)         |
| <b>Deferred tax expense / (benefit)</b>                    |               |                 |                 |                 |
| Origination and reversal of temporary differences          | 6,284         | (30,007)        | 25,330          | (25,362)        |
| Impact of tax rate change                                  | 224           | -               | -               | -               |
| <b>Total income tax expense / (benefit)</b>                | <b>5,678</b>  | <b>(17,643)</b> | <b>25,052</b>   | <b>(27,238)</b> |
| <b>Reconciliation of effective tax rate</b>                |               |                 |                 |                 |
| Profit / (loss) before income tax                          | 27,684        | (71,998)        | 85,752          | (75,494)        |
| Less share of equity accounted investees' profit / (loss)  | 4,382         | (13,793)        | -               | -               |
| <b>Total taxable profit / (loss)</b>                       | <b>23,302</b> | <b>(58,205)</b> | <b>85,752</b>   | <b>(75,494)</b> |
| Prima facie tax at 30%                                     | 6,991         | (17,462)        | 25,726          | (22,648)        |
| (Less) / plus tax effect of items not taxable / deductible | (903)         | (181)           | (374)           | 3,357           |
| Dividends  | (410)         | -               | (300)           | (7,947)         |
| <b>Total income tax expense / (benefit)</b>                | <b>5,678</b>  | <b>(17,643)</b> | <b>25,052</b>   | <b>(27,238)</b> |

The corporate tax rate will change from 30c to 28c effective 1 July 2011. The tax effect on the temporary differences reported above, that will not reverse in the following 12 month period, is a reduction in the Group's deferred tax asset of \$224k.

## 11 Imputation credit account

|  | GROUP         |               | HOLDING COMPANY |               |
|--|---------------|---------------|-----------------|---------------|
|  | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Balance at beginning of year           | 48,980        | 46,469        | 16,211          | 13,672        |
| Credits attached to dividends paid     | -             | (8,585)       | -               | (8,585)       |
| Credits attached to dividends received | -             | 5,125         | -               | 11,124        |
| Tax paid net of refunds                | 2,800         | 5,971         | -               | -             |
| <b>Balance at end of year</b>          | <b>51,780</b> | <b>48,980</b> | <b>16,211</b>   | <b>16,211</b> |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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

|  | Note | GROUP          |                 | HOLDING COMPANY |                 |
|--|------|----------------|-----------------|-----------------|-----------------|
|  |      | 2010<br>\$000  | 2009<br>\$000   | 2010<br>\$000   | 2009<br>\$000   |
| <b>Profit / (loss) for the year</b>                    |      | <b>22,006</b>  | <b>(54,355)</b> | <b>60,700</b>   | <b>(48,256)</b> |
| Add / (less) non-cash items:                           |      |                |                 |                 |                 |
| Depreciation expense                                   |      | 716            | 765             | 66              | 172             |
| Amortisation expense                                   |      | 903            | 637             | 100             | -               |
| Impaired asset expense                                 |      | 31,830         | 98,634          | -               | -               |
| Net write down of investment in associates             |      | 360            | -               | 360             | 8,115           |
| Share of equity accounted investees' (profit) / loss   |      | (4,382)        | 20,662          | -               | -               |
| Underwriting (benefit) / expense to subsidiary         | 28   | -              | -               | (85,000)        | 85,000          |
| Deferred tax   |      | 6,284          | (30,007)        | 25,330          | (25,362)        |
| Accruals, capitalised interest and prepaid items       |      | (23,971)       | (17,854)        | (401)           | 490             |
| <b>Total non-cash items</b>                            |      | <b>11,740</b>  | <b>72,837</b>   | <b>(59,545)</b> | <b>68,415</b>   |
| Add / (less) movements in working capital items:       |      |                |                 |                 |                 |
| Operating lease vehicles                               |      | (6,686)        | (6,490)         | -               | -               |
| Other assets   |      | (3,834)        | 3,730           | (2,023)         | 86              |
| Current tax  |      | 1,724          | 2,397           | 1,437           | (1,106)         |
| Other liabilities                                      |      | 2,880          | (1,015)         | 120             | 272             |
| <b>Total movements in working capital items</b>        |      | <b>(5,916)</b> | <b>(1,378)</b>  | <b>(466)</b>    | <b>(748)</b>    |
| Add / (less) items classified as investing activities: |      |                |                 |                 |                 |
| Gain on sale of assets and investments                 |      | (53)           | -               | -               | -               |
| Gain on sale of property                               |      | (4,100)        | -               | (4,100)         | -               |
| <b>Total items classified as investing activities</b>  |      | <b>(4,153)</b> | <b>-</b>        | <b>(4,100)</b>  | <b>-</b>        |
| <b>Net cash flows from operating activities</b>        |      | <b>23,677</b>  | <b>17,104</b>   | <b>(3,411)</b>  | <b>19,411</b>   |

## 13 Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2010 is based on the profit for the year of \$22.0m (2009: loss of \$54.4m), and a weighted average number of shares on issue of 547.9m (2009: 98.4m).

The earnings per share calculated based on the closing number of shares (refer note 14) rather than the weighted average number of shares, results in basic and diluted earnings per share of 3c at 30 June 2010 (2009: -55c).

## 14 Share capital

|                               | 2010<br>Number of<br>shares<br>000 | 2009<br>Number of<br>shares<br>000 |
|-------------------------------|------------------------------------|------------------------------------|
| <b>Issued shares</b>          |                                    |                                    |
| Opening balance               | 98,597                             | 98,147                             |
| Shares issued during the year | 674,925                            | 450                                |
| <b>Closing balance</b>        | <b>773,522</b>                     | <b>98,597</b>                      |

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

During the year 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 new shares to existing shareholders at 43 cents per share under a Share Purchase Plan. The total new capital raised was \$272.5m.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 15 Finance receivables

|                                  |      | GROUP            |                  |
|----------------------------------|------|------------------|------------------|
|                                  | Note | 2010<br>\$000    | 2009<br>\$000    |
| Gross finance receivables        |      | 1,173,915        | 1,309,273        |
| Less allowance for impairment    | 31   | (33,880)         | (98,056)         |
| <b>Total finance receivables</b> |      | <b>1,140,035</b> | <b>1,211,217</b> |

Gross finance receivables of \$68.4m were purchased from GMAC on 30 June 2010; refer note 7 for more information.

Included within finance receivables is a \$633k (2009: nil) loan to a related party, PGG Wrightson Seeds Limited; refer to note 28.

## 16 Operating lease vehicles

|                                  | GROUP         |               |
|----------------------------------|---------------|---------------|
|                                  | 2010<br>\$000 | 2009<br>\$000 |
| <b>Cost</b>                      |               |               |
| Opening balance                  | 57,383        | 77,676        |
| Additions                        | 26,305        | 9,369         |
| Disposals                        | (23,424)      | (29,662)      |
| <b>Closing balance</b>           | <b>60,264</b> | <b>57,383</b> |
| <b>Accumulated depreciation</b>  |               |               |
| Opening balance                  | 21,174        | 26,048        |
| Depreciation charge for the year | 9,314         | 10,463        |
| Disposals                        | (13,119)      | (15,337)      |
| <b>Closing balance</b>           | <b>17,369</b> | <b>21,174</b> |
| Opening net book value           | 36,209        | 51,628        |
| <b>Closing net book value</b>    | <b>42,895</b> | <b>36,209</b> |

Additions for the year to 30 June 2010 includes \$6.3m for the lease book purchased from GMAC; refer note 7 for more information.

## 17 Investment property

|                        | GROUP         |               |
|------------------------|---------------|---------------|
|                        | 2010<br>\$000 | 2009<br>\$000 |
| Opening balance        | -             | -             |
| Acquisitions           | 41,838        | -             |
| <b>Closing balance</b> | <b>41,838</b> | <b>-</b>      |

Given the acquisition dates of the investment properties, no material income or expenses are recognised in these financial statements relating to the properties.

During the year, investment properties acquired were as a result of enforcement of security over finance receivables held by a subsidiary, Real Estate Credit Limited (RECL). The carrying amount of investment properties at year end is the fair value based on independent valuations and other similar external evidence, adjusted where necessary to take into account market movements since the date of valuation.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 18 Other assets

|                              | Note | GROUP         |               | HOLDING COMPANY |               |
|------------------------------|------|---------------|---------------|-----------------|---------------|
|                              |      | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Derivative financial assets  | 26   | 5,013         | 7,704         | -               | -             |
| Staff share purchase schemes |      | 313           | 496           | 313             | 496           |
| Trade receivables            |      | 15,549        | 5,603         | 1,350           | 6             |
| Intercompany receivables     | 28   | 25            | -             | -               | 36            |
| Current tax                  |      | -             | -             | -               | 1,428         |
| Prepayments                  |      | 3,713         | 4,798         | -               | -             |
| Property                     |      | -             | 3,407         | -               | 3,407         |
| Plant and equipment          |      | 1,364         | 1,561         | 25              | 58            |
| Fixed interest investments   |      | -             | 1,032         | -               | -             |
| <b>Total other assets</b>    |      | <b>25,977</b> | <b>24,601</b> | <b>1,688</b>    | <b>5,431</b>  |

## 19 Other investments

|   | GROUP         |               |
|---|---------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 |
| Torchlight Fund No 1 Limited Partnership            | 15,000        | -             |
| Equity Partners Infrastructure Company No 1 Limited | 14,500        | -             |
| Other   | 750           | 10            |
| <b>Total investments</b>                            | <b>30,250</b> | <b>10</b>     |

Other investments consist of investments in ordinary shares or capital.

## 20 Deferred tax

|   | GROUP         |               | HOLDING COMPANY |               |
|---|---------------|---------------|-----------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| <b>Recognised deferred tax assets and liabilities</b> |               |               |                 |               |
| Plant and equipment                                   | 58            | 39            | -               | -             |
| Employee entitlements                                 | 813           | 503           | 301             | 145           |
| Finance receivables                                   | 27,451        | 29,050        | -               | -             |
| Underwriting liability to subsidiary company          | -             | -             | -               | 25,500        |
| Derivatives held for risk management                  | 812           | 3,822         | -               | -             |
| <b>Tax assets</b>                                     | <b>29,134</b> | <b>33,414</b> | <b>301</b>      | <b>25,645</b> |
| Plant and equipment                                   | 29            | 15            | 1               | 15            |
| Intangible assets                                     | 2,290         | 54            | -               | -             |
| Operating lease vehicles                              | 2,241         | 2,721         | -               | -             |
| Accruals  | 596           | -             | -               | -             |
| Unexpensed commissions                                | -             | 362           | -               | -             |
| <b>Tax liabilities</b>                                | <b>5,156</b>  | <b>3,152</b>  | <b>1</b>        | <b>15</b>     |
| <b>Net tax assets</b>                                 | <b>23,978</b> | <b>30,262</b> | <b>300</b>      | <b>25,630</b> |

All deferred tax movements are included in profit or loss except for those in respect of cash flow hedges which are recognised directly in equity.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 21 Investment in associates

|   | GROUP          |               | HOLDING COMPANY |               |
|---|----------------|---------------|-----------------|---------------|
|   | 2010<br>\$000  | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Carrying amount at beginning of year                | 78,517         | 101,460       | 78,517          | 86,632        |
| Additional investment in associates                 | 38,004         | -             | 33,074          | -             |
| Write down of investment in associates              | -              | -             | -               | (11,237)      |
| Decrease in investment in associates                | (360)          | -             | (360)           | -             |
| Equity accounted earnings of associates before tax  | 6,166          | (16,520)      | -               | -             |
| Share of associates' income tax (expense) / benefit | (1,908)        | 2,727         | -               | -             |
| Share of associates' other comprehensive income     | (1,818)        | (2,281)       | -               | -             |
| Bonus issue dividend from associates                | -              | 3,122         | -               | 3,122         |
| Foreign currency translation                        | (60)           | -             | -               | -             |
| Dividends from associates                           | -              | (9,991)       | -               | -             |
| <b>Carrying amount at end of year</b>               | <b>118,541</b> | <b>78,517</b> | <b>111,231</b>  | <b>78,517</b> |
| Goodwill included in carrying amount of associates  | 54,069         | 49,977        |                 |               |
| Total assets of associates                          | 1,531,491      | 1,544,146     |                 |               |
| Total liabilities of associates                     | 893,581        | 1,153,225     |                 |               |
| Total income of associates                          | 1,151,082      | 1,280,741     |                 |               |
| Total net profit / (loss) after tax of associates   | 23,304         | (66,444)      |                 |               |

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. The purchase price included AUD \$1.6m (NZD \$1.8m) which is payable over 18 months and has been included in other liabilities.

During the year the Company participated in the PGG Wrightson Limited capital raising, contributing \$33.1m 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 \$360k).

The carrying amount of PGG Wrightson Limited as at 30 June 2010 was \$113.7m (2009: \$78.5m). The market value of the Group's holding at 30 June 2010 is \$69.4m (2009: \$73.8m). It is the Company's view that market value is not a reasonable proxy of fair value. An independent valuation has been used as an alternative value in use calculation to support the carrying value. The exercise confirmed there were no impairment issues necessitating a write down.

