

# CHAIRMAN'S LETTER

2009

In the 2008-9 year, PGG Wrightson Finance continued to strengthen its position as New Zealand's leading specialist rural finance company.

The company grew and improved its financial performance in a year dominated by the global financial crisis and the associated tightening of credit markets. The solid result reflected the strength of the business and the full suite of products and services offered to customers.

There was also strong growth in operating earnings (before tax) to \$10.1 million compared with \$8.4 million in 2008. Net profit after taxation (NPAT) increased from \$5.8 million in 2008 to \$7.8 million.

As in previous periods, the company maintained a low level of default despite some increase in bad debt provisions that reflects the current financial pressure on some areas of farming – primarily in the dairy sector.

Profit performance was assisted by growth in assets and liabilities. Loan Assets grew by 11 percent to a total of \$559.7 million, driven by both new and existing customers. Including off-balance sheet assets of \$72.0 million, total loan assets under management are now \$631.6 million, up 16 percent. Once again double-digit growth was recorded in the deposit book which grew 15 percent to reach \$304.1 million.

As reported at the half year, a fully subscribed \$100 million Secured Bond issue was successfully issued in December 2008, increasing liquidity levels and further strengthening the company's ability to support the farming community. The offer was in fact oversubscribed and closed early, underlining the market's confidence in PGG Wrightson Finance as New Zealand's leading rural finance company.

PGG Wrightson Finance was one of the first companies to be accepted into the Crown Guarantee Scheme which was introduced in October 2008.

At the beginning of the financial year (July 2008), Mark Darrow was appointed to head PGG Wrightson Finance. Mark's experience in the financial sector has strengthened the company's management team.

During the year, a new Sovereign banking IT platform was successfully introduced and a new internet banking system was launched for farming clients.

PGG Wrightson Finance continues to provide competitive and innovative products and services to its customers. The company has a more specialised rural finance offering than our major competitors and in a very difficult operating environment this has seen the company's business grow.

Operating expenditure is at industry best practice levels. The company has a diversified lending portfolio with limited exposure to the dairy sector to just 26%. This is unlike many of our major competitors who with an average of 61% are more exposed to the adverse effects and credit risk of the reduced dairy payout.

The performance is a credit to the company's staff and management, whose efforts during this most challenging of markets were outstanding. Our business needs specialised staff with skills, knowledge and relationship management expertise as well as sector experience.

The company remains cautiously optimistic about the future. While a much more conservative approach to lending needs to be taken in the short term, we know that longer term the demand for food products places New Zealand, the parent company and PGG Wrightson Finance in an excellent position.



**Keith Smith**  
Chairman

# BOARD OF DIRECTORS



**Keith Smith**

B.Com, FCA  
- Chairman from 23 July 2009

Keith Smith was appointed as a Director and Chairman of Wrightson Ltd in June 2004. Keith is a chartered accountant, and until December 2005 was a partner in the national accounting practice BDO Spicers, specialising in Directorships. He is Chairman of Tourism Holdings Ltd, NZ Farming Systems Uruguay Ltd and The Warehouse Group Ltd. He is also a Director of Goodman (NZ) Ltd, Mighty River Power Ltd and a number of private companies. He is a Past President of The New Zealand Institute of Chartered Accountants.



**Tim Miles**

Tim Miles joined PGG Wrightson on 18 March 2008 as Managing Director. Tim came to PGG Wrightson after returning to New Zealand, having spent two years in the United Kingdom with Vodafone UK and the Vodafone Group. He fulfilled a range of leadership roles in a six year career with Vodafone, including Chief Executive New Zealand, Chief Executive Officer UK, Chief Technology Officer Vodafone Group and member of the Group executive team. Prior to that, he worked in a range of executive and other leadership roles with Unisys, Data General Corporation and IBM. Since returning to New Zealand Tim has been a non executive Director of Goodman Property Trust and Chairman of Equity Partners Media and Communication. His attributes are closely aligned to PGG Wrightson's strategy and aspirations.



**Sir Selwyn Cushing**

KNZM, CMG

Sir Selwyn was appointed to the Wrightson Board in March 2005 following the acquisition of Williams & Kettle Ltd, of which he had been a Director for more than 20 years.

Sir Selwyn has extensive experience in the rural sector and has been involved with public companies for 40 years. He is currently Chairman of Rural Equities Ltd and New Zealand Rural Properties Trust Management Ltd and Skellerup Holdings Ltd. He has been a member of the New Zealand Exchange for 30 years and has been involved with many corporate investment projects.



**Murray Flett**

B.Com Ag

Murray Flett is a Southland-based dairy farmer. He is currently a Director of NZ Farming Systems Uruguay Ltd and several private companies in the food, printing and agricultural sectors.



**Bruce Irvine**

B.Com, LLB, FCA, FNZIM, AFInstD

Bruce was appointed to the PGG Wrightson and PGG Wrightson Finance Boards in June 2009. Bruce is also a Director of Pyne Gould Corporation Ltd and its subsidiaries including MARAC Finance Ltd and Perpetual Trust Ltd. Bruce was Managing Partner at Deloitte Christchurch from 1995 to 2007 before his retirement in May 2008. He now acts as an independent director on various boards including: Christchurch City Holdings Ltd, House of Travel Holdings Ltd, Godfrey Hirst NZ Ltd, Market Gardeners Ltd, Rakon Ltd, Scenic Circle Hotels Ltd and Skope Industries Ltd. He is Chairman of the PGG Wrightson Board's Audit Committee.



