Pyne Gould Corporation

INTERIM REPORT TO 31 DECEMBER 2008

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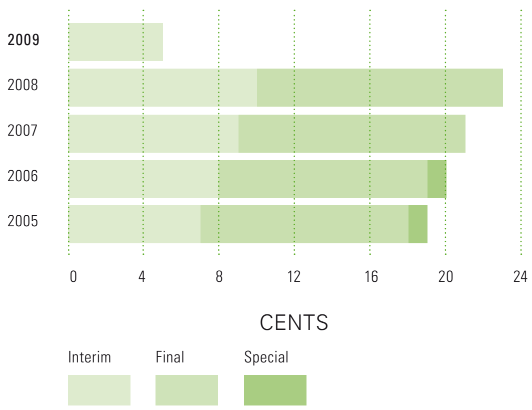
HALF-YEAR SUMMARY

- All three PGC businesses recorded solid operating results for the first-half.
- MARAC had higher provisioning and PGC set aside $25.0m as an underwriting provision for property loans.
- PGG Wrightson incurred a number of abnormal one-off items including writing down its investment in New Zealand Farming Systems Uruguay to current market value.
- Adjusting for the above, PGC has reported a net after tax loss of $17.0m.
- An interim dividend of 5 cents per share will be paid.

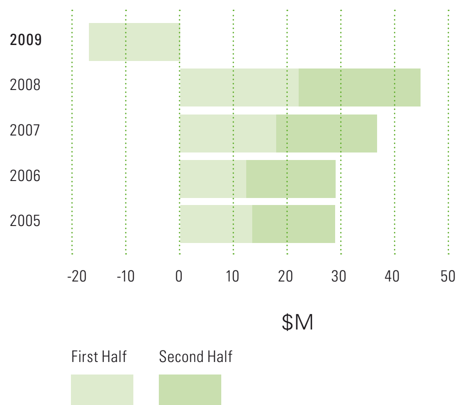
KEY FINANCIAL RESULTS

	This Period	Corresponding Period
Net operating profit before impaired asset expense and tax	$12.9m	$31.1m
Net profit (loss) after tax	($17.0m)	$22.1m
Interim dividend	5c	10c

Dividend Per Share (Includes Special)



Net Profit After Tax (Before Abnormals)



CHAIRMAN AND MANAGING DIRECTOR'S REPORT

In the six months to 31 December 2008, all three of PGC's businesses – MARAC, Perpetual Trust and PGG Wrightson, produced solid operating results despite the challenging economic conditions.

SAM MALING, Chairman (left) and BRIAN JOLLIFFE, Managing Director (right).

Interim Financial Performance

MARAC achieved a net operating profit before tax and impaired asset expense of $20.4m, down 11% on the last interim period. Perpetual Trust achieved a net operating profit before tax of $2.4m, $0.3m down on the last interim period. The operating businesses of PGG Wrightson produced a strong performance, with net operating profit before tax up 32% to $22.1m.

The overall result was affected by:

- an increased level of provisioning for impaired assets in MARAC.
- PGC's share of PGG Wrightson's one-offs items including a fair value adjustment to its investment in New Zealand Farming Systems Uruguay.
- an underwrite provision to MARAC of $25.0m to enable prudent management of property loans over the coming months and years.

The overall result for Pyne Gould Corporation was a net after tax loss of $17.0m for the six months to 31 December 2008. This compares with a net profit after tax of $22.1m achieved in the corresponding period last year.

Dividend

The Directors believe it is prudent to pay a reduced dividend of 5 cents per share given the drop in after tax profitability and the continuing market uncertainty.

The payment represents a departure from our historical policy of distributing between 45% and 55% of reported net profit after tax.

Banking Application to the Reserve Bank

The detailed work required to support an application for a banking licence is continuing. It remains our intention to restructure the Company to become the only New Zealand owned publicly listed bank.

