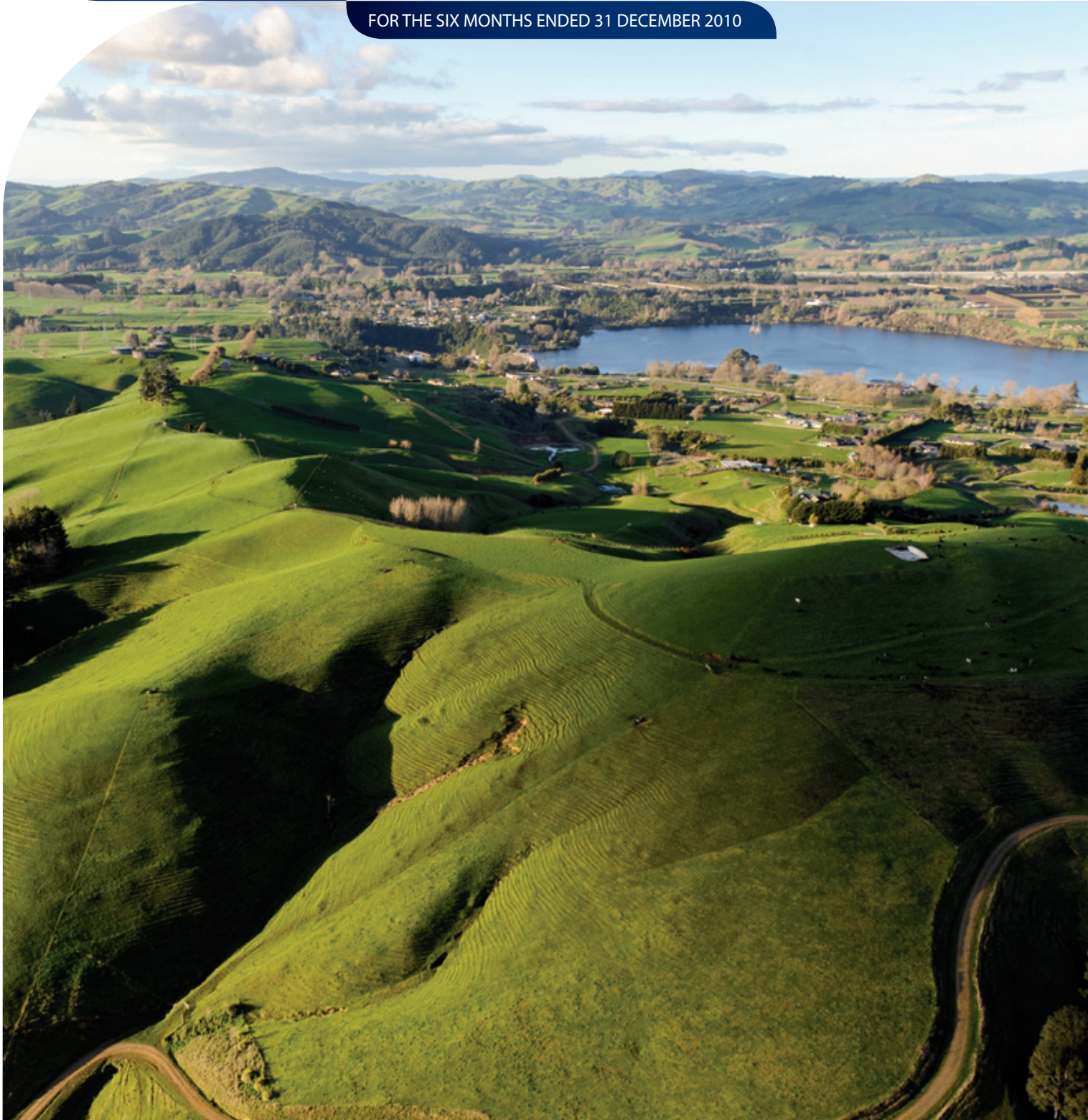


Half year report

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010



Contents

- 1 Chairman's Letter
- 2 Financial Statements
- 32 Independent Auditors' Report
- 33 Corporate Directory



Helping grow the country

Chairman's Letter

DECEMBER 2010

PGG Wrightson Finance reported a profit for the six months ended 31 December 2010 despite a continuation of the difficult credit environment experienced within the New Zealand agricultural sector.

The results reflected the tight liquidity conditions that have prevailed, although the cost of credit impairments, primarily from two specific dairy exposures has had an adverse effect on the final result.

Cost of funding decreased by 4 percent over the same period last year, flowing to a 5 percent increase in gross profit from \$12.1 million in the same period last year to \$12.7 million in the latest half year. Impairments increased from \$3.4 million to \$5.7 million.

Costs of \$0.9 million relating to the Crown guarantee scheme were incurred during the period. These costs will continue to be incurred through to December 2011

Overall, the company recorded net profit after tax of \$1.3 million for the six months against a prior year comparative of \$3.3 million.

PGG Wrightson Finance has reviewed and resized the business reducing staff by 10 for an annual saving equivalent of \$0.8 million. Costs of circa \$0.1 million relating to the restructure are included in this result.

Investors have continued to support the company with an increase in deposit reinvestment rates to around 80 percent, compared with the long run average of 77 percent. This solid support has provided the business with a stable and satisfying

liquidity base. The majority of new investors are now investing with us on an excluded security (non-guaranteed) basis, which importantly serves to soften the exit of the guarantee scheme at the end of 2011.

In December 2010 the bank facilities provided by the company's banking syndicate were renegotiated for three years to late 2013, providing further long term liquidity support.

PGG Wrightson Finance remains an early adopter of the non-bank-deposit-takers regulatory requirements and continues to meet all new regulations as they arise. This has included entry into the Banking Ombudsman dispute resolution scheme which the company joined as of 1st December 2010.

Product innovation has included the December 2010 launch of a new Savings Optimiser account which provides higher returns to investors in return for a withdrawal notice period. Initial take-up of this deposit product has been very strong.

Funding innovation saw the start of a trial of a 'white label' livestock financing arrangement using Marac Finance. This trial commenced in mid December 2010.

Net Loans and Receivables decreased by 11 percent in the period from \$551 million to \$492 million, reflecting a deliberate strategy to downsize exposure to the lower margin term loans in favour of higher yielding seasonal finance. We expect to see a continuation of this trend going forward.

The Board currently comprises five directors: Mike Allen (Chairman/ Independent Director), Graeme Hansen (Independent Director, Credit Committee Chair and Audit Committee member), Bill Thomas, Michael Thomas and Tao Xie. Bill Thomas and Tao Xie are both Directors of the parent company. Michael Thomas is Group General Manager – AgriServices for the parent company. The Board maintains a robust governance structure.

The Board is pleased to see a continuation of profitable results despite the higher level of impairments provided. It acknowledges the diligent work of management and staff in the most difficult credit and liquidity environments. Looking forward, the business is very well positioned to transition seamlessly through the end of the Crown guarantee scheme and to improve profitability as the credit environment improves.



