PYNE GOULD CORPORATION LIMITED
FINANCIAL STATEMENTS

For the period ended 31 December 2011

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of the Group as at 31 December 2011 and the financial performance and cash flows for the period ended on that date.

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

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

The Board of Directors of Pyne Gould Corporation Limited authorised the interim financial statements set out on pages 3 to 26 for issue on 29 February 2012.

For and on behalf of the Board.

Director | Director

29 February 2012

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2011

	NOTE	Unaudited 6 months Dec-11 $000	Unaudited 6 months Dec-10 $000	Audited 12 months Jun-11 $000
Continuing operations				
Interest income		1,058	293	1,661
Interest expense		584	7	3,517
Net interest income / (expense)		**474**	**286**	**(1,856)**
Fee and other income		16,886	11,518	23,518
Net operating income		**17,360**	**11,804**	**21,662**
Selling and administration expenses	5	14,692	16,136	33,598
Impaired asset expense and investment write-down	6	13,422	10,917	26,121
Write-down investment in PGW	7	7,217	30,308	37,317
MARAC management agreement provision	20	8,789	(10)	9,331
Operating loss		**(26,760)**	**(45,547)**	**(84,705)**
Share of equity accounted investees' loss		(346)	(1,046)	(1,215)
Loss before income tax		**(27,106)**	**(46,593)**	**(85,920)**
Income tax expense /(benefit)	8	-	(4,299)	10,662
Loss from continuing operations		**(27,106)**	**(42,294)**	**(96,582)**
Discontinued operation				
In-specie loss on distribution of BSHL shares	23	-	-	(52,929)
Profit from discontinued operations, before income tax	23	-	7,889	12,490
Income tax expense		-	2,764	4,087
Profit /(Loss) from discontinued operation		**-**	**5,125**	**(44,526)**
Loss for the period		**(27,106)**	**(37,169)**	**(141,108)**
Other comprehensive income				
Cash flow hedges:				
Effective portion of changes in fair value, net of income tax		-	460	600
Share of associates' other comprehensive income, after tax	16	-	1,014	1,014
Reclassification of cash flow hedges to loss on distribution of BSHL shares		-	-	1,390
Total comprehensive income for the period		**(27,106)**	**(35,695)**	**(138,104)**
Loss attributable to:				
Owners of the Company		(27,106)	(35,695)	(141,108)
Loss for the period		**(27,106)**	**(35,695)**	**(141,108)**
Total comprehensive income attributable to:				
Owners of the Company		(27,106)	(35,695)	(138,104)
Total comprehensive loss for the period		**(27,106)**	**(35,695)**	**(138,104)**
Earnings per share - continuing operations				
Basic earnings per share	10	-13c	-5c	-13c
Diluted earnings per share	10	-13c	-5c	-13c

The notes on pages 7 to 26 are an integral part of these financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2011

	NOTE	Share Capital $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
December 2011 - Unaudited					
Balance at 1 July 2011		**358,040**	**-**	**(212,997)**	**145,043**
Total comprehensive income for the period					
Loss for the period		-	-	(27,106)	(27,106)
					-
Total comprehensive income for the period		**-**	**-**	**(27,106)**	**(27,106)**
Contributions by and distributions to owners					
Director and staff share issues	11	74	-	-	74
Total transactions with owners		**74**	**-**	**-**	**74**
Balance at 31 December 2011		**358,114**	**-**	**(240,103)**	**118,011**
December 2010 - Unaudited					
Balance at 1 July 2010		**345,189**	**(1,990)**	**123,422**	**466,621**
Total comprehensive income for the period					
Loss for the period		-	-	(37,169)	(37,169)
Other comprehensive income					
Share of associates' other comprehensive income, after tax	16	-	-	1,014	1,014
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	460	-	460
Total other comprehensive income		**-**	**460**	**1,014**	**1,474**
Total comprehensive income for the period		**-**	**460**	**(36,155)**	**(35,695)**
Contributions by and distributions to owners					
Dividend to shareholders		-	-	(11,316)	(11,316)
Dividend reinvestment plan		11,316	-	-	11,316
Total transactions with owners		**11,316**	**-**	**(11,316)**	**-**
Balance at 31 December 2010		**356,505**	**(1,530)**	**75,951**	**430,926**
June 2011 - Audited					
Balance at 1 July 2010		**345,189**	**(1,990)**	**123,422**	**466,621**
Total comprehensive income for the period					
Loss for the year		-	-	(141,108)	(141,108)
Other comprehensive income					
Share of associates' other comprehensive income, net of income tax	16	-	-	1,014	1,014
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	600	-	600
Reclassification of cash flow hedges to loss on distribution of BSHL shares		-	1,390	-	1,390
Total other comprehensive income		**-**	**1,990**	**1,014**	**3,004**
Total comprehensive income for the period		**-**	**1,990**	**(140,094)**	**(138,104)**
Contributions by and distributions to owners					
Dividends to shareholders				(11,316)	(11,316)
In-specie distribution of BSHL shares	23	-	-	(185,009)	(185,009)
Director and staff share issues	11	1,535	-	-	1,535
Dividend reinvestment plan		11,316	-	-	11,316
Total transactions with owners		**12,851**	**-**	**(196,325)**	**(183,474)**
Balance at 30 June 2011		**358,040**	**-**	**(212,997)**	**145,043**