Chief Executive

Following the announcement last October of Brian Jolliffe's decision to step down at the end of the current financial year, the board has commenced a search for a replacement. We expect to be able to provide further information in the next few months.

MARAC®

SUMMARY

- MARAC achieved a net operating profit before tax and impaired asset expense of $20.4m, down from $22.8m the last interim period.
- Retail funding grew strongly following the successful retail bond issue and MARAC being approved under the New Zealand Deposit Guarantee Scheme.

BRIAN JOLLIFFE
Managing Director

Financial Performance

The core businesses of MARAC performed solidly in the period, with net profit before tax and impaired asset expense at $20.4m, down 11% on the same period last year. After providing for higher impaired asset expense, net profit before tax was $11.0m compared to $21.0m in the last interim period.

Finance receivables at $1.4bn were only $110.0m below the levels at June 2008. This is a pleasing outcome as in the earlier part of the period MARAC concentrated on meeting the needs of existing customers only. Latterly, the company re-commenced identifying sound lending opportunities from New Zealand businesses and individuals which meet our rigorous credit criteria.

Business Division

Commercial

In the first half of the year there was reduced demand for new finance as businesses elected to defer capital expenditure. Clearly the overall economy slowed markedly and the lack of confidence and increasing plant costs, through the lower exchange rate, were contributing factors.

Whilst confidence was down there were some bright spots in the economy. There was no discernable pattern to the slowdown although demand remains stronger in the South Island than the North.

MARAC has maintained a high profile with its customers, looking to work with them through these uncertain times. We believe this will place MARAC in a strong position when the inevitable upturn arrives.

Property

As has been widely reported, a substantial correction in the property market is underway with some sectors worse affected than others (sections, land banks and coastal lifestyle). MARAC has always adopted a prudent approach to development property lending relative to our overall size. This is achieved by limiting lending in this sector to 20% of total receivables.

Despite this MARAC has not been immune to the challenges faced by developers and lenders in the current environment. The focus in this division remains on account management and working with each developer to devise strategies to maximise eventual outcome.

Invoice Financing

Considerable work was undertaken in the half-year to refine operational processes. This work is now complete. There has been a noticeable upturn in demand for this product and we expect solid growth in client numbers and profitability over the remainder of the year.

Consumer Division

Motor

MARAC has continued to provide finance for the purchase of new and quality used motor vehicles in a market which has experienced a significant slowdown. The half-year was characterised by falling petrol prices and interest rates however in the context of the overall economic environment this has not translated to a more buoyant market.

Toward the end of the half-year the market experienced a major structural change. With a large number of second tier funders already out of the market, two of the larger players GE and GMAC, also withdrew. This created the opportunity for MARAC to gain significant market share and has translated to robust volumes of new applications since November despite the overall depressed sector.

Vehicle Leasing

New leasing activity has remained subdued and competitive. MARAC has not chased market share where unacceptable residual positions would be required. The last several months have seen a trend beginning to develop of increasing prices for vehicles at the end of their lease term. With the impact of tighter controls on emission standards, the depreciating exchange rate and dealers reduced inventory levels, this trend is expected to continue.

Insurance

The development of MARAC's insurance offering has exceeded expectations over the half-year. The rollout of insurance products to motor vehicle dealers' has been very well received with packaged finance and insurance a compelling offering.

Credit

MARAC's dynamic provisioning process identified the need for increased provisions and write-offs for impaired assets as would be expected in the current economic environment. The impaired asset expense (the write-off of bad debts plus provisions for doubtful debts less recoveries made) was $9.3m, compared to $1.8m in the same period last year.

During the period Pyne Gould Corporation also put in place an underwriting facility of $25.0m to enable MARAC to manage at risk property development loans in a manner that will maximise their realisation in future periods. At 31 December, approximately half of the facility was allocated against specific loans and the balance has been retained as an unallocated collective provision. The $25.0m provision represents 9.6% of the overall property development loan book of $261.5m, and is at a level which the board considers prudent given the current economic uncertainty.