Mike Allen
Chairman

INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2010

	NOTE	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Continuing Operations				
Interest income	4	28,517	58,730	28,594
Interest expense and other costs of funding	5	(16,258)	(30,357)	(16,958)
Net interest income		12,259	28,373	11,636
Other income	6	476	925	474
Net impairment losses on financial assets		(5,685)	(8,949)	(3,399)
Operating expenses	7	(4,436)	(7,056)	(3,387)
		(9,645)	(15,080)	(6,312)
EBITDA		2,614	13,293	5,324
Depreciation and amortisation expense		(99)	(198)	(106)
Results from operating activities		2,515	13,095	5,218
Non operating items	8	(126)	–	–
Fair value adjustments	9	84	(338)	(528)
Profit before income tax		2,473	12,757	4,690
Income tax expense	10	(1,144)	(3,824)	(1,373)
Profit for the period		1,329	8,933	3,317
Other Comprehensive Income				
Effective portion of changes in fair value of cash flow hedges		(165)	(2,992)	(2,666)
Income tax on other comprehensive income		–	–	–
Other comprehensive income for the period, net of income tax		(165)	(2,992)	(2,666)
Total comprehensive income for the period		1,164	5,941	651
Earnings per share:				
Basic and diluted earnings per share (New Zealand dollars)		0.04	0.28	0.11
Net tangible assets per security at period end		2.96	3.03	2.03

The accompanying notes form an integral part of these financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2010

	SHARE CAPITAL \$000	HEDGING RESERVE \$000	RETAINED EARNINGS \$000	TOTAL \$000
Balance at 1 July 2009	31,500	4,274	31,042	66,816
Profit or loss	–	–	3,317	3,317
Reclassification of opening deferred tax adjustment on financial instruments	–	–	–	–
Net change in fair value of cash flow hedges net of tax	–	(2,666)	–	(2,666)
Total comprehensive income for the period	–	(2,666)	3,317	651
Balance as at 31 December 2009	31,500	1,608	34,359	67,467
Balance at 1 January 2010	31,500	1,608	34,359	67,467
Profit or loss	–	–	5,616	5,616
Net change in fair value of cash flow hedges net of tax	–	(326)	–	(326)
Total comprehensive income for the period	–	(326)	5,616	5,290
Issue of preference shares	33,850	–	–	33,850
Interest paid on preference shares	–	–	(1,232)	(1,232)
Ordinary share dividends paid	–	–	(5,000)	(5,000)
Total contributions by and distributions to shareholders	33,850	–	(6,232)	27,618
Balance as at 30 June 2010	65,350	1,282	33,743	100,375
Balance as at 1 July 2010	65,350	1,282	33,743	100,375
Profit or loss	–	–	1,329	1,329
Net change in fair value of cash flow hedges net of tax	–	(165)	–	(165)
Total comprehensive income for the period	–	(165)	1,329	1,164
Issue of preference shares	–	–	–	–
Interest paid on preference shares	–	–	(1,364)	(1,364)
Ordinary share dividends paid	–	–	–	–
Total contributions by and distributions to shareholders	–	–	(1,364)	(1,364)
Balance as at 31 December 2010	65,350	1,117	33,708	100,175

The accompanying notes form an integral part of these financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	NOTE	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
ASSETS				
Cash and cash equivalents		21,188	9,277	8,180
Derivative assets	11	1,806	1,979	3,230
Other receivables	12	4,038	3,364	4,146
Amounts due from Group entities	13	40	–	367
Loans and receivables	14	491,846	530,119	551,324
Property, plant and equipment	15	60	75	93
Intangible assets	16	1,225	1,180	1,133
Deferred tax assets	17	5,612	3,668	2,248
Total assets		525,815	549,662	570,721
LIABILITIES				
Deposits and other borrowings	18	65,027	70,819	65,166
Derivative liabilities	11	129	222	1,337
Amounts due to Group entities	13	–	290	–
Trade and other payables		4,191	3,454	4,068
Tax payable		1,736	6,264	2,393
Term bank facility	19	–	21,000	90,000
Bonds	20	94,097	99,658	124,239
Debentures – secured	21	260,460	247,580	216,052
Total liabilities		425,640	449,287	503,255
EQUITY				
Share capital	22	65,350	65,350	31,500
Reserves		1,117	1,282	1,608
Retained earnings		33,708	33,743	34,358
Total equity		100,175	100,375	67,466
Total liabilities and equity		525,815	549,662	570,721

These financial statements have been authorised for issue on 7 February 2011.



Bill Thomas
Director



Graeme Hansen
Director

The accompanying notes form an integral part of these financial statements.

INTERIM STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2010

	NOTE	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Cash flows from operating activities				
Cash was provided from:				
Interest received		28,302	58,947	28,454
Lease and other income		525	654	385
Cash was applied to:				
Payments to suppliers and employees		(4,301)	(7,660)	(3,934)
Interest payments		(14,811)	(29,222)	(16,553)
Income tax paid		(7,616)	(2,081)	(2,082)
Net cash flow from operating activities	23	2,099	20,638	6,270
Cash flows from investing activities				
Cash was provided from:				
Decrease in finance receivables		32,588	20,583	4,936
Cash was applied to:				
Purchase of property, plant and equipment		2	(20)	(26)
Purchase of intangible assets		(131)	(190)	(63)
Net cash flow from investing activities		32,459	20,373	4,847
Cash flows from financing activities				
Cash was provided from:				
Drawdown of term bank facility		–	21,000	18,500
Increase in debentures		12,880	26,531	–
Issue of preference shares		–	33,850	–
Advances from parent		–	514	–
Cash was applied to:				
Repayment of term bank facility		(21,000)	(71,500)	–
Decrease in debentures		–	–	(4,998)
Interest on preference shares		(1,364)	(1,232)	–
Decrease in client deposits		(5,792)	(12,214)	(17,866)
Finance facility fees		(1,059)	(2,229)	(2,209)
Repayment of bonds		(5,983)	(25,233)	–
Advances to parent		(329)	–	(143)
Dividends paid		–	(5,000)	–
Net cash flow from financing activities		(22,647)	(35,513)	(6,716)
Net increase/(decrease) in cash held		11,911	5,498	4,401
Opening (bank overdraft)/cash		9,277	3,779	3,779
Cash and cash equivalents		21,188	9,277	8,180

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

1 REPORTING ENTITY

PGG Wrightson Finance Limited (the "Company") is domiciled in New Zealand, registered under the Companies Act 1993 and has bonds listed on the New Zealand Stock Exchange. The Company is an issuer in terms of the Financial Reporting Act 1993. The Company is a wholly owned subsidiary of PGG Wrightson Limited.

PGG Wrightson Finance Limited is primarily involved in the provision of financial services.

2 BASIS OF PREPARATION

Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other Financial Reporting Standards as applicable for profit orientated entities. The financial statements comply with International Financial Reporting Standards as issued by the IASB, as applicable for profit oriented entities.

These statements were approved by the Board of Directors on 7 February 2011.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value.

Functional and Presentation Currency

These financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies, that have the most significant effects on the amount recognised in the financial statements, include:

- Estimation of average loan lives used to defer fees
- Valuation of financial instruments
- Carrying value of finance receivables.

Unless otherwise stated, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

Recognition of Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Finance Revenue and Expense Recognition

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

The Company recognises interest revenue, management fees, and establishment fees on an accrual basis when the services are rendered.

Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to customers. Fee income can be divided into the following three categories:

- Fee income earned from services that are provided over a certain period of time. Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.
- Discharge fees are received by the Company upon early termination of mortgage loans. On a consolidated basis these are treated as a recoupment of the transaction costs spent by the Company in establishing the mortgage loans. These fees form part of the interest effective yield on the loans and are accrued and recognised in the Income Statement over the weighted average expected life of the mortgage loans using the effective interest method.
- Fees or components of the fees that are linked to certain performance are recognised after fulfilling the corresponding criteria.