The notes on pages 7 to 26 are an integral part of these financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTE	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Assets				
Cash and cash equivalents	12	17,557	85,145	18,830
Finance receivables	13	12,965	1,094,366	11,130
Trade receivables		12,212	-	9,530
Assets held for sale	17	8,781	83,296	47,506
Operating lease vehicles		-	38,005	-
Investment property	14	39,434	65,256	39,760
Other assets		4,014	21,295	4,083
Investments	15	67,923	30,250	33,644
Deferred tax asset		-	20,828	2,700
Investment in associates	16	5,665	5,957	6,011
Investment in joint venture		-	2,217	-
Intangible assets	18	10,451	39,344	13,292
Total assets		**179,002**	**1,485,959**	**186,486**
Liabilities				
Bank overdrafts	12	3,591	-	2,200
Borrowings	19	25,351	1,016,843	10,700
Trade payables and other liabilities		15,429	38,181	19,212
Provisions	20	16,620	9	9,331
Total liabilities		**60,991**	**1,055,033**	**41,443**
Equity				
Share capital	11	358,114	356,505	358,040
Retained earnings and reserves		(240,103)	74,421	(212,997)
Total equity		**118,011**	**430,926**	**145,043**
Total equity and liabilities		**179,002**	**1,485,959**	**186,486**
Net tangible assets per share	11	50c	46c	60c

The notes on pages 7 to 26 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the period ended 31 December 2011

	NOTE	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Cash flows from operating activities				
Interest received		539	61,680	142,109
Operating lease income received		-	7,377	13,667
Proceeds from sale of operating lease vehicles		-	9,621	14,765
Proceeds from sale of tax losses		2,700	-	-
Fees and other income received		11,722	18,698	27,614
Total cash provided from operating activities		**14,961**	**97,376**	**198,155**
Payments to suppliers and employees		16,451	30,079	71,228
Interest paid		565	39,739	92,783
Purchase of operating lease vehicles		-	14,869	17,194
Payments of MARAC provision		1,500	-	-
Total cash applied to operating activities		**18,516**	**84,687**	**181,205**
Net cash flows from / (applied to) operating activities	9	**(3,555)**	**12,689**	**16,950**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		10	-	85
Proceeds from sale of investment in associates		-	-	41,092
Net decrease in investments		18,178	-	-
Proceeds from staff share purchase schemes		162	-	151
Cash and equivalents acquired in a business combination		-	-	277,544
Total cash provided from investing activities		**18,350**	**-**	**318,872**
Increase in investment in associates		-	1,115	-
Net increase in investments		30,533	-	17,920
Net increase in finance receivables		3,514	54,434	19,571
Cash and equivalents disposed of on distribution of BSHL shares		-	-	263,197
Purchase of property, plant, equipment and intangible assets		17	3,859	19,051
Total cash applied to investing activities		**34,064**	**59,408**	**319,739**
Net cash flows from / (applied to) investing activities		**(15,714)**	**(59,408)**	**(867)**
Cash flows from financing activities				
Net increase in borrowings		16,531	33,254	-
Increase in share capital		74	6,694	1,535
Total cash provided from financing activities		**16,604**	**39,948**	**1,535**
Dividends paid		-	6,694	-
Net decrease in borrowings		-	-	99,598
Total cash applied to financing activities		**-**	**6,694**	**99,598**
Net cash flows from / (applied to) financing activities		**16,604**	**33,254**	**(98,063)**
Net decrease in cash and cash equivalents		**(2,664)**	**(13,465)**	**(81,980)**
Opening cash and cash equivalents		16,630	98,610	98,610
Closing cash and cash equivalents	12	**13,966**	**85,145**	**16,630**

The notes on pages 7 to 26 are an integral part of these financial statements.

1 Reporting entity

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

All entities within the Group offer financial, trustee or asset management services. The Group operates and is predominantly domiciled in New Zealand. The registered office address is 305 Lincoln Road, Christchurch.

2 Basis of preparation

The financial statements presented here are for the following periods:
At 31 December 2011: 6-month period - unaudited
At 31 December 2010: 6-month period - unaudited
At 30 June 2011: 12-month period - audited

(a) Statement of compliance

The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Statements. They do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 30 June 2011. By complying with NZ IAS 34 the Group is also in compliance with IAS 34.

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Estimates and judgements

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

(e) Going concern

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

3 Significant accounting policies

(a) Investments in subsidiary companies

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Loss of control

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

3 Significant accounting policies (continued)

(c) Investments in associates and jointly controlled entities

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

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

(d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements.

(e) 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.

(f) 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 5 years. Vehicles held for sale are not depreciated but are tested for impairment.

(g) 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.

(h) 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

(i) 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 cost in the Interim Statement of Financial Position.

3 Significant accounting policies (continued)

(j) Tax

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

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

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

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

(k) 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.

(l) 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.

(m) Investments

Investments in listed companies are carried at fair value, determined from the market price in an active market.

Equity investments which do not have a quoted market price in an active market, are carried at fair value, unless the Group has determined that the fair value cannot be reliably determined.

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

Fair value changes are recognised in the Interim Statement of Comprehensive Income.

(n) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss. Non-current assets which no longer meet the criteria to be classified as held for sale are reclassified to held for use. On reclassification as held for use, a non-current asset is remeasured at the lower of its recoverable amount and the carrying value that would have been recognised had the asset never been classified as held for sale.

(o) Financial assets and liabilities

Recognition

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

3 Significant accounting policies (continued)

Derecognition

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

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

The Group enters into transactions whereby it transfers assets recognised on its Interim 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 Interim 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:

Financial Assets/Liabilities	Accounting Category
Finance receivables	Loans and Receivables
Other investments	Available for sale
Other financial assets	Loans and Receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Fair value through profit and loss
Cash and cash equivalents	Loans and Receivables

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the Interim Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise borrowings and trade and other payables.