## 22 Investment in joint venture

|   | GROUP         |               |
|---|---------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 |
| Carrying amount at beginning of year        | -             | -             |
| Investment in joint venture                 | 2,000         | -             |
| Equity accounted earnings of joint venture  | 124           | -             |
| <b>Carrying amount at end of year</b>       | <b>2,124</b>  | <b>-</b>      |
| Total assets of joint venture               | 4,297         | -             |
| Total liabilities of joint venture          | 2,248         | -             |
| Total income of joint venture               | 1,119         | -             |
| Total net profit after tax of joint venture | 248           | -             |

MARAC JV Holdings Limited (MJV) is jointly owned by the Group and The New Zealand Automobile Association Limited. On the 31 March 2010, MJV purchased MARAC Insurance Limited. The Group equity accounts its investment in MJV to recognise a 50% share of the consolidated MJV profits or losses and reserve movements. Refer to notes 7 and 9 for more information.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 23 Intangible assets

|                                  | GROUP                   |                               |   |                   |                                  |                |
|----------------------------------|-------------------------|-------------------------------|---|-------------------|----------------------------------|----------------|
|                                  | Licence<br>(i)<br>\$000 | Computer<br>Software<br>\$000 | Statutory<br>right &<br>brands<br>\$000 | Goodwill<br>\$000 | Management<br>Contracts<br>\$000 | Total<br>\$000 |
| <b>Cost</b>                      |                         |                               |   |                   |                                  |                |
| Opening balance 1 July 2008      | -                       | 3,730                         | 12,901                                  | 11,147            | -                                | 27,778         |
| Additions                        | -                       | 671                           | -                                       | -                 | -                                | 671            |
| Disposals                        | -                       | (1,365)                       | -                                       | -                 | -                                | (1,365)        |
| <b>Closing balance</b>           |                         |                               |   |                   |                                  |                |
| <b>30 June 2009</b>              | <b>-</b>                | <b>3,036</b>                  | <b>12,901</b>                           | <b>11,147</b>     | <b>-</b>                         | <b>27,084</b>  |
| Opening balance 1 July 2009      | -                       | 3,036                         | 12,901                                  | 11,147            | -                                | 27,084         |
| Additions                        | 2,000                   | 686                           | -                                       | 2,400             | 8,025                            | 13,111         |
| <b>Closing balance</b>           |                         |                               |   |                   |                                  |                |
| <b>30 June 2010</b>              | <b>2,000</b>            | <b>3,722</b>                  | <b>12,901</b>                           | <b>13,547</b>     | <b>8,025</b>                     | <b>40,195</b>  |
| <b>Accumulated amortisation</b>  |                         |                               |   |                   |                                  |                |
| Opening balance 1 July 2008      | -                       | 2,981                         | -                                       | -                 | -                                | 2,981          |
| Amortisation charge for the year | -                       | 637                           | -                                       | -                 | -                                | 637            |
| Disposals                        | -                       | (1,365)                       | -                                       | -                 | -                                | (1,365)        |
| <b>Closing balance</b>           |                         |                               |   |                   |                                  |                |
| <b>30 June 2009</b>              | <b>-</b>                | <b>2,253</b>                  | <b>-</b>                                | <b>-</b>          | <b>-</b>                         | <b>2,253</b>   |
| Opening balance 1 July 2009      | -                       | 2,253                         | -                                       | -                 | -                                | 2,253          |
| Amortisation charge for the year | 100                     | 568                           | -                                       | -                 | 235                              | 903            |
| <b>Closing balance</b>           |                         |                               |   |                   |                                  |                |
| <b>30 June 2010</b>              | <b>100</b>              | <b>2,821</b>                  | <b>-</b>                                | <b>-</b>          | <b>235</b>                       | <b>3,156</b>   |
| Opening net book value           | -                       | 783                           | 12,901                                  | 11,147            | -                                | 24,831         |
| <b>Closing net book value</b>    | <b>1,900</b>            | <b>901</b>                    | <b>12,901</b>                           | <b>13,547</b>     | <b>7,790</b>                     | <b>37,039</b>  |

(i) The licence is held by the Company and represents the total intangible assets of the Holding Company.

On 17 August 2009, the Group acquired 100% of Equity Partners Asset Management Limited (EPAM). As part of this acquisition, an additional \$2.4m of goodwill and \$8.0m of management contracts have been recognised during the year. This goodwill includes the EPAM brand. See note 35 for further details.

### Impairment of intangible assets

Statutory right and brands are considered to have an indefinite life. The statutory right and brands of \$3.4m is allocated to Perpetual Trust Limited, which is included in the Trustee Services segment. Brands of \$9.5m are allocated to MARAC Financial Services Limited (MFSL) consolidated group which is included in the Financial Services segment. During the year 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 \$2.4m was allocated to Perpetual Group Limited (PGL) and \$11.1m 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, 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 year ended 30 June 2010 (2009: nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 24 Borrowings

|   | GROUP          |                  | HOLDING COMPANY |               |
|---|----------------|------------------|-----------------|---------------|
|   | 2010<br>\$000  | 2009<br>\$000    | 2010<br>\$000   | 2009<br>\$000 |
| Bank borrowings sourced from New Zealand        | 5,000          | 171,750          | -               | 21,450        |
| Debenture stock sourced from New Zealand        | 796,435        | 886,921          | -               | -             |
| Debenture stock sourced from overseas           | 32,946         | 29,310           | -               | -             |
| Securitised borrowings sourced from New Zealand | 149,298        | 150,728          | -               | -             |
| <b>Total borrowings</b>                         | <b>983,679</b> | <b>1,238,709</b> | <b>-</b>        | <b>21,450</b> |

The Group has bank facilities totalling \$353.3m (2009: \$532.5m). 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.

## 25 Other liabilities

|  | Note | GROUP          |               | HOLDING COMPANY |               |
|--|------|----------------|---------------|-----------------|---------------|
|  |      | 2010<br>\$000  | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Derivative financial liabilities             | 26   | 1,484          | 11,602        | -               | -             |
| Current tax                                  |      | 4,217          | 2,493         | 9               | -             |
| Trade payables                               |      | 100,102        | 26,903        | 2,576           | 2,080         |
| Insurance policy liabilities                 |      | -              | 2,441         | -               | -             |
| Related party payables                       | 28   | 2,524          | -             | 20              | 20            |
| Employee entitlements                        |      | 2,651          | 1,561         | 87              | 44            |
| Underwriting liability to subsidiary company | 28   | -              | -             | -               | 85,000        |
| Provision for retiring allowance             |      | 9              | 19            | 9               | 19            |
| <b>Total other liabilities</b>               |      | <b>110,987</b> | <b>45,019</b> | <b>2,701</b>    | <b>87,163</b> |

As at 30 June 2010, the Group's trade payables includes \$70.3m for the final settlement of the purchase of GMAC's retail motor vehicle financing book; refer note 7 for more information.

## 26 Derivative financial instruments

|   | GROUP         |               |
|---|---------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 |
| <b>Assets</b>                                 |               |               |
| Derivatives held for risk management          | 5,013         | 7,704         |
| <b>Total derivative financial assets</b>      | <b>5,013</b>  | <b>7,704</b>  |
| <b>Liabilities</b>                            |               |               |
| Qualifying cash flow hedges                   | 1,484         | 11,602        |
| <b>Total derivative financial liabilities</b> | <b>1,484</b>  | <b>11,602</b> |

Derivatives consist of interest rate swaps and options held to manage the Group's exposure to interest rate repricing risk on its interest bearing assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 26 Derivative financial instruments (continued)

The Group uses interest rate swaps to hedge the interest rate risk arising from both its current and future floating rate bank debt, and designates those swaps as qualifying cash flow hedges. The Group uses interest rate swaps to hedge the interest rate risk arising from fixed rate debenture stock and designates those swaps as qualifying fair value hedges.

As at 30 June 2010, a derivative financial liability of \$1.5m securitised derivatives are held in the name of the MARAC ABCP Trust 1 Securitisation (Trust) to hedge the interest rate risk arising in the Trust (2009: \$11.6m).

## 27 Special purpose entities

### **MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund**

The Group controls the operations of MARAC Retirement Bonds Superannuation Fund (MARAC Retirement Bonds), a superannuation scheme that invests in MARAC Finance Limited debenture stock and of MARAC PIE Fund, a portfolio investment fund that invests in MARAC Finance Limited. Investments by these funds are represented in debenture stock borrowings as follows.

|  | GROUP |        |
|--|-------|--------|
|  | 2010  | 2009   |
|  | \$000 | \$000  |
| MARAC Retirement Bonds Superannuation Fund | 5,922 | 21,348 |
| MARAC PIE Fund                             | 8,763 | 14,718 |

### **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     |           |
|-----------------------------------|-----------|-----------|
|                                   | 2010      | 2009      |
|                                   | \$000     | \$000     |
| Bank balance - Securitised        | 3,608     | 5,223     |
| Finance receivables - Securitised | 160,853   | 157,941   |
| Borrowings - Securitised          | (149,298) | (150,728) |

## 28 Related party transactions

### (a) Transactions with related parties

The Company provided underwriting, financial and administrative assistance and leased premises to MARAC Finance Limited (MARAC) and Perpetual Trust Limited during the year. All transactions were conducted on normal commercial terms and conditions. The underwrite of finance receivables by the Company is at no cost to MARAC.

The Group provided administrative assistance to MARAC Insurance Limited during the year.

### **Transfer of loans from MARAC to Real Estate Credit Limited**

In September 2009 MARAC entered into a sale and purchase agreement to transfer and assign legal and beneficial title to \$175m of non-performing loans to its parent company MARAC Financial Services Limited. The loans were subsequently transferred to Real Estate Credit Limited, a wholly owned subsidiary of Perpetual Group Limited. The Company is the parent of MARAC Financial Services Limited and Perpetual Group Limited.

The loans were transferred from MARAC at book value. In October 2009 the transfer was completed with MARAC Financial Services Limited paying \$125m in cash, and issuing a loan note of \$50m for the balance. As at 30 June 2010 the balance of the loan note is \$42.6m. The Company guarantees the obligations of MARAC Financial Services Limited under the loan note.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 28 Related party transactions (continued)

### Purchase of Equity Partners Asset Management Limited

During the period the Group purchased 100% of the share capital of EPAM. One of the former shareholders in EPAM is also a director and shareholder of the Group. See note 35 for further details.

|  | GROUP           |                 | HOLDING COMPANY |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2010<br>\$000   | 2009<br>\$000   | 2010<br>\$000   | 2009<br>\$000   |
| <b>Material transactions during the year with related parties were:</b>                  |                 |                 |                 |                 |
| Management fees and rent received from MARAC Finance Limited and Perpetual Trust Limited | -               | -               | 2,198           | 2,576           |
| Management fees received from MARAC Insurance Limited                                    | 25              | -               | -               | -               |
| Underwritten amount of finance receivables for MARAC Finance Limited                     | -               | -               | 85,000          | (85,000)        |
| Write down of associate's cost   | -               | -               | -               | (11,237)        |
| Compensation of key management personnel   | (5,775)         | (4,388)         | (3,190)         | (2,536)         |
| <b>Total</b>   | <b>(5,750)</b>  | <b>(4,388)</b>  | <b>84,008</b>   | <b>(96,197)</b> |
| <b>Material balances at year end with related parties were:</b>                          |                 |                 |                 |                 |
| Debenture stock held by MARAC Retirement Bonds   | (5,922)         | (21,348)        | -               | -               |
| Debenture stock held by MARAC PIE Fund   | (8,763)         | (14,718)        | -               | -               |
| Debenture stock held by MARAC Insurance Limited  | (2,524)         | -               | -               | -               |
| Finance receivables owing by PGG Wrightson Seeds Limited                                 | 633             | -               | -               | -               |
| Advances to subsidiaries   | -               | -               | 240,515         | 105,466         |
| Advances owing by related parties  | 25              | -               | -               | 36              |
| Advances owing to related parties  | -               | -               | (20)            | (20)            |
| Underwrite obligation due to MARAC Finance Limited                                       | -               | -               | -               | (85,000)        |
| <b>Total</b>   | <b>(16,551)</b> | <b>(36,066)</b> | <b>240,495</b>  | <b>20,482</b>   |

### (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 year as follows.

|   | GROUP         |               | HOLDING COMPANY |               |
|---|---------------|---------------|-----------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| <b>Debenture investing:</b>                                 |               |               |                 |               |
| Maximum balance   | 5,096         | 5,314         | -               | -             |
| Closing balance   | 721           | 1,997         | -               | -             |
| <b>Key management personnel compensation is as follows:</b> |               |               |                 |               |
| Short-term employee benefits                                | 5,618         | 4,166         | 3,151           | 2,464         |
| Share-based payments  | 157           | 222           | 39              | 72            |
| <b>Total</b>  | <b>5,775</b>  | <b>4,388</b>  | <b>3,190</b>    | <b>2,536</b>  |

## 29 Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability.

### Finance receivables

The fair value of the Group's finance receivables is calculated using a valuation technique which assumes current market interest rates for loans of a similar nature and term.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 29 Fair value (continued)

The current market rate used to fair value finance receivables with a fixed interest rate is 11.29% (2009: 10.72%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

### Other investments

The Group has determined that the fair value of other investments cannot be reliably determined as:

- there is no active market for the investments
- the variability in the range of reasonable fair value estimates is significant for each instrument
- the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

Consequently other investments are carried at cost, less allowance for impairment. The Group considers there is no objective evidence that an impairment loss has been incurred on these assets.

