# PYNE GOULD CORPORATION LIMITED
# RESULTS ANNOUNCEMENT TO THE MARKET

**Reporting Period - 12 months to 30 June 2010**
**Previous Reporting Period - 12 Months to 30 June 2009**

| | Amount $'000 | Percentage Change |
|---|---|---|
| **Net operating income from ordinary activities** | **105,350** | **26%** |
| **Profit (Loss) after tax from ordinary activities attributable to shareholders** | **22,006** | **N/A** |
| **Net Profit (Loss) after tax attributable to shareholders** | **22,006** | **N/A** |

| | | |
|---|---|---|
| **Final Dividend -** The Company does not propose to pay a final dividend. | | |

26 August 2010

# FINANCIAL STATEMENTS

For the year ended 30 June 2010

# DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

The Board of Directors of Pyne Gould Corporation Limited authorised the financial statements set out on pages 3 to 37 for issue on 26 August 2010.

For and on behalf of the Board

Director

Director

# STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 30 June 2010**

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

The notes on pages 8 to 37 are an integral part of these financial statements.



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# STATEMENT OF CHANGES IN EQUITY

**For the year ended 30 June 2010**

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

The notes on pages 8 to 37 are an integral part of these financial statements.



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# STATEMENT OF CHANGES IN EQUITY

**For the year ended 30 June 2010**

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

The notes on pages 8 to 37 are an integral part of these financial statements.



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# STATEMENT OF FINANCIAL POSITION

**As at 30 June 2010**

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

The notes on pages 8 to 37 are an integral part of these financial statements.



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# STATEMENT OF CASH FLOWS

**For the year ended 30 June 2010**

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

The notes on pages 8 to 37 are an integral part of these financial statements.

## 1 Reporting entity

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

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

## 2 Basis of preparation

### (a) Statement of compliance

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

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

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

### (d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the financial statements, refer to note 31 - Credit risk exposure.

### (e) Going concern

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

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

## 3 Significant accounting policies

### (a) Investments in associates and jointly controlled entities

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

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

### (b) Investments in subsidiary companies

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



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**3 Significant accounting policies (continued)**

**(c) Interest**

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

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

**(d) Operating lease income and expense**

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

Operating lease vehicles are depreciated on a straight line basis over their expected life after allowing for any residual values. The estimated lives of operating lease vehicles vary up to 5 years. Vehicles held for sale are not depreciated but are tested for impairment.

**(e) Fee and commission income**

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

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

**(f) Property, plant, equipment and depreciation**

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

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

| | |
|---|---|
| Buildings | 50 years |
| Plant and equipment | 1 - 13 years |

**(g) Cash and cash equivalents**

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

**(h) Tax**

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

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

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

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

**(i) Derivative financial instruments**

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



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**3 Significant accounting policies (continued)**

**(i) Derivative financial instruments (continued)**

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

**(j) Investment property**

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

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

**(k) Finance receivables**

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

**(l) Other investments**

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

Other investments are carried at fair value, with fair value changes recognised in other comprehensive income, unless the Group has determined that the fair value cannot be reliably determined, refer to note 29 - Fair value.

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

**(m) Financial assets and liabilities**

***Recognition***

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

***Derecognition***

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

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

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

***Classification***

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

| Financial Assets/Liabilities | Accounting Category |
|---|---|
| Finance receivables | Loans and Receivables |
| Other investments | Available for sale |
| Other financial assets | Loans and Receivables |
| Borrowings | Other liabilities at amortised cost |
| Other financial liabilities | Other liabilities at amortised cost |
| Derivatives | Held for trading |

## 3 Significant accounting policies (continued)

### (n) Intangible assets

***Goodwill***

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

***Identifiable intangible assets***

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

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

### (o) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses. Depreciation is on a straight line basis, at rates which will write the vehicles down to residual value over their economic lives of up to 5 years.