3 Significant accounting policies (continued)

Derivative financial instruments, including hedge accounting

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Interim Statement of Comprehensive Income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

(p) Intangible assets

Goodwill

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

Identifiable intangible assets

Identifiable intangible assets include software, brands, licence, advisor books 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:

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

(q) 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 period 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 5 periods.

3 Significant accounting policies (continued)

(r) Impaired assets and past due assets

Impaired assets are those finance receivables 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 past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its expected losses.

"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 asset"s 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.

(s) 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.

(t) Share schemes

The Group provides 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:

Discretionary share scheme & executive share plan

Under these schemes the Group 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 the conditions are satisfied. The expected benefit is expensed over the period over which any conditions are required to be met.

(u) Distribution of non-cash assets to owners

Non-reciprocal distributions of non-cash assets by the Group to its shareholders acting in their capacity as owners are recognised when authorised and approved by the Board of Directors and shareholders. Such distributions are measured at the fair value of assets to be distributed with any corresponding gain or loss recognised through profit or loss.

(v) 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.

(w) 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.

(x) 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.

(y) 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.

3 Significant accounting policies (continued)

(z) Statement of Cash Flows

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

(aa) Business Combinations

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

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

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

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

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

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

(ab) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(ac) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

(ad) Comparative balances

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

(ae) Changes in accounting policies

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

3 Significant accounting policies (continued)

(af) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended 31 December 2011, and have not been applied in preparing these interim financial statements. The new standards identified which may have an effect on the interim financial statements of the Group going forward are:

Standard and description	Effective for annual periods beginning on or after:	Expected to be initially applied in period ending:
NZ IAS 12 Income taxes, which introduces a presumption that an investment property is recovered entirely through sale.	01-Jan-12	30-Jun-13
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets.	01-Jan-15	30-Jun-16
NZ IFRS 10 Consolidated Financial Statements introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	01-Jan-13	30-Jun-14
NZ IFRS 11 Joint Arrangements focuses on the rights and obligations of joint ventures rather than the legal form as is currently the case and removes the proportionate consolidation option currently available, stipulating that all joint ventures must be equity accounted.	01-Jan-13	30-Jun-14
NZ IFRS 12 Disclosure of Interests in Other Entities contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities, and aims to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.	01-Jan-13	30-Jun-14
NZ IFRS 13 Fair Value Measurement replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.	1-Jan-13	30-Jun-14
NZ IAS 27 Separate Financial Statements (2011) supersedes NZ IAS 27 (2008). NZ IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.	01-Jan-13	30-Jun-14
NZ IAS 28 Investments in Associates and Joint Ventures (2011) supersedes NZ IAS 28 (2008), and states that NZ IFRS 5 applies to an investment, or portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.	01-Jan-13	30-Jun-14

The Group currently has no plans to early adopt these standards.

4 Segmental analysis

The Group has 4 reportable segments, which reflect the Group's strategic divisions at 31 December 2011.

The following summary describes the operations in each of the Group's 4 reportable segments at 31 December 2011:

Financial services — Motor vehicle, commercial plant, equipment and business, marine and leisure financing and insurance services. This segment relates to services which were discontinued in the period ended 30 June 2011.

Trustee services — Personal trust, estate and corporate trustee services.

Portfolio asset management — Provider of portfolio management services. Provision of asset and fund management, particularly specialised asset funds. Includes distressed loan and real estate assets in progress of recovery.

Rural services — Rural and horticultural supplies, livestock sales, irrigation and pumping, seeds and nutrition, real estate, funds management and rural finance.
This segment relates to services which were discontinued in the period ended 30 June 2011.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit/(loss) for the period before income tax, as included in the internal management reports that are reviewed by the Managing Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Profit / (loss) for the period			
Financial services *	-	-	-
Trustee services	520	507	1,235
Portfolio asset management **	(14,456)	(11,671)	(35,115)
Rural services	-	(1,081)	(1,081)
Corporate and other investments	(13,170)	(30,049)	(61,621)
Profit / (loss) from continuing operations	**(27,106)**	**(42,294)**	**(96,582)**
In-specie loss on distribution of BSHL shares	-	-	(52,929)
Profit/(Loss) from discontinued operation, net of income tax*	-	5,125	8,403
Profit/(Loss) for the year	**(27,106)**	**(37,169)**	**(141,108)**
Net operating income and equity accounted profit			
Trustee services	4,909	8,129	10,684
Portfolio asset management **	11,458	5,604	8,140
Rural services	-	(1,081)	(1,081)
Corporate and other investments	647	47	2,704
Discontinued operations	-	29,440	65,370
Total Group net operating income and equity accounted profit	**17,014**	**42,139**	**85,817**
Total impaired asset expense, investment write-downs and provisions			
Portfolio asset management	16,902	10,917	35,452
Corporate and other investments	12,526	-	-
Discontinued operations	-	6,094	-
Total Group impaired asset expense, investment write-downs and provisions	**29,428**	**17,011**	**35,452**
Total assets			
Trustee services	7,479	4,708	8,780
Portfolio asset management	47,746	125,766	59,977
Rural services ***	-	83,296	33,920
Corporate and other investments	123,777	26,553	83,809
Discontinued operations	-	1,245,636	-
Total Group assets	**179,002**	**1,485,959**	**186,486**

4 Segmental analysis (continued)

*In 2010 the financial services segment included MARAC Finance Limited and MARAC JV Holdings Limited. During the June 2011 year the Company disposed of it's interest in these entities (refer to notes 22 and 23 for further information). The financial services segment results in respect of the 6 month period 31 December 2010 and the year ended 30 June 2011 have been reclassified as discontinued operations.