### Other financial assets and liabilities

The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short-term nature.

### Derivative items

The fair value of interest rate contracts is modelled using observable market inputs (Level 2 under the fair value hierarchy).

### Borrowings

The fair value of debenture stock, deposits, bank borrowings and other borrowings is based on the current market interest rates payable by the Group for debt of similar maturities.

|                                    | 2010                    |                     | 2009                    |                     |
|------------------------------------|-------------------------|---------------------|-------------------------|---------------------|
|                                    | Carrying Value<br>\$000 | Fair Value<br>\$000 | Carrying Value<br>\$000 | Fair Value<br>\$000 |
| <b>GROUP</b>                       |                         |                     |                         |                     |
| <b>Financial assets</b>            |                         |                     |                         |                     |
| Cash and cash equivalents          | 98,610                  | 98,610              | 62,342                  | 62,342              |
| Finance receivables                | 1,140,035               | 1,155,951           | 1,211,217               | 1,219,689           |
| Other investments                  | 30,250                  | 30,250              | 10                      | 10                  |
| Derivative financial assets        | 5,013                   | 5,013               | 7,704                   | 7,704               |
| Other financial assets             | 15,574                  | 15,574              | 6,635                   | 6,635               |
| <b>Total financial assets</b>      | <b>1,289,482</b>        | <b>1,305,398</b>    | <b>1,287,908</b>        | <b>1,296,380</b>    |
| <b>Financial liabilities</b>       |                         |                     |                         |                     |
| Borrowings                         | 983,679                 | 1,003,590           | 1,238,709               | 1,271,824           |
| Derivative financial liabilities   | 1,484                   | 1,484               | 11,602                  | 11,602              |
| Other financial liabilities        | 105,277                 | 105,277             | 30,905                  | 30,905              |
| <b>Total financial liabilities</b> | <b>1,090,440</b>        | <b>1,110,351</b>    | <b>1,281,216</b>        | <b>1,314,331</b>    |
| <b>HOLDING COMPANY</b>             |                         |                     |                         |                     |
| <b>Financial assets</b>            |                         |                     |                         |                     |
| Cash and cash equivalents          | 7,213                   | 7,213               | 51                      | 51                  |
| Advances to subsidiary companies   | 240,515                 | 240,515             | 105,466                 | 105,466             |
| Other financial assets             | 1,350                   | 1,350               | 42                      | 42                  |
| <b>Total financial assets</b>      | <b>249,078</b>          | <b>249,078</b>      | <b>105,559</b>          | <b>105,559</b>      |
| <b>Financial liabilities</b>       |                         |                     |                         |                     |
| Borrowings                         | -                       | -                   | 21,450                  | 21,450              |
| Other financial liabilities        | 2,683                   | 2,683               | 2,144                   | 2,144               |
| <b>Total financial liabilities</b> | <b>2,683</b>            | <b>2,683</b>        | <b>23,594</b>           | <b>23,594</b>       |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 30 Risk management policies

The Group is committed to the management of risk. The primary financial risks are credit, liquidity and interest rate. The Group's financial risk management strategy is set by the directors. The Group has put in place management structures and information systems to manage individual financial risks, has separated monitoring tasks where feasible and subjects all accounting systems to regular internal and external audit.

### **Management of capital**

Some members of the Group have minimum capital requirements which they are required to maintain in accordance with industry regulations, their Trust deeds and borrowing facilities. Each of these companies maintains an appropriate buffer above these ratios and reports these to its Board of Directors monthly.

## 31 Credit risk exposure

### **Credit risk management framework**

Credit risk is the risk of financial loss to the Group caused by the failure of a customer to meet their contractual obligations that arise from the Group's lending activities. Credit risk carries the greatest risk of resulting in a material adjustment to the carrying amounts of the Group's assets within the next financial period.

To manage this risk the Risk Committee, which is a sub committee of the Board of Directors (Board), has been delegated the task of overseeing a formal credit risk management strategy. The Risk Committee reviews the Group's credit risk exposures and has wide ranging credit policies to manage all aspects of credit risk.

### **Reviewing and assessing credit risk**

The credit risk management strategies ensure that:

- credit origination meets agreed levels of credit quality at point of approval
- sector and geographical risks are actively managed
- industry and product concentrations are actively monitored
- maximum total exposure to any one debtor is actively managed
- changes to credit risk are actively monitored with regular credit reviews.

### **Lending standards and processes**

The Group has adopted a detailed Credit Policy framework supported by Lending Standards providing criteria for finance products within each business sector. The combination of Credit Policy and Lending Standards guides credit assessment, credit risk grading, documentation standards, legal procedures and compliance with regulatory and statutory requirements.

The Risk Committee has authority from the Board for approval of all credit exposures. Lending authority has been individually provided to the Chief Risk Officer, for delegation through the business units under a detailed Delegated Discretionary Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure. Lending Discretions are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, ultimately through to the Chief Risk Officer or the Risk Committee of the Board.

### **Collateral requirements**

Although the Group relies primarily on the integrity of borrowers and their ability to make contracted repayments, the Group also requires appropriate collateral for loans. This collateral is usually by way of first charge over the asset financed and generally includes personal guarantees from borrowers and business owners.

Because of the wide nature of the collateral held against loans it is impracticable to provide an accurate estimate of their fair value.

### **Credit risk rating**

The Group's receivables are monitored either by account behaviour or a regular assessment of their credit risk rating based on an objective review of defined risk characteristics. The portfolio risk is regularly refreshed based on current information.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 31 Credit risk exposure (continued)

Exposures to credit risk are graded by an internal risk rating mechanism. Grade 1 is the strongest risk grade for undoubted risk. Grade 7 represents the highest risk grade where a loss is probable. Grades 2 to 6 represent ascending steps in management's assessment of riskiness of exposures. The Company typically finances new loans in risk grades 2 and 3.

The Group classifies finance receivables as Transactional or Relationship. Transactional loans usually relate to financing the acquisition of a single asset. These loans are typically introduced by vendors of the asset financed and are smaller in value than Relationship loans. Transactional loans are risk graded based on arrears status.

Relationship loans relate to transactions where an ongoing and detailed working relationship with the customer has been developed. To manage Relationship loans the Company maintains a comprehensive knowledge of the customer's business and performance. Relationship loans are individually risk rated based on loan status, financial information, security and debt servicing ability. Relationship loans in grade 7 are individually assessed for impairment.

### (a) Credit impairment provisioning

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. These provisions are made in some cases against an individual loan and in other cases on a collective basis.

#### **Collective provisioning**

Relationship loans in grades 4 to 6 and Transactional loans in grades 4 to 7 attract a collective provision. These provisions are made against an individual loan. Collective provisions are also maintained where considered appropriate against a class of loan or those with common risk characteristics on a collective basis. Relationship loans with a risk grade of 1 to 3 may be past due and not attract a provision if the Group has reviewed the risk position and it is deemed to remain sound. Under such circumstances normally an amended credit risk rating will be the consequence.

Collective provisions are assessed with reference to risk profile groupings and historical loss data. Other judgemental factors including economic and credit cycle considerations are also taken into account in determining appropriate loss propensities to be applied. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the wider economic environment, interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

In accordance with International Financial Reporting Standards, no provision is applied to loans that are newly written and loans that remain within their contractual terms, except where the Group becomes aware of an event that might alter its view of the risk of a particular deal or group of deals.

#### **Individual provisioning**

Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. For individually significant loans for which the assessed risk grade is considered a "potential loss", an individual assessment is made of an appropriate provision for credit impairment.

Credit impairments are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the likely realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgement can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken. Changes in judgement could have a material impact on the financial statements.

Individual provisioning in regards to property development lending creates the greatest amount of risk resulting in the possibility of a material adjustment to the carrying amounts of the Group's assets within the next period. Estimating the timing and amount of future cash repayments and proceeds from the realisation of collateral are management's most difficult and subjective judgements. Reduced demand in the current environment has meant that value is difficult to determine. Subjective judgements made by management comprise the time taken for new sales being achieved and the amount received, determining the timing and amount of future cash flows.

Because of the wide nature of the collateral held and the subjective judgements in determining future cash flows on each individually impaired loan, it is impracticable to provide management's assumptions in regards to property receivables as a whole.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 31 Credit risk exposure (continued)

### Bad debts

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.

### Verification

In addition to regular internal audit activity in regards to credit standards, the Group employs a comprehensive process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

Disclosures in this credit risk exposure note represent the Group's maximum exposure to credit risk.

### (i) Provision for impaired assets

|   | Property<br>\$000 | Consumer<br>& personal<br>\$000 | All other<br>industries<br>(SME)<br>\$000 | Total<br>\$000 |
|---|-------------------|---------------------------------|---|----------------|
| <b>2010 – GROUP</b>                               |                   |                                 |   |                |
| <b>Provision for individually impaired assets</b> |                   |                                 |   |                |
| Opening individual impairment                     | 86,460            | -                               | 6,024                                     | 92,484         |
| Impairment loss for the year                      |                   |                                 |   |                |
| - charge for the year                             | 16,947            | 7                               | 6,655                                     | 23,609         |
| - write offs                                      | (89,631)          | -                               | (2,646)                                   | (92,277)       |
| - effect of discounting                           | (1,532)           | -                               | (921)                                     | (2,453)        |
| <b>Closing individual impairment</b>              | <b>12,244</b>     | <b>7</b>                        | <b>9,112</b>                              | <b>21,363</b>  |
| <b>Provision for collectively impaired assets</b> |                   |                                 |   |                |
| Opening collective impairment                     | -                 | 3,791                           | 1,781                                     | 5,572          |
| Impairment loss for the year                      |                   |                                 |   |                |
| - charge for the year                             | 4,532             | 1,686                           | 2,003                                     | 8,221          |
| - recoveries                                      | -                 | 165                             | 179                                       | 344            |
| - assumed on acquisition of book                  | -                 | 2,250                           | -   | 2,250          |
| - write offs                                      | (69)              | (2,277)                         | (1,524)                                   | (3,870)        |
| <b>Closing collective impairment</b>              | <b>4,463</b>      | <b>5,615</b>                    | <b>2,439</b>                              | <b>12,517</b>  |
| <b>Total provision for impairment</b>             | <b>16,707</b>     | <b>5,622</b>                    | <b>11,551</b>                             | <b>33,880</b>  |
| <b>2009 – GROUP</b>                               |                   |                                 |   |                |
| <b>Provision for individually impaired assets</b> |                   |                                 |   |                |
| Opening individual impairment                     | 1,975             | -                               | 1,928                                     | 3,903          |
| Impairment loss for the year                      |                   |                                 |   |                |
| - charge for the year                             | 90,108            | -                               | 5,673                                     | 95,781         |
| - write offs                                      | (4,866)           | -                               | (1,085)                                   | (5,951)        |
| - effect of discounting                           | (757)             | -                               | (492)                                     | (1,249)        |
| <b>Closing individual impairment</b>              | <b>86,460</b>     | <b>-</b>                        | <b>6,024</b>                              | <b>92,484</b>  |
| <b>Provision for collectively impaired assets</b> |                   |                                 |   |                |
| Opening collective impairment                     | 2,344             | 1,338                           | 2,802                                     | 6,484          |
| Impairment loss for the year                      |                   |                                 |   |                |
| - charge for the year                             | (2,330)           | 5,817                           | (634)                                     | 2,853          |
| - recoveries                                      | -                 | 151                             | 35  | 186            |
| - write offs                                      | (14)              | (3,515)                         | (422)                                     | (3,951)        |
| <b>Closing collective impairment</b>              | <b>-</b>          | <b>3,791</b>                    | <b>1,781</b>                              | <b>5,572</b>   |
| <b>Total provision for impairment</b>             | <b>86,460</b>     | <b>3,791</b>                    | <b>7,805</b>                              | <b>98,056</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 31 Credit risk exposure (continued)

### (ii) Individually impaired assets

|   | Property<br>\$000 | Consumer<br>& personal<br>\$000 | All other<br>industries<br>(SME)<br>\$000 | Total<br>\$000 |
|---|-------------------|---------------------------------|---|----------------|
| <b>2010 – GROUP</b>                               |                   |                                 |   |                |
| Opening   | 180,573           | -                               | 17,406                                    | 197,979        |
| Additions   | 30,480            | 15                              | 11,215                                    | 41,710         |
| Deletions   | (61,546)          | -                               | (11,095)                                  | (72,641)       |
| <b>Closing gross individually impaired assets</b> | <b>149,507</b>    | <b>15</b>                       | <b>17,526</b>                             | <b>167,048</b> |
| <b>2009 – GROUP</b>                               |                   |                                 |   |                |
| Opening   | 15,152            | -                               | 5,255                                     | 20,407         |
| Additions   | 180,573           | -                               | 15,780                                    | 196,353        |
| Deletions   | (15,152)          | -                               | (3,629)                                   | (18,781)       |
| <b>Closing gross individually impaired assets</b> | <b>180,573</b>    | <b>-</b>                        | <b>17,406</b>                             | <b>197,979</b> |

Included in deletions for the year ended 30 June 2010, is \$41.8m of investment property which was acquired as a result of enforcement of security over finance receivables in RECL; refer note 17.