(b) Financial Instruments

Non-derivative Financial Instruments

Non-derivative financial instruments comprise; other receivables, cash and cash equivalents, loans and receivables, intercompany advances, deposits, debentures, bonds, bank loans, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as set out below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company is no longer entitled to cash flows generated by the asset, or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial instruments arising from the normal course of business are recognised at the trade date, i.e. the date that the Company commits to the purchase or sale of the asset. Financial liabilities are derecognised if the obligations of the Company lapse, expire, are discharged or cancelled.

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Loans and Other Receivables

Subsequent to initial recognition, other non-derivative financial instruments, including other receivables, loans and receivables and inter-company advances are measured at amortised cost using the effective interest method, less any impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest-bearing Borrowings

Interest-bearing borrowings are classified as other non-derivative financial liabilities and are stated at amortised cost. Interest-bearing borrowings include debentures, client deposits, bonds and bank loans.

Trade and Other Payables

Trade and other payables are stated at cost.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with Company Treasury policy, the Company does not hold or issue derivative instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship (see below).

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Forward exchange contracts and interest rate swaps

The Company has entered into forward exchange contracts and interest rate swap derivatives. The fair values of these financial instruments are based on external bank valuations.

Share Capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(c) Intangible Assets

Computer Software

Computer software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives between 3 and 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

(d) Impairment

The carrying value of the Company's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairment losses directly reduce the carrying value of assets and are recognised in the income statement.

Past Due Assets

Loans and receivables are considered past due when they have been operated by the counterparty out of key terms, the facility has expired, and in managements view there is no possibility of the counterparty operating the facility within key terms. When forming a view management considers the counterparty's ability to pay, the level of security and the risk of loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Loans and Receivables

All known losses are expensed in the period in which it becomes apparent that the loans and receivables are not collectable.

The recoverable amount of the Company's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments are subject to this approach.

Non-financial Assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds the recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the carrying value of the asset does not exceed the carrying value that the asset would have had, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Income Tax

Income tax expense comprises current and deferred taxation and is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- the initial recognition of goodwill
- differences relating to subsidiaries, associates and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be recognised.

(f) Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability.

Loans and Receivables, Debentures, Bonds and Deposits

The fair value of loans and receivables, debentures, bonds and deposits is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives

The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates for a similar instrument at the reporting date. The fair value of forward exchange contracts are based on external bank valuations and represents the cost to close out of the contract as at balance date.

(g) Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the number of shares outstanding to include the effects of all dilutive potential shares.

(h) Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach modified by netting of certain items. Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Company. These include client deposits and financial receivables.

(i) Standards and Interpretations That Have Been Issued or Amended But Are Not Yet Effective

Standards and interpretations that have been issued or amended but are not yet effective and have not been adopted by the Company for the period ended 31 December 2010 are as follows:

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
NZ IFRS-9 'Financial Instruments'	1 Jan 2013	31 Dec 2013
NZ IAS-24 'Related Party Disclosures'	1 Jul 2011	31 Dec 2011

To date the Company has not made an assessment of the impact on the financial statements.

(j) Segment Reporting

The Company has one reportable segment, being financial services within the New Zealand rural sector. Although the Company offers different products, these are managed through analysis contained within the asset and liability segments of the Statement of Financial Position, and through interest income and expense sections of the Statement of Comprehensive Income. The Director – Financial Services reviews internal management reports on the Company at the total Company level. No relevant segment structure is in place for regular reporting. Although analysis is periodically done on various customer and product profiles, these ad hoc reports are not representative of how the business is managed. The Company operates within geographical regions in New Zealand and limited analysis is utilised for those regions.

(k) Changes in Accounting Policy

The same accounting policies, presentation and methods of computation are followed as applied in the Company's latest annual audited financial statements.

4 INTEREST INCOME

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Current accounts	10,327	18,878	9,279
Term loans	13,708	32,456	16,381
Loans and other receivables	4,482	7,396	2,934
	28,517	58,730	28,594

Interest income of \$5,402,181 has been charged on impaired assets (30 June 2010: \$6,683,912, 31 December 2009: \$2,273,327).

5 INTEREST EXPENSE AND OTHER COSTS OF FUNDING

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Deposits and other borrowings	1,299	2,545	1,301
Debentures – secured	8,878	15,599	7,865
Bonds	4,042	10,153	5,219
Amortisation – bond costs	421	1,327	675
Bank loans – secured	410	2,536	1,686
Net bank/swap/brokerage costs	303	(793)	(664)
Crown Guarantee Fee	905	(1,010)	876
	16,258	30,357	16,958

6 OTHER INCOME

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Transaction and loan fees	272	572	293
Other income	204	353	181
	476	925	474

7 OPERATING EXPENSES

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Operating expenses include:			
Employee benefits expense	2,564	4,385	2,229
Rental and operating lease costs	161	505	252
Director's Fees	93	40	–
Depreciation of property, plant and equipment	13	25	13
Amortisation – intangibles	85	173	93
Amount paid to the auditor for audit fees – KPMG	65	84	43

Operating expenses include amounts that have been recharged from the Company's parent for rent, employee salaries and administration services.

8 NON OPERATING ITEMS

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Restructuring	(126)	–	–
	(126)	–	–

During the period the Company conducted a restructuring following a review of its resource and overhead structure.

9 FAIR VALUE ADJUSTMENTS

Derivatives not in qualifying hedge relationships

FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
84	(338)	(528)
84	(338)	(528)

10 TAXATION

Income tax expense

The prima facie income tax expense on pre tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Current income tax expense
Deferred tax expense – origination and reversal of temporary differences
Deferred tax expense – reduction in tax rate
Total income tax expense

FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
3,088	6,264	2,393
(2,344)	(2,431)	(1,020)
400	(9)	–
1,144	3,824	1,373

Reconciliation of effective tax rate

Profit for the period
Total income tax expense
Profit excluding income tax
Income tax using Company's domestic tax rate
Non-deductible expenses and adjustments

	FOR THE 6 MONTHS ENDED 31 DEC 2010 %	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 %	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 %	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Profit for the period		1,329		8,933		3,317
Total income tax expense		1,144		3,824		1,373
Profit excluding income tax		2,473		12,757		4,690
Income tax using Company's domestic tax rate	30.00%	742	30.00%	3,827	30.00%	1,407
Non-deductible expenses and adjustments	16.27%	402	–0.02%	(3)	0.00%	(34)
	46.27%	1,144	29.98%	3,824	30.00%	1,373

Imputation credit account

This account is not recognised in the Financial Statements.

On 27 May 2010 the Government passed legislation to reduce the Company tax rate from 30% to 28% effective for tax years beginning on or after 1 April 2011.

The financial effect of the change in tax rate is a reduction in deferred tax assets / liabilities.

31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
638	638	638

11 DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value

Interest rate swaps at fair value through profit or loss

Interest rate swaps designated as qualifying hedges

Derivative assets held for risk management

Interest rate swaps at fair value through profit or loss

Interest rate swaps designated as qualifying hedges

Derivative liabilities held for risk management

Net derivatives held for risk management

Nominal Value

Interest rate swaps at fair value through profit or loss

Interest rate swaps designated as qualifying hedges

Derivative assets held for risk management

Interest rate swaps at fair value through profit or loss

Interest rate swaps designated as qualifying hedges

Derivative liabilities held for risk management

Net derivatives held for risk management

The profit and loss impact of derivatives not designated as qualifying hedges is as follows:

Income

Expense

Net income/(loss) from derivative financial instruments

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
	571	504	460
	1,235	1,475	2,770
	1,806	1,979	3,230
	12	28	175
	117	194	1,162
	129	222	1,337
	1,677	1,757	1,893
	58,750	44,050	14,300
	320,250	267,800	243,658
	379,000	311,850	257,958
	5,500	17,000	18,750
	59,038	96,369	187,691
	64,538	113,369	206,441
	314,462	198,481	51,517
	84	—	—
	—	(338)	(528)
	84	(338)	(528)

Cash flow hedges of interest rate risk

The Company uses interest rate swaps to hedge its exposure to changes in the market rates of variable and fixed interest rates.