**Portfolio asset management loss includes the increase in the MARAC management agreement provision of $8.8 million (December 2010: $nil, June 2011: $9.3 million) and impaired asset expense of $1.5 million (December 2010: $nil, June 2011: $24.6million), and property assets held for sale of $8.8 million (December 2010: $nil, June 2011: $13.6 million) are included in total assets.

***The $26.7 million holding in PGG Wrightsons (PGGW) was reclassified as an investment during the period and is included within total assets for head office (December 2010: $83.3million, June 2011: $33.9million, accounted for as held for sale and included within rural services total assets).

5 Selling and administration expenses

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Personnel expenses	5,577	7,211	17,407
Superannuation	-	20	115
Directors' fees	277	350	403
Audit fees	71	74	221
Audit related fees *	33	-	189
Depreciation - property	-	-	11
Depreciation - plant and equipment	216	163	369
Amortisation expense	232	335	635
Loss on disposal of assets	44	-	115
Operating lease expense as a lessee	857	578	1,026
Other operating expenses **	7,385	7,405	13,107
Total selling and administration expenses	**14,692**	**16,136**	**33,598**

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

** Other operating expenses include professional and consultancy fees, property expenses, advisor commissions, listing and regultatory costs and other overhead expenditure.

6 Impaired asset expense and investment write-down

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Investment property change in fair value	950	10,917	9,016
Held for sale change in fair value	283	-	-
Finance receivables individually assessed for impairment	400	-	5,959
Investments individually assessed for impairment	6,481	-	6,713
Impairment of shares in Heartland New Zealand Limited	5,308	-	-
Impairment of EPIC goodwill	-	-	2,400
Impairment of AA licence	-	-	1,533
Other assets individually assessed for impairment	-	-	500
Total impaired asset expense and investment write-down	**13,422**	**10,917**	**26,121**

7 Write-down investment in PGW

PGG Wrightson Limited (PGW)

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

The carrying value of the Company's investment in PGW was $113.6 million as at 30 June 2010, based on equity accounted earnings. Given the execution of the Lock-Up Deed with Agria in December 2010, the Company reclassified the investment in PGW as held for sale as at 31 December 2010. Upon initial classification as held for sale, this investment was written down to $83.3 million being the Company's best estimate of the fair value less costs to sell versus equity accounted earnings of $113.6 million as at that date.

Following the closing of the Agria partial takeover offer on 26 April 2011, the Company received $39.9 million in return for the sale to Agria of an 8.8% interest in PGW.

At 30 June 2011, the fair value of PGW shares held for sale was $33.9 million, resulting in an impairment charge of $37.3 million. This investment was classified as a held for sale asset as at 30 June 2011. During the period to 31 December 2011, the investment was reclassified as an investment, as the Company is no longer actively marketing the investment for sale.

At 31 December 2011, the fair value of PGW shares was $26.7 million, resulting in an impairment charge of $7.2 million.
At 31 December 2011, the Company holds a 9.56% interest in PGW.

8 Tax

Provisional tax has not been paid during the six months to 31 December 2011 and the income tax expense is nil as the Group incurred tax losses of $7.4m during the six months ended 31 December 2011 and has total tax losses of approximately $57.8m to carry forward subject to meeting the shareholder continuity requirements, that have not been recognised as at 31 December 2011. The results of the Australasian Equity Partners Fund No. 1 LP (AEP) takeover offer may affect the ability to carry forward tax losses.

9 Reconciliation of loss after tax to net cash flows from operating activities

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Loss for the period	**(27,106)**	**(37,169)**	**(141,108)**
Add / (less) non-cash items:			
Non-cash movements related to in-specie distribution of BSHL shares	-	-	66,415
Accruals, capitalised interest and prepaid items	(2,202)	(6,323)	(5,843)
Disposal of property, plant and equipment	(157)	-	20
Disposal of business	-	-	(13,952)
Trade receivables written off as uncollectible	400	-	27,749
Reversal of trade receivables written off	-	-	(410)
Share of equity accounted investees' (profit) / loss	346	1,046	62
Change in fair value of hedging instruments	-	-	1,912
Impairment loss on non-current assets recognised in profit and loss	21,810	17,011	31,077
Write-down investment in PGW shares	7,217	30,308	38,407
Change in fair value of investments	(280)	-	-
Depreciation and amortisation of non-current assets	448	1,027	12,045
Provisions	-	-	(10,941)
Current tax	-	-	(18,715)
Deferred tax	-	3,150	33,294
Total non-cash items	**27,582**	**46,219**	**161,120**

9 Reconciliation of loss after tax to net cash flows from operating activities (continued)

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Add / (less) movements in working capital items:			
Trade and other receivables	(2,468)	-	1,199
Other assets	(175)	5,192	(2,364)
Other liabilities	1,675	(2,221)	3,674
Related party payables	-	-	235
Trade and other payables	(5,250)	-	206
Operating lease vehicles	-	4,885	(6,011)
Current tax	-	(4,217)	-
Proceeds from sale of tax losses	2,700	-	-
Total movements in working capital items	**(3,518)**	**3,639**	**(3,061)**
Add / (less) items classified as investing activities:			
Gain on sale of assets and investments	(504)	-	-
Gain on sale of property	(9)	-	(1)
Total items classified as investing activities	**(513)**	**-**	**(1)**
Net cash flows from operating activities	**(3,555)**	**12,689**	**16,950**

10 Earnings per share

The calculation of basic and diluted earnings per share at 31 December 2011 is based on the loss from continuing operations of $27.1 million (December 2010: $42.3 million loss; June 2011: $96.6 million loss), and a weighted average number of shares on issue of 216.630 million (December 2010: 780.308 million; June 2011: 742.024 million).