**Mark Darrow**

N.C.B., N.D.A., C.A. B.Bus.  
- Director, Financial Services

Mark joined us in 2008 and originally hails from the rural province of King Country. As a secondary school student he worked on a number of Maori Affairs farms around Lake Taupo. He joined Allied Farmers Co-op which was later acquired by Elders Pastoral and achieved the stock and station industry certificate and the advanced certificate. He then studied both Accounting and Business. He held MD roles in the Motor Industry for a number of years, before moving over to the broader finance industry, most recently in an Executive Director role with GE Money. He is also an independent director of NZX-listed Charlie's Group, and the New Zealand Motor Industry Training Organisation.



**Baird McConnon**

Baird McConnon is Chairman of Rural Portfolio Investments Ltd, and of Aorangi Laboratories Ltd. He is also a Director of a number of private companies related to the McConnon family interests. Baird has been involved in agriculture-related businesses in New Zealand for more than 30 years, most recently as Chief Executive of the team responsible for the development of the Mainland Consumer Products Group and the Australasian Food Holdings Group.



**Sam Maling**

LLB, AFInstD

Sam Maling is Chairman of Pyne Gould Corporation Ltd and MARAC Finance. He is also a Director of Perpetual Trust Ltd. He was appointed to the Board of Pyne Gould Guinness prior to its merger with Reid Farmers. Sam practices as a barrister in Christchurch and has over 30 years professional experience in law. He is currently a Director of NZ Farming Systems Uruguay Ltd. He has served as a vice-president of the New Zealand Law Society and Chairman of the Broadcasting Standards Authority.



**Craig Norgate**

BBS, CA, FNZIM  
- Chairman to 23 July 2009

Craig Norgate is Managing Director of Rural Portfolio Investments Ltd, which owns 27.48 percent of the shares in PGG Wrightson. Craig has over 20 years experience as a leader in the New Zealand primary sector, including two years as the inaugural CEO of Fonterra and, prior to that, a number of years as CEO of Kiwi Co-operative Dairies.

Craig is a Director of Westgate Port Taranaki Ltd, NZ Farming Systems Uruguay Ltd, Aotearoa Fisheries Ltd and Sealord Group Ltd and the New Zealand Institute of Chartered Accountants. He is Chairman of the PGG Wrightson Board's Remuneration and Appointments Committee.



**Bill Thomas**

Bill Thomas farms Longbeach, the historic coastal flat land property 24km southeast of Ashburton. He is involved in Irrigation development, Arable, Sheep and Beef farming as well as a Dairy conversion. Bill became a Director of Pyne Gould Guinness Ltd in 1995.



**Brian Jolliffe**

Brian Jolliffe retired from the Board of PGG Wrightson on 24 June 2009, given his retirement on 30 June 2009 as Managing Director of Pyne Gould Corporation, which owns 20.68 percent of the shares in PGG Wrightson.



**Michael Thomas**

M.Ec., B. Ag. Sc., Grad Dip Ag.Ec, F.Fin  
- Group General Manager Financial Services

Michael joined us in mid 2007, having spent the past ten years in Australia's largest agribusinesses, Landmark and the Australian Wheat Board. He held senior roles in mergers and acquisitions and in investor and grower relations in the Australian Wheat Board, and executive general manager roles in sales, operations and financial services in Landmark. Michael has reporting to him PGG Wrightson Finance Ltd, Insurance, Real Estate and Funds Management. Michael has over 20 years experience in corporate agribusiness.

# SENIOR MANAGEMENT

# FINANCIAL INFORMATION

PGG WRIGHTSON FINANCE LIMITED



PGG WRIGHTSON FINANCE LIMITED

## INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$000	2008 \$000
Interest income	4	56,685	49,678
Interest expense and other costs of funding	5	(37,758)	(34,322)
<b>Net interest income</b>		<b>18,927</b>	<b>15,356</b>
Other income	6	916	338
Operating expenses	7	(6,856)	(6,821)
Net impairment losses on financial assets	18	(2,877)	(460)
<b>Profit before fair value adjustments and income tax</b>		<b>10,110</b>	<b>8,413</b>
Fair value adjustments	8	1,002	245
<b>Profit before income tax</b>		<b>11,112</b>	<b>8,658</b>
Income tax expense	9	(3,334)	(2,839)
<b>Profit for the period</b>		<b>7,778</b>	<b>5,819</b>
<b>Earnings per share:</b>			
Basic and diluted earnings per share (New Zealand dollars)		0.25	0.18
Net tangible assets per security at period end		2.05	1.70

PGG WRIGHTSON FINANCE LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	SHARE CAPITAL \$000	RETAINED EARNINGS \$000	HEDGING RESERVE \$000	TOTAL \$000
<b>Balance as at 1 July 2007</b>	24,000	17,575	(950)	40,625
Issue of shares	7,500	-	-	7,500
Net change in fair value of cash flow hedges net of tax	-	-	(52)	(52)
Net profit for the period	-	5,819	-	5,819
<b>Balance as at 30 June 2008</b>	<b>31,500</b>	<b>23,394</b>	<b>(1,002)</b>	<b>53,892</b>
<b>Balance as at 1 July 2008</b>	31,500	23,394	(1,002)	53,892
Net change in fair value of cash flow hedges	-	-	5,146	5,146
Reclassification of deferred tax adj on financial instruments	-	(130)	130	-
Net profit for the period	-	7,778	-	7,778
<b>Balance as at 30 June 2009</b>	<b>31,500</b>	<b>31,042</b>	<b>4,274</b>	<b>66,816</b>