Other derivatives held for risk management

The Company also uses interest rate swaps, not designated in a qualifying hedge relationship, to manage its exposure to the timing mismatch of assets and liabilities.

12 OTHER RECEIVABLES

Prepayments

Accrued income

Sundry debtors

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
	2,129	1,620	2,236
	1,603	1,388	1,745
	306	356	165
	4,038	3,364	4,146

13 RELATED PARTY TRANSACTIONS

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Amounts Due From Group Entities – Balance Outstanding			
Parent of the Company	40	(290)	367

There is no other related party lending. All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash on a monthly basis. None of the balances are secured.

The Company repays PGG Wrightson Limited for expenses incurred on behalf of the Company including wages and salaries.

Key Management Personnel Compensation

Key management personnel received compensation in the form of total remuneration including employee benefits, as set out below:

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Short term employee benefits	673	990	473
Post employment benefits including defined contributions to defined contribution schemes	6	8	3
Other long term benefits	–	–	–
Termination benefits	–	–	–
Share based payments	–	1	1
	679	999	477

Other Transactions with Key Management Personnel

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	TRANSACTION VALUE			BALANCE OUTSTANDING		
	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
B McConnon (retired 28 February 2010) <i>Debentures – secured and bonds</i>	–	59	116	–	1,000	1,025
M Darrow <i>Debentures – secured</i>	–	–	–	24	16	16
M Thomas <i>Debentures – secured and Rural Saver</i>	12	11	–	439	359	–
Sir Selwyn Cushing <i>Debentures – secured</i>	108	157	–	2,650	3,550	–

Cost Reimbursement to Parent

The Company has a policy to reimburse the parent company for all costs incurred on behalf of the Company. In the six months to 31 December 2010 the total costs incurred by the parent on behalf of the Company was \$4,130,099 (30 June 2010: \$7,101,422, 31 December 2009: \$3,404,940).

14 LOANS AND RECEIVABLES

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Finance receivables – less than one year	431,610	432,107	425,445
Finance receivables – greater than one year	80,355	110,262	133,281
	511,965	542,369	558,726
Less provision for doubtful debts	(20,119)	(12,250)	(7,402)
	491,846	530,119	551,324
Impairment:			
Balance at the beginning of the period	12,250	3,627	3,627
Impaired losses recognised in the income statement	5,197	8,253	3,405
Interest charged on impaired accounts	2,672	–	–
Amounts written off in the income statement	488	696	(6)
Reversals of previously recognised provisions	(488)	(326)	376
Balance at the end of the period	20,119	12,250	7,402

The status of the receivables at the reporting date is as follows:

	31 DEC 2010 \$000		30 JUN 2010 \$000		31 DEC 2009 \$000	
	NOT IMPAIRED	IMPAIRED	NOT IMPAIRED	IMPAIRED	NOT IMPAIRED	IMPAIRED
Not past due	390,665	–	454,485	–	480,389	–
Past due 1 – 90 days	7,219	2,524	564	12,925	25,318	12,605
Past due 91 – 365 days	27,247	18,623	11,411	28,410	11,003	5,341
Past due more than 1 year	10,357	55,330	10,541	24,033	4,752	19,318
Impairment	–	(20,119)	–	(12,250)	–	(7,402)
	435,488	56,358	477,001	53,118	521,462	29,862

14 LOANS AND RECEIVABLES (CONTINUED)

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Asset Quality – Loans and Receivables			
Neither past due nor impaired	390,665	454,485	480,389
Individually impaired loans	76,477	65,368	37,264
Past due loans	44,823	22,516	41,073
Provision for credit impairment	(20,119)	(12,250)	(7,402)
Total carrying amount	491,846	530,119	551,324
Ageing of Past Due but not impaired			
Past due 1-90 days	7,219	564	25,318
Past due 91-180 days	26,730	560	5,503
Past due 180-365 days	517	10,851	5,500
Past due more than 365 days	10,357	10,541	4,752
Total past due assets	44,823	22,516	41,073
90 Day Past Due Assets (includes Impaired Assets)			
Balance at the beginning of the year	74,395	36,404	36,404
Additions to 90 day past due assets	37,298	44,008	4,482
Reduction in 90 day past due assets	(136)	(6,017)	(472)
Balance at the end of the year	111,557	74,395	40,414
Impaired Assets			
Balance at the beginning of the year	53,118	23,104	23,104
Additions to individually impaired assets	23,826	42,960	14,160
Amounts written off	(467)	(696)	–
Transfer to productive ledger	–	–	–
Balance at the end of the year	76,477	65,368	37,264
Provision for credit impairment	(20,119)	(12,250)	(7,402)
Net Carrying amount of impaired assets	56,358	53,118	29,862

There were no restructured loans at balance date (30 June 2010: \$Nil, 31 December 2009: \$Nil).

Collateral held against past due loans includes properties, deposits, livestock, shares and other assets. The Company's security documents are used to maximise the recovery of outstanding loan amounts. The gross amount of past due assets at balance date was \$121.3 million (30 June 2010: \$87.9 million, 31 December 2009: \$78.3 million), and it has been estimated collateral held is equal to the net carrying amount of these impaired loans.

15 PROPERTY, PLANT AND EQUIPMENT

	IT HARDWARE \$000	MOTOR VEHICLES \$000	FURNITURE AND FITTINGS \$000	OFFICE EQUIPMENT \$000	TOTAL \$000
Cost					
Balance at 1 July 2009	165	46	44	44	299
Additions	23	–	–	4	27
Disposals and transfers to other asset classes	(1)	–	–	–	(1)
Balance at 31 December 2009	187	46	44	48	325
Balance at 1 January 2010	187	46	44	48	325
Additions	6	–	–	–	6
Disposals and transfers to other asset classes	–	(23)	–	–	(23)
Balance at 30 June 2010	193	23	44	48	308
Balance at 1 July 2010	193	23	44	48	308
Additions	–	–	–	–	–
Disposals and transfers to other asset classes	–	–	–	–	–
Balance at 31 December 2010	193	23	44	48	308
Depreciation and impairment losses					
Balance at 1 July 2009	104	33	38	44	219
Depreciation for the period	11	1	1	–	13
Balance at 31 December 2009	115	34	39	44	232
Balance at 1 January 2010	115	34	39	44	232
Disposals and transfers to other asset classes	–	(11)	–	–	(11)
Depreciation for the period	12	(1)	–	1	12
Balance at 30 June 2010	127	22	39	45	233
Balance at 1 July 2010	127	22	39	45	233
Depreciation for the period	13	–	1	1	15
Balance at 31 December 2010	140	22	40	46	248
Carrying amounts					
At 1 July 2009	61	13	6	–	80
At 31 December 2009	72	12	5	4	93
At 1 January 2010	72	12	5	4	93
At 30 June 2010	66	1	5	3	75
At 1 July 2010	66	1	5	3	75
At 31 December 2010	53	1	4	2	60

