Pyne Gould Corporation Limited

ANNUAL FINANCIAL REPORT

For the year ended 30 June 2012

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COMPANY REPORT

CHAIRMAN'S REPORT

The year ending 30 June 2012, has seen the refocus of PGC nearing completion. The company has been reconfigured into a low cost holding company with key investments that should provide value growth for shareholders over the longer term.

The refocus of PGC began in 2009 when the GFC forced the company to raise $272.5m of capital in order to give Marac sufficient strength to survive and stand alone. Subsequently Marac merged with Canterbury and Southern Cross Building Societies, to eventually form Heartland New Zealand Ltd, a process that further strengthened all three. Following the distribution of Heartland shares to PGC shareholders during 2011 PGC completed its support for Heartland by underwriting a capital raising to purchase the financial assets of PGGWrightson. This was done to provide Heartland with a sufficiently strong balance sheet to become a bank.

As from the 2nd of April 2012 PGC became 76.77% owned by Australasian Equity Partners No.1 LP, a limited partnership controlled by Mr George Kerr who largely underwrote the $272.5m capital raising in 2009. On 26 April 2012 Mr Kerr was appointed as Managing Director of PGC by the Board. As the majority shareholder and Managing Director Mr Kerr has a future mapped for PGC which is enunciated in his report. His plans are fully supported by the Board.

This new focus will see the company's future investment activities outside New Zealand, through Torchlight, Van Eyk and EPIC. In the meantime the Board is seriously considering the domicile of PGC.

Bryan Mogridge
Chairman

MANAGING DIRECTOR'S REPORT

These are the first annual results since the completion of the AEP takeover on 2 April 2012.

We also believe they are the first accounts in the 93 year history of PGC to be completed and managed by an external accounting firm. In April we replaced the internal accounting team at PGC with Deloitte. PwC were appointed as auditor for the 30 June 2012 year-end.

Year to June 30 2012
The year ending June 30 2012 produced an audited after tax loss for PGC of $47.7m.

The loss was largely attributed to $46.1m of non-cash write downs, the largest being $20.7m from increased expected claims under the RECL management agreement for Marac assets and $25.4m from mark to market of securities, of which PGW and HNZ represented $14.4m.

In addition Perpetual Group, after accruals for increased legal and restructuring costs made a loss of $5.2m. The accounts presented reflect a restatement of the 2011 financial position to appropriately recognise MARAC financial assets and liabilities pursuant to the management agreement with Real Estate Credit Limited (RECL), which were previously not recorded. This restatement is to ensure compliance with the financial asset de-recognition rule, under NZIAS 39.

Core Business – Torchlight
Torchlight Investment Group owns 100% of Torchlight GP No 1 Limited. It also owns 17% of, Torchlight Fund No 1 LP.

100% owed - Torchlight GP lifted revenue and made an operating profit of $1.6m. This represents annual management fees less operating costs from Torchlight Fund No. 1 LP.

17% owned - Torchlight Fund No. 1 LP began in 23 October 2009 and has raised and now invested $150m. Torchlight is sometimes perceived incorrectly as a short-term high-risk fund: It is not. It is patient; – when we acquire assets we expect to be able to extract value for a very long time. It is contrarian; - we invest in out of favour sectors. It is not high risk. All of our positions are carefully researched and acquired with a very significant margin of safety – or discount to intrinsic value. The lower the price the higher the margin of safety.

A public example is Residential Communities Limited, a senior debt position Torchlight acquired from the Australian "bad book" of Bank of Scotland International. The underlying assets held as security represent many thousands of residential sites spread across Australia and New Zealand. Like other contrarian investors investing in residential real estate, we believe we are buying at the bottom of the market. We invested in early 2012 at a fraction of peaks from 2006, and expect to realise a substantial premium to our cost over the next decade.

Another example of a major Torchlight Fund No 1. LP investment is the cornerstone holding in ASX listed IEF Real Estate Entertainment Group. IEF was previously ING Hotel and Entertainment Fund, and at the peak of the bull market owned 1% of all pubs in Australia and had a debt and equity market value of in excess of $750m. Torchlight drove the rescue of IEF and underwrote the internalisation of the management contract – and today is the cornerstone shareholder of IEF with an average entry price of a little over 5 cents or half NTA. We have a very long-term view and intend to patiently unlock value.

100% owned Torchlight Fund No. 2 LP is incubated as a "house fund" and is 100% owned by PGC at this stage.