### (iii) Restructured assets

|                     | GROUP         |               |
|---------------------|---------------|---------------|
|                     | 2010<br>\$000 | 2009<br>\$000 |
| Restructured assets | 3,234         | 2,805         |

### (iv) Past due but not impaired

|  | Property<br>\$000 | Consumer<br>& personal<br>\$000 | All other<br>industries<br>(SME)<br>\$000 | Total<br>\$000 |
|--|-------------------|---------------------------------|---|----------------|
| <b>2010 – GROUP</b>                    |                   |                                 |   |                |
| Less than 30 days old                  | 1,229             | 6,450                           | 7,777                                     | 15,456         |
| 31 and less than 60 days old           | 15,690            | 2,566                           | 14,622                                    | 32,878         |
| 61 but less than 90 days old           | 2,702             | 847                             | 5,663                                     | 9,212          |
| More than 90 days old                  | 48,067            | 3,271                           | 10,035                                    | 61,373         |
| <b>Total past due but not impaired</b> | <b>67,688</b>     | <b>13,134</b>                   | <b>38,097</b>                             | <b>118,919</b> |
| <b>2009 – GROUP</b>                    |                   |                                 |   |                |
| Less than 30 days old                  | 16,597            | 8,608                           | 18,741                                    | 43,946         |
| 31 and less than 60 days old           | 26,193            | 3,458                           | 10,840                                    | 40,491         |
| 61 but less than 90 days old           | 4,292             | 2,536                           | 25,071                                    | 31,899         |
| More than 90 days old                  | 13,920            | 5,074                           | 10,679                                    | 29,673         |
| <b>Total past due but not impaired</b> | <b>61,002</b>     | <b>19,676</b>                   | <b>65,331</b>                             | <b>146,009</b> |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 31 Credit risk exposure (continued)

### (b) Concentrations of credit risk

|   | GROUP                    |      |
|---|--------------------------|------|
|   | 2010                     | 2009 |
|   | Number of Counterparties |      |
| <b>(i) By individual counterparties</b>         |                          |      |
| Individual credit exposures (as a % of equity): |                          |      |
| 10% and over – cash and cash equivalents        | 1                        | 2    |
| 10% and over – finance receivables              | -                        | 2    |

|                                      | GROUP            |                  |
|--------------------------------------|------------------|------------------|
|                                      | 2010             | 2009             |
|                                      | \$000            | \$000            |
| <b>(ii) By industry</b>              |                  |                  |
| Agricultural, forestry and fishing   | 93,298           | 94,385           |
| Government and public authorities    | 20,930           | 25,325           |
| Financial, investments and insurance | 28,460           | 34,024           |
| Construction                         | 65,838           | 79,526           |
| Transport and storage                | 88,554           | 88,951           |
| Wholesale and retail trade           | 183,316          | 169,871          |
| Hospitality and tourism              | 38,291           | 56,148           |
| Manufacturing and printing           | 42,075           | 43,844           |
| Property                             | 187,884          | 281,374          |
| Consumer & personal                  | 391,389          | 337,769          |
| <b>Total finance receivables</b>     | <b>1,140,035</b> | <b>1,211,217</b> |

Australian and New Zealand Standard Industrial Classification (ANZSIC) codes have been used as the basis for disclosing industry sectors.

|                                   | GROUP            |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2010             | 2009             |
|                                   | \$000            | \$000            |
| <b>(iii) By geographic region</b> |                  |                  |
| Auckland                          | 444,271          | 500,786          |
| Wellington                        | 111,764          | 128,887          |
| Rest of North Island              | 336,838          | 324,787          |
| Canterbury                        | 124,718          | 139,665          |
| Rest of South Island              | 122,444          | 117,092          |
| <b>Total finance receivables</b>  | <b>1,140,035</b> | <b>1,211,217</b> |

### (c) Exposure to credit risk by internal risk grading

|  | Property<br>\$000 | Consumer<br>& personal<br>\$000 | All other<br>industries<br>(SME)<br>\$000 | Total            |
|--|-------------------|---------------------------------|---|------------------|
|  |                   |                                 |   | \$000            |
| <b>2010 – GROUP</b>                          |                   |                                 |   |                  |
| Grade 1 - Undoubted                          | -                 | 52                              | 62  | 114              |
| Grade 2 - Strong                             | 25,200            | 892                             | 15,376                                    | 41,468           |
| Grade 3 - Sound                              | 35,529            | 389,424                         | 427,871                                   | 852,824          |
| Grade 4 - Satisfactory                       | 48,229            | 551                             | 60,217                                    | 108,997          |
| Grade 5 - Uncertain                          | 17,268            | 384                             | 36,093                                    | 53,745           |
| Grade 6 - At risk                            | 9,085             | 73                              | 9,876                                     | 19,034           |
| Grade 7 - Loss                               | 52,573            | 13                              | 11,267                                    | 63,853           |
| <b>Total maximum exposure to credit risk</b> | <b>187,884</b>    | <b>391,389</b>                  | <b>560,762</b>                            | <b>1,140,035</b> |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 31 Credit risk exposure (continued)

|  | Property<br>\$000 | Consumer<br>& personal<br>\$000 | All other<br>industries<br>(SME)<br>\$000 | Total<br>\$000   |
|--|-------------------|---------------------------------|---|------------------|
| <b>2009 – GROUP</b>                          |                   |                                 |   |                  |
| Grade 1 - Undoubted                          | -                 | -                               | 146                                       | 146              |
| Grade 2 - Strong                             | 82,405            | 122                             | 15,995                                    | 98,522           |
| Grade 3 - Sound                              | 92,368            | 336,231                         | 485,197                                   | 913,796          |
| Grade 4 - Satisfactory                       | 10,512            | 1,220                           | 50,120                                    | 61,852           |
| Grade 5 - Uncertain                          | 294               | 161                             | 20,368                                    | 20,823           |
| Grade 6 - At risk                            | 222               | 35                              | 2,569                                     | 2,826            |
| Grade 7 - Loss                               | 95,573            | -                               | 17,679                                    | 113,252          |
| <b>Total maximum exposure to credit risk</b> | <b>281,374</b>    | <b>337,769</b>                  | <b>592,074</b>                            | <b>1,211,217</b> |

Within the property division, as at 30 June 2010, \$108m (2009: \$240m) of the Company's property loans were secured by a first ranking mortgage, and \$80m (2009: \$126m) by a second ranking mortgage or lower ranking security.

### (d) Commitments to extend credit

|   | GROUP         |               |
|---|---------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 |
| Undrawn facilities available to customers       | 70,495        | 74,570        |
| Conditional commitments to fund at future dates | 18,499        | 33,996        |

## 32 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments, and arises from any mismatch of the maturity of financial assets and liabilities. Responsibility for liquidity management is delegated to MARAC's Asset and Liability Committee (ALCO).

The Group manages liquidity and funding risk by:

- daily liquidity reporting and scenario analysis to quantify the Group's current and forecast position
- maintaining a diverse and stable funding base
- retaining borrowing facilities committed to the Group by registered banks
- holding a portfolio of liquid assets
- ensuring the liquidity management framework is compliant with local regulatory requirements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 32 Liquidity risk (continued)

### Contractual liquidity profile of financial assets and liabilities

|                                    | On<br>demand<br>\$000 | 0-6<br>Months<br>\$000 | 6-12<br>Months<br>\$000 | 1-2<br>Years<br>\$000 | 2-5<br>Years<br>\$000 | 5+<br>Years<br>\$000 | Total<br>\$000   |
|------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|-----------------------|----------------------|------------------|
| <b>2010 – GROUP</b>                |                       |                        |                         |                       |                       |                      |                  |
| <b>Financial assets</b>            |                       |                        |                         |                       |                       |                      |                  |
| Finance receivables                | -                     | 438,847                | 225,062                 | 314,349               | 374,563               | 223                  | 1,353,044        |
| Other investments                  | -                     | -                      | -                       | -                     | -                     | 30,250               | 30,250           |
| Derivative financial assets        | 5,013                 | -                      | -                       | -                     | -                     | -                    | 5,013            |
| Other financial assets             | 80,027                | 31,376                 | -                       | -                     | -                     | 2,781                | 114,184          |
| <b>Total financial assets</b>      | <b>85,040</b>         | <b>470,223</b>         | <b>225,062</b>          | <b>314,349</b>        | <b>374,563</b>        | <b>33,254</b>        | <b>1,502,491</b> |
| <b>Financial liabilities</b>       |                       |                        |                         |                       |                       |                      |                  |
| Borrowings                         | 62,899                | 340,760                | 355,704                 | 152,395               | 143,151               | -                    | 1,054,909        |
| Derivative financial liabilities   | 1,484                 | -                      | -                       | -                     | -                     | -                    | 1,484            |
| Other financial liabilities        | 1,342                 | 102,149                | 652                     | 544                   | -                     | 590                  | 105,277          |
| <b>Total financial liabilities</b> | <b>65,725</b>         | <b>442,909</b>         | <b>356,356</b>          | <b>152,939</b>        | <b>143,151</b>        | <b>590</b>           | <b>1,161,670</b> |
| Unrecognised loan commitments      | 70,495                | -                      | -                       | -                     | -                     | -                    | 70,495           |
| Undrawn committed bank facilities  | 198,250               | -                      | -                       | -                     | -                     | -                    | 198,250          |

The undrawn committed bank facilities totalling \$198.3m are available to be drawn down on demand. To the extent drawn, \$0.5m is contractually repayable on demand, with the remainder, \$197.8m repayable in 6-12 months' time upon facility expiry.

|                                    | On<br>demand<br>\$000 | 0-6<br>Months<br>\$000 | 6-12<br>Months<br>\$000 | 1-2<br>Years<br>\$000 | 2-5<br>Years<br>\$000 | 5+<br>Years<br>\$000 | Total<br>\$000   |
|------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|-----------------------|----------------------|------------------|
| <b>2009 – GROUP</b>                |                       |                        |                         |                       |                       |                      |                  |
| <b>Financial assets</b>            |                       |                        |                         |                       |                       |                      |                  |
| Finance receivables                | -                     | 571,747                | 239,853                 | 301,854               | 356,577               | 9,134                | 1,479,165        |
| Derivative financial assets        | 7,704                 | -                      | -                       | -                     | -                     | -                    | 7,704            |
| Other financial assets             | 62,342                | 6,645                  | -                       | -                     | -                     | -                    | 68,987           |
| <b>Total financial assets</b>      | <b>70,046</b>         | <b>578,392</b>         | <b>239,853</b>          | <b>301,854</b>        | <b>356,577</b>        | <b>9,134</b>         | <b>1,555,856</b> |
| <b>Financial liabilities</b>       |                       |                        |                         |                       |                       |                      |                  |
| Borrowings                         | 38,012                | 392,578                | 479,598                 | 177,515               | 225,569               | -                    | 1,313,272        |
| Derivative financial liabilities   | 11,602                | -                      | -                       | -                     | -                     | -                    | 11,602           |
| Other financial liabilities        | 868                   | 30,143                 | 645                     | 562                   | 106                   | -                    | 32,324           |
| <b>Total financial liabilities</b> | <b>50,482</b>         | <b>422,721</b>         | <b>480,243</b>          | <b>178,077</b>        | <b>225,675</b>        | <b>-</b>             | <b>1,357,198</b> |
| Unrecognised loan commitments      | 74,570                | -                      | -                       | -                     | -                     | -                    | 74,570           |
| Undrawn committed bank facilities  | 211,311               | -                      | -                       | -                     | -                     | -                    | 211,311          |