16 INTANGIBLES

Computer software**Cost**

Opening balance

Additions

Disposals

Closing balance

Amortisation

Opening balance

Amortisation for the period

Disposals

Closing balance

Net book value

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Opening balance	1,672	1,482	1,482
Additions	131	190	63
Disposals	–	–	–
Closing balance	1,803	1,672	1,545
Opening balance	492	319	319
Amortisation for the period	84	173	93
Disposals	2	–	–
Closing balance	578	492	412
Net book value	1,225	1,180	1,133

17 DEFERRED TAX ASSETS

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

- Provision for impairment losses on loans and receivables
- Property, plant and equipment
- Intangible assets
- Provisions and employee entitlements

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
	5,634	3,675	2,221
	6	6	(8)
	(165)	(130)	(87)
	137	117	122
	5,612	3,668	2,248

	BALANCE 30 JUN 2009 \$000	RECOGNISED IN PROFIT OR LOSS \$000	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$000	BALANCE 31 DEC 2009 \$000	RECOGNISED IN PROFIT OR LOSS \$000	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$000	BALANCE 30 JUN 2010 \$000
Movement in temporary differences during the year							
Impairment losses	1,088	1,133	–	2,221	1,454	–	3,675
Property, plant and equipment	(5)	(3)	–	(8)	14	–	6
Intangible assets	(56)	(31)	–	(87)	(43)	–	(130)
Provisions and employee entitlements	201	(79)	–	122	(5)	–	117
	1,228	1,020	–	2,248	1,420	–	3,668

Movement in temporary differences during the year continued

	RECOGNISED IN PROFIT OR LOSS \$000	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$000	BALANCE 31 DEC 2010 \$000
Impairment losses	1,959	–	5,634
Property, plant and equipment	–	–	6
Intangible assets	(35)	–	(165)
Provisions and employee entitlements	20	–	137
	1,944	–	5,612

Unrecognised tax losses / Unrecognised temporary differences

The Company does not have any unrecognised tax losses or unrecognised temporary differences.

18 DEPOSITS AND OTHER BORROWINGS

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Rural Saver accounts	44,194	52,474	45,397
Client deposits	51	91	176
Client current accounts	20,782	18,254	19,593
Deposits and other borrowings due within one year	65,027	70,819	65,166

All deposits listed above are unsecured deposits and rank equally with unsecured creditors of the Company. The deposits are issued pursuant to the Trust Deed dated 7 October 2004. The interest rate for the deposits is fixed for the term of the investment at the time of application and is paid monthly or as otherwise specified. Funding is sourced from within New Zealand.

The Company has a guarantee under the New Zealand extended retail deposit guarantee scheme. For further information about the New Zealand extended retail deposit guarantee scheme, refer to www.treasury.govt.nz.

19 TERM BANK FACILITY

The bank loan facility expires on 1 December 2013. The facility limit is \$100 million (30 June 2010: \$120 million, 31 December 2009: \$180 million) and the drawn amount at balance date was \$Nil (30 June 2010: \$21.0 million, 31 December 2009: \$90 million). There is also an overdraft facility of \$1 million (30 June 2010: \$1 million, 31 December 2009: \$1 million) and the drawn amount at balance date was \$Nil (30 June 2010: \$Nil, 31 December 2009: \$Nil). Security stock has been issued to two banks as security for advances to the Company. The security stock is debenture stock which secures all liabilities owed by the Company to the banks, including principal, interest and costs in terms of a Trust Deed dated 7 October 2004 and ranks equally with debenture stock and bonds.

The Company has entered into a risk share facility. The nature of this facility is that a percentage of loans with certain characteristics are sold to the facility counterparty, an institutional bank. In the case of default, the Company has first loss exposure up to the Company's share of the loan. The sold element of the loan is not held on the Company's balance sheet. At 31 December 2010 \$56.1 million (30 June 2010: \$56.9 million, 31 December 2009: \$76.2 million) of assets transferred had been transferred to the Risk Share facility with a further \$Nil (30 June 2010: \$23.1 million, 31 December 2009: \$3.8 million) potential transfer.

20 BONDS

		FACE VALUE \$000	31 DEC 2010 \$000	AMORTISED COST VALUE 30 JUN 2010 \$000	31 DEC 2009 \$000
PGG Wrightson Finance Limited 2010 (PWF020) (due May 2010)	8.50%	–	–	–	25,153
PGG Wrightson Finance Limited 2010 (PWF030) (due Oct 2010)	8.25%	–	–	99,658	99,086
PGG Wrightson Finance Limited 2010 (PWF040) (due Oct 2011)	8.25%	94,419	94,097	–	–
		94,419	94,097	99,658	124,239

The Company received Bondholder approval on 12 August 2010 for amendments to its Bond Trust deed. The amendments extended the maturity date of the PWF030 Secured Bonds to 8 October 2011, allowed the Company to repurchase and hold certain Secured Bonds as treasury stock and resulted in a change in the NZX stock code reference to PWF040.

The Company acquired 5,581,000 of Secured Bonds (PWF040) on 8 October 2010 including 780,000 from Overseas Bondholders. The Secured Bonds acquired from Overseas Bondholders were cancelled by the company upon acquisition. The Secured Bonds put to the company are held as treasury stock. Total bonds issued under PWF040 including treasury stock amount to \$99,220,000. All bond series are secured in terms of the Trust Deed Relating to Bonds (including amendments) dated 21 April 2005. They rank equally with debenture stock and bank loans with a 5% limitation on prior security. Interest is paid quarterly. The carrying value includes the capitalised bond costs which are amortised over the life of the bonds.

21 DEBENTURES – SECURED

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Amounts payable in less than one year	168,772	190,815	151,620
Amounts payable in more than one year	91,688	56,765	64,432
Debentures – secured	260,460	247,580	216,052

Debentures consist of fixed interest debt securities which are of equal ranking with bonds, debentures and bank loans. They are secured by a first ranking security interest over all the assets of the Company in terms of a Trust Deed dated 7 October 2004. The interest rate for the secured debenture stock is fixed for the term of the investment at the time of application and is paid either monthly, quarterly or annually. Funding is sourced from within New Zealand.

PGG Wrightson Finance Limited has a guarantee under the New Zealand extended retail deposit guarantee scheme. For further information about the New Zealand extended retail deposit guarantee scheme, refer to www.treasury.govt.nz.

22 SHARE CAPITAL

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Share Capital			
On issue at beginning of period	65,350	31,500	31,500
Preference shares issued	–	33,850	–
On issue at end of period	65,350	65,350	31,500

	NUMBER OF REDEEMABLE PREFERENCE SHARES 31 DECEMBER 2010 000	NUMBER OF REDEEMABLE PREFERENCE SHARES 30 JUNE 2010 000	NUMBER OF REDEEMABLE PREFERENCE SHARES 31 DECEMBER 2009 000	NUMBER OF ORDINARY SHARES 31 DECEMBER 2010 000	NUMBER OF ORDINARY SHARES 30 JUNE 2010 000	NUMBER OF ORDINARY SHARES 31 DECEMBER 2009 000
Share Capital						
On issue at beginning of period	33,850	–	–	31,500	31,500	31,500
Preference shares issued	–	33,850	–	–	–	–
On issue at end of period	33,850	33,850	–	31,500	31,500	31,500

Ordinary shares are fully paid, have no par value, carry equal voting rights and share equally in any profit on the winding up of the Company.