In **Financial Services** it acquired, in the weak market of 2010, a cornerstone holding in leading independent Australian asset manager and research house van Eyk. Van Eyk has $1.2bn in FUM with support from 1000 Australian financial planners using its platform and 8000 using its research base. It is expected to grow solidly and profitably in a market that remains legislated for growth.

COMPANY REPORT

We also started working with **Litigation Funders**. Distressed asset businesses like Torchlight will always have a focus on Litigation - In some respects Litigation Funding can be just glorified "loan recovery" - similar to the bad bank work done by Torchlight 1. But it is significantly riskier and we place great reliance on expert litigation funders, to win back depositors' money from failed finance companies via carefully researched and resourced, sustained litigation.

As all PGC shareholders know, the finance company sector in New Zealand was one of the great tulip bubbles in market history. Over $4 bn of national savings was lost forever by mum and dad New Zealanders. Behind this national tragedy a rational business model was required.

We saw this as an opportunity to execute a coherent strategy to protect and create value for shareholders and deliver a private sector solution to an industry that had failed its investing and borrowing clients. The first leg of the strategy, which became Heartland, was to create a magnet for the "good books" – which could become a bank. The second leg of the strategy, as part of, Torchlight Fund No 1 LP, was to create a magnet for "bad books" and acquire debt of distressed borrowers. The third leg of the strategy, Litigation Funding, was the logical next step - once all the assets had gone.

EXIT OF NON-CORE ASSETS: UPDATE ON SALE OF PERPETUAL GROUP AND RETURN AND REDEPLOYMENT OF CAPITAL CURRENTLY INVESTED IN NEW ZEALAND

Since balance date PGC has sold all its shares in HNZ and PGW, leaving the holding company with a totally debt free balance sheet and access to sufficient cash flow. On 30 July 2012 PGC announced that it was considering offers for Perpetual Group. That process continues and at the time of writing several options are under review.

PGC is still evaluating its domicile and will advise the market when it has completed its assessment.

As the majority of future PGC investment will now only be investing offshore or via the funds it manages, we intend to return to shareholders the proceeds of the sale of Perpetual in the form of a capital return.

Return On Equity

The Group, from its actions in the past financial year and events subsequent to balance date, is now in a position where it holds circa $100m NTA at book value equivalent to 43 cents a share and the holding company is now debt free.

To justify todays NTA of 43 cents group earnings should be in excess of 15% on assets. As our cash earnings today from core business are only $1.6m this is a long way off an acceptable level.

This can only be achieved by concentrating on a single profitable and highly focused business. The objective is for all assets to be in a single operating business of Torchlight and the cost streamlining for 2013 reflects that strategy. The costs of running PGC have simply been too high – and they are being reduced.

Hence all of our capital allocation activities are about exiting non-core assets and redeploying capital for greater long-term returns. Sustained improvement cannot be achieved off inherited bad loans from Marac. They need to be patiently realised and reinvested in the core Torchlight business. Once acceptable earnings are achieved we would like to achieve long run growth on book value over a 10-year period exceeding 15%.

George Kerr
Managing Director

BOARD OF DIRECTORS

BRYAN MOGRIDGE BSC

Chairman - Independent Director

Bryan has held chief executive and senior management positions for over 20 years and has been a director of NZSX-listed companies since 1984. He became a director of MARAC Finance in 1992, was appointed to the PGC board in 2003, and appointed Chairman in May 2011.

GEORGE KERR B COM

Non-Independent Director

George is Chairman of Australasian Equity Partners, the 76.77% shareholder of PGC which took control on 2 April 2012. He became Group Managing Director on 26 April 2012.

George was appointed to the board of PGC in August 2008. He was the cornerstone underwriter of the September 2009 rights issue that recapitalised PGC to become the parent of Heartland and Torchlight. He has been Chairman of Torchlight since inception on 23 October 2009.

Prior to PGC he has had long experience in asset management. Between 1991 and 1996 he ran two top performing funds for IPAC subsidiary NZ Funds. From 1996 to 2001 he was Investment Director for Spicers Portfolio Management before he and partners sold it to AXA for $220m. He then became Non Executive Chairman of Brook Asset Management until its sale to Macquarie.

GREGORY BRIGHT

Independent Director

As a businessman Gregory has founded three companies – Trade News Corportation Ltd, InvestorInfo Ltd and Conexus Financial Pty Ltd. His experience and networks in the Australian businsess community will assist PGC as they look to grow the Company's financial services business across Australia and beyond.

