PGG Wrightson Finance

HALF YEAR REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009


PGG Wrightson
DPC446

CHAIRMAN'S LETTER

DECEMBER 2009

PGG Wrightson Finance reported a strong performance for the six months ended 31 December 2009 despite the tough conditions experienced by the New Zealand economy, and the banking and finance sector in particular.

The tighter liquidity conditions saw the net interest margin, a key indicator of performance, increase by 30 percent over the previous comparable period.

Core trading results were up on the previous year. After IFRS adjustments and a prudent provision for impaired assets expense of $3.4 million, profit after tax for the period was $3.3 million compared to $4.7 million in the previous corresponding period.

Investors continued to support the Company, with the overall reinvestment rate improving on what was already a strong position. The long-run average reinvestment rate is now 77 percent.

These results make a strong statement about our business model, and about the capabilities and performance of our people.

Negotiations were completed with the Company's banking syndicate to extend wholesale funding lines for a further two years.

PGG Wrightson Finance became the first company in the finance sector to offer excluded securities (non guaranteed) under the terms of the current Crown Retail Deposit Guarantee Scheme.

This was an innovation designed to provide our investors with choice. The difference between the interest rates on the Included and Excluded Securities is commensurate with the fee that would have been paid to the Crown for the guarantee.

Total loans and receivables increased from $513 million at December 2008 to $551 million at December 2009, but were marginally lower than the $560 million recorded at 30 June 2009.

Since 31 December 2009 the Company has enhanced its governance framework through the establishment of a new Board of Directors, including two independent of the parent company PGG Wrightson Limited. Mike Allen and Noel Bates, who have extensive experience in the finance and banking sector, were appointed Independent Directors in February 2010. Mike Allen was appointed Chairman. Further changes to the Board were implemented in March 2010.

The Board now comprises Mike Allen (Chairman / Independent Director), Noel Bates (Independent Director), Bill Thomas, Michael Thomas, Tao Xie and Tim Miles. Bill Thomas, Tao Xie and Tim Miles are Directors of the parent company (Tim Miles is Managing Director). Michael Thomas is Group General Manager – Financial Services of the parent company.

The Company also made significant progress on enhancing its capital base during the half-year, in anticipation of the new capital adequacy requirements being introduced under the Non-Bank Deposit Takers (NBDT) legislation. $33.8 million of new capital was invested as part of the co-operation agreement between PGG Wrightson Limited and Agria Corporation finalised in November 2009, ensuring that the new capital adequacy requirements, when introduced, will be more than met.

CHAIRMAN'S LETTER CONTINUED

PGG Wrightson Finance has also successfully completed the process to achieve a credit rating from Standard & Poor's, with a BB (stable) rating being announced on 17 February 2010. In its report on PGG Wrightson Finance, Standard & Poor's said:

"PWF's asset quality, in our opinion, is sound, reflecting the company's good level of security over loans, good loan-to-value ratios, satisfactory credit policy, adequate provisioning, and geographically diverse loan book."

"Underpinning PWF's credit quality is the company's reasonably diversified funding sources and good financial flexibility, which we consider are better than most of its peers in the non-bank financial institution sector."

Looking forward, having achieved a credit rating above the Government threshold, the Company has lodged an application to Treasury to join the Extended Retail Deposit Guarantee Scheme. This is due to come into effect on 13 October 2010 and expire in December 2011.

While the operating environment remains difficult, the Board is pleased with the performance of the Company and believes it remains well positioned to deal with current and future challenges. In particular, the support of the parent company and the opportunities presented by day-to-day involvement with the PGG Wrightson client base are of significant value. These are supplemented by the skills and capabilities of our management team and the staff who represent the Company in our 19 offices throughout New Zealand.

Keith Smith
Chairman

FINANCIAL INFORMATION

PGG WRIGHTSON FINANCE LIMITED

PGG WRIGHTSON FINANCE LIMITED

INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	NOTE	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Continuing Operations				
Interest income	4	28,594	56,685	29,157
Interest expense and other costs of funding	5	(16,958)	(37,758)	(20,189)
Net interest income		11,636	18,927	8,968
Other income	6	474	916	358
Net impairment losses on financial assets		(3,399)	(2,877)	(277)
Operating expenses	7	(3,387)	(6,708)	(3,332)
		(6,312)	(8,669)	(3,251)
EBITDA		5,324	10,258	5,717
Depreciation and amortisation expense		(106)	(148)	(50)
Results from operating activities		5,218	10,110	5,667
Fair value adjustments	8	(528)	1,002	959
Profit before income tax		4,690	11,112	6,626
Income tax expense	9	(1,373)	(3,334)	(1,974)
Profit for the period		**3,317**	**7,778**	**4,652**
Other Comprehensive Income				
Effective portion of changes in fair value of cash flow hedges		(2,666)	5,146	4,025
Income tax on other comprehensive income		–	–	(1,207)
Other comprehensive income for the period, net of income tax		**(2,666)**	**5,146**	**2,818**
Total comprehensive income for the period		**651**	**12,924**	**7,470**
Earnings per share:				
Basic and diluted earnings per share (New Zealand dollars)		0.11	0.25	0.15
Net tangible assets per security at period end		2.03	2.05	1.91