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

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

The term collectively impaired asset refers to an asset where an event has occurred which 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 assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

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

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

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

### (q) Employee benefits

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

## 3 Significant accounting policies (continued)

### (r) Provisions

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

### (s) Share schemes

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

***General staff share purchase scheme***

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

***Discretionary share schemes***

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

### (t) Borrowings

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

### (u) Financial guarantees

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

### (v) GST

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

### (w) Statement of Cash Flows

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

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

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

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

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



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## 3 Significant accounting policies (continued)

### (y) Comparative balances
Where necessary comparative amounts have been reclassified so that the information corresponds to the classification presented for the current year.

### (z) Changes in accounting policies
There have been no material changes in accounting policies in the current year.

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

## 4 Segmental analysis

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

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

| | |
|---|---|
| **Financial services** | Motor vehicle, commercial plant, equipment and business, marine and leisure financing and insurance service. |
| **Trustee services** | Personal trust, estate and asset administration and corporate trustee services. |
| **Portfolio asset management** | Provider of portfolio management services. Provision of asset and fund management, particularly specialised asset funds. Includes 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. |

| | GROUP | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **Profit / (loss) for the year** | | |
| Financial services | 12,923 | (39,957) |
| Trustee services | 2,577 | 3,314 |
| Portfolio asset management | 1,978 | - |
| Rural services | 3,898 | (13,793) |
| Head office | 630 | (3,919) |
| **Total Group profit / (loss) for the year** | **22,006** | **(54,355)** |
| **Net operating income and share of equity accounted profit** | | |
| Financial services | 67,174 | 68,517 |
| Trustee services | 15,834 | 16,150 |
| Portfolio asset management | 16,777 | - |
| Rural services | 4,258 | (13,793) |
| Head office | 5,689 | (1,020) |
| **Total Group net operating income and equity accounted profit** | **109,732** | **69,854** |
| **Total impaired asset expense** | | |
| Financial services | 23,916 | 98,634 |
| Portfolio asset management | 7,914 | - |
| **Total Group impaired asset expense** | **31,830** | **98,634** |

## 4 Segmental analysis (continued)

| | GROUP | | HOLDING COMPANY | |
|---|---|---|---|---|
| | 2010 $000 | 2009 $000 | 2010 $000 | 2009 $000 |
| **Total assets** | | | | |
| Financial services | 1,275,351 | 1,358,123 | | |
| Trustee services | 4,515 | 3,955 | | |
| Portfolio asset management | 137,512 | - | | |
| Rural services | 111,231 | 78,517 | | |
| Head office | 32,678 | 27,394 | | |
| **Total Group assets** | **1,561,287** | **1,467,989** | | |

## 5 Net interest income / (expense)

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

Included within interest on finance receivables is $17,366k (2009: $7,728k) on individually impaired assets.