The undrawn committed bank facilities totalling \$211.3 million are available to be drawn down on demand. To the extent drawn, \$25.6 million is contractually repayable on demand, \$23.5m repayable within 0-6 months, \$90.2m repayable within 6-12 months and the remainder, \$72.0m repayable in 1-2 years' time, upon expiry of each facility.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 32 Liquidity risk (continued)

|                                    | On<br>demand<br>\$000 | 0-6<br>Months<br>\$000 | 6-12<br>Months<br>\$000 | 1-2<br>Years<br>\$000 | 2-5<br>Years<br>\$000 | 5+<br>Years<br>\$000 | Total<br>\$000 |
|------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|-----------------------|----------------------|----------------|
| <b>2010 – HOLDING COMPANY</b>      |                       |                        |                         |                       |                       |                      |                |
| <b>Financial assets</b>            |                       |                        |                         |                       |                       |                      |                |
| Cash and cash equivalents          | 7,213                 | -                      | -                       | -                     | -                     | -                    | 7,213          |
| Advances to subsidiary companies   | 240,515               | -                      | -                       | -                     | -                     | -                    | 240,515        |
| Other financial assets             | -                     | 1,350                  | -                       | -                     | -                     | -                    | 1,350          |
| <b>Total financial assets</b>      | <b>247,728</b>        | <b>1,350</b>           | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>-</b>             | <b>249,078</b> |
| <b>Financial liabilities</b>       |                       |                        |                         |                       |                       |                      |                |
| Other financial liabilities        | -                     | 2,683                  | -                       | -                     | -                     | -                    | 2,683          |
| <b>Total financial liabilities</b> | <b>-</b>              | <b>2,683</b>           | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>-</b>             | <b>2,683</b>   |
| <b>2009 – HOLDING COMPANY</b>      |                       |                        |                         |                       |                       |                      |                |
| <b>Financial assets</b>            |                       |                        |                         |                       |                       |                      |                |
| Cash and cash equivalents          | 51                    | -                      | -                       | -                     | -                     | -                    | 51             |
| Advances to subsidiary companies   | 105,466               | -                      | -                       | -                     | -                     | -                    | 105,466        |
| Other financial assets             | -                     | 42                     | -                       | -                     | -                     | -                    | 42             |
| <b>Total financial assets</b>      | <b>105,517</b>        | <b>42</b>              | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>-</b>             | <b>105,559</b> |
| <b>Financial liabilities</b>       |                       |                        |                         |                       |                       |                      |                |
| Borrowings                         | -                     | 21,450                 | -                       | -                     | -                     | -                    | 21,450         |
| Other financial liabilities        | -                     | 2,144                  | -                       | -                     | -                     | -                    | 2,144          |
| <b>Total financial liabilities</b> | <b>-</b>              | <b>23,594</b>          | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>-</b>             | <b>23,594</b>  |
| Undrawn committed bank facilities  | 23,550                | -                      | -                       | -                     | -                     | -                    | 23,550         |

The undrawn committed bank facilities totalling \$23.6m are available to be drawn down on demand. To the extent drawn, \$23.6m is contractually repayable within 0-6 months upon the facility expiry.

The tables above show the cash flows of the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

In the tables above, total financial assets do not include unrecognised loan commitments, and total financial liabilities do not include undrawn committed bank facilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 32 Liquidity risk (continued)

### Expected maturity profile of financial assets and liabilities

|                                    | On<br>demand<br>\$000 | 0-6<br>Months<br>\$000 | 6-12<br>Months<br>\$000 | 1-2<br>Years<br>\$000 | 2-5<br>Years<br>\$000 | 5+<br>Years<br>\$000 | Total<br>\$000   |
|------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|-----------------------|----------------------|------------------|
| <b>2010 – GROUP</b>                |                       |                        |                         |                       |                       |                      |                  |
| <b>Financial assets</b>            |                       |                        |                         |                       |                       |                      |                  |
| Finance receivables                | -                     | 397,855                | 293,921                 | 368,725               | 309,137               | -                    | 1,369,638        |
| Other investments                  | -                     | -                      | -                       | -                     | -                     | 30,250               | 30,250           |
| Derivative financial assets        | 5,013                 | -                      | -                       | -                     | -                     | -                    | 5,013            |
| Other financial assets             | 80,027                | 31,376                 | -                       | -                     | -                     | 2,781                | 114,184          |
| <b>Total financial assets</b>      | <b>85,040</b>         | <b>429,231</b>         | <b>293,921</b>          | <b>368,725</b>        | <b>309,137</b>        | <b>33,031</b>        | <b>1,519,085</b> |
| <b>Financial liabilities</b>       |                       |                        |                         |                       |                       |                      |                  |
| Borrowings                         | 25,160                | 267,929                | 295,377                 | 254,617               | 220,261               | 641                  | 1,063,985        |
| Derivative financial liabilities   | 1,484                 | -                      | -                       | -                     | -                     | -                    | 1,484            |
| Other financial liabilities        | 1,342                 | 102,149                | 652                     | 544                   | -                     | 590                  | 105,277          |
| <b>Total financial liabilities</b> | <b>27,986</b>         | <b>370,078</b>         | <b>296,029</b>          | <b>255,161</b>        | <b>220,261</b>        | <b>1,231</b>         | <b>1,170,746</b> |
| Unrecognised loan commitments      | 70,495                | -                      | -                       | -                     | -                     | -                    | 70,495           |
| Undrawn committed bank facilities  | 198,250               | -                      | -                       | -                     | -                     | -                    | 198,250          |
| <b>2009 – GROUP</b>                |                       |                        |                         |                       |                       |                      |                  |
| <b>Financial assets</b>            |                       |                        |                         |                       |                       |                      |                  |
| Finance receivables                | -                     | 442,811                | 360,115                 | 360,240               | 299,530               | -                    | 1,462,696        |
| Derivative financial assets        | 7,704                 | -                      | -                       | -                     | -                     | -                    | 7,704            |
| Other financial assets             | 62,342                | 6,645                  | -                       | -                     | -                     | -                    | 68,987           |
| <b>Total financial assets</b>      | <b>70,046</b>         | <b>449,456</b>         | <b>360,115</b>          | <b>360,240</b>        | <b>299,530</b>        | <b>-</b>             | <b>1,539,387</b> |
| <b>Financial liabilities</b>       |                       |                        |                         |                       |                       |                      |                  |
| Borrowings                         | 38,880                | 220,567                | 388,777                 | 285,005               | 392,208               | 50,039               | 1,375,476        |
| Derivative financial liabilities   | 11,602                | -                      | -                       | -                     | -                     | -                    | 11,602           |
| Other financial liabilities        | 868                   | 30,143                 | 645                     | 562                   | 106                   | -                    | 32,324           |
| <b>Total financial liabilities</b> | <b>51,350</b>         | <b>250,710</b>         | <b>389,422</b>          | <b>285,567</b>        | <b>392,314</b>        | <b>50,039</b>        | <b>1,419,402</b> |
| Unrecognised loan commitments      | 74,570                | -                      | -                       | -                     | -                     | -                    | 74,570           |
| Undrawn committed bank facilities  | 211,311               | -                      | -                       | -                     | -                     | -                    | 211,311          |

The tables above show management's expected maturities of existing financial assets and financial liabilities. Expected maturities of financial assets are based on management's best estimate having regard to current market conditions and past experience. Historical debenture reinvestment levels have been applied to debenture borrowings. Other financial liabilities reflect contractual maturities.

The expected maturity of finance receivables includes recoveries from receivables converted into investment property through enforcement of security.

The above does not reflect a forward looking view of how the Group expects actual financial assets and liabilities to perform in the future, as the above does not include new lending and borrowing.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 33 Interest rate risk

Interest rate risk is the risk that market interest rates will change and impact on the Group's financial results by affecting the margin between interest earning assets and interest bearing liabilities. The Group monitors market interest rates on a daily basis and regularly reviews interest rate exposure. Interest rate risk is mitigated by management's frequent monitoring of the interest rate repricing profiles of finance borrowings and finance receivables and where appropriate the establishment of derivative instruments.

### Contractual repricing analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

|  | Effective<br>Int Rate<br>% | 0-6<br>Months<br>\$000 | 6-12<br>Months<br>\$000 | 1-2<br>Years<br>\$000 | 2-5<br>Years<br>\$000 | Total<br>\$000   |
|--|----------------------------|------------------------|-------------------------|-----------------------|-----------------------|------------------|
| <b>2010 – GROUP</b>                            |                            |                        |                         |                       |                       |                  |
| <b>Financial assets</b>                        |                            |                        |                         |                       |                       |                  |
| Cash and cash equivalents                      | 2.91%                      | 98,610                 | -                       | -                     | -                     | 98,610           |
| Finance receivables                            | 11.01%                     | 473,805                | 235,332                 | 278,760               | 152,138               | 1,140,035        |
| Other investments                              | -                          | -                      | -                       | -                     | 30,250                | 30,250           |
| Derivative financial assets                    | -                          | 5,013                  | -                       | -                     | -                     | 5,013            |
| Other financial assets                         | -                          | 12,793                 | -                       | -                     | 2,781                 | 15,574           |
| <b>Total financial assets</b>                  |                            | <b>590,221</b>         | <b>235,332</b>          | <b>278,760</b>        | <b>185,169</b>        | <b>1,289,482</b> |
| <b>Financial liabilities</b>                   |                            |                        |                         |                       |                       |                  |
| Borrowings                                     | 7.24%                      | 529,099                | 185,346                 | 133,931               | 135,303               | 983,679          |
| Derivative financial liabilities               | -                          | 1,484                  | -                       | -                     | -                     | 1,484            |
| Other financial liabilities                    | -                          | 104,035                | 652                     | -                     | 590                   | 105,277          |
| <b>Total financial liabilities</b>             |                            | <b>634,618</b>         | <b>185,998</b>          | <b>133,931</b>        | <b>135,893</b>        | <b>1,090,440</b> |
| Effect of derivatives held for risk management |                            | 46,020                 | (32,120)                | (49,580)              | 35,680                | -                |
| <b>Net financial assets</b>                    |                            | <b>1,623</b>           | <b>17,214</b>           | <b>95,249</b>         | <b>84,956</b>         | <b>199,042</b>   |
| <b>2009 – GROUP</b>                            |                            |                        |                         |                       |                       |                  |
| <b>Financial assets</b>                        |                            |                        |                         |                       |                       |                  |
| Cash and cash equivalents                      | 3.75%                      | 62,342                 | -                       | -                     | -                     | 62,342           |
| Finance receivables                            | 11.76%                     | 376,605                | 320,972                 | 311,084               | 202,556               | 1,211,217        |
| Derivative financial assets                    | -                          | 7,704                  | -                       | -                     | -                     | 7,704            |
| Other financial assets                         | -                          | 6,645                  | -                       | -                     | -                     | 6,645            |
| <b>Total financial assets</b>                  |                            | <b>453,296</b>         | <b>320,972</b>          | <b>311,084</b>        | <b>202,556</b>        | <b>1,287,908</b> |
| <b>Financial liabilities</b>                   |                            |                        |                         |                       |                       |                  |
| Borrowings                                     | 7.00%                      | 671,985                | 268,086                 | 79,185                | 219,453               | 1,238,709        |
| Derivative financial liabilities               | -                          | 11,602                 | -                       | -                     | -                     | 11,602           |
| Other financial liabilities                    | -                          | 30,905                 | -                       | -                     | -                     | 30,905           |
| <b>Total financial liabilities</b>             |                            | <b>714,492</b>         | <b>268,086</b>          | <b>79,185</b>         | <b>219,453</b>        | <b>1,281,216</b> |
| Effect of derivatives held for risk management |                            | 93,620                 | (81,640)                | (50,460)              | 38,480                | -                |
| <b>Net financial assets</b>                    |                            | <b>(167,576)</b>       | <b>(28,754)</b>         | <b>181,439</b>        | <b>21,583</b>         | <b>6,692</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 33 Interest rate risk (continued)

|                                    | Effective<br>Int Rate<br>% | 0-6<br>Months<br>\$000 | 6-12<br>Months<br>\$000 | 1-2<br>Years<br>\$000 | 2-5<br>Years<br>\$000 | Total<br>\$000 |
|------------------------------------|----------------------------|------------------------|-------------------------|-----------------------|-----------------------|----------------|
| <b>2010 – HOLDING COMPANY</b>      |                            |                        |                         |                       |                       |                |
| <b>Financial assets</b>            |                            |                        |                         |                       |                       |                |
| Cash and cash equivalents          | 2.74%                      | 7,213                  | -                       | -                     | -                     | 7,213          |
| Advances to subsidiaries           | -                          | 240,515                | -                       | -                     | -                     | 240,515        |
| Other financial assets             | -                          | 1,350                  | -                       | -                     | -                     | 1,350          |
| <b>Total financial assets</b>      |                            | <b>249,078</b>         | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>249,078</b> |
| <b>Financial liabilities</b>       |                            |                        |                         |                       |                       |                |
| Other financial liabilities        | -                          | 2,683                  | -                       | -                     | -                     | 2,683          |
| <b>Total financial liabilities</b> |                            | <b>2,683</b>           | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>2,683</b>   |
| <b>Net financial assets</b>        |                            | <b>246,395</b>         | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>246,395</b> |
| <b>2009 – HOLDING COMPANY</b>      |                            |                        |                         |                       |                       |                |
| <b>Financial assets</b>            |                            |                        |                         |                       |                       |                |
| Cash and cash equivalents          | -                          | 51                     | -                       | -                     | -                     | 51             |
| Advances to subsidiaries           | -                          | 105,466                | -                       | -                     | -                     | 105,466        |
| Other financial assets             | -                          | 42                     | -                       | -                     | -                     | 42             |
| <b>Total financial assets</b>      |                            | <b>105,559</b>         | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>105,559</b> |
| <b>Financial liabilities</b>       |                            |                        |                         |                       |                       |                |
| Borrowings                         | 3.68%                      | 21,450                 | -                       | -                     | -                     | 21,450         |
| Other financial liabilities        | -                          | 2,144                  | -                       | -                     | -                     | 2,144          |
| <b>Total financial liabilities</b> |                            | <b>23,594</b>          | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>23,594</b>  |
| <b>Net financial assets</b>        |                            | <b>81,965</b>          | <b>-</b>                | <b>-</b>              | <b>-</b>              | <b>81,965</b>  |

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve.