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

PGG WRIGHTSON FINANCE LIMITED

INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	SHARE CAPITAL $000	HEDGING RESERVE $000	RETAINED EARNINGS $000	TOTAL $000
Balance at 1 July 2008	31,500	(1,002)	23,394	53,892
Profit or loss	–	–	4,652	4,652
Reclassification of opening deferred tax adjustment on financial instruments	–	130	(130)	–
Net change in fair value of cash flow hedges net of tax	–	2,818	–	2,818
Total comprehensive income for the period	–	2,948	4,522	7,470
Balance as at 31 December 2008	**31,500**	**1,946**	**27,916**	**61,362**
Balance at 1 January 2009	31,500	1,946	27,916	61,362
Profit or loss	–	–	3,126	3,126
Net change in fair value of cash flow hedges net of tax	–	2,328	–	2,328
Total comprehensive income for the period	–	2,328	3,126	5,454
Balance as at 30 June 2009	**31,500**	**4,274**	**31,042**	**66,816**
Balance as at 1 July 2009	31,500	4,274	31,042	66,816
Profit or loss	–	–	3,317	3,317
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**

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

PGG WRIGHTSON FINANCE LIMITED

INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	NOTE	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
ASSETS				
Cash and cash equivalents		8,180	3,779	12,175
Derivative assets	10	3,230	7,575	6,680
Other receivables	11	4,146	1,767	2,528
Amounts due from Group entities	12	367	224	3,515
Loans and receivables	13	551,324	559,659	512,789
Property, plant and equipment	14	93	80	–
Intangible assets	15	1,133	1,163	669
Deferred tax assets	16	2,248	1,228	567
Total assets		**570,721**	**575,475**	**538,923**
LIABILITIES				
Deposits and other borrowings	17	65,166	83,032	79,786
Derivative liabilities	10	1,337	2,488	2,756
Trade and other payables		4,068	4,943	4,549
Tax payable		2,393	2,082	5,236
Term bank facility	18	90,000	71,500	–
Bonds	19	124,239	123,564	142,856
Debentures – secured	20	216,052	221,050	242,378
Total liabilities		**503,255**	**508,659**	**477,561**
EQUITY				
Share capital	21	31,500	31,500	31,500
Reserves		1,608	4,274	5,098
Retained earnings		34,358	31,042	24,764
Total equity		**67,466**	**66,816**	**61,362**
Total liabilities and equity		**570,721**	**575,475**	**538,923**

These financial statements have been authorised for issue on 24 February 2010.

Keith Smith
Chairman

Tim Miles
Managing Director

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

PGG WRIGHTSON FINANCE LIMITED

INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	NOTE	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Cash flows from operating activities				
Cash was provided from:				
Interest received		28,454	56,685	29,157
Lease and other income		385	744	126
Cash was applied to:				
Payments to suppliers and employees		(3,934)	(6,049)	452
Interest payments		(16,553)	(33,179)	(19,875)
Income tax paid		(2,082)	(3,969)	–
Net cash flow from operating activities	22	**6,270**	**14,232**	**9,860**
Cash flows from investing activities				
Cash was provided from:				
Decrease in finance receivables		4,936	–	–
Cash was applied to:				
Purchase of property, plant and equipment		(26)	(86)	–
Purchase of intangible assets		(63)	(1,209)	(622)
Increase in finance receivables		–	(59,848)	(11,063)
Net cash flow from investing activities		**4,847**	**(61,143)**	**(11,685)**
Cash flows from financing activities				
Cash was provided from:				
Drawdown of term bank facility		18,500	71,975	–
Increase in debentures		–	48,122	45,975
Increase in client deposits		–	–	11,457
Increase in bonds		–	77,405	97,425
Advances from parent		–	1,809	–
Cash was applied to:				
Repayment of term bank facility		–	(140,475)	(140,000)
Decrease in debentures		(4,998)	–	–
Decrease in client deposits		(17,866)	(8,771)	–
Finance facility fees		(2,209)	–	–
Advances to parent		(143)	–	(1,482)
Net cash flow from financing activities		**(6,716)**	**50,065**	**13,375**
Net increase/(decrease) in cash held		4,401	3,154	11,550
Opening cash		3,779	625	625
Cash and cash equivalents		**8,180**	**3,779**	**12,175**

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

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

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.

These statements were approved by the Board of Directors on 24 February 2010.

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.