Funding

Liquidity at the end of December was $352.6m, up from $164.0m at June 2008.

Retail funding from depositors grew strongly, with total retail deposits, including the proceeds of the MARAC retail bond which was oversubscribed at $104.2m, at $794.1m, up from $556.7m at June 2008. New funds flows have been at historical high levels following MARAC Finance Limited being approved under the New Zealand Deposit Guarantee Scheme. Reinvestment rates have continued at the upper end of historical averages – 74% in December.

Key financial results	This Period	Corresponding Period
Net operating profit before impaired asset expense and tax	$20.4m	$22.8m
Net profit after tax	$7.8m	$14.0m
Finance receivables and operating lease vehicles	$1,366m	$1,477m

Perpetual Trust

LOUISE EDWARDS
Chief Executive

SUMMARY

- Perpetual Trust achieved a net operating profit before tax of $2.4m, $0.3m down on the last interim period.
- Increasing numbers of new trust and investment advisory clients is building a solid base for future growth.

Financial Performance

The net operating profit before tax was $2.4m for the first six months, down 12% on the same period last year.

While Perpetual Trust has been affected by the current economic conditions, with revenue down by 6% on the last interim period, the company has a diversified income stream and has continued to perform solidly in most core areas. Operating expenses have been managed to a 4% decrease.

Personal Wealth Management and Advice

Perpetual's client base continues to grow in numbers but there has been a decline in assets under administration due to decreasing property values and declining investment markets. Revenue is down because fees are predominantly based on asset values. The number of new trusts and new investment advisory clients has steadily grown over the first half of the year. In these volatile times many investors are reviewing their investment options and Perpetual is seen as a conservative and safe alternative.

The focus continues on developing strong external relationships for the referral of new estate planning and financial advice business. Maintaining the will writing programme, both new and revised wills, continues as a key strategy for future business.

Corporate Trust

The corporate trust division continues to achieve steady revenue growth. Income levels have been helped by special fees in relation to non-bank deposit taker clients. Further areas of new business growth have been in the corporate bond sector and trading bank liquidity management facilities.

The division continues to focus on growing the client base particularly in the retirement village market and with international banks.

Managed Funds

The Perpetual Trust Mortgage Fund is weathering the credit crisis relatively well. The Fund continues to actively manage liquidity and has maintained asset quality, with provision made to cover the low level of impaired assets. The company has consistently taken a conservative approach to sourcing and maintaining high quality mortgage assets for the Fund. As a result, while the amount invested has fallen, the Fund is one of the few mortgage funds that has been able to remain open and honour its obligations to investors.

The amount invested in the Perpetual Trust Cash Management Fund was stable. This Fund invests predominantly in short-term bank securities and deposits.

The value invested in the Pegasus Investment Fund was steady, with the fall in asset prices offset by inflows from new investors, notably including UK pension transfers.

Key financial results	This Period	Corresponding Period
Net operating profit before tax	$2.4m	$2.7m
Net profit after tax	$1.6m	$1.8m
Revenue	$7.9m	$8.5m

SUMMARY

- The operating businesses of PGG Wrightson produced a strong performance, with net operating profit before tax up 32% to $22.1m.
- 10 of the 13 PGG Wrightson's business units produced improved trading results.

TIM MILES
Managing Director

Financial Performance

The operating businesses of PGG Wrightson produced a strong performance, with net operating profit before tax up 32% to $22.1m. Total revenue was up 32% to $738m.

After bringing into account a range of non-trading items, the company reported a net loss of $32.8m. PGC's share of this was a loss of $6.9m, compared to a profit last interim period of $7.5m.

Review of Businesses

The strength of the company's underlying business units was highlighted with 10 of the 13 business units improving their trading results. Rural Supplies, Seeds, Fruitfed Supplies, Finance and Animal Nutrition, produced the strongest growth in profitability. Real Estate experienced a fall in earnings of $4.3m driven by the impact of the global financial crisis, but continued to grow market share and reduce its cost base.