## 6 Net operating lease income

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

## 7 Fee and other income

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

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

## 7 Fee and other income (continued)

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

## 8 Selling and administration expenses

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

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

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

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

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

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

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

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

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

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

## 10 Tax

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

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

## 11 Imputation credit account

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



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| | | | GROUP | | HOLDING COMPANY | |
|---|---|---|---|---|---|---|
| | | | 2010 | 2009 | 2010 | 2009 |
| | | NOTE | $000 | $000 | $000 | $000 |
| 12 | **Reconciliation of profit / (loss) after tax to net cash flows from operating activities** | | | | | |
| | **Profit / (loss) for the year** | | **22,006** | **(54,355)** | **60,700** | **(48,256)** |
| | Add / (less) non-cash items: | | | | | |
| | Depreciation expense | | 716 | 765 | 66 | 172 |
| | Amortisation expense | | 903 | 637 | 100 | - |
| | Impaired asset expense | | 31,830 | 98,634 | - | - |
| | Net write down of investment in associates | | 360 | - | 360 | 8,115 |
| | Share of equity accounted investees' (profit) / loss | | (4,382) | 20,662 | - | - |
| | Underwriting (benefit) / expense to subsidiary | 28 | - | - | (85,000) | 85,000 |
| | Deferred tax | | 6,284 | (30,007) | 25,330 | (25,362) |
| | Accruals, capitalised interest and prepaid items | | (23,971) | (17,854) | (401) | 490 |
| | **Total non-cash items** | | **11,740** | **72,837** | **(59,545)** | **68,415** |
| | Add / (less) movements in working capital items: | | | | | |
| | Operating lease vehicles | | (6,686) | (6,490) | - | - |
| | Other assets | | (3,834) | 3,730 | (2,023) | 86 |
| | Current tax | | 1,724 | 2,397 | 1,437 | (1,106) |
| | Other liabilities | | 2,880 | (1,015) | 120 | 272 |
| | **Total movements in working capital items** | | **(5,916)** | **(1,378)** | **(466)** | **(748)** |
| | Add / (less) items classified as investing activities: | | | | | |
| | Gain on sale of assets and investments | | (53) | - | - | - |
| | Gain on sale of property | | (4,100) | - | (4,100) | - |
| | **Total items classified as investing activities** | | **(4,153)** | **-** | **(4,100)** | **-** |
| | **Net cash flows from operating activities** | | **23,677** | **17,104** | **(3,411)** | **19,411** |

## 13 Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2010 is based on the profit for the year of $22,006k (2009: loss of $54,355k), and a weighted average number of shares on issue of 547,946k (2009: 98,397k).

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

## 14 Share capital

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

The shares have equal voting rights and rights to dividends and distributions and do not have a par value.
During the year the Company issued 591,577,740 new shares at 40 cents per share to existing shareholders, placed 69,627,907 new shares at 43 cents per share to institutions and investors, and issued 13,719,904 at 43 cents per share to existing shareholders under a Share Purchase Plan. The total new capital raised was $272.5m.

## 15 Finance receivables

| | | GROUP | |
|---|---|---|---|
| | | 2010 | 2009 |
| | NOTE | $000 | $000 |
| Gross finance receivables | | 1,173,915 | 1,309,273 |
| Less allowance for impairment | 31 | (33,880) | (98,056) |
| **Total finance receivables** | | **1,140,035** | **1,211,217** |

Gross finance receivables of $68.4m were purchased from GMAC on 30 June 2010, refer note 7 for more information. Included within finance receivables is a $633k (2009: nil) loan to a related party, PGG Wrightson Seeds Limited, refer to note 28.

## 16 Operating lease vehicles

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

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

## 17 Investment property

| | | |
|---|---|---|
| Opening balance | - | - |
| Acquisitions | 41,838 | - |
| **Closing balance** | **41,838** | **-** |

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

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

## 18 Other assets

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

## 19 Other investments

| | GROUP | | HOLDING COMPANY | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $000 | $000 | $000 | $000 |
| Torchlight Fund No. 1 Limited Partnership | 15,000 | - | | |
| Equity Partners Infrastructure Company No 1 Limited | 14,500 | - | | |
| Other | 750 | 10 | | |
| **Total investments** | **30,250** | **10** | | |

Other investments consist of investments in ordinary shares or capital.

## 20 Deferred tax

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

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

## 21 Investment in associates

| | GROUP 2010 $000 | GROUP 2009 $000 | HOLDING COMPANY 2010 $000 | HOLDING COMPANY 2009 $000 |
|---|---|---|---|---|
| Carrying amount at beginning of year | 78,517 | 101,460 | 78,517 | 86,632 |
| Additional investment in associates | 38,004 | - | 33,074 | - |
| Write down of investment in associates | - | - | - | (11,237) |
| Decrease in investment in associates | (360) | - | (360) | - |
| Equity accounted earnings of associates before tax | 6,166 | (16,520) | - | - |
| Share of associates' income tax (expense) / benefit | (1,908) | 2,727 | - | - |
| Share of associates' other comprehensive income | (1,818) | (2,281) | - | - |
| Bonus issue dividend from associates | - | 3,122 | - | 3,122 |
| Foreign currency translation | (60) | - | - | - |
| Dividends from associates | - | (9,991) | - | - |
| **Carrying amount at end of year** | **118,541** | **78,517** | **111,231** | **78,517** |