On 16 January 2010 33.85 million preference shares were issued to PGG Wrightson Limited. Preference shares are fully paid, have a principal amount of \$1.00 per share and no par value. Voting rights are limited to class voting rights and liquidation resolutions. The preference shares mature when the PGG Wrightson convertible redeemable notes are either converted or redeemed or on the sale of a controlling interest in PGG Wrightson Finance. Interest is payable quarterly in arrears at 8% per annum at the sole discretion of the Company directors. Unpaid interest does not accumulate interest. All interest to date has been paid. They rank below debt and ahead of ordinary shares on liquidation of the Company.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet settled.

Dividends

No dividends were declared or paid by the Company for the period ended 31 December 2010 (30 June 2010: \$5.0 million, 31 December 2009: \$Nil).

23 RECONCILIATION OF PROFIT AFTER TAXATION WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	FOR THE 6 MONTHS ENDED 31 DEC 2010 \$000	FOR THE 12 MONTHS ENDED 30 JUN 2010 \$000	FOR THE 6 MONTHS ENDED 31 DEC 2009 \$000
Profit after taxation	1,329	8,933	3,317
Add/(deduct) non-cash items:			
Depreciation and amortisation of property, plant & equipment and software	99	198	106
Amortisation – bond costs	421	1,327	675
Net impairment losses on financial assets	5,685	8,949	3,399
Fair value adjustments	(84)	338	528
(Increase)/decrease in deferred taxation	(1,944)	(2,440)	(1,020)
Other non-cash items	1,059	2,230	2,208
	5,236	10,602	5,896
Add/(deduct) movement in working capital items:			
(Increase)/decrease in trade and other receivables	(674)	(1,589)	(2,379)
Increase/(decrease) in accruals and other liabilities	736	(1,490)	(875)
Increase/(decrease) in income tax payable	(4,528)	4,182	311
	(4,466)	1,103	(2,943)
Net cash flow from operating activities	2,099	20,638	6,270

24 COMMITMENTS

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Commitments to extend credit	58,303	60,205	82,108

25 CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (30 June 2010: \$Nil, 31 December 2009: \$Nil).

26 FINANCIAL INSTRUMENTS

Introduction

The Company is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore, takes on controlled amounts of risk when considered appropriate.

The primary risks are those of liquidity, market (funding, price and interest rate) and credit risk.

The Board of Directors is responsible for the review and ratification of the Company's systems of risk management, internal compliance and control, code of conduct and legal compliance.

The Board maintains a formal set of delegated authorities (including policies for credit and treasury), that clearly define the responsibilities delegated to management and those retained by the Board. The Board approves these delegated authorities and reviews them annually.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. The Company monitors its liquidity daily, weekly and monthly and maintains appropriate liquid assets and committed bank funding facilities to meet all obligations in a timely and cost efficient manner. Management of liquidity risk is designed to ensure that the Company has the ability to meet financial obligations as they fall due.

26 FINANCIAL INSTRUMENTS (CONTINUED)

The objectives of the Company's funding and liquidity policy is to:

- ensure all financial obligations are met when due;
- provide adequate protection, even under crisis scenarios; and
- achieve competitive funding within the limitations of liquidity requirements.

The Company manages this risk by forecasting daily cash requirements, forecasting future funding requirements, maintaining an adequate liquidity buffer and ensuring long term lending is reasonably matched with long term funding.

Market Risk

Market risk is the potential for change in the value of balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities, both on and off balance sheet. Market risk includes funding, price and interest rate risk which are explained as follows:

Funding Risk

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The Company has a policy of funding diversification. The funding policy augments the Company's liquidity policy with its aim to ensure the Company has a stable diversified funding base without over-reliance on any one market sector.

Price and Interest Rate Risk

Price risk is the risk that the value of financial instruments and the interest margin will fluctuate as a result of changes in market interest rates. The risk is that financial assets may be repriced at a different time and / or by a different amount than financial liabilities.

This risk is managed by operating within approved policy limits using an interest rate duration approach. When required to maintain interest rate risk within policy, the Company uses interest rate hedging instruments including interest rate swaps.

Credit Risk

Credit risk is the potential for loss that could occur as a result of a counterparty failing to discharge its obligations. Management formally reports on all aspects of key risks to the Audit Committee at least two times each year. In addition, the following management committees review and manage key risks:

- The Senior Management Team meets regularly to consider new and emerging risks, reviews actions required to manage and mitigate key risks, and monitors progress.
- The Credit Committee, comprising of Board representation and management appointees, meets regularly as required to review credit risk, new loans and provisioning.

Foreign Currency Risk

Foreign currency risk is the risk of loss to the Company arising from adverse changes in foreign currency rates. The Company does not normally have exposure to foreign currency.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The Company may enter into derivative transactions including interest rate swaps, forward rate agreement, futures, options and combinations of these instruments.

Capital Management

The capital of the Company consists of share capital, reserves, and retained earnings.

The policy of the Company is to maintain a strong capital base so as to maintain investor, creditor and market confidence while providing the ability to develop future business initiatives.

26 FINANCIAL INSTRUMENTS (CONTINUED)

As a condition of external lines of funding, the Company must maintain a level of capital in excess of 10% of Total Tangible Assets. The Company also has a requirement under the Trust Deed to ensure Total Liabilities do not exceed 92% of Total Tangible Assets. Both these requirements are monitored on an ongoing basis by management. At no time during the period were either of these requirements breached.

On 1 December 2010, the Company became subject to the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. The Regulations require adherence to a minimum capital ratio of 8% where the company has a credit rating from an approved rating agency, a maximum limit on related party credit exposures of 15% of tier one capital and for the trust deed to include certain quantitative liquidity requirements. The requirements of the Regulations are monitored by management on a regular basis. The Company had a capital ratio in excess of 8% and related party credit exposures below 15% of tier one capital as at 31 December 2010.

Sensitivity Analysis

The sensitivity of net profit after tax for the period, and shareholders' equity, to reasonably possible changes in conditions is as follows:

	INTEREST RATES INCREASE			INTEREST RATES DECREASE		
	31 DEC 2010 \$000	BY 1% 30 JUN 2010 \$000	31 DEC 2009 \$000	31 DEC 2010 \$000	BY 1% 30 JUN 2010 \$000	31 DEC 2009 \$000
Impact on net profit after tax	(360)	(244)	(138)	370	251	142
Shareholders' equity	(3,400)	(2,319)	(2,685)	3,493	2,383	2,758

The stress test uses the existing balance sheet interest rates. The effect of financial instruments designated at fair value also impacts on net profit after tax and Shareholders' equity.

(a) Liquidity Risk – Contractual Maturity Analysis

The following tables analyse the Company assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date (reported on an undiscounted basis). Deposits include substantial customer savings deposits and cheque accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Company.

	WITHIN 12 MONTHS \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000	CONTRACTUAL CASH FLOW \$000	CARRYING VALUE \$000
As at 31 December 2010						
Assets						
Cash and cash equivalents	21,188	–	–	–	21,188	21,188
Derivative financial instruments	684	493	629	–	1,806	1,806
Other receivables	4,038	–	–	–	4,038	4,038
Amounts due from Group entities	40	–	–	–	40	40
Loans and receivables	426,316	63,901	24,582	373	515,172	491,846
Total financial assets	452,266	64,394	25,211	373	542,244	518,918
Liabilities						
Deposits and other borrowings	65,027	–	–	–	65,027	65,027
Derivative financial instruments	44	54	31	–	129	129
Trade and other payables	4,191	–	–	–	4,191	4,191
Term bank facility	–	–	–	–	–	–
Bonds	102,209	–	–	–	102,209	94,097
Debentures – secured	182,203	71,580	28,391	–	282,174	260,460
Total financial liabilities	353,674	71,634	28,422	–	453,730	423,904
Undrawn bank loans	100,000					100,000
Unutilised bank facility	–					–
	100,000					100,000
Loans and receivables commitments	58,303					58,303

[illegible]

26 FINANCIAL INSTRUMENTS (CONTINUED)**(b) Liquidity Risk – Maturity Analysis (Expected Maturity)**

The following maturity analysis of the Company's loans and receivables is based on their expected maturity dates. There is no material difference between contractual and expected maturity for all other categories of assets and liabilities. The liquidity profile will not agree to the contractual cash flow above because it is based on expected not contractual maturity and excludes the impact of accrued interest.