Non-Trading Items

In the period PGG Wrightson had a number of one-off items.

These were:

- fair value adjustments of $47.2m, including $35.2m relating to the value of the company's shareholding in NZ Farming Systems Uruguay, and $9.3m of mark to market of open contracts for hedging foreign currency and interest rate exposures.
- expenditure relating to the Silver Fern Farms transaction.

Key financial results	This Period	Corresponding Period
Net operating profit before tax	$22.1m	$16.8m
Net profit (loss) after tax - Company	($32.8m)	$34.6m
Net profit (loss) - to PGC	($6.9m)	$7.5m

SUMMARY AND OUTLOOK

The six months to December 2008 were one of the most difficult periods in recent history. The Company came through that period with a strong balance sheet and with a sound underlying financial performance.

We remain focused on working through the issues including the outcomes of the current economic slowdown and our own strategies surrounding our banking licence application. We remain fully supportive of our investment in PGG Wrightson.

In the second half of the year we again expect demand in MARAC and Perpetual Trust to generally remain soft with operating profitability below the levels reached in the second half of last year and much more in line with a continuation of the first half interim result performance. PGG Wrightson has provided a separate guidance in respect to its profit.

As we have always done as a Company and throughout our long history, we will continually evolve and adapt to the changing business environment while remaining true to our values of integrity, professionalism and quality.

To our shareholders, staff and customers, thank you for your continuing loyalty and support.

S R MALING
Chairman

B J JOLLIFFE
Managing Director

27 February 2009

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 Company as at 31 December 2008 and the financial performance and cash flows for the period ended on that date.

The directors consider that the interim financial statements of 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 Company 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 10 to 20 for issue on 27 February 2009.

For and on behalf of the Board

S R MALING
Chairman

B J JOLLIFFE
Managing Director

27 February 2009

INTERIM INCOME STATEMENT

For the period ended 31 December 2008

	NOTE	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Operating revenue				
Interest revenue		90,858	86,650	179,990
Operating lease revenue		8,722	11,042	21,319
Share of associate company's (loss) / profit	8	(6,949)	7,541	15,798
Fee and other revenue		10,435	11,375	22,029
Total operating revenue		**103,066**	**116,608**	**239,136**
Direct expenses				
Interest and funding expense		62,313	55,972	116,950
Operating lease expense		6,687	8,102	15,594
Total direct expenses		**69,000**	**64,074**	**132,544**
Net operating income		**34,066**	**52,534**	**106,592**
Other costs and expenses				
Selling and administration expenses	5	21,184	21,458	41,910
Impaired asset expense	14	34,336	1,753	5,717
Total expenses		**55,520**	**23,211**	**47,627**
(Loss) / profit before tax		**(21,454)**	**29,323**	**58,965**
Income tax (benefit) / expense		(4,410)	7,235	14,196
(Loss) / profit for the period		**(17,044)**	**22,088**	**44,769**
Company interests		(17,044)	22,088	44,769
Basic earnings per share		-17c	23c	46c
Diluted earnings per share		-17c	23c	46c

The notes on pages 13 to 20 are an integral part of these interim financial statements.

INTERIM BALANCE SHEET

As at 31 December 2008

	NOTE	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Assets				
Cash and cash equivalents		28,994	13,591	7,951
Finance receivables	7	1,288,101	1,416,191	1,368,000
Operating lease vehicles		42,810	57,657	51,628
Investment in associate company	8	85,532	95,775	101,460
Other assets	10	68,611	40,192	43,805
Total assets		**1,514,048**	**1,623,406**	**1,572,844**
Liabilities				
Borrowings	11	1,249,532	1,340,028	1,276,188
Other liabilities		39,908	32,197	34,052
Total liabilities		**1,289,440**	**1,372,225**	**1,310,240**
Equity				
Share capital		87,013	85,885	85,885
Retained earnings and reserves		137,595	165,296	176,719
Total equity		**224,608**	**251,181**	**262,604**
Total equity and liabilities		**1,514,048**	**1,623,406**	**1,572,844**

INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the period ended 31 December 2008

	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Cash flow hedges:			
- Transfer into the cash flow hedge reserve	(10,478)	462	1,957
- Transfer out of the cash flow hedge reserve	182	-	(3,817)
Effective portion of change in fair value	**(10,296)**	**462**	**(1,860)**
Tax effect of change in cash flow hedges	3,089	(182)	158
Net (expense) / income recognised directly in equity	**(7,207)**	**280**	**(1,702)**
Net (expense) / income of associate company recognised directly to equity	(2,110)	89	640
(Loss) / profit for the period	(17,044)	22,088	44,769
Total recognised income and expense for the period	**(26,361)**	**22,457**	**43,707**
Attributable to:			
Equity holders	(26,361)	22,457	43,707
Total recognised income and expense for the period	**(26,361)**	**22,457**	**43,707**

INTERIM STATEMENT OF CASH FLOWS

For the period ended 31 December 2008

	NOTE	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Cash flows from operating activities				
Cash was provided from:				
Interest and dividends received		83,746	86,041	182,614
Dividends received from associate company		6,869	4,995	8,118
Operating lease revenue received		8,829	11,118	21,413
Fees and other income received		10,849	11,164	21,561
Total cash provided from operating activities		**110,293**	**113,318**	**233,706**
Cash was applied to:				
Payments to suppliers and employees		30,238	24,238	45,846
Interest paid		62,910	54,186	114,386
Taxation transfers		-	-	282
Taxation paid		4,295	5,204	13,346
Total cash applied to operating activities		**97,443**	**83,628**	**173,860**
Net cash flows from operating activities	6	**12,850**	**29,690**	**59,846**
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of operating lease vehicles		6,693	17,827	16,086
Net decrease in investments		5	-	-
Receipts from staff share purchase schemes advances		-	117	117
Net decrease in finance receivables		53,306	-	-
Total cash provided from investing activities		**60,004**	**17,944**	**16,203**
Cash was applied to:				
Net increase in finance receivables		-	164,600	121,859
Net increase in investments		-	-	439
Advance to staff share purchase schemes		323	-	-
Purchase of property, plant, equipment and intangible assets		948	258	1,579
Purchase of operating lease vehicles		3,693	18,214	17,505
Total cash applied to investing activities		**4,964**	**183,072**	**141,382**
Net cash flows from investing activities		**55,040**	**(165,128)**	**(125,179)**
Cash flows from financing activities				
Cash was provided from:				
Net increase in borrowings		-	161,396	95,478
Increase in share capital		1,128	512	512
Total cash provided from financing activities		**1,128**	**161,908**	**95,990**
Cash was applied to:				
Dividends paid		12,763	11,755	21,582
Net decrease in borrowings		35,212	-	-
Total cash applied to financing activities		**47,975**	**11,755**	**21,582**
Net cash flows from financing activities		**(46,847)**	**150,153**	**74,408**
Net increase / (decrease) in cash held		**21,043**	**14,715**	**9,075**
Opening cash balance / (deficit)		7,951	(1,124)	(1,124)
Closing cash balance		**28,994**	**13,591**	**7,951**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

1 Reporting entity

The financial statements presented are the consolidated interim financial statements comprising Pyne Gould Corporation Limited (the "Company") and its subsidiaries and associate company (the "Group"). Reliance is placed on the Group continuing as a going concern.

The Group operates and is domiciled in New Zealand. The registered office address is: 233 Cambridge Terrace, Christchurch.

2 Basis of preparation

The financial statements presented here are for the following periods:

At 31 December 2008: 6 month period - Unaudited
At 31 December 2007: 6 month period - Unaudited
At 30 June 2008: 12 month period - Audited

(a) Statement of compliance

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

The Company is a profit-oriented entity. 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 1983.

(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 effect the application of accounting policies and reported amounts. Actual results may differ from these judgements.