3 SIGNIFICANT ACCOUNTING POLICIES

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

(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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 equivalent.

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.

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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

(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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(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 2009 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 Chief Executive Officer 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, with the following exception:

Presentation of Financial Statements

The Company applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Company presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these interim financial statements as of and for the six month period ended on 31 December 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard and current period classifications. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share

4 INTEREST INCOME

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Current accounts	9,279	15,592	7,838
Term loans	16,381	37,159	19,465
Loans and other receivables	2,934	3,934	1,854
	28,594	**56,685**	**29,157**

Interest income of $2,273,327 has been charged on impaired assets (30 June 2009: $464,413, 31 December 2008: $94,076).

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 INTEREST EXPENSE AND OTHER COSTS OF FUNDING

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Deposits and other borrowings	1,301	4,395	2,778
Debentures – secured	7,865	18,787	9,541
Bonds	5,219	7,518	2,100
Amortisation – bond costs	675	943	215
Bank loans – secured	1,686	5,094	4,436
Net bank/swap/brokerage costs	(664)	(363)	840
Crown Guarantee Fee	876	1,384	279
	16,958	**37,758**	**20,189**

6 OTHER INCOME

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Transaction and loan fees	293	759	317
Other income	181	157	41
	474	**916**	**358**

7 OPERATING EXPENSES

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Operating expenses include:			
Employee benefits expense	2,229	4,542	2,219
Rental and operating lease costs	252	237	120
Depreciation of property, plant and equipment	13	6	–
Amortisation – intangibles	93	142	49
Amount paid to the auditor for audit fees – KPMG	43	58	30

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

8 FAIR VALUE ADJUSTMENTS

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Derivatives not in qualifying hedge relationships	(528)	906	863
Risk share loan transfers	–	96	96
	(528)	**1,002**	**959**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 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:

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Current income tax expense	2,393	4,166	2,261
Deferred tax expense – origination and reversal of temporary differences	(1,020)	(832)	(287)
Total income tax expense	**1,373**	**3,334**	**1,974**

	FOR THE 6 MONTHS ENDED 31 DEC 2009 %	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 %	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 %	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Reconciliation of effective tax rate						
Profit for the period		3,317		7,778		4,652
Total income tax expense		1,373		3,334		1,974
Profit excluding income tax		4,690		11,112		6,626
Income tax using Company's domestic tax rate	30.00%	1,407	30.00%	3,334	30.00%	1,988
Non-deductible expenses and adjustments	0.00%	(34)	0.00%	–	(0.21%)	(14)
	30.00%	**1,373**	**30.00%**	**3,334**	**29.79%**	**1,974**

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Imputation credit account	638	638	638

This account is not recognised in the Financial Statements.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 DERIVATIVE FINANCIAL INSTRUMENTS

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Fair Value			
Interest rate swaps at fair value through profit or loss	460	866	771
Interest rate swaps designated as qualifying hedges	2,770	6,709	5,909
Derivative assets held for risk management	3,230	7,575	6,680
Interest rate swaps at fair value through profit or loss	175	54	–
Interest rate swaps designated as qualifying hedges	1,162	2,434	2,756
Derivative liabilities held for risk management	1,337	2,488	2,756
Net derivatives held for risk management	**1,893**	**5,087**	**3,924**
Nominal Value			
Interest rate swaps at fair value through profit or loss	14,300	15,300	21,300
Interest rate swaps designated as qualifying hedges	243,658	314,766	319,466
Derivative assets held for risk management	257,958	330,066	340,766
Interest rate swaps at fair value through profit or loss	18,750	9,000	–
Interest rate swaps designated as qualifying hedges	187,691	124,715	105,680
Derivative liabilities held for risk management	206,441	133,715	105,680
Net derivatives held for risk management	**51,517**	**196,351**	**235,086**
The profit and loss impact of derivatives not designated as qualifying hedges is as follows:			
Income	–	906	863
Expense	(528)	–	–
Net income/(loss) from derivative financial instruments	**(528)**	**906**	**863**

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.

11 OTHER RECEIVABLES

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Prepayments	2,236	86	104
Accrued income	1,745	1,605	1,930
Sundry debtors	165	76	494
	4,146	**1,767**	**2,528**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 RELATED PARTY TRANSACTIONS

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Amounts Due From Group Entities – Balance Outstanding			
Parent of the Company	367	224	3,515

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 transactions relate to payments and receipts into and from the Company client accounts made by PGG Wrightson Limited on behalf of the Company. In addition 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 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Short term employee benefits	473	995	–
Termination benefits	–	65	–

For the six months ended 31 December 2008, the compensation was included in the recharge.