11 Share capital

	Unaudited Dec-11 000	Unaudited Dec-10 000	Audited Jun-11 000
Number of Issued shares			
Opening balance	216,630	773,522	773,522
Dividend reinvestment plan and underwrite	-	30,419	30,419
Senior executive share plan	-	-	4,379
Cancellation of shares upon in-specie distribution	-	-	(591,690)
Closing balance	**216,630**	**803,941**	**216,630**

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

In the year ended 30 June 2011, the Company distributed to it's shareholders it's 72.21% ownership interest in Building Society Holdings Limited (BSHL) effective 30 May 2011. In consideration for this distribution, 72.21% of the Company's shares, being 591,689,961 shares were cancelled. BSHL subsequently changed its name to Heartland New Zealand Limited (HNZ).

During the year ended 30 June 2011, the Company issued 4,378,998 new shares at 36.74 cents per share for a Senior Executive Plan. The shares were vested to executives in three tranches on 1 October 2011, 1 November 2011 and 1 December 2011. During the December 2011 period, share capital increased by $73,743, being the final proceeds from the share issue, following former MARAC/PGC executives fulfilling the conditions of the plan (December 2010: nil , June 2011: $1,535,000).

Net tangible assets is calculated by deducting deferred tax, intangible assets and liabilities from total assets. Net tangible assets per share is calculated by dividing the net tangible assets by the shares on issue at the end of the period.

12 Cash and cash equivalents

Cash and cash equivalents comprise of:	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Cash and cash equivalents	17,557	85,145	18,830
Bank overdrafts	(3,591)	-	(2,200)
Total cash and cash equivalents	**13,966**	**85,145**	**16,630**

13 Finance receivables

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Gross finance receivables	13,365	1,132,131	12,468
Less allowance for impairment	(400)	(37,765)	(1,338)
Total finance receivables	**12,965**	**1,094,366**	**11,130**

14 Investment property

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Opening balance	39,760	41,838	41,838
Acquisitions and enforced security	1,800	23,418	23,589
Change in fair value	(950)	-	(9,016)
Settlements	(766)	-	(3,064)
Net transfer of assets held for sale	(410)	-	(13,587)
Closing balance	**39,434**	**65,256**	**39,760**

As at 31 December 2011, investment property comprises a mix of residential and commercial properties. During the period $1.8 million, investment properties were acquired as a result of enforcement of security over finance receivables (December 2010: $23.4 million, June 2011: $23.6 million). The Group intends to hold these properties for long-term capital appreciation and to earn rental income.

The Group's investment properties have been valued by valuation firms which specialise in the type of property contained within the portfolio. Notably these include Colliers, Jones Lang Salle, CB Richard Ellis plus a number of regional specialists. The majority of valuation reports are less than 12 months old and in a number of cases, are further supported by recent sales of comparable properties.

The following amounts were recognised in profit or loss in respect of investment property held:

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Rental income	1,030	422	1,565
Direct operating expenses arising from investment property that generated investment income	1,395	638	1,344
Direct operating expenses arising from investment property that did not generate investment income	387	1,355	1,626

15 Investments

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
PGW shares	26,703	-	-
HNZ shares	11,223	-	-
Equity Partners Infrastructure Company No 1 Limited (EPIC)	5,766	14,500	9,695
Torchlight Fund No. 1 Limited Partnership	14,359	15,000	14,359
Zero coupon bond	8,747	-	8,465
Other	1,125	750	1,125
Total investments	**67,923**	**30,250**	**33,644**

The Company holds a 9.56% interest in PGG Wrightson Limited (PGW). Previously this investment was classified as held for sale. During the period to 31 December 2011, the investment was reclassified as an investment, as the Company is no longer actively marketing the investment for sale.

On 30 August 2011, the Company participated in the Heartland New Zealand Limited (HNZ) placement of shares and the underwrite of HNZ's share purchase plan. PGC subscribed for 13,333,333 new HNZ shares at $0.75 per share for and aggregate issue price of $10 million, and also, under the underwrite obligations PGC acquired 10,048,352 new HNZ shares at an issue price of $0.65 per share. The total shareholding represents a 6.02% interest in HNZ.

15 Investments (continued)

At 31 December 2011, the fair value of HNZ shares was $11.2 million, resulting in an impairment charge of $5.3 million.

An impairment loss of $3.9 million was recognised during the period, in respect of the Group's investment in EPIC (December 2010: $nil, June 2011: $4.8 million).

No impairment was recognised in relation to the Groups investment in Torchlight Fund No. 1 LP (Torchlight) during the period (December 2010: nil, June 2011: $0.6 million).

During the period to 31 December 2011, PGC acquired a NZ$14.0 million participation in National Australian Bank's (NAB) first ranking loan facilities to EPIC. This was completed in two tranches, the first for NZ$7.5 million was completed on 8 July 2011, and the second tranche of NZ$6.5 million was completed on 15 July 2011. This investment was fully repaid by EPIC on 14 December 2011.

Other investments consists of a 10% investment in a Limited Partnership.