3 Significant accounting policies

(a) Associate companies

Associate companies are accounted for at cost with dividends received recorded in the Income Statement. Associate companies are equity accounted in the Group.

(b) Subsidiary companies' investments

Investments in subsidiary companies are recorded at cost. Subsidiaries are consolidated in the Group.

(c) Interest

Interest income and expense are recognised using the effective interest method in the Income Statement. 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 the Income Statement at the same time as the hedged item.

(d) Operating lease revenue and expense

Revenue 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.

(e) Fee and commission revenue

Fee revenue 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 revenue is recognised as the related services are rendered.

(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 include notes and coins on hand and unrestricted balances held with banks. Cash and cash equivalents are carried at amortised cost in the Balance Sheet.

(h) Management of capital

The Group manages its equity capital to ensure that it has an appropriate base capital to support the risk inherent in its lending assets.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

3 Significant accounting policies (cont)

(i) Tax

Income tax expense for the period comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 accounted for using the balance sheet method, providing for 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.

(j) Derivative financial instruments

Derivative financial instruments are entered into to reduce the exposure to fluctuations in interest rates. 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 physical items 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 the Income Statement.

Fair value movements of the effective portion of a qualifying hedge derivative, are recognised directly in equity. The amount recognised in equity is transferred to the Income Statement in the same period as the hedged cash flow affects the Income Statement, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative are recognised immediately in the Income Statement. Fair value movements of a derivative designated as a fair value hedge are recognised directly in the Income Statement together with the hedged item.

(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) Financial assets and liabilities

Recognition

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

Derecognition

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

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

The Group enters into transactions whereby it transfers assets recognised on its Balance Sheet, 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 Balance Sheet. 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 financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

3 Significant accounting policies (cont)

(m) Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off cost over their estimated economic lives of 3 to 4 years.

(n) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. Current period depreciation and profits or losses on the sale of operating lease vehicles are included as part of the operating lease expense. Depreciation is on a straight line basis, at rates which will write off the cost over their economic lives of up to 5 periods.

(o) 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. These loans are graded 4 to 7 in the Group's internal risk grading system.

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 individual loans within the Group, 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.

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

A collective provision for bad and doubtful debts is maintained for all impaired assets graded 4 and above to cover losses incurred but not yet identified in the various portfolios of advances and other lending transactions. The level of collective provision is established having assessed the level of potential credit risk inherent in each loan portfolio based on arrears, historic losses, recovery costs and trends and current economic conditions.

Individual provisions are made against impaired assets where full recovery of principal and interest is not considered probable. Individual provisions are identified by reviewing counterparty exposures and the associated risk of loss. These loans are relationship-based loans and are graded 7 in the Group's internal risk grading system.

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 the Income Statement. Any future recoveries of amounts provided for are taken to the Income Statement.

(p) 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 and discounting back to present value. Obligations to defined contribution superannuation schemes are recognised as an expense when the services are provided.

(q) 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.

(r) Share schemes

The Company provides benefits to staff in the form of share based payments, whereby staff provide services in exchange for shares. Currently the Company has the following schemes:

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.

Senior staff share schemes

Under these schemes the Company undertakes to transfer a specific number of shares to various key staff 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

3 Significant accounting policies (cont)

(r) Share schemes (cont)

Directors' retirement share scheme

Under this scheme the Company undertakes to transfer a specific number of shares to certain directors upon their retirement. The shares were issued at a price approved by the shareholders 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.

(s) 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.

(t) Financial guarantees

Financial guarantees (underwrites) 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.

(u) 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.

(v) 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.

(w) New standards and interpretations not yet adopted

There are no new standards or interpretations that have been issued but are not yet effective, which are expected to have a material impact on the reported performance or position of the Group.

(x) Changes in accounting policies

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

4 Segmental analysis

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

Business segments

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

Financial services	Motor vehicle, commercial plant, equipment and business, property development, marine and leisure financing and insurance.
Trustee services	Personal trust, estate and asset administration and corporate trustee services.
Rural services	Rural and horticultural supplies, wool marketing, livestock sales, irrigation and pumping, seeds and nutrition, real estate, funds management and rural finance.