PGG WRIGHTSON FINANCE LIMITED

## BALANCE SHEET

AS AT 30 JUNE 2009

	NOTE	2009 \$000	2008 \$000
<b>EQUITY</b>			
Share capital	10	31,500	31,500
Retained earnings		31,042	23,394
Reserves		4,274	(1,002)
<b>Total equity</b>		<b>66,816</b>	<b>53,892</b>
<b>LIABILITIES</b>			
Deposits and other borrowings	11	83,032	91,804
Derivative liabilities	12	2,488	1,259
Trade and other payables		4,943	1,062
Tax payable		2,082	1,768
Term bank facility	13	71,500	140,000
Bonds	14	123,564	44,751
Debentures - secured	15	221,050	172,928
<b>Total liabilities</b>		<b>508,659</b>	<b>453,572</b>
<b>Total liabilities and equity</b>		<b>575,475</b>	<b>507,464</b>
<b>ASSETS</b>			
Cash and cash equivalents		3,779	625
Derivative assets	12	7,575	295
Other receivables	16	1,767	1,544
Amounts due from group entities	17	224	2,033
Loans and receivables	18	559,659	502,591
Property, plant and equipment	19	80	-
Intangible assets	20	1,163	96
Deferred tax assets	21	1,228	280
<b>Total assets</b>		<b>575,475</b>	<b>507,464</b>

These financial statements have been authorised for issue on 27 August 2009.


Keith Smith  
Chairman

Tim Miles  
Managing Director

## PGG WRIGHTSON FINANCE LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$000	2008 \$000
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Interest received		56,685	49,115
Lease and other income		744	338
Cash was applied to:			
Payments to suppliers and employees		(6,049)	(7,112)
Interest payments		(33,179)	(34,013)
Income tax paid		(3,969)	(2,832)
Net cash flow from operating activities	22	<b>14,232</b>	<b>5,496</b>
<b>Cash flows from investing activities</b>			
Cash was applied to:			
Purchase of property, plant and equipment		(86)	-
Purchase of intangible assets		(1,209)	-
Net cash flow from investing activities		<b>(1,295)</b>	-
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Drawdown of term bank facility		71,975	66,000
Increase in debentures		48,122	36,074
Increase in bonds		77,405	-
Shares issued		-	7,500
Advances from parent		1,809	-
Cash was applied to:			
Repayment of term bank facility		(140,475)	-
Increase in finance receivables		(59,848)	(108,148)
Decrease in client deposits		(8,771)	(4,531)
Advances to parent		-	(1,291)
Net cash flow from financing activities		<b>(9,783)</b>	<b>(4,396)</b>
Net increase/(decrease) in cash held		3,154	1,100
Opening (bank overdraft)/cash		625	(475)
<b>Cash and cash equivalents</b>		<b>3,779</b>	<b>625</b>

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 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 27 August 2009.

## 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 is presented in New Zealand dollars and 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; and
- 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.

##### 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 accruals 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.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Instruments at Fair Value through Profit or Loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.

Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

##### 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.

##### 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 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.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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.

#### Impairment of Loans and Receivables

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.

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; and
- 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.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (F) DETERMINATION OF FAIR VALUE

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.

#### (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 30 June 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-8 'Operating Segments'	1-Jan-09	30-Jun-10
NZ IAS-1 'Presentation of Financial Statements (revised)'	1-Jan-09	30-Jun-10
NZ IAS-23 'Borrowing Costs'	1-Jan-09	30-Jun-10
NZ IFRS-7 'Financial Instruments: disclosures/amendments'	1-Jan-09	30-Jun-10

The above standards are not likely to impact materially on the financial statements.

#### (J) SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The primary format is the business segment and the Company operates in only one business segment, being financial services. The Company operates within geographical regions in New Zealand.

#### (K) CHANGES IN ACCOUNTING POLICY

There have been no changes in accounting policy during the period.

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 4 INTEREST INCOME

	2009 \$000	2008 \$000
Current accounts	15,592	13,774
Term loans	37,159	31,787
Loans and other receivables	3,934	4,117
	<b>56,685</b>	<b>49,678</b>

Interest income of \$464,413 has been charged on impaired assets (2008: \$85,000).

## 5 INTEREST EXPENSE AND OTHER COSTS OF FUNDING

	2009 \$000	2008 \$000
Deposits and other borrowings	4,395	6,263
Debentures - secured	18,787	12,900
Bonds	7,518	3,794
Amortisation - bond costs	943	309
Amounts due to Group entities	-	40
Bank loans - secured	5,094	10,076
Net bank/swap/brokerage costs	(363)	940
Crown Guarantee Fee	1,384	-
	<b>37,758</b>	<b>34,322</b>

## 6 OTHER INCOME

	2009 \$000	2008 \$000
Transaction and loan fees	759	338
Other income	157	-
	<b>916</b>	<b>338</b>

## 7 OPERATING EXPENSES

	2009 \$000	2008 \$000
Operating expenses include:		
Salaries	4,542	3,786
Rental and operating lease costs	237	448
Depreciation of property, plant and equipment	6	-
Amortisation - intangibles	142	112
Amount paid to the auditor for audit fees - KPMG	58	51

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

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 8 FAIR VALUE ADJUSTMENTS

	2009 \$000	2008 \$000
Derivatives not in qualifying hedge relationships	906	245
Risk share loan transfers	96	-
	<b>1,002</b>	<b>245</b>

## 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:

	2009 \$000	2008 \$000
Current income tax expense	4,166	3,035
Deferred tax expense - origination and reversal of temporary differences	(832)	(196)
Total income tax expense	<b>3,334</b>	<b>2,839</b>

## Reconciliation of effective tax rate

	2009 %	2009 \$000	2008 %	2008 \$000
Profit for the period		7,778		5,819
Total income tax expense		3,334		2,839
Profit excluding income tax		11,112		8,658
Income tax using Company's domestic tax rate	30.00%	3,334	33.00%	2,857
Non - deductible expenses	0.00%	-	(0.21%)	(18)
	<b>30.00%</b>	<b>3,334</b>	<b>32.79%</b>	<b>2,839</b>

## Imputation credit account

This account is not recognised in the Financial Statements.