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 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
B Jolliffe (retired 24 June 2009)	Bonds	–	3	–	–	75	75
B McConnon	Bonds and Debentures – secured	116	79	45	1,025	1,025	525
M Darrow	Debentures – secured	–	–	–	16	16	15

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 2009 the total costs incurred by the parent on behalf of the Company was $3,404,940 (30 June 2009: $6,624,685, 31 December 2008: $3,435,896). This was in part offset by the Company's share of gross profit earned for managing the client debtor accounts for the parent. The total recharge made for the year to 31 December 2009 was $3,404,940 (30 June 2009: $6,042,931, 31 December 2008: $3,097,490).

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 LOANS AND RECEIVABLES

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Finance receivables – less than one year	425,445	411,560	338,231
Finance receivables – greater than one year	133,281	151,726	175,991
	558,726	563,286	514,222
Less provision for doubtful debts	(7,402)	(3,627)	(1,433)
	551,324	**559,659**	**512,789**

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Impairment:			
Balance at the beginning of the period	3,627	1,329	1,329
Impaired losses recognised in the income statement	3,405	2,645	498
Amounts written off in the income statement	(6)	232	(320)
Reversals of previously recognised provisions	376	(579)	(74)
Balance at the end of the period	**7,402**	**3,627**	**1,433**

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

	31 DEC 2009 $000		30 JUN 2009 $000		31 DEC 2008 $000	
	NOT IMPAIRED	IMPAIRED	NOT IMPAIRED	IMPAIRED	NOT IMPAIRED	IMPAIRED
Not past due	480,389	–	522,411	–	476,950	–
Past due 1 – 90 days	25,318	12,605	972	3,499	15,657	703
Past due 91 – 365 days	11,003	5,341	12,124	11,875	15,033	4,579
Past due more than 1 year	4,752	19,318	4,675	7,730	(9)	1,309
Impairment	–	(7,402)	–	(3,627)	–	(1,433)
	521,462	**29,862**	**540,182**	**19,477**	**507,631**	**5,158**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 LOANS AND RECEIVABLES (CONTINUED)

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Asset Quality – Loans and Receivables			
Neither past due nor impaired	480,389	522,411	476,950
Individually impaired loans	37,264	23,104	6,591
Past due loans	41,073	17,771	30,681
Provision for credit impairment	(7,402)	(3,627)	(1,433)
Total carrying amount	**551,324**	**559,659**	**512,789**
Ageing of Past Due but not Impaired			
Past due 1-90 days	25,318	972	15,657
Past due 91-180 days	5,503	5,846	8,971
Past due 180-365 days	5,500	6,278	6,062
Past due more than 365 days	4,752	4,675	(9)
Total past due assets	**41,073**	**17,771**	**30,681**
90 Day Past Due Assets (includes Impaired Assets)			
Balance at the beginning of the year	36,404	15,252	15,252
Additions to 90 day past due assets	4,482	35,685	8,025
Reduction in 90 day past due assets	(472)	(14,533)	(2,365)
Balance at the end of the year	**40,414**	**36,404**	**20,912**
Impaired Assets			
Balance at the beginning of the year	23,104	1,691	1,691
Additions to individually impaired assets	14,160	22,110	5,365
Amounts written off	–	(697)	(465)
Transfer to productive ledger	–	–	–
Balance at the end of the year	37,264	23,104	6,591
Provision for credit impairment	(7,402)	(3,627)	(1,433)
Net carrying amount of impaired assets	**29,862**	**19,477**	**5,158**

There were no restructured loans at balance date (30 June 2009: $Nil, 31 December 2008: $Nil).

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT

	IT HARDWARE $000	MOTOR VEHICLES $000	FURNITURE AND FITTINGS $000	OFFICE EQUIPMENT $000	TOTAL $000
Cost					
Balance at 1 July 2008	–	–	–	–	–
Balance at 31 December 2008	**–**	**–**	**–**	**–**	**–**
Balance at 1 January 2009	–	–	–	–	–
Transfers in from PGG Wrightson Limited	165	46	44	44	299
Balance at 30 June 2009	**165**	**46**	**44**	**44**	**299**
Balance at 1 July 2009	165	46	44	44	299
Additions	22	–	4	–	26
Balance at 31 December 2009	**187**	**46**	**48**	**44**	**325**
Depreciation and impairment losses					
Balance at 1 July 2008	–	–	–	–	–
Balance at 31 December 2008	**–**	**–**	**–**	**–**	**–**
Balance at 1 January 2009	–	–	–	–	–
Transfers in from PGG Wrightson Limited	99	32	38	44	213
Depreciation for the period	5	1	–	–	6
Balance at 30 June 2009	**104**	**33**	**38**	**44**	**219**
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**
Carrying amounts					
At 1 July 2008	–	–	–	–	–
At 31 December 2008	–	–	–	–	–
At 1 January 2009	–	–	–	–	–
At 30 June 2009	61	13	6	–	80
At 1 July 2009	61	13	6	–	80
At 31 December 2009	72	12	9	–	93