	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
(Loss) / profit for the period			
Financial Services	(9,715)	14,049	27,915
Trustee Services	1,647	1,784	3,667
Rural Services	(6,949)	7,541	15,798
Unallocated	(2,027)	(1,286)	(2,611)
Total Group (loss) / profit for the period	**(17,044)**	**22,088**	**44,769**
Operating revenue			
Financial Services	101,833	99,666	205,993
Trustee Services	7,912	8,455	16,858
Rural Services	(6,949)	7,541	15,798
Unallocated	270	946	487
Total Group operating revenue	**103,066**	**116,608**	**239,136**
Total assets			
Financial Services	1,415,689	1,499,144	1,460,760
Trustee Services	4,611	7,504	7,558
Rural Services	85,532	95,775	100,820
Unallocated	8,216	20,983	3,066
Total Group assets	**1,514,048**	**1,623,406**	**1,572,204**
5 Selling and administration expenses			
Personnel expenses	12,202	12,077	23,134
Superannuation	178	240	254
Directors fees	326	306	540
Directors expenses	9	7	71
Audit fees	143	118	264
Other fees paid to auditors	30	30	49
Depreciation - property	61	169	224
Depreciation - plant and equipment	351	363	655
Amortisation - intangible assets	278	247	556
Rental costs	90	89	131
(Gain) on disposal of assets	-	-	(1)
Operating lease expense as a lessee	614	611	1,273
Other operating expenses	6,902	7,201	14,760
Total selling and administration expenses	**21,184**	**21,458**	**41,910**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

6 Reconciliation of profit after tax to net cash flows from operating activities	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
(Loss) / profit for the period	**(17,044)**	**22,088**	**44,769**
Add / (less) non-cash items:			
Depreciation	6,401	7,919	15,289
Impaired assets charge	34,336	1,753	5,717
Share of associate company's earnings	13,818	(2,546)	(7,680)
Deferred tax	(12,331)	(1,738)	594
Accruals and prepaid items	(1,121)	4,248	5,297
Total non-cash items	**41,103**	**9,636**	**19,217**
Add / (less) movements in working capital items:			
Other assets	(8,374)	(1,801)	(5,568)
Insurance policy liabilities	199	343	408
Current tax	537	106	128
Other liabilities	(3,571)	(682)	583
Total movements in working capital items	**(11,209)**	**(2,034)**	**(4,449)**
Add / (less) items classified as investing activities:			
Loss on sale of assets and investments	-	-	309
Total items classified as investing activities	**-**	**-**	**309**
Net cash flows from operating activities	**12,850**	**29,690**	**59,846**

7 Finance receivables	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Gross finance receivables	1,327,125	1,424,156	1,378,533
Less allowance for impairement	(39,024)	(7,965)	(10,533)
Total finance receivables	**1,288,101**	**1,416,191**	**1,368,000**

8 Investment in associate company	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Carrying amount at beginning of period	101,460	93,140	93,140
Equity accounted earnings of associate company	(6,949)	7,541	15,798
Net (expense) / income of associate company recognised directly to equity	(2,110)	89	640
Dividends from associate company	(6,869)	(4,995)	(8,118)
Carrying amount at end of period	**85,532**	**95,775**	**101,460**
Goodwill included in carrying amount of associate company	49,977	49,977	49,977
Total assets of associate company	1,561,017	1,373,799	1,471,485
Total liabilities of associate company	1,147,343	929,043	990,984
Total revenue of associate company	754,445	565,395	1,227,915
Total net (loss) / profit after tax of associate company	(32,761)	34,584	73,206

9 Intangible assets	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Computer software	653	925	749
Statutory right and brands at cost	12,901	12,901	12,901
Goodwill	11,147	11,147	11,147
Total intangible assets	**24,701**	**24,973**	**24,797**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