	2009 \$000	2008 \$000
	<b>638</b>	<b>638</b>

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 10 CAPITAL AND RESERVES

	2009 \$000	2008 \$000	NO. OF SHARES 2009 000	NO. OF SHARES 2008 000
<b>Share Capital</b>				
On issue at beginning of period	31,500	24,000	31,500	24,000
Shares issued	-	7,500	-	7,500
<b>On issue at end of period</b>	<b>31,500</b>	<b>31,500</b>	<b>31,500</b>	<b>31,500</b>

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.

**Hedging reserve**

	2009 \$000	2008 \$000
Opening balance	(1,002)	(950)
Change in fair value of derivatives	5,146	(52)
Deferred tax on change in fair value of derivatives	130	-
Closing balance	<b>4,274</b>	<b>(1,002)</b>

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 30 June 2009 (2008: Nil).

## 11 DEPOSITS AND OTHER BORROWINGS

	2009 \$000	2008 \$000
Rural Saver accounts	59,695	68,304
Client deposits	248	744
Client current accounts	23,089	22,756
Deposits and other borrowings due within one year	<b>83,032</b>	<b>91,804</b>

All deposits listed under note 11 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.

PGG Wrightson Finance Ltd 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](http://www.treasury.govt.nz).

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 12 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**

**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.

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

Income  
Expense  
Net income/(loss) from derivative financial instruments

	2009 \$000	2008 \$000
Interest rate swaps at fair value through profit or loss	866	28
Interest rate swaps designated as qualifying hedges	6,709	267
<b>Derivative assets held for risk management</b>	<b>7,575</b>	<b>295</b>
Interest rate swaps at fair value through profit or loss	54	120
Interest rate swaps designated as qualifying hedges	2,434	1,139
<b>Derivative liabilities held for risk management</b>	<b>2,488</b>	<b>1,259</b>
<b>Net derivatives held for risk management</b>	<b>5,087</b>	<b>(964)</b>
Interest rate swaps at fair value through profit or loss	15,300	5,300
Interest rate swaps designated as qualifying hedges	314,766	102,820
<b>Derivative assets held for risk management</b>	<b>330,066</b>	<b>108,120</b>
Interest rate swaps at fair value through profit or loss	9,000	8,500
Interest rate swaps designated as qualifying hedges	124,715	128,366
<b>Derivative liabilities held for risk management</b>	<b>133,715</b>	<b>136,866</b>
<b>Net derivatives held for risk management</b>	<b>196,351</b>	<b>(28,746)</b>

	2009 \$000	2008 \$000
Income	906	245
Expense	-	-
<b>Net income/(loss) from derivative financial instruments</b>	<b>906</b>	<b>245</b>

## 13 TERM BANK FACILITY

The bank loan facilities expire on 31 March 2010. The facility limit is \$180 million (2008: \$180 million) and the drawn amount at balance date was \$71.5 million (2008: \$140 million). 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 30 June 2009, \$71.9 million (2008: \$40.5 million) of assets had been transferred to the Risk Share facility, with a further \$28.1 million potential transfer.

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 14 BONDS

	COUPON	\$000 FACE VALUE	2009 \$000 AMORTISED COST VALUE	2008 \$000 AMORTISED COST VALUE
PGG Wrightson Finance Limited 2009	8.25%	-	-	20,000
PGG Wrightson Finance Limited 2010	8.50%	25,216	25,076	24,751
PGG Wrightson Finance Limited 2010	8.25%	100,000	98,488	-
		<b>125,216</b>	<b>123,564</b>	<b>44,751</b>

All bond series are senior 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.

## 15 DEBENTURES - SECURED

	2009 \$000	2008 \$000
Amounts payable in less than one year	141,814	155,618
Amounts payable in more than one year	79,236	17,310
Debentures - secured	<b>221,050</b>	<b>172,928</b>

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 Ltd has a guarantee under the New Zealand deposit guarantee scheme. For further information about the New Zealand deposit guarantee scheme, refer to [www.treasury.co.nz](http://www.treasury.co.nz).

## 16 OTHER RECEIVABLES

	2009 \$000	2008 \$000
Prepayments	86	-
Accrued income	1,605	1,544
Sundry debtors	76	-
	<b>1,767</b>	<b>1,544</b>

## 17 RELATED PARTY TRANSACTIONS

## Amounts Due From Group Entities - Balance Outstanding

	2009 \$000	2008 \$000
Parent of the Company	<b>224</b>	<b>2,033</b>

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 within one year of the reporting date. None of the balances are secured.

The transactions relate to payments and receipts into and from PGG Wrightson Finance Ltd client accounts made by PGG Wrightson Ltd on behalf of PGG Wrightson Finance Ltd. In addition, the Company repays PGG Wrightson Ltd for expenses incurred on behalf of the Company, including wages and salaries.

## PGG WRIGHTSON FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 17 RELATED PARTY TRANSACTIONS (CONTINUED)

## Key Management Personnel Compensation

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

	2009 \$000	2008 \$000
Short term employee benefits	995	705
Termination benefits	65	240

## 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 2009 \$000	TRANSACTION VALUE 2008 \$000	BALANCE OUTSTANDING 2009 \$000	BALANCE OUTSTANDING 2008 \$000
B Jolliffe (retired 24 June 2009)	3	3	75	60
B McCannon	79	78	1,025	1,000

## 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 year to 30 June 2009 the total costs incurred by the parent on behalf of the Company was \$6,624,685 (2008: \$6,269,413). 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 30 June 2009 was \$6,042,931 (2008: \$5,540,071).