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 INTANGIBLES

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Computer software			
Cost			
Opening balance	1,482	355	355
Additions	63	1,482	622
Disposals	–	(355)	–
Closing balance	1,545	1,482	977
Amortisation			
Opening balance	319	259	259
Amortisation for the period	93	142	49
Additions	–	273	–
Disposals	–	(355)	–
Closing balance	412	319	308
Net book value	**1,133**	**1,163**	**669**

16 DEFERRED TAX ASSETS

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Recognised deferred tax assets			
Deferred tax assets are attributable to the following:			
Provision for impairment losses on loans and receivables	2,221	1,088	430
Property, plant and equipment	(8)	(5)	–
Intangible assets	(87)	(56)	92
Provisions and employee entitlements	122	201	45
	2,248	**1,228**	**567**

Unrecognised tax losses / Unrecognised temporary differences

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

17 DEPOSITS AND OTHER BORROWINGS

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Rural Saver accounts	45,397	59,695	58,037
Client deposits	176	248	308
Client current accounts	19,593	23,089	21,441
Deposits and other borrowings due within one year	**65,166**	**83,032**	**79,786**

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 deposit guarantee scheme. For further information about the New Zealand deposit guarantee scheme, refer to www.treasury.govt.nz.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 TERM BANK FACILITY

The bank loan facility expires on 28 October 2011. The facility limit is $180 million (30 June 2009: $180 million, 31 December 2008: $180 million) and the drawn amount at balance date was $90 million (30 June 2009: $71.5 million, 31 December 2008: $Nil). The facility amount will be reduced to $150 million on 31 January 2010 and to $120 million on 30 June 2010. There is also an overdraft facility of $1 million (30 June 2009: $Nil, 31 December 2008: $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 2009 $76.2 million (30 June 2009: $71.9 million, 31 December 2008: $68.6 million) of assets transferred had been transferred to the Risk Share facility with a further $3.8 million potential transfer.

19 BONDS

			AMORTISED COST VALUE		
	COUPON	FACE VALUE $000	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
PGG Wrightson Finance Limited 2009 (PWF010)	8.25%	–	–	–	20,000
PGG Wrightson Finance Limited 2010 (PWF020)	8.50%	25,216	25,153	25,076	24,937
PGG Wrightson Finance Limited 2010 (PWF030)	8.25%	100,000	99,086	98,488	97,919
		125,216	**124,239**	**123,564**	**142,856**

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.

20 DEBENTURES – SECURED

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Amounts payable in less than one year	151,620	141,814	179,101
Amounts payable in more than one year	64,432	79,236	63,277
Debentures – secured	**216,052**	**221,050**	**242,378**

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 deposit guarantee scheme. For further information about the New Zealand deposit guarantee scheme, refer to www.treasury.govt.nz.

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NOTES TO THE FINANCIAL STATEMENTS

21 SHARE CAPITAL

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000	NO. OF SHARES 31 DEC 2009 000	30 JUN 2009 000	31 DEC 2008 000
Share Capital						
On issue at beginning of period	31,500	31,500	31,500	31,500	31,500	31,500
Shares issued	–	–	–	–	–	–
On issue at end of period	**31,500**	**31,500**	**31,500**	**31,500**	**31,500**	**31,500**

All 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.

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 2009 (30 June 2009: $Nil, 31 December 2008: $Nil).

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

	FOR THE 6 MONTHS ENDED 31 DEC 2009 $000	FOR THE 12 MONTHS ENDED 30 JUN 2009 $000	FOR THE 6 MONTHS ENDED 31 DEC 2008 $000
Profit after taxation	3,317	7,778	4,652
Add/(deduct) non-cash items:			
Depreciation and amortisation of property, plant & equipment and software	106	148	50
Amortisation – bond costs	675	943	215
Bad debts written off (net)	3,399	2,877	277
Fair value adjustments	528	(1,002)	(959)
(Increase)/decrease in deferred taxation	(1,020)	(948)	(287)
Other non-cash items	2,208	1,890	2
	5,896	**3,908**	**(702)**
Add/(deduct) movement in working capital items:			
(Increase)/decrease in trade and other receivables	(2,379)	(2,114)	(301)
Increase/(decrease) in accruals and other liabilities	(875)	4,346	3,950
Increase/(decrease) in income tax payable	311	314	2,261
	(2,943)	**2,546**	**5,910**
Net cash flow from operating activities	**6,270**	**14,232**	**9,860**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 COMMITMENTS

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Commitments to extend credit	82,108	93,044	131,041

24 CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (30 June 2009: $Nil, 31 December 2008: $Nil).

25 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.

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 charge 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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

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 to monitor 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.

As a condition of external lines of funding, the Company must maintain a level of capital in excess of 10% of Total Tangible Assets. This requirement is monitored on a daily basis by management. At no time during the period was this requirement breached.