	WITHIN 12 MONTHS \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000	TOTAL \$000
As at 31 December 2010					
Loans and receivables	446,235	68,301	25,680	345	540,561
As at 30 June 2010					
Loans and receivables	436,616	87,524	54,592	353	579,085
As at 31 December 2009					
Loans and receivables	404,200	77,327	69,797	–	551,324

(c) Interest Rate Repricing Schedule

The following tables include the Company's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	WITHIN 12 MONTHS \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000	NON INTEREST BEARING \$000	TOTAL \$000
As at 31 December 2010						
Assets						
Cash and cash equivalents	21,188	–	–	–	–	21,188
Derivative financial instruments	(81,250)	45,250	36,000	–	1,806	1,806
Other receivables	–	–	–	–	4,038	4,038
Amounts due from Group entities	40	–	–	–	–	40
Loans and receivables	488,064	3,573	209	–	–	491,846
Total financial assets	428,042	48,823	36,209	–	5,844	518,918
Liabilities						
Deposits and other borrowings	65,027	–	–	–	–	65,027
Derivative financial instruments	(32,500)	28,000	4,500	–	129	129
Trade and other payables	–	–	–	–	4,191	4,191
Term bank facility	–	–	–	–	–	–
Bonds	94,097	–	–	–	–	94,097
Debentures – secured	168,772	66,026	25,662	–	–	260,460
Total financial liabilities	295,396	94,026	30,162	–	4,320	423,904

26 FINANCIAL INSTRUMENTS (CONTINUED)

	WITHIN 12 MONTHS \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000	NON INTEREST BEARING \$000	TOTAL \$000
As at 30 June 2010						
Assets						
Cash and cash equivalents	9,277	–	–	–	–	9,277
Derivative financial instruments	(71,500)	35,250	36,250	–	1,979	1,979
Other receivables	–	–	–	–	3,364	3,364
Amounts due from Group entities	–	–	–	–	–	–
Loans and receivables	515,018	13,106	1,995	–	–	530,119
Total financial assets	452,795	48,356	38,245	–	5,343	544,739
Liabilities						
Deposits and other borrowings	70,819	–	–	–	–	70,819
Derivative financial instruments	(10,742)	10,000	742	–	222	222
Trade and other payables	–	–	–	–	3,454	3,454
Amounts due to group entities	–	–	–	–	290	290
Term bank facility	–	21,000	–	–	–	21,000
Bonds	99,658	–	–	–	–	99,658
Debentures – secured	190,815	32,390	24,375	–	–	247,580
Total financial liabilities	350,550	63,390	25,117	–	3,966	443,023
As at 31 December 2009						
Assets						
Cash and cash equivalents	8,180	–	–	–	–	8,180
Derivative financial instruments	(11,000)	6,750	4,250	–	3,230	3,230
Other receivables	–	–	–	–	4,146	4,146
Amounts due from Group entities	367	–	–	–	–	367
Loans and receivables	508,105	36,245	6,974	–	–	551,324
Total financial assets	505,652	42,995	11,224	–	7,376	567,247
Liabilities						
Deposits and other borrowings	65,166	–	–	–	–	65,166
Derivative financial instruments	(37,212)	19,220	17,992	–	1,337	1,337
Trade and other payables	–	–	–	–	4,068	4,068
Term bank facility	90,000	–	–	–	–	90,000
Bonds	124,239	–	–	–	–	124,239
Debentures – secured	151,620	36,035	28,397	–	–	216,052
Total financial liabilities	393,813	55,255	46,389	–	5,405	500,862

26 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Accounting classifications and fair values

The tables below set out the Company's classification of each class of financial assets and liabilities, and their fair values.

	TRADING AT FAIR VALUE \$000	LOANS AND RECEIVABLES \$000	OTHER AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
As at 31 December 2010					
Assets					
Cash and cash equivalents	–	21,188	–	21,188	21,188
Derivative financial instruments held for risk management	1,806	–	–	1,806	1,806
Other receivables	–	4,038	–	4,038	4,038
Amounts due from Group entities	–	40	–	40	40
Loans and receivables	–	491,846	–	491,846	491,024
	1,806	517,112	–	518,918	518,096
Liabilities					
Deposits and other borrowings	–	–	65,027	65,027	65,027
Derivative financial instruments held for risk management	129	–	–	129	129
Trade and other payables	–	–	4,191	4,191	4,191
Term bank facility	–	–	–	–	–
Bonds	–	–	94,097	94,097	97,035
Debentures – secured	–	–	260,460	260,460	261,213
	129	–	423,775	423,904	427,595
As at 30 June 2010					
Assets					
Cash and cash equivalents	–	9,277	–	9,277	9,277
Derivative financial instruments held for risk management	1,979	–	–	1,979	1,979
Other receivables	–	3,364	–	3,364	3,364
Amounts due from Group entities	–	–	–	–	–
Loans and receivables	–	530,119	–	530,119	528,653
	1,979	542,760	–	544,739	543,273
Liabilities					
Deposits and other borrowings	–	–	70,819	70,819	70,819
Derivative financial instruments held for risk management	222	–	–	222	222
Trade and other payables	–	–	3,454	3,454	3,454
Amounts due to Group entities	–	–	290	290	290
Term bank facility	–	–	21,000	21,000	21,000
Bonds	–	–	99,658	99,658	101,523
Debentures – secured	–	–	247,580	247,580	249,245
	222	–	442,801	443,023	446,553

26 FINANCIAL INSTRUMENTS (CONTINUED)

	TRADING AT FAIR VALUE \$000	LOANS AND RECEIVABLES \$000	OTHER AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
As at 31 December 2009					
Assets					
Cash and cash equivalents	–	8,180	–	8,180	8,180
Derivative financial instruments held for risk management	3,230	–	–	3,230	3,230
Other receivables	–	4,146	–	4,146	4,146
Amounts due from Group entities	–	367	–	367	367
Loans and receivables	–	551,324	–	551,324	548,660
	3,230	564,017	–	567,247	564,583
Liabilities					
Deposits and other borrowings	–	–	65,166	65,166	65,166
Derivative financial instruments held for risk management	1,337	–	–	1,337	1,337
Trade and other payables	–	–	4,068	4,068	4,068
Term bank facility	–	–	90,000	90,000	90,000
Bonds	–	–	124,239	124,239	117,478
Debentures – secured	–	–	216,052	216,052	216,363
	1,337	–	499,525	500,862	494,412

The fair value of loans and receivables are calculated using discounted cash flow models based on the interest rate re-pricing and maturity of the financial assets. Discount rates applied in this calculation are based on current market interest rates for Loans and Advances with similar credit profiles. The fair value of all financial liabilities is calculated using discounted cash flow models based on the interest rate re-pricing and maturity of the instruments. The discount rate applied in this calculation is based on current market rates. No additional impairment has been taken in determining fair values of loans and receivables other than those already disclosed in the Statement of Financial Position.