## 18 LOANS AND RECEIVABLES

	2009 \$000	2008 \$000
Finance receivables - less than one year	411,560	308,179
Finance receivables - greater than one year	151,726	195,741
	563,286	503,920
Less provision for doubtful debts	(3,627)	(1,329)
	<b>559,659</b>	<b>502,591</b>
Impairment:		
Balance at the beginning of the period	1,329	899
Impaired losses recognised in the income statement	2,645	462
Amounts written off in the income statement	232	(2)
Reversals of amounts previously recognised provisions	(579)	(30)
Balance at the end of the period	<b>3,627</b>	<b>1,329</b>

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PGG WRIGHTSON FINANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

## 18 LOANS AND RECEIVABLES (CONTINUED)

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

	2009		2008	
	NOT IMPAIRED \$000	IMPAIRED \$000	NOT IMPAIRED \$000	IMPAIRED \$000
Not past due	522,411	-	482,265	-
Past due 0 - 90 days	972	3,499	6,121	282
Past due 91 - 365 days	12,124	11,875	13,817	71
Past due more than 1 year	4,675	7,730	26	1,338
Impairment	-	(3,627)	-	(1,329)
	<b>540,182</b>	<b>19,477</b>	<b>502,229</b>	<b>362</b>

## Asset Quality - Loans and Receivables

Neither past due nor impaired  
Individually impaired loans  
Past due loans  
Provision for credit impairment  
Total carrying amount

	2009 \$000	2008 \$000
Neither past due nor impaired	522,411	482,265
Individually impaired loans	23,104	1,691
Past due loans	17,771	19,964
Provision for credit impairment	(3,627)	(1,329)
<b>Total carrying amount</b>	<b>559,659</b>	<b>502,591</b>

## Ageing of Past Due but not impaired

Past due 1-90 days  
Past due 91-180 days  
Past due 180-365 days  
Past due more than 365 days  
Total past due assets

	2009 \$000	2008 \$000
Past due 1-90 days	972	6,121
Past due 91-180 days	5,846	13,758
Past due 180-365 days	6,278	59
Past due more than 365 days	4,675	26
<b>Total past due assets</b>	<b>17,771</b>	<b>19,964</b>

## 90 Day Past Due Assets

Balance at the beginning of the year  
Additions to 90 day past due assets  
Reduction in 90 day past due assets  
Balance at the end of the year

	2009 \$000	2008 \$000
Balance at the beginning of the year	15,252	1,100
Additions to 90 day past due assets	35,685	14,231
Reduction in 90 day past due assets	(14,533)	(79)
<b>Balance at the end of the year</b>	<b>36,404</b>	<b>15,252</b>

## Impaired Assets

Balance at the beginning of the year  
Additions to individually impaired assets  
Amounts written off  
Transfer to productive ledger  
Balance at the end of the year  
Provision for credit impairment  
Net carrying amount of impaired assets

	2009 \$000	2008 \$000
Balance at the beginning of the year	1,691	1,795
Additions to individually impaired assets	22,110	(104)
Amounts written off	(697)	-
Transfer to productive ledger	-	-
Balance at the end of the year	23,104	1,691
Provision for credit impairment	(3,627)	(1,329)
<b>Net carrying amount of impaired assets</b>	<b>19,477</b>	<b>362</b>

There were no restructured loans at balance date (2008: Nil).

PGG WRIGHTSON FINANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

## 19 PROPERTY, PLANT &amp; EQUIPMENT

## Cost

Balance at 1 July 2008  
Transfers in from PGW  
Balance at 30 June 2009

	IT HARDWARE \$000	MOTOR VEHICLES \$000	FURNITURE AND FITTINGS \$000	OFFICE EQUIPMENT \$000	TOTAL \$000
Balance at 1 July 2008	-	-	-	-	-
Transfers in from PGW	165	46	44	44	299
<b>Balance at 30 June 2009</b>	<b>165</b>	<b>46</b>	<b>44</b>	<b>44</b>	<b>299</b>

## Depreciation and impairment losses

Balance at 1 July 2008  
Transfers in from PGW  
Depreciation for the year  
Balance at 30 June 2009

	IT HARDWARE \$000	MOTOR VEHICLES \$000	FURNITURE AND FITTINGS \$000	OFFICE EQUIPMENT \$000	TOTAL \$000
Balance at 1 July 2008	-	-	-	-	-
Transfers in from PGW	99	32	38	44	213
Depreciation for the year	5	1	-	-	6
<b>Balance at 30 June 2009</b>	<b>104</b>	<b>33</b>	<b>38</b>	<b>44</b>	<b>219</b>

## Carrying amounts

At 1 July 2008  
At 30 June 2009

	IT HARDWARE \$000	MOTOR VEHICLES \$000	FURNITURE AND FITTINGS \$000	OFFICE EQUIPMENT \$000	TOTAL \$000
At 1 July 2008	-	-	-	-	-
<b>At 30 June 2009</b>	<b>61</b>	<b>13</b>	<b>6</b>	<b>-</b>	<b>80</b>

## 20 INTANGIBLES

## COMPUTER SOFTWARE

## Cost

Opening balance  
Acquisitions  
Disposals  
Closing balance

	2009 \$000	2008 \$000
Opening balance	355	355
Acquisitions	1,482	-
Disposals	(355)	-
<b>Closing balance</b>	<b>1,482</b>	<b>355</b>