| | GROUP 2010 $000 | GROUP 2009 $000 |
|---|---|---|
| Goodwill included in carrying amount of associates | 54,069 | 49,977 |
| Total assets of associates | 1,531,491 | 1,544,146 |
| Total liabilities of associates | 893,581 | 1,153,225 |
| Total income of associates | 1,151,082 | 1,280,741 |
| Total net profit / (loss) after tax of associates | 23,304 | (66,444) |

In May 2010, the Group purchased a 31.9% shareholding in Van Eyk Research Limited, an investment research and funds management company based in Australia. The purchase price included AUD$1,600k (NZD $1,848k) which is payable over 18 months and has been included in other liabilities.

During the year the Company participated in the PGG Wrightson Limited capital raising, contributing $33.1m of new capital. The associate also made a private placement which resulted in the Company's investment being diluted to 18.3% (loss on dilution $360k).

### 21 Investment in associates (continued)

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

### 22 Investment in joint venture

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

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

### 23 Intangible assets

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

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

On the 17 August 2009, the Group acquired 100% of Equity Partners Asset Management Limited (EPAM). As part of this acquisition, an additional $2,400k of goodwill and $8,025k of management contracts have been recognised during the year. This goodwill includes the EPAM brand. See note 35 for further details.

## 23 Intangible assets (continued)

**Impairment of intangible assets**

Statutory right and brands are considered to have an indefinite life. The statutory right and brands of $3,401k is allocated to Perpetual Trust Limited, which is included in the Trustee services segment. Brands of $9,500k are allocated to MARAC Financial Services Limited (MFSL) consolidated group which is included in the Financial services segment. During the year both the statutory right and the brands have continued to be used in the Group's business and the Group invested further in them to maintain their value.

Goodwill of $2,400k was allocated to Perpetual Group Limited (PGL) and $11,147k was allocated to the MFSL consolidated group. Each of these subsidiaries is considered to be a cash generating unit for the purpose of impairment testing. The operations of MFSL are included in the Financial Services segment and PGL is included in the Portfolio asset management segment.

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

The recoverable amount was determined based on its value in use. No impairment losses were recognised against the carrying amount of the Statutory right, brands or goodwill for the year ended 30 June 2010 (2009: nil).

## 24 Borrowings

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

The Group has bank facilities totalling $353.3m (2009: $532.5m). There is no significant concentration of debenture funding to any particular region within New Zealand.

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

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

## 25 Other liabilities

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

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

## 26 Derivative financial instruments

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

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

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

As at 30 June 2010, a derivative financial liability of $1,484k securitised derivatives are held in the name of the MARAC ABCP Trust 1 Securitisation (Trust) to hedge the interest rate risk arising in the Trust (2009: $11,602k).

## 27 Special purpose entities

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

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

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

***MARAC ABCP Trust 1 Securitisation***

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

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

## 28 Related party transactions

### (a) Transactions with related parties

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

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

## 28 Related party transactions (continued)

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

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

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

**Purchase of Equity Partners Asset Management Limited**

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

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

**(b) Transactions with key management personnel**

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

| | | | | |
|---|---|---|---|---|
| **Debenture investing:** | | | | |
| Maximum balance | 5,096 | 5,314 | - | - |
| Closing balance | 721 | 1,997 | - | - |
| **Key management personnel compensation is as follows:** | | | | |
| Short-term employee benefits | 5,618 | 4,166 | 3,151 | 2,464 |
| Share-based payments | 157 | 222 | 39 | 72 |
| **Total** | **5,775** | **4,388** | **3,190** | **2,536** |