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 BY 1%			INTEREST RATES DECREASE BY 1%		
	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Impact on net profit after tax	(138)	(179)	273	142	178	(239)
Shareholders' equity	(2,685)	(112)	34	2,758	117	193

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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

(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 2009						
Assets						
Cash and cash equivalents	8,180	–	–	–	8,180	8,180
Derivative financial instruments	3,344	585	278	–	4,207	3,230
Other receivables	4,146	–	–	–	4,146	4,146
Amounts due from Group entities	367	–	–	–	367	367
Loans and receivables	444,990	88,062	63,933	–	596,985	551,324
Total financial assets	**461,027**	**88,647**	**64,211**	**–**	**613,885**	**567,247**
Liabilities						
Deposits and other borrowings	65,166	–	–	–	65,166	65,166
Derivative financial instruments	809	165	423	–	1,397	1,337
Trade and other payables	4,068	–	–	–	4,068	4,068
Term bank facility	90,000	–	–	–	90,000	90,000
Bonds	132,007	–	–	–	132,007	124,239
Debentures – secured	162,076	40,061	31,478	–	233,615	216,052
Total financial liabilities	**454,126**	**40,226**	**31,901**	**–**	**526,253**	**500,862**
Undrawn bank loans	91,000					91,000
Unutilised bank facility	3,779					3,779
	94,779					94,779
Loans and receivables commitments	82,108					82,108

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

	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 30 June 2009						
Assets						
Cash and cash equivalents	3,779	–	–	–	3,779	3,779
Derivative financial instruments	2,319	4,460	796	–	7,575	7,575
Other receivables	1,767	–	–	–	1,767	1,767
Amounts due from Group entities	224	–	–	–	224	224
Loans and receivables	418,319	120,713	59,965	–	598,997	559,659
Total financial assets	**426,408**	**125,173**	**60,761**	**–**	**612,342**	**573,004**
Liabilities						
Deposits and other borrowings	83,032	–	–	–	83,032	83,032
Derivative financial instruments	1,725	677	86	–	2,488	2,488
Trade and other payables	4,943	–	–	–	4,943	4,943
Term bank facility	71,500	–	–	–	71,500	71,500
Bonds	27,181	111,000	–	–	138,181	123,564
Debentures – secured	152,216	47,900	39,827	–	239,943	221,050
Total financial liabilities	**340,597**	**159,577**	**39,913**	**–**	**540,087**	**506,577**
Undrawn bank loans	108,500					108,500
Unutilised bank facility	28,016					28,016
	136,516					136,516
Loans and receivables commitments	93,044					93,044

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

	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 2008						
Assets						
Cash and cash equivalents	12,175	–	–	–	12,175	12,175
Derivative financial instruments	2,112	3,465	1,103	–	6,680	6,680
Other receivables	2,528	–	–	–	2,528	2,528
Amounts due from Group entities	3,515	–	–	–	3,515	3,515
Loans and receivables	473,849	130,003	58,730	–	662,582	512,789
Total financial assets	**494,179**	**133,468**	**59,833**	**–**	**687,480**	**537,687**
Liabilities						
Deposits and other borrowings	79,786	–	–	–	79,786	79,786
Derivative financial instruments	1,200	1,498	58	–	2,756	2,756
Trade and other payables	4,549	–	–	–	4,549	4,549
Term bank facility	–	–	–	–	–	–
Bonds	31,014	130,038	–	–	161,052	142,856
Debentures – secured	216,418	48,050	22,424	–	286,892	242,378
Total financial liabilities	**332,967**	**179,586**	**22,482**	**–**	**535,035**	**472,325**
Undrawn bank loans	180,000					180,000
Undrawn facility from Parent company	40,000					40,000
Unutilised bank facility	31,360					31,360
	251,360					251,360
Loans and receivables commitments	131,041					131,041

(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 asset and liabilities. The liquidity profile will not agree to the contractual cashflow 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 2009					
Loans and receivables	404,200	77,327	69,797	–	551,324
As at 30 June 2009					
Loans and receivables	410,311	78,496	70,852	–	559,659
As at 31 December 2008					
Loans and receivables	375,948	71,922	64,919	–	512,789

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

(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 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**