## Amortisation

Opening balance  
Amortisation for the year  
Additions  
Disposals  
Closing balance

	2009 \$000	2008 \$000
Opening balance	259	147
Amortisation for the year	142	112
Additions	273	-
Disposals	(355)	-
<b>Closing balance</b>	<b>319</b>	<b>259</b>

Net book value

	2009 \$000	2008 \$000
<b>Net book value</b>	<b>1,163</b>	<b>96</b>



## 23 FINANCIAL INSTRUMENTS (CONTINUED)

**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 to 30 June 2009, and shareholders equity at that date, to reasonably possible changes in conditions is as follows:

	INTEREST RATES INCREASE BY 1% 2009 \$000	INTEREST RATES INCREASE BY 1% 2008 \$000	INTEREST RATES DECREASE BY 1% 2009 \$000	INTEREST RATES DECREASE BY 1% 2008 \$000
Impact on net profit after tax	(179)	552	178	(552)
Members' equity	(112)	547	117	(547)

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 Members' equity.

## 23 FINANCIAL INSTRUMENTS (CONTINUED)

**(A) LIQUIDITY RISK - 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
<b>As at 30 June 2009</b>						
<b>Assets</b>						
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
<b>Total financial assets</b>	<b>426,408</b>	<b>125,173</b>	<b>60,761</b>	<b>-</b>	<b>612,342</b>	<b>573,004</b>
<b>Liabilities</b>						
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
<b>Total financial liabilities</b>	<b>340,597</b>	<b>159,577</b>	<b>39,913</b>	<b>-</b>	<b>540,087</b>	<b>506,577</b>
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

**As at 30 June 2008**

	WITHIN 12 MONTHS \$000	1 - 2 YEARS \$000	2 - 5 YEARS \$000	OVER 5 YEARS \$000	CONTRACTUAL CASH FLOW \$000	CARRYING VALUE \$000
<b>Assets</b>						
Cash and cash equivalents	625	-	-	-	625	625
Derivative financial instruments	216	42	37	-	295	295
Other receivables	1,544	-	-	-	1,544	1,544
Amounts due from group entities	2,033	-	-	-	2,033	2,033
Loans and receivables	454,546	145,033	66,440	-	666,019	502,591
<b>Total financial assets</b>	<b>458,964</b>	<b>145,075</b>	<b>66,477</b>	<b>-</b>	<b>670,516</b>	<b>507,088</b>
<b>Liabilities</b>						
Deposits and other borrowings	91,804	-	-	-	91,804	91,804
Derivative financial instruments	488	737	34	-	1,259	1,259
Trade and other payables	1,062	-	-	-	1,062	1,062
Term bank facility	12,135	151,071	-	-	163,206	140,000
Bonds	23,596	26,658	-	-	50,254	44,751
Debentures - secured	205,311	13,953	4,800	-	224,064	172,928
<b>Total financial liabilities</b>	<b>334,396</b>	<b>192,419</b>	<b>4,834</b>	<b>-</b>	<b>531,649</b>	<b>451,804</b>
Undrawn bank loans	40,000					40,000
Unutilised bank facility	59,530					59,530
	99,530					99,530
Loans and receivables commitments	65,110					65,110

PGG WRIGHTSON FINANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

## 23 FINANCIAL INSTRUMENTS (CONTINUED)

## (B) 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
<b>As at 30 June 2009</b>						
<b>Assets</b>						
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
<b>Total financial assets</b>	<b>367,053</b>	<b>168,051</b>	<b>28,558</b>	<b>-</b>	<b>9,342</b>	<b>573,004</b>
<b>Liabilities</b>						
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
<b>Total financial liabilities</b>	<b>319,153</b>	<b>133,053</b>	<b>46,940</b>	<b>-</b>	<b>7,431</b>	<b>506,577</b>
<b>As at 30 June 2008</b>						
<b>Assets</b>						
Cash and cash equivalents	625	-	-	-	-	625
Derivative financial instruments	4,900	(11,000)	6,100	-	295	295
Other receivables	-	-	-	-	1,544	1,544
Amounts due from group entities	2,033	-	-	-	-	2,033
Loans and receivables	308,179	168,677	25,735	-	-	502,591
<b>Total financial assets</b>	<b>315,737</b>	<b>157,677</b>	<b>31,835</b>	<b>-</b>	<b>1,839</b>	<b>507,088</b>
<b>Liabilities</b>						
Deposits and other borrowings	91,804	-	-	-	-	91,804
Derivative financial instruments	12,434	(6,434)	(6,000)	-	1,259	1,259
Trade and other payables	-	-	-	-	1,062	1,062
Term bank facility	140,000	-	-	-	-	140,000
Bonds	20,000	24,751	-	-	-	44,751
Debentures - secured	155,618	12,978	4,332	-	-	172,928
<b>Total financial liabilities</b>	<b>419,856</b>	<b>31,295</b>	<b>(1,668)</b>	<b>-</b>	<b>2,321</b>	<b>451,804</b>