Fair Value Hierarchy

All financial instruments that are recognised in the Statement of Financial Position at fair value are valued using valuation models that are based on observable market inputs (level 2 inputs).

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Interest rates used for determining fair value			
Loans and receivables	12.4%	11.7%	11.2%
Debentures – secured	7.3%	6.4%	7.1%
Bonds	7.0%	8.5%	7.7%

26 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit Risk

Geographical distribution of loans and receivables

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Auckland/Northland	16,700	18,606	23,897
King Country/Bay of Plenty/Waikato	54,088	57,201	59,198
Hawkes Bay/Gisborne	23,523	28,595	27,185
Taranaki/Manawatu	30,137	33,690	34,460
Wairarapa	17,869	18,074	22,645
Nelson/Marlborough	24,153	22,788	22,579
Canterbury	137,444	154,122	180,199
Southland/Otago	187,932	197,043	181,161
	491,846	530,119	551,324

Concentration of credit exposures

Credit risk is the risk of loan defaults. Collateral is obtained, where necessary, by the Company to cover credit risk exposures and such collateral includes properties, deposits, livestock, shares and other assets. All credit risks are within New Zealand.

The Company is selective in targeting credit risk exposures and avoids exposures to any high risk area. Before approving a loan, the Company generally undertakes an independent credit check, seeks an asset valuation where appropriate and assesses the customer's capacity to make repayments, their financial position and their credit history with the Company. Following any loan approval, the Company regularly monitors loan repayment arrears, takes prompt action to address arrears/default situations and takes fair but firm action to realise securities and minimise losses in the event of default. Financial assets are presented at their carrying values.

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Sheep and beef	275,225	289,887	303,609
Dairy	126,723	137,853	148,911
Arable	25,476	30,241	28,991
Horticulture / viticulture	19,460	25,414	26,236
Deer	16,887	16,438	15,665
Other	28,075	30,286	27,912
	491,846	530,119	551,324

Concentration of credit exposures to individual counterparties

Amount owing by 10 largest borrowers	116,351	111,069	103,557
As a % of gross loans and receivables	23.7%	21.0%	18.8%
As a % of total equity	116.1%	110.7%	153.5%

% of total equity

10% to 19%	5	5	7
20% to 29%	1	1	2
over 30%	–	–	–

The above tables have been compiled using gross exposures and do not include any guarantee arrangements.

26 FINANCIAL INSTRUMENTS (CONTINUED)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Company's material credit risk arises from loans and advances. The maximum exposure to credit risk on loans and advances at the reporting date was:

	LOAN TO SECURITY VALUE RATIO %	LIMIT \$000	BALANCE \$000
First mortgage	59.4%	464,744	425,757
Second mortgage	66.0%	31,604	25,552
First general or specific security agreement	64.4%	58,205	31,549
Other security	99.9%	10,779	7,731
Unsecured	0.0%	3,684	1,256
	61%	569,016	491,845

(f) Concentration of funding

The majority of Company funding is from within New Zealand.

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Customer industry concentration of funding			
Retail investors	419,584	418,057	405,457
Wholesale investors	–	21,000	90,000
	419,584	439,057	495,457

Product concentration of funding

Deposits and other borrowings	65,027	70,819	65,166
Debentures – secured	260,460	247,580	216,052
Bonds	94,097	99,658	124,239
	419,584	418,057	405,457
Term bank facility	–	21,000	90,000
	419,584	439,057	495,457

Geographical distribution of deposits and other borrowings, secured debentures and bonds

	31 DEC 2010 \$000	30 JUN 2010 \$000	31 DEC 2009 \$000
Auckland/Northland	32,248	26,183	29,109
King Country/Bay of Plenty/Waikato	29,105	26,203	27,962
Hawkes Bay/Gisborne	28,630	29,024	24,575
Taranaki/Manawatu	24,099	21,454	19,281
Wairarapa	19,526	19,474	22,031
Nelson/Marlborough	19,728	19,135	19,147
Canterbury	139,115	138,898	142,275
Southland/Otago	126,994	136,759	120,760
Overseas	139	927	317
	419,584	418,057	405,457

27 EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant events subsequent to balance date (30 June 2010: Nil, 31 December 2009: Nil).

INDEPENDENT AUDIT REPORT



TO THE SHAREHOLDER OF PGG WRIGHTSON FINANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of PGG Wrightson Finance Limited ("the Company") on pages 2 to 31. The financial statements comprise the statement of financial position as at 31 December 2010 and statements of comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other audit related services to the Company. Partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. There are, however, certain restrictions on borrowings which Partners and employees of our firm can have with the Company. These matters have not impaired our independence as auditors of the Company. The firm has no other relationship with, or interest in, the Company.

Opinion

In our opinion the financial statements of PGG Wrightson Finance Limited on pages 2 to 31:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Company as at 31 December 2010 and of its financial performance and cash flows for the six months ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by PGG Wrightson Finance Limited as far as appears from our examination of those records.

7 February 2011
Christchurch

CORPORATE DIRECTORY

COMPANY NUMBER 1166085

BOARD OF DIRECTORS AS AT 31 DECEMBER 2010

Mike Allen, *Chairman*

Tao Xie (XT)

Bill Thomas

Tim Miles (*retired 20 October 2010*)

Michael Thomas

Noelan Bates (*retired 1 September 2010*)

Graeme Hansen (*appointed 1 September 2010*)

MANAGING DIRECTOR

PGG Wrightson Limited

George Gould (*appointed 1 February 2011 as Managing Director*)

CHIEF FINANCIAL OFFICER

PGG Wrightson Limited

Rob Woodgate

GENERAL COUNSEL & COMPANY SECRETARY

PGG Wrightson Limited

Julian Daly

CHIEF EXECUTIVE OFFICER

PGG Wrightson Finance Limited

Mark Darrow

REGISTERED OFFICE

PGG Wrightson Finance Limited

57 Waterloo Road
PO Box 292
Christchurch 8042
Telephone 64 3 372 0800
Fax 64 3 372 0801

AUDITOR

KPMG
62 Worcester Boulevard
PO Box 1739
Christchurch 8140
Telephone 64 3 363 5600
Fax 64 3 363 5629

SECURED BONDHOLDER INFORMATION

Secured Bondholders with enquiries about transactions or changes of address are directed in the first instance to:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92 119
Auckland 1142
Telephone 64 9 488 8777, Fax 64 9 488 8787
Email: enquiry@computershare.co.nz

Please assist our registrar by quoting your CSN or Bondholder number.

To change your address, update your payment instructions or view your portfolio online, please visit www.computershare.co.nz/investorcentre.

Quotation and Transfers

The PGG Wrightson Finance Ltd Secured Bonds are listed on the New Zealand Exchange under code PWF040 and may be bought and sold through sharebrokers. PWF040 matures on 8 October 2011. No transfer will be registered if it would result in the transferor or transferee holding Secured Bonds with an aggregate principal amount of less than \$5,000. Subject to this minimum holding, transfers must be in multiples of \$1,000 unless otherwise permitted by PGG Wrightson Finance Ltd or unless a Secured Bondholder is transferring all of their Secured Bonds.

Interest Payment Dates

Interest on the Secured Bonds is paid quarterly, on the 8th day of January, April, July and October. If the interest payment date falls on a non-business day, payment will be the following business day. We recommend that Secured Bondholders have their interest payments direct credited to a bank account to ensure security and prompt payment. Please contact Computershare to arrange direct credit payments.