Gregory was appointed to the Board on 2 May 2012 as an independent director and joins the audit committee.

MICHAEL TINKLER

Non-Independent Director

Michael is a commercial lawyer with an expansive legal background and is currently acting as the PGC General Counsel. Prior to this role Mr Tinkler was a commercial real estate partner with Buddle Findlay, one of New Zealand's leading law firms.

Michael was appointed to the PGC board on 14 February 2012.

RUSSELL NAYLOR

Non-Independent Director

Russell Naylor has an extensive background in banking and finance and is the principal of Naylor Partners, a boutique Sydney-based Corporate Advisory business. Russell is an Executive Director and Investment Committee Member of Torchlight, and is a Director of ASX listed IEF and is a resident of Australia.

Russell was appointed to the PGC board on 14 February 2012.

RETIRED DIRECTORS

John Duncan – Resigned 26 April 2012.
Bruce Irvine – Resigned 31 January 2012.

CORPORATE GOVERNANCE

The board and management of Pyne Gould Corporation are committed to ensuring that the company maintains corporate governance practices in line with current best practice.

The board, to ensure it governs in accordance with the requirements of the Company's Constitution, has established policies and protocols which comply with the corporate governance requirements of the NZX Listing Rules and which are consistent with the principles contained in the NZX Corporate Governance Best Practice Code.

This governance statement outlines the main corporate governance practices as at 10 September 2012.

The Board considers it has complied with the NZX Corporate Governance Best Practice Code for the year ended 30 June 2012.

This section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance Principles and Guidelines.

The Company's Constitution plus Board and Committee charters are available to view on the Company's website www.pgc.co.nz.

PRINCIPLE 1 – ETHICAL STANDARDS

PGC expects its directors and staff to at all times act honestly and in good faith, and in the best interests of the Company. They must act with the care, diligence and skill expected of a director or staff member of a Company that has shares that are publicly traded on the NZX. Directors and staff are required to act honestly and fairly in all dealings with the Company's shareholders, investors, clients and service providers.

Each director and staff member has an obligation, at all times, to comply with the spirit as well as the letter of the law, to comply with the principles of the Company's Corporate Governance Code and the Constitution of the Company and to exhibit a high standard of ethical behaviour.

The Company's Code of Conduct covers, amongst other things:-

- receipt and use of company assets and property
- receipt and use of company information
- conflicts of interest
- buying and selling company shares

All directors and officers of the Company are required to obtain prior consent before buying or selling shares in the Company and to certify that their decision to buy or sell shares has not been made on the basis of inside information.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

Role of the Board

The board of directors is responsible for corporate governance and the company's overall direction. The board establishes objectives, strategies and an overall policy framework within which the business is conducted. Day-to-day management is delegated to the Managing Director. The board regularly monitors and reviews performance and 12 monthly meetings are scheduled.

Board Membership, Size and Composition

The constitution provides that the number of directors must not be more than ten nor fewer than three, but subject to these limitations the size of the board is determined from time to time by the board.

The board currently comprises five directors, being a non-executive Chairman, the Managing Director, two executive directors and one further non-executive director.

A director is appointed by ordinary resolution of the shareholders, although the board may fill a casual vacancy in which case the appointed director retires at the next annual meeting but is eligible for re-election. Nominations for election as a director may be made by shareholders up until two months before the date of the annual meeting.

At each annual meeting, one-third of the directors retire from office by rotation. If they wish to continue they may stand for re-election.

Michael Tinkler, Gregory Bright and Russell Naylor are standing for re-election at this year's annual meeting.

Independence of Directors

A director is considered to be independent if that director is not an executive of the company and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the directors' decisions in relation to the company.

The board has determined that Bryan Mogridge and Gregory Bright are independent directors. Michael Tinkler and Russell Naylor as executive directors and George Kerr as a substantial security holder (through an associated entity) in the company are non-independent.

Board Performance Assessment

The board undertakes a regular review of the boards', board committees' and individual director's performance. This is to ensure it has the right composition and appropriate skills, qualifications, experience and background to effectively govern the company and monitor the company's performance in the interests of shareholders.

PRINCIPLE 3 – BOARD COMMITTEES

Board Committees

The board has two permanently constituted committees to assist the board by working with management in specific areas of responsibility and then reporting their findings and recommendations back to the board. Each of these committees has terms of reference which set out the committees' objectives, membership, procedures and responsibilities. Details are available on the company's website.