10 Other assets	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Derivative financial assets	10,706	794	69
Staff share purchase schemes	681	358	358
Trade receivables	8,542	8,144	9,329
Prepayments	5,712	572	3,663
Investments in other companies	10	10	10
Property	2,855	2,560	2,582
Plant and equipment	1,780	1,733	1,699
Intangible assets	24,701	24,973	24,797
Investments in fixed term debt securities	1,038	1,048	1,043
Deferred tax	12,586	-	255
Total other assets	**68,611**	**40,192**	**43,805**

11 Borrowings			
Bank borrowings sourced from New Zealand	253,412	415,900	436,416
Debenture stock sourced from New Zealand	769,069	598,013	533,336
Debenture stock sourced from overseas	25,013	21,701	23,394
Securitised borrowings from New Zealand	202,038	304,414	283,042
Total borrowings	**1,249,532**	**1,340,028**	**1,276,188**

The Group has bank facilities totalling $596.3 million (Dec 2007: $500.3 million; June 2008: $580.3 million).

Bank borrowings and debenture stock borrowings (which include secured bonds) rank equally and are secured over the non-securitised assets of MARAC Finance Limited in terms of a Trust Deed of MARAC Finance Limited 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.

12 Special purpose entities

MARAC Retirement Bonds Superannuation Fund

The Group controls the operations of MARAC Retirement Bonds Superannuation Fund, a superannuation scheme that invests in MARAC Finance Limited debenture stock. All investments in the superannuation scheme are represented by debenture stock as follows:

MARAC Retirement Bonds Superannuation Fund	23,365	21,674	21,584

MARAC ABCP Trust 1 Securitisation

The Group has securitised a pool of receivables comprising commercial, motor vehicle and marine loans to MARAC ABCP Trust 1 (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 Balance Sheet. Despite this presentation in the financial statements, the loans sold to the Trust are set aside for the benefit of investors in the Trust and no longer form part of the Group's assets.

Bank balance - Securitised	16,506	15,711	8,848
Finance receivables - Securitised	196,372	308,188	291,532
Borrowings - Securitised	(202,038)	(304,414)	(283,042)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2008

13 Related party transactions

Transactions with Key Management Personnel

Key management personnel, being directors of the Group and those staff reporting directly to the managing director and their immediate relatives have transacted with the Group during the period as follows:

Debenture investing	Dec 2008 $000	Dec 2007 $000	Jun 2008 $000
Maximum balance	3,331	1,792	1,817
Closing balance	3,074	1,256	1,596
Key management personnel compensation is as follows:			
Short-term employee benefits	1,693	2,377	3,170
Share-based payments	95	157	359
Total	**1,788**	**2,534**	**3,529**

14 Impaired asset expense

Property finance receivables individual impairment	16,527	186	1,220
Property finance receivables collective impairment	14,770	(51)	474
Other assets individually assessed for impairment	652	(67)	837
Assets assessed for impairment on a collective basis	2,387	1,685	3,186
Total impaired asset expense	**34,336**	**1,753**	**5,717**

15 Staff share ownership arrangements

General staff share purchase scheme

During the period, the Trustees received 757 shares as a result of participating in the Company's Dividend Reinvestment Plan. At 31 December 2008 the Trustees held 25,157 fully paid up shares, with 3,600 allocated to staff. The fair value of these shares is $66,666.

Discretionary staff share schemes

During the period 90,486 additional shares were issued to the Trustees. At 31 December 2008 the Trustees held 304,828 shares on behalf of staff.

Directors retirement share scheme

At the 31 December 2008 the Trustee held 88,816 shares on behalf of directors.

During the period, the Trustees received 3,120 shares as a result of participating in the Company's Dividend Reinvestment Plan.

DIRECTORY

Directors

S R Maling, Chairman

B J Jolliffe, Managing Director

R F Elworthy

B R Irvine

G C D Kerr

B W Mogridge

S C Montgomery

W J Steel

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