## 29 Fair value

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

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

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

**Other investments**
The Group has determined that the fair value of other investments cannot be reliably determined as:
- there is no active market for the investments.
- the variability in the range of reasonable fair value estimates is significant for each instrument.
- the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

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

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

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying Value $000 | Fair Value $000 | Carrying Value $000 | Fair Value $000 |
| **GROUP** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 98,610 | 98,610 | 62,342 | 62,342 |
| Finance receivables | 1,140,035 | 1,155,951 | 1,211,217 | 1,219,689 |
| Other investments | 30,250 | 30,250 | 10 | 10 |
| Derivative financial assets | 5,013 | 5,013 | 7,704 | 7,704 |
| Other financial assets | 15,574 | 15,574 | 6,635 | 6,635 |
| **Total financial assets** | **1,289,482** | **1,305,398** | **1,287,908** | **1,296,380** |
| **Financial liabilities** | | | | |
| Borrowings | 983,679 | 1,003,590 | 1,238,709 | 1,271,824 |
| Derivative financial liabilities | 1,484 | 1,484 | 11,602 | 11,602 |
| Other financial liabilities | 105,277 | 105,277 | 30,905 | 30,905 |
| **Total financial liabilities** | **1,090,440** | **1,110,351** | **1,281,216** | **1,314,331** |



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## 29 Fair value (continued)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | $000 | $000 | $000 | $000 |
| **HOLDING COMPANY** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 7,213 | 7,213 | 51 | 51 |
| Advances to subsidiary companies | 240,515 | 240,515 | 105,466 | 105,466 |
| Other financial assets | 1,350 | 1,350 | 42 | 42 |
| **Total financial assets** | **249,078** | **249,078** | **105,559** | **105,559** |
| **Financial liabilities** | | | | |
| Borrowings | - | - | 21,450 | 21,450 |
| Other financial liabilities | 2,683 | 2,683 | 2,144 | 2,144 |
| **Total financial liabilities** | **2,683** | **2,683** | **23,594** | **23,594** |

## 30 Risk management policies

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

**Management of capital**

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

## 31 Credit risk exposure

**Credit risk management framework**

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

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

**Reviewing and assessing credit risk**

The credit risk management strategies ensure that:

- Credit origination meets agreed levels of credit quality at point of approval.
- Sector and geographical risks are actively managed.
- Industry and product concentrations are actively monitored.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

**Lending standards and processes**

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



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**31 Credit risk exposure (continued)**

**Lending standards and processes (continued)**

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

**Collateral requirements**

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

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

**Credit risk rating**

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

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

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

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

**(a) Credit impairment provisioning**

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

**Collective provisioning**

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

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

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



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**31 Credit risk exposure (continued)**
**(a) Credit impairment provisioning**

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

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

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

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

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

**Verification**
In addition to regular internal audit activity in regards to credit standards, the Group employs a comprehensive process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.
Disclosures in this credit risk exposure note represent the Group's maximum exposure to credit risk.

**(i) Provision for impaired assets**

| **2010 - GROUP** | **Property** | **Consumer & personal** | **All other industries (SME)** | **Total** |
|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** |
| **Provision for individually impaired assets** | | | | |
| Opening individual impairment | 86,460 | - | 6,024 | 92,484 |
| Impairment loss for the year | | | | |
| - charge for the year | 16,947 | 7 | 6,655 | 23,609 |
| - write offs | (89,631) | - | (2,646) | (92,277) |
| - effect of discounting | (1,532) | - | (921) | (2,453) |
| **Closing individual impairment** | **12,244** | **7** | **9,112** | **21,363** |
| **Provision for collectively impaired assets** | | | | |
| Opening collective impairment | - | 3,791 | 1,781 | 5,572 |
| Impairment loss for the year | | | | |
| - charge for the year | 4,532 | 1,686 | 2,003 | 8,221 |
| - recoveries | - | 165 | 179 | 344 |
| - assumed on acquisition of book | - | 2,250 | - | 2,250 |
| - write offs | (69) | (2,277) | (1,524) | (3,870) |
| **Closing collective impairment** | **4,463** | **5,615** | **2,439** | **12,517** |
| **Total provision for impairment** | **16,707** | **5,622** | **11,551** | **33,880** |