16 Investment in associates

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Carrying amount at beginning of period	6,011	118,541	118,541
Additional investment in associates	-	1,115	1,266
Equity accounted earnings of associates before tax	(527)	(1,023)	(948)
Share of associates' income tax (expense) / benefit	181	(116)	(143)
Share of associates' other comprehensive income	-	1,014	1,014
Foreign currency translation	-	30	(115)
Reclassify to asset held for sale	-	(113,604)	(113,604)
Carrying amount at end of period	**5,665**	**5,957**	**6,011**

Goodwill included in carrying amount of associates	5,521	5,233	5,109
Total assets of associates	2,174	4,800	4,639
Total liabilities of associates	(1,798)	2,514	(2,271)
Total income of associates	2,142	650,965	12,380
Total net profit / (loss) after tax of associates	**(346)**	**(6,076)**	**(20)**

Van Eyk Research Limited

At 31 December 2011, the Group held a 38.1% stake in Van Eyk Research Limited, an Australian based investment research and fund management company. The original purchase price included AUD$1.6 million (NZD $1.8 million) which was payable over 18 months. The balance which was included in other liabilities was fully paid in November 2011 (December 2010: NZD $1.4 million, June 2011: NZD$0.57 million). Van Eyk Research Limited is not a publicly listed entity and consequently does not have a published market value.

17 Assets held for sale

PGG Wrightson Limited (PGW)

At 30 June 2011 PGG Wrightson Limited (PGW) was classified as an asset held for sale. During the period, the PGW holding was reclassified from a held for sale asset to an investment. The investment has been marked-to-market based on a closing NZX bid price of $0.37 at the end of the period.

Property assets

During the period $1.0 million of investment property was reclassified to assets held for sale (December 2010: $nil, June 2011: $13.6 million).

17 Assets held for sale (continued)

	Unaudited Dec-11 $000
Balance at start of period	47,506
Sales of held for sale assets during the period	(4,915)
Impairment expense	(971)
Investment in PGW shares reclassified as an investment	(33,920)
Investment property reclassified as held for sale	1,081
Balance at end of period	**8,781**

18 Intangible assets

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
AA licence and advisor books	2,214	3,808	2,368
Computer software	-	1,433	-
Statutory right and brands	3,401	12,901	3,401
Goodwill	-	13,547	-
Management contracts	4,836	7,655	7,523
Total intangible assets	**10,451**	**39,344**	**13,292**

During the period ended 31 December 2011, Perpetual Portfolio Management Limited acquired one Adviser book for $0.1m. Also during the period the final price of an Adviser book purchased in the prior period was reduced based on a pricing methodology agreed with the vendor over a transition period, the amount of this revision was $0.2m.

Advisor books are classified as fixed life intangible assets and are amortised over their expected life of 10 years.

Impairment of intangible assets

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

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 and brands for the period ended 30 June 2011 (2010: nil).

During the period ended 31 December 2011, the Group impaired its investment in the EPIC management contract (provided by subsidiary EPIM) by $2.5 million to reflect the agreed realisation valuation on termination of this contract in February 2012, refer Note 25.

19 Borrowings

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Bank borrowings sourced from New Zealand	16,551	12,187	-
Debenture stock sourced from New Zealand	-	826,868	-
Debenture stock sourced from overseas	-	28,510	-
Securitised borrowings sourced from New Zealand	-	149,278	-
Property book borrowings sourced from New Zealand	8,800	-	10,700
Total borrowings	**25,351**	**1,016,843**	**10,700**

The Group has bank facilities totalling $25.7 million (December 2010: $408.3m; June 2011: $9.2m). Also, Property Asset Limited, a wholly owned subsidiary, has $8.8 million of debt, secured over various property assets (December 2010: nil; June 2011: $10.7 million).

Bank borrowings are secured by a general security interest over the assets of the Holding Company and specific subsidiary companies.

20 Provisions

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Balance at start of period	9,331	19	9
Provisions raised during the period	8,789	(10)	9,331
Provisions disposed of through distribution	-	-	(9)
Provisions settled during the period	(1,500)	-	-
Balance at end of period	**16,620**	**9**	**9,331**
Current	-	9	4,000
Non-current	16,620	**-**	**5,331**
	16,620	**9**	**9,331**

MARAC Management Agreement

On 5 January 2011, the Real Estate Credit Limited (RECL) entered into a management agreement with MARAC Finance Limited (MARAC). The agreement (as previously amended) was further amended on 19 October 2011. Under this arrangement, RECL manages certain non-core real estate loans (not previously sold in September 2009) of MARAC for a 5 year period (ending 5 January 2016), and assumes the risk of loss on those loans for that period. Any payment by RECL to MARAC in respect of that loss is due at the end of the 5 year period (with some limited right on the part of MARAC to earlier payment). The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to $30 million. The payment obligations of RECL are “limited in recourse” to a pool of security provided by RECL. This pool of security includes an $11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA- by Standard & Poor's (Australia) Pty Limited), and a minimum $19 million in security value of other assets (initially real estate or real estate loans). The Group will be obliged to top up the security pool to the extent there is a shortfall in the $19 million in security value of other assets.

MARAC paid RECL an upfront fee of $11 million (which is being amortised over the 5 year period of the arrangement), and will pay an on-going management fee of $200,000 per annum for the 5 year period.

Total provision of $16.6 million relates to increase in provisions of $8.8m during the period 31 December 2011; (June 2011 $9.3m) less $1.5m provisions settled during the period. This provision represents the amount owing to MARAC under this agreement and is calculated in accordance with Credit Risk policy.