There is no material impact on profit or loss or equity in terms of fair value change from an increase or decrease in market interest rates. Further, there is no material cash flow impact on the Statement of Cash Flows from a 100 basis point change in interest rates.

## 34 Contingent liabilities and commitments

|   | GROUP         |               | HOLDING COMPANY |               |
|---|---------------|---------------|-----------------|---------------|
|   | 2010<br>\$000 | 2009<br>\$000 | 2010<br>\$000   | 2009<br>\$000 |
| Letters of credit, guarantees and performance bonds | 6,772         | 8,206         | 75              | 75            |
| Commitments to further investment                   | 750           | -             | -               | -             |
| Capital commitments                                 | 227           | -             | -               | -             |
| Bank guarantee - Perpetual Trust Limited            | -             | -             | 3,000           | 3,000         |
| <b>Total contingent liabilities</b>                 | <b>7,749</b>  | <b>8,206</b>  | <b>3,075</b>    | <b>3,075</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 35 Acquisition of subsidiary

### **Business combination**

In August 2009 the Group obtained control of Equity Partners Asset Management Limited (EPAM), an investment company, by acquiring 100% of the shares and voting interests in the company.

Taking control of EPAM enabled the Group to develop its asset management strategy and provided the Group with specialist investment and credit knowledge.

In the 10 months to 30 June 2010 EPAM contributed revenue of \$5.6m and profit of \$3.7m. If the acquisition had occurred on 1 July 2009, there would have been no materially different impact on the Group revenue or profit.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

### **Consideration transferred**

|                            | <b>GROUP</b>  |
|----------------------------|---------------|
|                            | <b>2010</b>   |
|                            | <b>\$000</b>  |
| Cash                       | 18,198        |
| <b>Total consideration</b> | <b>18,198</b> |

The purchase price for EPAM was \$18.2m, but the purchase price may be reduced by up to \$8m if actual revenue does not exceed targeted revenue by 30 June 2011. At 30 June 2010, management have assessed the probability of this occurring as low; as a result no adjustment has been reflected in the financial statements.

### **Identifiable assets acquired and liabilities assumed**

|   | <b>GROUP</b>  |
|---|---------------|
|   | <b>2010</b>   |
|   | <b>\$000</b>  |
| Property, plant and equipment                                     | 101           |
| Intangible assets - management contracts                          | 8,025         |
| Income tax receivable   | 85            |
| Investment in Equity Partners Infrastructure Company No 1 Limited | 10,000        |
| Trade and other receivables                                       | 609           |
| Cash and cash equivalents   | 29            |
| Deferred tax liabilities  | (2,400)       |
| Contingent liabilities  | -             |
| Trade and other payables  | (651)         |
| <b>Total net identifiable assets</b>                              | <b>15,798</b> |

No trade receivables are expected to be uncollectible.

### **Goodwill**

Goodwill was recognised as a result of the acquisition as follows.

|                                   | <b>GROUP</b> |
|-----------------------------------|--------------|
|                                   | <b>2010</b>  |
|                                   | <b>\$000</b> |
| Total consideration transferred   | 18,198       |
| Less value of identifiable assets | 15,798       |
| <b>Goodwill</b>                   | <b>2,400</b> |

The goodwill is attributable mainly to skills and knowledge provided by EPAM management and the EPAM brand.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 35 Acquisition of subsidiary (continued)

### Transactions separate from the acquisition

The Group incurred acquisition-related costs of \$304k relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in selling and administration expenses in the Group's net profit for the year.

## 36 Staff share ownership arrangements

### General staff share purchase scheme

During the year, the Trustees transferred 3,600 shares to participants on completion of the restrictive period. At 30 June 2010 the Trustees held 22,215 fully paid up shares (2009: 25,815). The fair value of these shares is \$8,886 (2009: \$93,266).

### Discretionary staff share schemes

During the year the Trustees transferred 96,357 shares to participants on them achieving the conditions. At 30 June 2010 the Trustees held 136,445 shares on behalf of staff (2009: 232,802).

### Directors' retirement share scheme

During the year, the Trustees transferred 61,084 shares to directors on their retirement, and directors paid for an additional 183,252 new shares as a result of participating in the Company's Rights Issue.

At the 30 June 2010 the Trustees held 213,794 shares on behalf of directors (2009: 91,626).

## 37 Prospective Financial Information

In September 2009, the Company issued a Prospectus for the issue of shares containing Prospective Financial Information (PFI) in relation to the Group. For the year ended 30 June 2010, the following information details the key differences between the Group's projected and actual net profit for the year, operating cash flows, total assets and total liabilities.

|                                     | RESTATED         |                  | A              | B             | C              | D             | ACTUAL           |
|-------------------------------------|------------------|------------------|----------------|---------------|----------------|---------------|------------------|
|                                     | PFI              | PFI              |                |               |                |               |                  |
|                                     | 2010             | 2010             |                |               |                |               |                  |
|                                     | \$000            | \$000            | \$000          | \$000         | \$000          | \$000         | \$000            |
| Net interest income                 | 58,149           | 55,634           | 1,914          | 4,723         | -              | 101           | 62,372           |
| Net operating lease income          | 5,185            | 5,185            | -              | 1,395         | -              | -             | 6,580            |
| Fee and other income                | 21,377           | 27,547           | -              | 9,734         | -              | (883)         | 36,398           |
| <b>Net operating income</b>         | <b>84,711</b>    | <b>88,366</b>    | <b>1,914</b>   | <b>15,852</b> | <b>-</b>       | <b>(782)</b>  | <b>105,350</b>   |
| Selling and administration expenses | 46,244           | 49,899           | (1,078)        | 1,328         | -              | 69            | 50,218           |
| Impaired asset expense              | 14,389           | 14,389           | 7,913          | -             | 9,528          | -             | 31,830           |
| <b>Operating profit</b>             | <b>24,078</b>    | <b>24,078</b>    | <b>(4,921)</b> | <b>14,524</b> | <b>(9,528)</b> | <b>(851)</b>  | <b>23,302</b>    |
| Equity accounted investees' profit* | 4,035            | 4,035            | -              | 124           | -              | 223           | 4,382            |
| <b>Profit before income tax</b>     | <b>28,113</b>    | <b>28,113</b>    | <b>(4,921)</b> | <b>14,648</b> | <b>(9,528)</b> | <b>(628)</b>  | <b>27,684</b>    |
| Income tax expense / (benefit)      | 7,225            | 7,225            | (1,476)        | 3,602         | (2,858)        | (815)         | 5,678            |
| <b>Profit for the year</b>          | <b>20,888</b>    | <b>20,888</b>    | <b>(3,445)</b> | <b>11,046</b> | <b>(6,670)</b> | <b>187</b>    | <b>22,006</b>    |
| <b>Net operating cash flows</b>     | <b>32,954</b>    | <b>22,449</b>    | <b>-</b>       | <b>-</b>      | <b>-</b>       | <b>1,228</b>  | <b>23,677</b>    |
| <b>Total assets</b>                 | <b>1,545,184</b> | <b>1,545,184</b> | <b>-</b>       | <b>-</b>      | <b>-</b>       | <b>16,103</b> | <b>1,561,287</b> |
| <b>Total liabilities</b>            | <b>1,084,451</b> | <b>1,084,451</b> | <b>-</b>       | <b>-</b>      | <b>-</b>       | <b>10,215</b> | <b>1,094,666</b> |

\* In the prospectus, equity accounted investees' profit was \$5.3m and total profit \$22.2m. Following the announcement by PGG Wrightson of its rights issue and placement with Agria, equity accounted investees' profit was adjusted down to \$4.0m, resulting in a forecast net profit of \$20.9m, which was announced on 20 November 2009.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## 37 Prospective Financial Information (continued)

### **Restated PFI**

The detailed PFI presentation of the profit or loss has been restated where necessary to align it with the Statutory Financial Statement classifications. This has no impact on the prospective profit for the year and is presented as the Restated PFI above. The reclassifications were as follows.

- In the PFI, the forecast \$3.6m profit on sale of the Christchurch building was included in selling and administration expenses as depreciation recovered. This has been reclassified to fee and other income in line with presentation on the Statement of Comprehensive Income.
- The forecast interest expense of \$2.5m on the loan note was included in fee and other income in the PFI. This interest expense eliminates on consolidation of the Group and has been reclassified to net interest income to offset the \$2.5m forecast interest income, consistent with presentation in the Statement of Comprehensive Income.

**A** Included in the PFI was \$5.1m of interest income in relation to Real Estate Credit Limited (RECL). The actual interest RECL recognised during the year was \$7.0m, exceeding the PFI by \$1.9m.

The \$7.0m interest recognised is due to the unwinding of the discount on these impaired loans. This resulted in an increased impaired asset expense in RECL. There was also a further \$0.9m writedown of underlying assets.

A provision for costs of \$2.8m was included in the PFI for RECL. The actual costs in RECL were \$1.7m.

**B** Increased net interest income of \$4.7m primarily due to improved interest margins in MARAC Finance Limited.

Net operating lease income is \$1.4m greater than PFI, mainly due to a higher than expected gain on sale of leased vehicles.

Fee and other income includes the gain on acquisition of GMAC finance receivables and sale of MARAC Insurance Limited into the joint venture; refer to note 7. Perpetual Group contributed higher than expected fee and other income of \$5.2m, offset by Perpetual Trust revenue \$1.1m below PFI. The Company's fee and other income was also higher than expected.

**C** Increased MARAC Finance Limited provisioning, including the \$3.3m provision for a loan operated outside of the company's normal lending processes.

**D** Other profit and loss variances which are considered individually immaterial. See below for commentary around operating cash flow, total assets and total liabilities.

### **Operating cash flow**

Operating cash flow has been restated to align it with the Financial Statement classifications, to include the purchase of operating lease vehicles. This was included as an investing activity in the PFI.

### **Total assets**

Total assets are \$16.1m greater than PFI. This is due to higher than expected cash, other investments, investment property and intangible assets as at 30 June 2010, offset by less than expected finance receivables.

### **Total liabilities**

Increase in liabilities is mainly due to \$70.3m included in trade payables for the purchase of GMAC retail book; refer note 25. This increase is partially offset by actual borrowings, which were \$64.1m less than PFI.

## 38 Subsequent events

There have been no material events subsequent to balance date that would affect the interpretation of the financial statements or the performance of the Group.



## Audit report

### To the shareholders of Pyne Gould Corporation Limited

We have audited the financial statements on pages 16 to 53. The financial statements provide information about the past financial performance and financial position of Pyne Gould Corporation Limited (the 'Company') and Group (collectively known as the 'Group') as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 21 to 26.

#### Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

#### Auditor's responsibilities

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

#### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other audit related services to the Company and certain of its subsidiaries. Subject to certain restrictions, partners and employees of our firm may also deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group. These matters have not impaired our independence as auditor of the Company and Group. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.



## **Unqualified opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company and Group as far as appears from our examination of those records;
- the financial statements on pages 16 to 53:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 26 August 2010 and our unqualified opinion is expressed as at that date.

A handwritten signature in purple ink, appearing to read 'KPMG'.

Auckland

# STATUTORY DISCLOSURES

## Directors

The following persons respectively held office as directors of the Company and the Company's subsidiaries during the year ended 30 June 2010.