31 Credit risk exposure (continued)

(a) Credit impairment provisioning (continued)

| 2009 - GROUP | Property $000 | Consumer & personal $000 | All other industries (SME) $000 | Total $000 |
|---|---|---|---|---|
| **Provision for individually impaired assets** | | | | |
| Opening individual impairment | 1,975 | - | 1,928 | 3,903 |
| Impairment loss for the year | | | | |
| - charge for the year | 90,108 | - | 5,673 | 95,781 |
| - write offs | (4,866) | - | (1,085) | (5,951) |
| - effect of discounting | (757) | - | (492) | (1,249) |
| **Closing individual impairment** | **86,460** | **-** | **6,024** | **92,484** |
| **Provision for collectively impaired assets** | | | | |
| Opening collective impairment | 2,344 | 1,338 | 2,802 | 6,484 |
| Impairment loss for the year | | | | |
| - charge for the year | (2,330) | 5,817 | (634) | 2,853 |
| - recoveries | - | 151 | 35 | 186 |
| - write offs | (14) | (3,515) | (422) | (3,951) |
| **Closing collective impairment** | **-** | **3,791** | **1,781** | **5,572** |
| **Total provision for impairment** | **86,460** | **3,791** | **7,805** | **98,056** |

(ii) Individually impaired assets

| | | | | |
|---|---|---|---|---|
| **2010 - GROUP** | | | | |
| Opening | 180,573 | - | 17,406 | 197,979 |
| Additions | 30,480 | 15 | 11,215 | 41,710 |
| Deletions | (61,546) | - | (11,095) | (72,641) |
| **Closing gross individually impaired assets** | **149,507** | **15** | **17,526** | **167,048** |
| **2009 - GROUP** | | | | |
| Opening | 15,152 | - | 5,255 | 20,407 |
| Additions | 180,573 | - | 15,780 | 196,353 |
| Deletions | (15,152) | - | (3,629) | (18,781) |
| **Closing gross individually impaired assets** | **180,573** | **-** | **17,406** | **197,979** |

Included in deletions for the year ended 30 June 2010, is $41,838k of investment property which was acquired as a result of enforcement of security over finance receivables in RECL, refer note 17.

| | GROUP 2010 $000 | GROUP 2009 $000 |
|---|---|---|
| (iii) **Restructured assets** | 3,234 | 2,805 |

(iv) Past due but not impaired

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



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## 31 Credit risk exposure (continued)

### (b) Concentrations of credit risk

| | | GROUP 2010 | GROUP 2009 |
|---|---|---|---|
| | | Number of counterparties | |
| (i) | **By individual counterparties** | | |
| | Individual credit exposures (As a % of equity): | | |
| | 10% and over; Cash and cash equivalents | 1 | 2 |
| | 10% and over; Finance receivables | - | 2 |