	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 2009						
Assets						
Cash and cash equivalents	3,779	–	–	–	–	3,779
Derivative financial instruments	(147,050)	128,800	18,250	–	7,575	7,575
Other receivables	–	–	–	–	1,767	1,767
Amounts due from Group entities	224	–	–	–	–	224
Loans and receivables	510,100	39,251	10,308	–	–	559,659
Total financial assets	**367,053**	**168,051**	**28,558**	**–**	**9,342**	**573,004**
Liabilities						
Deposits and other borrowings	83,032	–	–	–	–	83,032
Derivative financial instruments	(2,269)	(8,731)	11,000	–	2,488	2,488
Trade and other payables	–	–	–	–	4,943	4,943
Term bank facility	71,500	–	–	–	–	71,500
Bonds	25,076	98,488	–	–	–	123,564
Debentures – secured	141,814	43,296	35,940	–	–	221,050
Total financial liabilities	**319,153**	**133,053**	**46,940**	**–**	**7,431**	**506,577**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 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 31 December 2008						
Assets						
Cash and cash equivalents	12,175	–	–	–	–	12,175
Derivative financial instruments	(162,766)	149,016	13,750	–	6,680	6,680
Other receivables	–	–	–	–	2,528	2,528
Amounts due from Group entities	3,515	–	–	–	–	3,515
Loans and receivables	336,798	120,023	55,968	–	–	512,789
Total financial assets	**189,722**	**269,039**	**69,718**	**–**	**9,208**	**537,687**
Liabilities						
Deposits and other borrowings	79,786	–	–	–	–	79,786
Derivative financial instruments	32,360	(31,580)	(780)	–	2,756	2,756
Trade and other payables	–	–	–	–	4,549	4,549
Term bank facility	–	–	–	–	–	–
Bonds	20,000	24,937	97,919	–	–	142,856
Debentures – secured	179,101	43,771	19,506	–	–	242,378
Total financial liabilities	**311,247**	**37,128**	**116,645**	**–**	**7,305**	**472,325**

(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 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**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 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 30 June 2009					
Assets					
Cash and cash equivalents	–	3,779	–	3,779	3,779
Derivative financial instruments held for risk management	7,575	–	–	7,575	7,575
Other receivables	–	1,767	–	1,767	1,767
Amounts due from Group entities	–	224	–	224	224
Loans and receivables	–	559,659	–	559,659	560,300
	7,575	**565,429**	**–**	**573,004**	**573,645**
Liabilities					
Deposits and other borrowings	–	–	83,032	83,032	83,032
Derivative financial instruments held for risk management	2,488	–	–	2,488	2,488
Trade and other payables	–	–	4,943	4,943	4,943
Term bank facility	–	–	71,500	71,500	71,500
Bonds	–	–	123,564	123,564	113,719
Debentures – secured	–	–	221,050	221,050	226,589
	2,488	**–**	**504,089**	**506,577**	**502,271**

	TRADING AT FAIR VALUE $000	LOANS AND RECEIVABLES $000	OTHER AMORTISED COST $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
As at 31 December 2008					
Assets					
Cash and cash equivalents	–	12,175	–	12,175	12,175
Derivative financial instruments held for risk management	6,680	–	–	6,680	6,680
Other receivables	–	2,528	–	2,528	2,528
Amounts due from Group entities	–	3,515	–	3,515	3,515
Loans and receivables	–	512,789	–	512,789	513,374
	6,680	**531,007**	**–**	**537,687**	**538,272**
Liabilities					
Deposits and other borrowings	–	–	79,786	79,786	79,786
Derivative financial instruments held for risk management	2,756	–	–	2,756	2,756
Trade and other payables	–	–	4,549	4,549	4,549
Bonds	–	–	142,856	142,856	142,856
Debentures – secured	–	–	242,378	242,378	246,532
	2,756	**–**	**469,569**	**472,325**	**476,479**

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.

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

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 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Interest rates used for determining fair value			
Loans and receivables	11.2%	8.5%	8.8%
Debentures – secured	7.1%	5.1%	5.6%
Bonds	7.7%	6.8%	8.3%

(e) Credit Risk

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Geographical distribution of loans and receivables			
Auckland/Northland	23,897	29,783	29,399
King Country/Bay of Plenty/Waikato	59,198	57,729	52,064
Hawkes Bay/Gisborne	27,185	26,487	22,521
Taranaki/Manawatu	34,460	37,917	34,046
Wairarapa	22,645	16,599	14,535
Nelson/Marlborough	22,579	24,199	19,040
Canterbury	180,199	191,925	144,419
Southland/Otago	181,161	175,020	196,765
	551,324	**559,659**	**512,789**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

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 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Sheep and beef	303,609	298,218	289,562
Dairy	148,911	147,997	130,113
Arable	28,991	32,265	24,557
Horticulture / viticulture	26,236	28,131	21,942
Deer	15,665	14,924	12,994
Other	27,912	38,124	33,621
	551,324	**559,659**	**512,789**
Concentration of credit exposures to individual counterparties			
Amount owing by 10 largest borrowers	103,557	96,981	87,323
As a % of gross loans and receivables	18.8%	17.3%	17.0%
As a % of total equity	153.5%	145.1%	142.3%
% of total equity			
10% to 19%	7	7	10
20% to 29%	2	1	–
over 30%	–	–	–

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

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	52.6%	506,561	470,341
Second mortgage	79.7%	31,739	24,966
First general or specific security agreement	58.8%	79,900	44,617
Other security	78.3%	13,554	8,628
Unsecured	0.0%	7,604	2,772
	54.4%	**639,358**	**551,324**

PGG WRIGHTSON FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (CONTINUED)

(f) Concentration of funding

The majority of Company funding is from within New Zealand.