In September 2011, RECL paid $1.5 million cash for claims to MARAC (June 2011 - nil). No other advances have been made to MARAC in respect of amounts owing. This payment reduced the required minimum security value of other assets to $17.5 million.

The directors believe RECL has a pool of assets including RECL cash reserves that are sufficient to meet its obligations under the agreement at this time.

21 Related party transactions

Prior to 30 May 2011, the ultimate parent of MARAC Finance Limited (MARAC) was PGC. As discussed in Notes 22 and 23, PGC disposed of its interest in MARAC by way of two separate transactions. Firstly, on 5 January 2011, PGC disposed of 27.79% of its investment in MARAC in exchange for a 72.21% shareholding in Building Society Holdings Limited (subsequently renamed Heartland New Zealand Limited (HNZ)), and then secondly on 30 May 2011, distributed its 72.21% investment in HNZ to PGC shareholders. Consequently, HNZ, incorporating MARAC are no longer related parties of the Group.

All transactions were conducted on normal commercial terms and conditions.

(a) Transactions with related parties

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Material transactions during the period with related parties were:			
Management fees received from related parties	-	301	4,586
Total	**-**	**301**	**4,586**
Material balances at period end with related parties were:			
Debenture stock held by MARAC Insurance Limited	-	2,596	-
Management and transaction fees owed by related parties	-	-	1,443
Finance receivables owing by PGG Wrightson Seeds Limited	-	673	-
Advances owing to employees and related parties	(1,432)	-	(1,432)
Total	**(1,432)**	**3,269**	**11**

21 Related party transactions (continued)

Torchlight Investment Group Limited (TIG) Loan to Van Eyk Research Pty Limited

On 28 October 2011 TIG advanced as a short term loan repayable on demand $2 million to its Australian associate Van Eyk Research Pty Limited. The full loan balance was outstanding as at 31 December 2011.

(b) Transactions with key management personnel

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

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Debenture investing:			
Maximum balance	-	872	872
Closing balance	-	787	-
Key management personnel compensation is as follows:			
Short-term employee benefits	605	2,312	5,113
Share-based payments	-	37	1,937
Total	**605**	**2,349**	**7,050**

(c) Australasian Equity Partners Fund No.1 LP (AEP)

At the date of this report AEP has filed substantial security holder notices disclosing that it holds a relevant interest in 70.51% of the shares in PGC. Accordingly, AEP is now a related party of PGC. Refer Note 25 for further details.

22 Acquisition of subsidiary

Business combination

On 5 January 2011, MARAC Financial Services Limited (MFSL), a wholly owned subsidiary of PGC, exchanged its 100% shareholding in MARAC and its 50% investment in MARAC JV Holdings for 72.21% of the shares in Building Society Holdings Limited (BSHL). The agreed consideration of $206.8 million converted to the issue of 3.94 fully paid shares in BSHL in exchange for each MARAC share. On the same date, Combined Building Society, a wholly owned subsidiary of BSHL, acquired all of the assets and engagements of Southern Cross Building Society (SCBS) and CBS Canterbury (CBS) for the total agreed consideration of $79.6 million. Combined Building Society then subsequently acquired all of the shares in MARAC through BSHL transferring its shareholding in MARAC to CBS (through its subsidiaries as intermediate holders).

As a result of the above transaction, PGC disposed of 27.79% of its investment in MARAC Finance Limited in exchange for a 72.21% shareholding in BSHL.

23 Discontinued operations

In-Specie Distribution of Building Society Holdings Limited (BSHL) shares

On 30 May 2011, the Group disposed of its remaining interest in MARAC Finance Limited and MARAC JV Holdings Limited, held via its 72.21% shareholding in BSHL, by way of a in-specie distribution to PGC shareholders. As a result, PGC relinquished control of BSHL and the resulting loss on disposal has been recognised in profit and loss for the period. The distribution of the BSHL shares and cancellation of a proportion of PGC shares was effective as at 30 May 2011. The net effect of the distribution, including any profit or loss, is that the Group's net assets have reduced by $317.5 million.

The profit/(loss) for the year ended 30 June 2011 from discontinued operations represents 100% of MARAC Finance Limited's profit/(loss) for the period 1 July 2010 to 6 January 2011, and 72.21% of BSHL's profit/(loss) for the period 7 January 2011 to 30 May 2011.

There were no discontinued operations during the period to 31 December 2011.

23 Discontinued operations (continued)

Profit / (loss) attributable to the discontinued operations in December 2010 and June 2011 were as follows:

	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
Results of discontinued operations			
Revenue	-	77,625	165,820
Expenses	-	69,736	153,330
Results from operating activities	-	7,889	12,490
Income tax expense	-	2,764	4,087
Results from operations, net of income tax	**-**	**5,125**	**8,403**
Loss on remeasurement to fair value	-	-	-
Loss on disposal of discontinued operation	-	-	52,929
Income tax on gain on sale of discontinued operation	-	-	-
Profit/(Loss) from discontinued operations for the period	**-**	**5,125**	**(44,526)**
Profit/(Loss) from discontinued operations attributable to:			
Owners of the Company	-	5,125	(45,310)
Non-controlling interests	-	-	784
Profit/(Loss) from discontinued operations for the period	**-**	**5,125**	**(44,526)**
Basic earnings/(loss) per share	-	-	-6c
Diluted earnings/(loss) per share	-	-	-6c
Cash flows from discontinued operations			
Net cash from operating activities	-	15,022	13,854
Net cash from investing activities	-	(44,078)	(1,453)
Net cash from financing activities	-	21,199	(113,153)
Net cash from/(used in) discontinued operations	**-**	**(7,857)**	**(100,752)**
Effect of disposal on the financial position of the group			
Cash and cash equivalents	-	(78,549)	(263,197)
Finance receivables	-	(1,087,206)	(1,733,233)
Operating lease vehicles	-	(38,005)	(32,899)
Investments	-	-	(19,273)
Investment property	-	(2,182)	(9,899)
Trade receivables	-	(29,690)	(6,078)
Other assets	-	(7,783)	(27,423)
Deferred tax asset	-	(7,205)	(6,460)
Intangible assets	-	(1,433)	(40,834)
Borrowings	-	1,004,656	1,790,266
Trade creditors	-	28,650	21,369
Other liabilities	-	6,696	10,149
Reduction in equity	**-**	**(212,051)**	**(317,512)**
Less non controlling interest	-	-	79,574
Less In-specie loss on distribution of BSHL shares	-	-	52,929
Movements in Equity	**-**	**(212,051)**	**(185,009)**
Consideration received	-	-	-
Cash and cash equivalents disposed of	-	(78,549)	(263,197)
Net cash inflow	**-**	**(78,549)**	**(263,197)**

23 Discontinued operations (continued)

In-specie distribution transaction summary	Unaudited Dec-11 $000	Unaudited Dec-10 $000	Audited Jun-11 $000
BSHL carrying value	-	-	317,512
Less non controlling interest	-	-	(79,574)
Carrying value of PGC's investment in BSHL	-	-	237,938
Less fair value of in-specie distribution	-	-	(164,639)
Loss on disposal/in-specie distribution	-	-	73,299
Recognised directly in equity in relation to dilution	-	-	(20,370)
Recognised directly in profit and loss in relation to the in-specie	**-**	**-**	**(52,929)**

24 Staff share ownership arrangements

General staff share purchase scheme

At 31 December 2011 there were no shares held under this scheme.

Discretionary staff share schemes

At 31 December 2011 the Trustees held 14,072 shares in PGC and 14,072 shares in Heartland New Zealand Ltd (HNZ). The shares are held in trust for MARAC employees, formerly part of the Group. No current PGC employees hold shares under this scheme. Since December, these have been transferred to the MARAC employees.

Directors' retirement share scheme

At 31 December 2011 the Trustees held 61,430 shares in PGC and 61,430 shares in HNZ on behalf of Directors. On 31 January 2012, 30,017 shares in PGC and 30,017 shares in HNZ were transferred to Bruce Irvine on his retirement from the Board.

Executive share plan

At 31 December 2011 the trustees held 586,786 shares in PGC and 586,786 shares in HNZ.

The shares are held in trust for MARAC employees and former PGC employees who transferred to HNZ. No current PGC employees hold shares under this scheme. Since December these have been transferred to the MARAC and former PGC employees.

No expense, including PAYE, was recognised during the period (December 2010: $nil, June 2011: $2.37 million).

25 Subsequent events

(a) Australasian Equity Partners Fund No.1 LP (AEP) Takeover Offer

AEP declared its takeover offer for all of the shares in PGC unconditional on 14 February 2012. At that time AEP also extended its takeover offer until 30 March 2012. This is the latest date to which the takeover offer can be extended.

At the date of this report AEP has filed substantial security holder notices disclosing that it holds a relevant interest in 70.51% of the shares in PGC.

(b) Termination of Equity Partners Infrastructure Company No. 1 Limited (EPIC) Management Agreement

On 13 February 2012 Equity Partners Infrastructure Management Limited (EPIM) and EPIC reached an agreement on the termination of the management agreement between EPIM and EPIC. The management agreement terminated with effect from 5pm on Monday 13 February 2012 with EPIC agreeing to pay to EPIM termination fees of $5,552,507.

The termination of the management agreement triggered the automatic termination of the performance fee agreement between EPIM and EPIC resulting in the payment of the performance fee under that agreement to EPIM. EPIC has agreed to pay a performance fee of NZ$3,297,952 as the fee payable under the performance fee agreement.

The termination payments and performance fee will be satisfied by EPIC issuing ordinary shares or ordinary shares and cash.

25 Subsequent events (continued)

(c) Independent Director Waiver

Independent director, Bruce Irvine, resigned on 31 January 2012 which left PGC with only one independent director, being one less than required by NZSX Listing Rule 3.3.1(c). On Tuesday 14 February the PGC board resolved to appoint two additional directors being Michael Tinkler and Russell Naylor, neither of whom are considered by the board to be independent.

PGC applied for a waiver from compliance with Listing Rule 3.3.1(c) on Friday 17 February 2012 and this waiver was granted by the NZSX on Wednesday 22 February 2012. The period of the waiver is until 30 April 2012.

(d) Torchlight (GP) 1 Limited (TLGP) Investments

During January and February 2012 TLGP made several new investments and provision of funding which included a seedling investment into an offshore equities fund in the amount of $7.5 million and separately funding the acquisition of securities.

(e) Payment timing adjustment

On 22 December 2011 the PGC board approved a payment timing adjustment in respect of fees and establishment costs paid to TLGP by Torchlight Fund No.1 LP (TLLP1) which in retrospect were paid too early. This resulted in an amount of approximately $4.98 million of fees and establishment costs being repaid to TLLP1. These fees and establishment costs remain PGC working capital as accrued costs payable to TLGP.

(f) Segment Reporting

Given recent transactions, the Company will review the Groups reportable segments prior to 30 June 2012 to ensure that they continue to reflect the information provided to the Managing Director.