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

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

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

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

| | Property $000 | Consumer & personal $000 | All other industries (SME) $000 | Total 2010 $000 |
|---|---|---|---|---|
| **2010 - GROUP** | | | | |
| Grade 1 - Undoubted | - | 52 | 62 | 114 |
| Grade 2 - Strong | 25,200 | 892 | 15,376 | 41,468 |
| Grade 3 - Sound | 35,529 | 389,424 | 427,871 | 852,824 |
| Grade 4 - Satisfactory | 48,229 | 551 | 60,217 | 108,997 |
| Grade 5 - Uncertain | 17,268 | 384 | 36,093 | 53,745 |
| Grade 6 - At risk | 9,085 | 73 | 9,876 | 19,034 |
| Grade 7 - Loss | 52,573 | 13 | 11,267 | 63,853 |
| **Total maximum exposure to credit risk** | **187,884** | **391,389** | **560,762** | **1,140,035** |
| **2009 - GROUP** | | | | |
| Grade 1 - Undoubted | - | - | 146 | 146 |
| Grade 2 - Strong | 82,405 | 122 | 15,995 | 98,522 |
| Grade 3 - Sound | 92,368 | 336,231 | 485,197 | 913,796 |
| Grade 4 - Satisfactory | 10,512 | 1,220 | 50,120 | 61,852 |
| Grade 5 - Uncertain | 294 | 161 | 20,368 | 20,823 |
| Grade 6 - At risk | 222 | 35 | 2,569 | 2,826 |
| Grade 7 - Loss | 95,573 | - | 17,679 | 113,252 |
| **Total maximum exposure to credit risk** | **281,374** | **337,769** | **592,074** | **1,211,217** |

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

## 31 Credit risk exposure (continued)

### (d) Commitments to extend credit

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

## 32 Liquidity risk

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

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

**Contractual liquidity profile of financial assets and liabilities**

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

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

## 32 Liquidity risk (continued)

**Contractual liquidity profile of financial assets and liabilities**

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

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

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

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

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

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

## 32 Liquidity risk (continued)

**Expected maturity profile of financial assets and liabilities**

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

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

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

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

## 33 Interest rate risk

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

**Contractual Repricing Analysis**

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

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

## 33 Interest rate risk (continued)

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

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

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

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

## 34 Contingent liabilities and commitments

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

## 35 Acquisition of subsidiary

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

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

In the ten months to 30 June 2010 EPAM contributed revenue of $5,562k and profit of $3,635k. If the acquisition had occurred 1 July 2009, there would have been no materially different impact on the Group revenue or profit.

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

| Consideration transferred | GROUP 2010 $000 |
|---|---|
| Cash | 18,198 |
| **Total consideration** | **18,198** |

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

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

No trade receivables are expected to be uncollectible.

**Goodwill**

| Goodwill was recognised as a result of the acquisition as follows: | GROUP 2010 $000 |
|---|---|
| Total consideration transferred | 18,198 |
| Less value of identifiable assets | 15,798 |
| **Goodwill** | **2,400** |

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

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

## 36 Staff share ownership arrangements

**General staff share purchase scheme**

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

**Discretionary staff share schemes**

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

**Directors' retirement share scheme**

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

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

## 37 Prospective Financial Information

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

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

* In the prospectus, equity accounted investees' profit was $5,311k and total profit $22.2m. Following the announcement by PGG Wrightson of its rights issue and placement with Agria, equity accounted investees' profit was adjusted down to $4,035k, resulting in a forecast net profit of $20.9m, which was announced on 20 November 2009.

**Restated PFI**

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

- In the PFI, the forecast $3.6m profit on sale of the Christchurch building was included in selling and administration expenses as depreciation recovered. This has been reclassified to fee and other income in line with presentation on the Statement of Comprehensive Income.

- The forecast interest expense of $2.5m on the loan note was included in fee and other income in the PFI. This interest expense eliminates on consolidation of the Group and has been reclassified to net interest income to offset the $2.5m forecast interest income, consistent with presentation in the Statement of Comprehensive Income.

### 37 Prospective Financial Information (continued)

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

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

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

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

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

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

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

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

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

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

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

### 38 Subsequent events

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

KPMG

# Audit report

## To the shareholders of Pyne Gould Corporation Limited

We have audited the financial statements on pages 3 to 37. The financial statements provide information about the past financial performance and financial position of Pyne Gould Corporation Limited (the 'Company') and Group (collectively known as the 'Group') as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 8 to 13.

### Directors' responsibilities

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

### Auditor's responsibilities

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

### Basis of opinion

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

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

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

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

## Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the Company and Group as far as appears from our examination of those records;
- the financial statements on pages 3 to 37:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

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

KPMG

Auckland