	31 DEC 2009 $000	30 JUN 2009 $000	31 DEC 2008 $000
Customer industry concentration of funding			
Retail investors	405,457	427,646	465,020
Wholesale investors	90,000	71,500	–
	495,457	**499,146**	**465,020**
Product concentration of funding			
Deposits and other borrowings	65,166	83,032	79,786
Debentures – secured	216,052	221,050	242,378
Bonds	124,239	123,564	142,856
	405,457	427,646	465,020
Term bank facility	90,000	71,500	–
	495,457	**499,146**	**465,020**
Geographical distribution of deposits and other borrowings, secured debentures and bonds			
Auckland/Northland	29,109	29,019	33,227
King Country/Bay of Plenty/Waikato	27,962	28,903	36,886
Hawkes Bay/Gisborne	24,575	25,993	25,530
Taranaki/Manawatu	19,281	17,166	20,146
Wairarapa	22,031	21,494	24,949
Nelson/Marlborough	19,147	19,196	20,420
Canterbury	142,275	155,787	171,487
Southland/Otago	120,760	129,482	131,855
Overseas	317	606	520
	405,457	**427,646**	**465,020**

26 EVENTS SUBSEQUENT TO BALANCE DATE

The Company issued the Parent company, PGG Wrightson Limited with $33.8 million (30 June 2009: $Nil, 31 December 2008: $Nil) of preference shares on 16 January 2010. The shares attract a dividend, calculated at a rate of 8% per annum and payable quarterly in arrears. The dividend rate is reset on a two yearly cycle, and is based on the swap rate plus a margin at reset date. The preference shares are convertible to ordinary shares at the option of the preference share holder.

On 17 February 2010 the Company was advised that Standard & Poor's issued a BB stable credit rating. Costs relating to the Crown Guarantee Scheme have been paid based on an unrated status. Achieving this credit rating will allow the Company to apply to The Treasury for a part refund. If approved, the amount of approximately $2.0 million will be reflected in the financial statements for the year ended 30 June 2010.

There were no other significant events subsequent to balance date (30 June 2009: Nil, 31 December 2008: Nil).

AUDIT REPORT

TO THE SHAREHOLDER OF PGG WRIGHTSON FINANCE LIMITED

We have audited the financial statements on pages 4 to 33. The financial statements provide information about the past financial performance of the company and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on pages 8 to 12.

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 as at 31 December 2009 and the results of its operations and cash flows for the 6 month period ended on that date.

Auditors' 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 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. 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 the 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.

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 as far as appears from our examination of those records;
- the financial statements on pages 4 to 33:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company as at 31 December 2009 and the results of its operations and cash flows for the 6 month period ended on that date.

Our audit was completed on 24 February 2010 and our unqualified opinion is expressed as at that date.

KPMG

Christchurch

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

Quotation and Transfers – The PGG Wrightson Finance Ltd Secured Bonds are listed on the New Zealand Exchange under codes PWF020 (WFL020) and PWF030 and may be bought and sold through sharebrokers. PWF020 matures on 20 May 2010 and PWF030 matures on 8 October 2010 subject to a 12 month extension option.

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. Interest on PWF020 is paid on the 20th day of February, May, August and November. Interest on PWF030 is paid 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.

PGG WRIGHTSON FINANCE LIMITED

CORPORATE DIRECTORY

COMPANY NUMBER: 1166085

BOARD OF DIRECTORS *(as at 31 December 2009)*
Keith Smith, Chairman *(appointed Chairman 23 July 2009)*
Sir Selwyn Cushing
Murray Flett
Bruce Irvine
Guanglin Lai *(appointed 30 December 2009)*
Sam Maling *(retired 30 October 2009)*
Baird McConnon
Tim Miles
Craig Norgate *(retired as Chairman 23 July 2009)*
Tao Xie *(appointed 30 December 2009)*
Bill Thomas

MANAGING DIRECTOR
PGG Wrightson Limited
Tim Miles

CHIEF FINANCIAL OFFICER
PGG Wrightson Limited
Jason Dale

GENERAL COUNSEL/COMPANY SECRETARY
PGG Wrightson Limited
Julian Daly

GROUP GENERAL MANAGER – FINANCIAL SERVICES
PGG Wrightson Limited
Michael Thomas

CHIEF EXECUTIVE OFFICER
PGG Wrightson Finance Limited
Mark Darrow

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PGG Wrightson Finance

www.pggwrightsonfinance.co.nz