PGG WRIGHTSON FINANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

## 23 FINANCIAL INSTRUMENTS (CONTINUED)

## (C) 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 AMOTISED COST \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
<b>As at 30 June 2009</b>					
<b>Assets</b>					
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
	<b>7,575</b>	<b>565,429</b>	<b>-</b>	<b>573,004</b>	<b>573,645</b>
<b>Liabilities</b>					
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
	<b>2,488</b>	<b>-</b>	<b>504,089</b>	<b>506,577</b>	<b>502,271</b>
<b>As at 30 June 2008</b>					
<b>Assets</b>					
Cash and cash equivalents	-	625	-	625	625
Derivative financial instruments held for risk management	295	-	-	295	295
Other receivables	-	1,544	-	1,544	1,544
Amounts due from group entities	-	2,033	-	2,033	2,033
Loans and receivables	-	502,591	-	502,591	444,476
	<b>295</b>	<b>506,793</b>	<b>-</b>	<b>507,088</b>	<b>448,973</b>
<b>Liabilities</b>					
Deposits and other borrowings	-	-	91,804	91,804	86,747
Derivative financial instruments held for risk management	1,259	-	-	1,259	1,259
Trade and other payables	-	-	1,062	1,062	1,062
Term bank facility	-	-	140,000	140,000	140,000
Bonds	-	-	44,751	44,751	39,780
Debentures - secured	-	-	172,928	172,928	160,908
	<b>1,259</b>	<b>-</b>	<b>450,545</b>	<b>451,804</b>	<b>429,756</b>

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.

## Interest rates used for determining fair value

	2009	2008
Loans and receivables	8.5%	12.0%
Debentures - secured	5.1%	12.0%
Bonds	6.8%	12.0%

PGG WRIGHTSON FINANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

## 23 FINANCIAL INSTRUMENTS (CONTINUED)

## (D) CREDIT RISK

	2009 \$000	2008 \$000
<b>Geographical distribution of loans and receivables</b>		
Auckland/Northland	29,783	23,776
King Country/Bay of Plenty/Waikato	57,729	45,212
Hawkes Bay/Gisborne	26,487	26,759
Taranaki/Manawatu	37,917	35,184
Wairarapa	16,599	13,710
Nelson/Marlborough	24,199	22,659
Canterbury	191,925	151,818
Southland/Otago	175,020	183,473
	<b>559,659</b>	<b>502,591</b>

**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.

	2009 \$000	2008 \$000
Sheep and beef	313,142	293,886
Dairy	147,997	125,888
Arable	32,265	29,168
Horticulture / viticulture	28,131	24,813
Other	38,124	28,836
	<b>559,659</b>	<b>502,591</b>
<b>Concentration of credit exposures to individual counterparties</b>		
Amount owing by 10 largest borrowers	96,981	86,813
As a % of gross loans and receivables	17%	17%
As a % of total equity	145%	161%
<b>% of total equity</b>		
10% to 19%	7	8
20% to 29%	1	2
over 30%	-	-

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

PGG WRIGHTSON FINANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

## 23 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	48.97%	503,295	456,679
Second mortgage	62.81%	41,093	32,514
First general or specific security agreement	56.83%	91,691	57,143
Other security	90.50%	15,615	10,109
Unsecured	0.00%	9,695	3,214
	<b>50.35%</b>	<b>661,389</b>	<b>559,659</b>

## (E) CONCENTRATION OF FUNDING

The majority of Company funding is from within New Zealand.

**Customer industry concentration of funding**

	2009 \$000	2008 \$000
Retail investors	427,646	309,483
Wholesale investors	71,500	140,000
	<b>499,146</b>	<b>449,483</b>

**Product concentration of funding**

	2009 \$000	2008 \$000
Deposits and other borrowings	83,032	91,804
Debentures - secured	221,050	172,928
Bonds	123,564	44,751
	427,646	309,483
Term bank facility	71,500	140,000
	<b>499,146</b>	<b>449,483</b>

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

	2009 \$000	2008 \$000
Auckland/Northland	29,019	15,770
King Country/Bay of Plenty/Waikato	28,903	31,236
Hawkes Bay/Gisborne	25,993	18,065
Taranaki/Manawatu	17,166	7,957
Wairarapa	21,494	7,792
Nelson/Marlborough	19,196	15,877
Canterbury	155,787	116,736
Southland/Otago	129,482	95,866
Overseas	606	184
	<b>427,646</b>	<b>309,483</b>

**24 COMMITMENTS**

Commitments to extend credit

	2009 \$000	2008 \$000
Commitments to extend credit	93,044	65,110

**25 CONTINGENT LIABILITIES**

There were no contingent liabilities at balance date (2008: Nil).

**26 EVENTS SUBSEQUENT TO BALANCE DATE**

There were no significant events subsequent to balance date (2008: Nil).

PGG WRIGHTSON FINANCE LIMITED  
**AUDIT REPORT**

To the shareholder of PGG Wrightson Finance Limited

We have audited the financial statements on pages 6 to 30. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 9 to 13.

**Directors' responsibilities**

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company as at 30 June 2009 and the results of its operations and cash flows for the year 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 6 to 30:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 27 August 2009 and our unqualified opinion is expressed as at that date.

Christchurch

## PGG WRIGHTSON FINANCE LIMITED

## STATUTORY DISCLOSURES

The following particulars of notices were given by Directors of the Company pursuant to Section 140(2) of the Companies Act 1993, for the year 1 July 2008 to 30 June 2009 (\*Interest ceased during the year.)