### Pyne Gould Corporation Limited

G A C Gould (appointed 4 March 2010)  
B W Mogridge (appointed 27 January 2003)  
B R Irvine (appointed 27 January 2003)  
J K Greenslade (appointed 18 December 2009)  
G C D Kerr (appointed 26 August 2008)  
S R Maling (resigned 4 March 2010)  
R F Elworthy (resigned 18 December 2009)  
S C Montgomery (resigned 18 December 2009)  
W J Steel (resigned 30 October 2009)

### Corporate Trust of New Zealand Limited

B W Mogridge (appointed 26 March 2010)  
J Duncan (appointed 26 March 2010)  
P Middleton (appointed 26 March 2010)  
B R Irvine (resigned 28 May 2010)  
S R Maling (resigned 8 March 2010)

### MARAC Financial Services Limited

B R Irvine (appointed 24 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### Pegasus Fund Managers Limited

J K Greenslade (appointed 22 June 2010)  
J Duncan (appointed 26 March 2010)  
P Middleton (appointed 26 March 2010)  
B W Mogridge (appointed 26 March 2010)  
S R Maling (resigned 8 March 2010)

### Perpetual Group Limited

J Duncan (appointed 17 February 2010)  
G C D Kerr (appointed 17 February 2010)  
J K Greenslade (appointed 22 December 2009)  
B W Mogridge (appointed 22 December 2009)  
B R Irvine (resigned 28 May 2010)

### Perpetual Portfolio Management Limited

J Duncan (appointed 26 March 2010)  
J K Greenslade (resigned 26 March 2010)  
P Middleton (appointed 26 March 2010)  
B W Mogridge (appointed 23 December 2009)  
B R Irvine (resigned 26 March 2010)

### Perpetual Asset Management Limited

P Middleton (appointed 16 June 2010)  
B W Mogridge (appointed 15 June 2010)  
J Duncan (appointed 15 June 2010)

### Perpetual Trust Limited

J Duncan (appointed 6 July 2010)  
P Middleton (appointed 6 July 2010)  
B W Mogridge (appointed 27 January 2003)  
G C D Kerr (resigned 7 July 2010)  
B R Irvine (resigned 8 June 2010)  
R F Elworthy (resigned 18 December 2009)  
S R Maling (resigned 18 December 2009)  
S C Montgomery (resigned 18 December 2009)  
W J Steel (resigned 30 October 2009)

### Ascend Finance Limited

B R Irvine (appointed 26 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### Greenlight Finance Limited

B R Irvine (appointed 26 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### i-Financial Services Limited

B R Irvine (appointed 26 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### MARAC Finance Limited

E J Harvey (appointed 15 February 2010)  
M A Smith (appointed 15 February 2010)  
J K Greenslade (appointed 18 December 2009)  
B R Irvine (appointed 27 January 2003)  
B W Mogridge (appointed 18 January 1993)  
G C D Kerr (resigned 4 March 2010)  
R F Elworthy (resigned 18 December 2009)  
S R Maling (resigned 18 December 2009)  
S C Montgomery (resigned 18 December 2009)  
W J Steel (resigned 30 October 2009)

### MARAC Investments Limited

B R Irvine (appointed 26 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### MARAC Securities Limited

B R Irvine (appointed 26 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### Webserve Limited

B R Irvine (appointed 26 March 2010)  
J K Greenslade (appointed 28 August 2009)  
S R Maling (resigned 4 March 2010)

### Torchlight Investment Group Limited

J Duncan (appointed 26 March 2010)  
G C D Kerr (appointed 17 July 2009)  
B W Mogridge (appointed 17 July 2009)  
J K Greenslade (appointed 4 June 2009)  
B R Irvine (resigned 26 March 2010)



# STATUTORY DISCLOSURES

## Directors (continued)

### Equity Partners Asset Management Limited

P Middleton (appointed 26 March 2010)  
B W Mogridge (appointed 26 March 2010)  
J Duncan (appointed 14 August 2009)  
G C D Kerr (resigned 26 March 2010)  
J G Darby (resigned 14 August 2009)

### Equity Partners Infrastructure Management Limited

J Duncan (appointed 26 March 2010)  
B W Mogridge (appointed 26 March 2010)  
P Middleton (appointed 26 March 2010)  
G C D Kerr (appointed 2 February 2007)  
J G Darby (resigned 12 August 2009)

### Ferrero Investments Limited

J Duncan (appointed 30 April 2010)  
P Middleton (appointed 30 April 2010)

### New Zealand Credit Trustee Limited

G C D Kerr (appointed 28 October 2009)

### Real Estate Credit Limited

J Duncan (appointed 26 March 2010)  
G C D Kerr (appointed 26 March 2010)  
B W Mogridge (appointed 26 March 2010)  
J K Greenslade (resigned 22 June 2010)  
S R Maling (resigned 8 March 2010)

### Khyber Pass Limited

J Duncan (appointed 26 April 2010)  
G C D Kerr (appointed 26 April 2010)

### Land House Limited

J Duncan (appointed 12 April 2010)  
G C D Kerr (resigned 21 June 2010)

### Land House No 1 Limited

J Duncan (appointed 26 April 2010)  
G C D Kerr (appointed 26 April 2010)

### Land House No 2 Limited

J Duncan (appointed 26 April 2010)  
G C D Kerr (resigned 7 July 2010)

### Torchlight (GP) 1 Limited

J Duncan (appointed 26 March 2010)  
P Middleton (appointed 26 March 2010)  
B W Mogridge (appointed 26 March 2010)  
G C D Kerr (appointed 1 October 2009)  
M J C Carolan (resigned 26 March 2010)

### Torchlight (GP) 2 Limited

J Duncan (appointed 30 April 2010)  
G C D Kerr (appointed 30 April 2010)

### Pegasus Investment Fund Limited

J Duncan (appointed 26 March 2010)  
P Middleton (appointed 26 March 2010)  
B Mogridge (appointed 26 March 2010)  
J K Greenslade (resigned 22 June 2010)  
S R Maling (resigned 8 March 2010)

### Perpetual Charitable Nominees Limited

J Duncan (appointed 7 April 2010)  
B R Irvine (resigned 28 May 2010)

### Perpetual Trust Services Limited

J Duncan (appointed 26 March 2010)  
P Middleton (appointed 26 March 2010)  
B Mogridge (appointed 26 March 2010)  
J K Greenslade (resigned 22 June 2010)  
S R Maling (resigned 8 March 2010)

### Torchlight Management Limited

J Duncan (appointed 26 March 2010)  
G C D Kerr (appointed 1 October 2010)  
P Middleton (appointed 26 March 2010)  
B W Mogridge (appointed 26 March 2010)

# STATUTORY DISCLOSURES

## Disclosures of Interests

### Specific Disclosures

The following are the disclosures of interest given by directors of the Company and its subsidiary companies.

#### **B R Irvine**

|          |   |
|----------|---|
| Director | PGG Wrightson Limited<br>Market Gardeners Limited<br>Christchurch City Holdings Limited<br>Godfrey Hirst (NZ) Limited<br>House of Travel Holdings Limited<br>Rakon Limited<br>Skope Limited<br>Scenic Circle Limited<br>Retail Adventures Pty Limited |
| Trustee  | Christchurch Art Gallery Trust<br>Christchurch Symphony Trust   |

#### **J K Greenslade**

|                          |                                 |
|--------------------------|---------------------------------|
| Director and Shareholder | Provisional Tax Finance Limited |
|--------------------------|---------------------------------|

#### **B W Mogridge**

|                          |  |
|--------------------------|--|
| Director                 | Waitakere City Holdings Limited<br>BUPA Care NZ Limited  |
| Director and Shareholder | Mogridge & Associates Limited<br>Mainfreight Limited<br>Rakon Limited<br>Trio Group Limited<br>Paragon Limited |
| Vice Chairman            | UBS  |
| Trustee                  | Starship Foundation<br>Waitakere Enterprises   |

#### **G A C Gould**

|                          |  |
|--------------------------|--|
| Director                 | Orion New Zealand Limited<br>Christchurch International Airport Limited<br>PGG Wrightson Limited |
| Director and Shareholder | Gould Holdings Limited and its subsidiaries  |

#### **M A Smith**

|          |   |
|----------|---|
| Director | Christchurch Arts Festival Trust<br>Medical Assurance Society |
|----------|---|

#### **E J Harvey**

|                          |  |
|--------------------------|--|
| Director                 | Kathmandu Holdings Limited<br>DNZ Property Fund Limited<br>Port Otago Limited<br>New Zealand Opera Limited |
| Director and Shareholder | Pomare Investments Limited   |
| Shareholder              | PGG Wrightson Limited  |

## General Disclosure

All directors have provided a general notice that they may from time to time undertake personal business transactions with the Company, including placing funds on deposit, borrowing or utilising the Company's services. All such transactions are carried out in accordance with the Company's normal business criteria for those types of transactions.

The Company obtains services from Trio Group Limited and Paragon Limited, of which B W Mogridge is a shareholder. These services are provided on arms' length commercial terms.

### Information Used by Directors

No notices were received from directors of the Company requesting to disclose or use Company information received in their capacity as directors which would not otherwise have been available to them.

### Indemnification and Insurance of Directors and Officers

The Company has given indemnities to and has arranged insurance for directors of the Company and its subsidiaries to indemnify and insure directors against liability and costs for actions undertaken by them in the course of their duties, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Company and its subsidiaries for the year was \$80,616.

# SHAREHOLDER INFORMATION

## Shares Held and Share Dealings by Directors

All directors of the Company participated in the Company's Capital Raising during 2009, purchasing shares or rights and taking up their entitlement under the offer. Details of individual directors' share dealings are as follows.

|  | Beneficial         | Associated<br>Person | Non-Beneficial |
|--|--------------------|----------------------|----------------|
| <b>B R Irvine</b>                          |                    |                      |                |
| Balance 30 June 2009                       | 30,961             | 26,729               | 258,617        |
| 01.10.09 Purchase of shares (\$33,500)     | -                  | 50,000               | -              |
| 06.10.09 Purchase of rights (\$1,100)      | -                  | 100,000              | -              |
| 27.10.09 Allotment of new shares           | 185,766            | 460,374              | -              |
| 30.11.09 Share purchase plan               | 11,629             | 11,627               | -              |
| 25.03.10 Purchase of shares (\$47,500)     | -                  | 100,000              | -              |
| Transfers to staff                         | -                  | -                    | (99,957)       |
| <b>Balance 30 June 2010</b>                | <b>228,356</b>     | <b>748,730</b>       | <b>158,660</b> |
| <b>G C D Kerr</b>                          |                    |                      |                |
| Balance 30 June 2009                       | 9,866,814          | 134,800              | -              |
| 27.10.09 Allotment of new shares           | 89,393,980         | 808,800              | -              |
| 28.10.09 New shares from placement         | 1,000,000          | -                    | -              |
| 30.11.09 Share purchase plan               | 11,627             | -                    | -              |
| 27.12.09 Purchase of shares (\$7,385,966)  | 14,771,932         | -                    | -              |
| <b>Balance 30 June 2010</b>                | <b>115,044,353</b> | <b>943,600</b>       | <b>-</b>       |
| <b>B W Mogridge</b>                        |                    |                      |                |
| Balance 30 June 2009                       | 37,001             | -                    | 258,617        |
| 24.09.09 Purchase of shares (\$40,000)     | 50,000             | -                    | -              |
| 25.09.09 Purchase of shares (\$133,510)    | 169,000            | -                    | -              |
| 28.09.09 Purchase of shares (\$128,510)    | 181,000            | -                    | -              |
| 27.10.09 Allotment of new shares           | 2,622,006          | -                    | -              |
| 30.11.09 Share purchase plan               | 11,627             | -                    | -              |
| 24.03.10 Purchase of shares (\$900,000)    | 2,000,000          | -                    | -              |
| Transfer                                   | (4,800,000)        | 4,800,000            | -              |
| Transfers to staff                         | -                  | -                    | (99,957)       |
| <b>Balance 30 June 2010</b>                | <b>270,634</b>     | <b>4,800,000</b>     | <b>158,660</b> |
| <b>G A C Gould</b>                         |                    |                      |                |
| Holdings on election to Board (March 2010) | 2,007,412          | 27,676,883           | -              |
| <b>Balance 30 June 2010</b>                | <b>2,007,412</b>   | <b>27,676,883</b>    | <b>-</b>       |
| <b>J K Greenslade</b>                      |                    |                      |                |
| Balance 30 June 2009                       | -                  | -                    | 91,626         |
| 25.09.09 Purchase of shares (\$79,000)     | -                  | 100,000              | -              |
| 27.10.09 Allotment of shares               | -                  | 600,000              | 183,252        |
| Transfer on retirement                     | -                  | -                    | (61,084)       |
| <b>Balance 30 June 2010</b>                | <b>-</b>           | <b>700,000</b>       | <b>213,794</b> |

# SHAREHOLDER INFORMATION

## MARAC Finance Bonds Held by Directors

Secured Bonds issued by MARAC Finance Limited in which directors and associated persons held a relevant interest as at 30 June 2010 were as follows.

|                           | 2010     |                    | 2009     |                    |
|---------------------------|----------|--------------------|----------|--------------------|
|                           | Director | Associated Persons | Director | Associated Persons |
| B W Mogridge Beneficial   | -        | 150,000            | -        | 150,000            |
| R F Elworthy Beneficial   | -        | -                  | 100,000  | -                  |
| S R Maling Beneficial     | -        | -                  | -        | 15,000             |
| S C Montgomery Beneficial | -        | -                  | -        | 250,000            |

Secured Bond holders R F Elworthy, S R Maling and S C Montgomery ceased to be directors during the 2010 year.

## Remuneration of Directors

The total remuneration received by each director who held office in the Company and its subsidiaries during the 30 June 2010 year was as follows.

| Director       | Remuneration |
|----------------|--------------|
| R F Elworthy   | \$47,500 *   |
| G A C Gould    | \$20,055 **  |
| B R Irvine     | \$123,677    |
| G C D Kerr     | \$89,306     |
| S R Maling     | \$136,125 *  |
| B W Mogridge   | \$127,578    |
| S C Montgomery | \$34,000 *   |
| W J Steel      | \$31,667 *   |
| M A Smith      | \$29,863 **  |
| E J Harvey     | \$37,329 **  |

\* Retired during year \*\* Appointed during year

The total remuneration paid was \$677,100.