DIRECTOR	INTEREST	ORGANISATION
<b>Sir Selwyn Cushing</b>	Chairman	NZ Rural Property Trust Management Limited
	Chairman/Shareholder	Rural Equities Limited Skellerup Holdings Limited
	Deputy Chairman/Shareholder	CableTalk Group Limited*
	Director	PGG Wrightson Limited PGG Wrightson Employee Benefits Plan Trustee Limited PGG Wrightson Trustee Limited
	Director/Shareholder	H & G Limited Makowai Farm Limited Whakamarumaru Station Limited
	Director/Trustee Shareholder Unit Holder	PGG Wrightson Employee Benefits Plan Limited NZ Rural Property Trust
<b>M J Flett</b>	Director/Shareholder	Barkers Fruit Processors Limited and subsidiaries Blueprint Holdings 2006 Limited and subsidiaries Kerry Industries Limited Milkpride Limited Milkpride Holdings Limited NZ Farming Systems Uruguay Limited Payton Holdings Limited and subsidiaries TCO Limited
	Director	PGG Wrightson Limited
	Shareholder	Alliance Group Limited Ballance Agri-Nutrients Limited CRT Limited Ravensdown Fertiliser Co-operative Limited
	Trustee	Liaki Trust Susan Flett Trust
<b>B R Irvine</b> Appointed 24 June 2009	Chairman/Director	Christchurch City Holdings Limited House of Travel Holdings Limited and subsidiaries
	Director	Godfrey Hirst NZ Limited and subsidiaries Market Gardeners Limited and subsidiaries MARAC Finance Limited Perpetual Trust Limited PGG Wrightson Limited Provencocadmus Limited Pyne Gould Corporation Limited Rakon Limited Scenic Circle Hotels Limited Skope Industries Limited BR Irvine Limited

## PGG WRIGHTSON FINANCE LIMITED

## STATUTORY DISCLOSURES (CONTINUED)

DIRECTOR	INTEREST	ORGANISATION
<b>B J Jolliffe</b> Retired 24 June 2009	Chairman	Nissan Finance New Zealand Limited*
	Managing Director	Perpetual Trust Limited* MARAC Finance Limited*
	Director	Pyne Gould Corporation Limited*
	Trustee	PGG Wrightson Limited* PGG Wrightson Limited Employee Share Purchase Scheme*
<b>S R Maling</b>	Chairman	MARAC Finance Limited Pyne Gould Corporation Limited
	Shareholder	Pyne Gould Corporation Limited
	Director	Perpetual Trust Limited PGG Wrightson Limited
	Director/Shareholder	NZ Farming Systems Uruguay Limited
<b>J B McConnon</b>	Director/Shareholder	Aorangi Laboratories Limited SABCON Limited
	Director	D C Ross Limited PGG Wrightson Limited Rural Portfolio Capital Limited Rural Portfolio Investments Limited Rural Portfolio Investments Securities Limited 45 South Exports Limited 45 South Management Limited
	Trustee	PGG Wrightson Limited Employee Share Purchase Scheme*
<b>T M Miles</b>	Trustee	Eastbourne Trust M R Miles Trust
	Director Director/Shareholder	PGG Wrightson Limited Jeffries Miles Consulting Limited Jeffries Miles Property Limited
<b>M C Norgate</b>	Director	Aotearoa Fisheries Limited Centre for High Performance Work Limited Kura Limited MCN Rural Investments Limited New Zealand Institute of Chartered Accountants NZ Farming Systems Uruguay Limited PGG Wrightson Limited (Chairman to 23 July 2009) Port Taranaki Limited Rural Portfolio Capital Limited Rural Portfolio Investments Limited Rural Portfolio Investments Securities Limited Sealord Group Limited Wool Partners International Limited
	Director/Shareholder	C & J Custodian Limited MCN Holdings Limited
	Trustee	PGG Wrightson Limited Employee Share Purchase Scheme*

PGG WRIGHTSON FINANCE LIMITED  
STATUTORY DISCLOSURES (CONTINUED)

DIRECTOR	INTEREST	ORGANISATION
<b>K R Smith</b>	Chairman	Healthcare Holdings Limited and subsidiaries Mobile Surgical Services Limited NZ Farming Systems Uruguay Limited PGG Wrightson Limited (Chairman from 23 July 2009) The Warehouse Group Limited Tourism Holdings Limited
	Director	Electronic Navigation Limited Enterprise Motor Group Limited and subsidiaries Goodman (NZ) Limited Gwendoline Holdings Limited James Raymond Holdings Limited Mighty River Power Limited Wickliffe Limited*
	Member	New Zealand Advisory Board of LEK Consulting Limited
<b>W D Thomas</b>	Director	PGG Wrightson Limited
	Trustee	Longbeach Trust

**In addition:**

- Sir Selwyn Cushing, M J Flett, and W D Thomas advised that they each have interests in farming operations and may transact business with PGG Wrightson Group companies on normal terms of trade.
- PGG Wrightson Directors hold shares in NZ Farming Systems Uruguay Limited either directly or through an associated person. NZ Farming Systems Uruguay Limited transacts business with the PGG Wrightson Group through farming and management contracts.
- PGG Wrightson Finance Directors do not receive remuneration or other benefits from the Company, but do from PGG Wrightson Ltd.
- There are no employees of PGG Wrightson Finance.

## PGG WRIGHTSON FINANCE LIMITED

## CORPORATE DIRECTORY

## COMPANY NUMBER

1166085

## BOARD OF DIRECTORS

Keith Smith, Chairman  
Sir Selwyn Cushing  
Murray Flett  
Bruce Irvine  
Sam Maling  
Baird McConnon  
Tim Miles, Managing Director  
Craig Norgate  
Bill Thomas

## MANAGING DIRECTOR

PGG Wrightson Limited  
Tim Miles

## CHIEF FINANCIAL OFFICER

PGG Wrightson Limited  
Jason Dale

## GROUP GENERAL MANAGER FINANCIAL SERVICES

PGG Wrightson Limited  
Michael Thomas

## DIRECTOR FINANCIAL SERVICES

PGG Wrightson Limited  
Mark Darrow

## GENERAL COUNSEL/COMPANY SECRETARY

PGG Wrightson Limited  
Julian Daly

## 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  
10 Customhouse Quay  
PO Box 996  
Wellington  
Telephone 64 4 816 4500  
Fax 64 4 816 4600