Executive directors and employees acting as directors do not receive director's fees. The total remuneration of the executive director was as follows.

|                |             |
|----------------|-------------|
| J K Greenslade | \$1,105,000 |
|----------------|-------------|

Except as stated above, no employee of the Company or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a director of any subsidiary of the Company. Remuneration, inclusive of the value of other benefits received by such employees is included in relevant bandings of employee remuneration received exceeding \$100,000 as set out below.

## Executive Employees' Remuneration

The number of employees of the Company and its subsidiary companies (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of \$100,000 for the year ended 30 June 2010 is set out in the remuneration bands detailed below.

| Remuneration           | Number | Remuneration               | Number |
|------------------------|--------|----------------------------|--------|
| \$100,000 to \$110,000 | 11     | \$230,000 to \$240,000     | 1      |
| \$110,000 to \$120,000 | 8      | \$240,000 to \$250,000     | 1      |
| \$120,000 to \$130,000 | 10     | \$270,000 to \$280,000     | 1      |
| \$130,000 to \$140,000 | 6      | \$290,000 to \$300,000     | 1      |
| \$140,000 to \$150,000 | 2      | \$340,000 to \$350,000     | 1      |
| \$150,000 to \$160,000 | 5      | \$360,000 to \$370,000     | 1      |
| \$160,000 to \$170,000 | 3      | \$370,000 to \$380,000     | 1      |
| \$170,000 to \$180,000 | 4      | \$400,000 to \$410,000     | 2      |
| \$180,000 to \$190,000 | 1      | \$460,000 to \$470,000     | 1      |
| \$190,000 to \$200,000 | 1      | \$520,000 to \$530,000     | 1      |
| \$210,000 to \$220,000 | 1      | \$1,100,000 to \$1,110,000 | 1      |
| \$220,000 to \$230,000 | 2      |                            |        |

# SHAREHOLDER INFORMATION

## Donations

The Company settled a charitable trust from which donations are made to various organisations.

Donations made during the year were:

|                          |         |
|--------------------------|---------|
| Mental Health Foundation | \$3,500 |
| Mary Moodie Family Trust | \$3,500 |
| Hospice New Zealand      | \$3,500 |

Total donations made from the trust since its establishment in 1995 are \$119,400.

| Size of shareholding<br>As at 18 August 2010 | Number<br>of<br>holders | % of<br>issued<br>capital |
|--|-------------------------|---------------------------|
| 1–1,000                                      | 205                     | 0.02                      |
| 1,001–5,000                                  | 868                     | 0.34                      |
| 5,001–10,000                                 | 739                     | 0.79                      |
| 10,001–50,000                                | 1,985                   | 6.70                      |
| 50,001–100,000                               | 571                     | 5.51                      |
| 100,001 and over                             | 613                     | 86.64                     |
|  | 4,981                   | 100.00                    |

## Domicile of Shareholders As at 18 August 2010

|             |       |        |
|-------------|-------|--------|
| New Zealand | 4,896 | 99.03  |
| Overseas    | 85    | 0.97   |
|             | 4,981 | 100.00 |

| Twenty largest shareholders<br>As at 18 August 2010 | Number<br>of shares<br>issued | % of<br>share<br>capital |
|---|-------------------------------|--------------------------|
| Pyne Family Holdings Ltd                            | 115,044,353                   | 14.87                    |
| Accident Compensation Corporation                   | 53,623,514                    | 6.93                     |
| Gould Holdings Ltd                                  | 27,676,883                    | 3.58                     |
| Leveraged Equities Finance Ltd                      | 21,462,397                    | 2.78                     |
| NZ Superannuation Fund Nominees Ltd                 | 18,179,001                    | 2.35                     |
| Harrogate Trustee Ltd                               | 16,893,355                    | 2.18                     |
| FNZ Custodians Ltd                                  | 16,777,148                    | 2.17                     |
| AMP Investment Strategic Equity Growth Trust Fund   | 16,063,208                    | 2.08                     |
| Wyuna Trustees Ltd                                  | 14,771,932                    | 1.91                     |
| P M Carter  | 14,074,127                    | 1.82                     |
| Citibank Nominees (NZ) Ltd                          | 12,373,636                    | 1.60                     |
| Forsyth Barr Custodians Ltd                         | 11,719,669                    | 1.52                     |
| Custodial Services Ltd                              | 8,847,851                     | 1.14                     |
| Perpetual Trust Ltd & G A & J B L Savill            | 8,167,868                     | 1.06                     |
| Loris Equities Ltd                                  | 7,839,000                     | 1.01                     |
| ANZ Nominees Ltd                                    | 7,760,963                     | 1.00                     |
| NZ Guardian Trust Investment Nominees Ltd           | 7,137,750                     | 0.92                     |
| Investment Custodial Services Ltd                   | 7,113,202                     | 0.92                     |
| NZGT Nominees Ltd                                   | 6,384,023                     | 0.83                     |
| Forsyth Barr Custodian Ltd                          | 6,141,276                     | 0.79                     |
|   | 398,051,156                   | 51.46                    |

## Substantial Security Holders

G C D Kerr has advised that he has a beneficial interest in 115,044,353 shares in the Company.

Accident Compensation Corporation has advised of a beneficial interest in 46,482,089 shares in the Company.

# SHAREHOLDER INFORMATION

## **New Zealand Stock Exchange Waivers**

During the year the Company obtained the following waivers from the NZX.

### **EPAM Transaction – July 2009**

A waiver was granted from the requirement to seek shareholder approval for the acquisition of Equity Partners Asset Management Limited (EPAM) from Equity Partners Asset Management Holdings Limited (EPMAH). At the time of the EPAM transaction George Kerr held an interest of more than 10% in each Company. Although the EPAM transaction was not a “material transaction” in itself under the NZSX Listing Rules, the Company sought the waiver as it was considered that the EPAM transaction could form part of a series of transactions with George Kerr and interests associated with George Kerr which would constitute a material transaction.

This waiver was granted on the following conditions that:

- (a) if any of the other potential related party transactions set out in the application proceeded, shareholder approval would be sought; and
- (b) the directors of the Company, other than George Kerr, certifying that:
  - (i) the EPAM transaction was entered into and negotiated on an arm’s length commercial basis;
  - (ii) the directors of the Company who were associated with EPAM or EPAMH did not influence the promotion of, or decision to enter into, the EPAM transaction; and
  - (iii) the EPAM transaction was in the best interests of all of the Company’s shareholders who are not related to, or associated persons of, EPAM, EPAMH or George Kerr.

### **Capital Raising – September 2009**

The Company was granted a waiver from the requirement to obtain shareholder approval for Pyne Family Holdings Limited (PFHL) (an associate of George Kerr) to act as a sub-underwriter of the rights issue subject to the following conditions that:

- (a) the directors of the Company certifying that:
  - (i) the terms of the underwriting agreement between First NZ Capital Securities Limited (the underwriter) and the Company were negotiated on an arm’s length and commercial basis;
  - (ii) the terms of the underwriting agreement are fair and in the best interests of the Company’s shareholders that are not associated with PFHL; and
  - (iii) neither PFHL nor its associates influenced the decision to enter into, or the terms of, the underwriting agreement.
- (b) First New Zealand Capital, as the underwriter certifying that:
  - (i) the terms of the sub-underwriting arrangements were negotiated on an arm’s length and commercial basis between the underwriter and PFHL; and
  - (ii) a wide selection of appropriate entities were approached.
- (c) the offer document prepared in respect of the rights issue recording the waiver and details of its conditions.

The Company was granted a waiver from the requirement to obtain shareholder approval for the participation of PFHL in the placement on the following conditions that:

- (a) the placement was conducted under a bookbuild process managed by the underwriter, under which competitive bids from a broad range of institutions and sub-underwriters are submitted;
- (b) the subscription price payable by PFHL in the placement will be the higher of the bookbuild price or \$0.49;
- (c) PFHL may not subscribe for any more than 21.5% of the shares offered under the placement, being the proportion of sub-underwriting commitments provided by PFHL in respect of the rights offer; and
- (d) the directors of the Company not associated with PFHL certifying that the terms of the placement are fair to, and in the best interests of, the Company’s shareholders excluding those participating in the placement.

# SHAREHOLDER INFORMATION

The Company was also granted a ruling that the issue of the shares under the placement be deemed to be an issue pursuant to NZSX Listing Rule 7.3.5.

This ruling was granted subject to the following conditions that:

- (a) the directors of the Company who voted in favour of the placement certifying that the issue of the placement shares is of benefit to, and fair and reasonable to, those shareholders of the Company not receiving shares under the placement;
- (b) the subscription price payable by PFHL under the placement will be the higher of the bookbuild price or \$0.49; and
- (c) preferential allocation to PFHL under the placement was provided only to the extent of the proportion of the sub-underwriting commitments they had provided.

## **Share Purchase Plan – October 2009**

As part of the Capital Raising, the Company conducted a post-rights issue and placement offer of up to \$5,000 per existing shareholder under NZSX Listing Rule 7.3.4(c). The Company was granted a waiver from the timing requirement in order to allow the Company to delay the dispatch of the entitlement letters for this offer until completion of the placement bookbuild had occurred. This waiver was granted on the condition that the letters were sent to shareholders within five business days of completion of the placement bookbuild.

## **Perpetual Asset Management Limited – October 2009**

In October 2009 Perpetual Asset Management Limited (PAM) proposed to establish the Torchlight Credit Fund LP (Torchlight) and proposed to loan Torchlight up to \$15 million. Torchlight is a related party of the Company because PAM effectively controls Torchlight through an arm's length management agreement. A waiver was granted from the requirement to seek shareholder approval for the loan from PAM to Torchlight subject to the following conditions that:

- (a) Torchlight was established and managed by PAM under market standard, arm's length management arrangements;
- (b) that the PAM loan was made to Torchlight by PAM on arm's length commercial terms and that Torchlight would use those funds to make investments on arm's length terms; and
- (c) that the directors of the Company (but excluding any director who may make an investment into Torchlight) certify that the terms of the PAM loan are fair and in the best interests of the Company's shareholders and that no related party of the Company who is making investments into Torchlight has influenced the decision to enter into the PAM loan.

# EXECUTIVES AND DIRECTORY

## Pyne Gould Corporation Ltd

### Directors

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

### Executives

|                  |                          |
|------------------|--------------------------|
| Sean Kam         | Chief Financial Officer  |
| Craig Stephen    | Chief Investment Officer |
| Mark Mountcastle | Chief Risk Officer       |
| Michael Jonas    | General Counsel          |
| Colin Hair       | Company Secretary        |

### Registered Office

Pyne Gould Corporation House, 233 Cambridge Terrace,  
Christchurch 8013  
PO Box 167, Christchurch 8140  
T 03 365 0000  
E info@pgc.co.nz  
W www.pgc.co.nz

## MARAC Finance Ltd

### Directors

|                 |                   |
|-----------------|-------------------|
| Bruce Irvine    | Chairman          |
| Jeff Greenslade | Managing Director |
| Bryan Mogridge  | Director          |
| Michelle Smith  | Director          |
| John Harvey     | Director          |

### Executives

|                  |   |
|------------------|---|
| Sean Kam         | Chief Financial Officer                               |
| Craig Stephen    | Chief Investment Officer                              |
| Mark Mountcastle | Chief Risk Officer                                    |
| Michael Jonas    | General Counsel                                       |
| David Battersby  | General Manager – Business                            |
| Chris Flood      | General Manager – Consumer                            |
| Alan Williams    | Group Head of Product and Distribution<br>Development |

MARAC House, 35 Teed Street, Newmarket, Auckland 1023  
PO Box 9919, Newmarket, Auckland 1149  
T 09 520 0097  
E info@marac.co.nz  
W www.marac.co.nz

## Perpetual Group Ltd

### Directors

|                 |                                    |
|-----------------|------------------------------------|
| Bryan Mogridge  | Chairman                           |
| Jeff Greenslade | Director                           |
| George Kerr     | Director                           |
| John Duncan     | Chief Executive Officer – Director |

### Executives

Patrick Middleton Chief Operating Officer

Walker Wayland Centre, 68 Shortland Street, Auckland 1010  
PO Box 105899, Auckland City, Auckland 1143  
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## PGG Wrightson Ltd

Tim Miles Chief Executive Officer

57 Waterloo Road, Hornby, Christchurch 8042  
PO Box 292, Hornby, Christchurch 8140  
T 03 372 0800  
E enquiries@pggwrightson.co.nz  
W www.pggwrightson.co.nz

## Auditors

### KPMG

KPMG Centre, 18 Viaduct Harbour, Auckland 1140  
T 09 367 5800

## Solicitors

### Bell Gully

Vero Centre, 48 Shortland Street, Auckland 1140  
T 09 916 8800

### Lane Neave

119 Armagh Street, Christchurch 8011  
T 03 379 3720

## Bankers

### Bank of New Zealand

BNZ Tower, 125 Queen Street, Auckland 1010  
T 09 375 1300

## Share Registry

### Link Market Services Ltd

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