Other ad hoc board committees are established for specific purposes from time to time.

Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the board in:

- discharging its financial reporting and regulatory responsibilities
- ensuring that the ability and independence of the external auditor to carry out its statutory audit role is not impaired
- maintaining effective internal audit and internal control systems
- overseeing the Company's Risk Profile
- approving the risk management framework within the context of the risk-reward strategy determined by the Board.

The board has determined that Bruce Irvine met the requirement of being a "financial expert" in accordance with the committee's terms of reference and following Mr Irvine's resignation on 31 January 2012 he was replaced as chair of the audit committee by Mr Russell Naylor who also met the requirement as a "financial expert".

Remuneration and Appointments Committee

The role of the Remuneration and Appointments Committee is to:

- oversee a formal and transparent method of recommending director remuneration to shareholders;
- assist the board in establishing remuneration policies and practices for the company and in discharging its responsibilities for reviewing and setting the remuneration of the Chief Executive Officer and his direct reports;
- assist the board in reviewing the board's composition and the competencies required of prospective directors, identifying prospective directors, developing succession plans for the board and making recommendations to the board accordingly.

Corporate Trust Boards

Perpetual Trust has independent Corporate Trust boards established under the Trustee Companies Act which are responsible for discharging that company's fiduciary obligations and duties in respect of its corporate trust business. These duties include the acceptance of appointments as trustee or statutory supervisor for corporate trust clients, the performance of all duties and the exercise of discretions under those appointments, and overseeing corporate trust compliance monitoring processes and procedures. The Corporate Trust boards comprise independent members, none of whom are directors of PGC or any of its subsidiary companies. Members of the Corporate Trust boards are Sam Maling (Chairman), Euan Abernethy and Keith Rushbrook.

PRINCIPLE 4 – REPORTING AND DISCLOSURES

The board is committed to ensuring the highest standards are maintained in financial reporting, and disclosure of all relevant information.

The Audit Committee oversees the quality and timeliness of all financial reports, including all Prospectuses issued by group companies.

PRINCIPLE 5 – REMUNERATION

Total remuneration available to non-executive directors is determined by shareholders. The current aggregate approved amount is $700,000.

The Company's policy is to pay directors fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and there is no requirement for directors to hold shares in the company.

For senior executives the objective is to provide competitive remuneration that aligns the executive's remuneration with shareholder value and rewards the achievement of the company's strategies and business plans.

PRINCIPLE 6 – RISK MANAGEMENT

The board ensures that the company has processes in place to identify and manage risk in the business. The three main types of risk identified are operational risk, business and market risks. Specific risk management strategies have been developed for each of these.

The Company also has in place insurance cover for insurable liability and general business risk.

CORPORATE GOVERNANCE (CONTINUED)

PRINCIPLE 7 – AUDITORS

The Audit and Risk Committee is responsible for overseeing the external, independent audit of the Company's financial statements and Prospectuses. The Committee ensures that the level of non-audit work undertaken by the auditors does not result in their independence being jeopardised.

PRINCIPLE 8 – SHAREHOLDER RELATIONS

The board is committed to maintaining a full and open dialogue with all shareholders.

The Company is well aware of and appreciative of the number of shareholders who have supported the Company over many years and have other relationships with the Company.

PRINCIPLE 9 – STAKEHOLDER INTERESTS

The board is committed to ensuring positive outcomes for all stakeholders, be they shareholders, clients, service providers, staff and the general public.

DIRECTOR'S RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group and the Company as at 30 June 2012 and the financial performance and cash flows for the year ended on that date.

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

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

The Board of Directors of Pyne Gould Corporation Limited authorised the financial statements set out on pages 12 to 67 for issue on 21 September 2012.

For and on behalf of the Board

Bryan Mogridge
Director
21 September 2012

George Kerr
Managing Director

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

		GROUP		HOLDING COMPANY	
		2012	**2011**	**2012**	**2011**
	NOTE	**$000**	**$000**	**$000**	**$000**
			Restated*		
Continuing operations					
Management fees and trustee fees revenue	6	26,666	22,118	3,800	2,564
Other income	6	2,896	2,365	1,000	105
Total fees and other income		**29,562**	**24,483**	**4,800**	**2,669**
Interest income	5	12,265	19,993	766	104
Interest expense	5	14,143	4,813	707	69
Net interest income / (expense)		**(1,878)**	**15,180**	**59**	**35**
Net operating income		**27,684**	**39,663**	**4,859**	**2,704**
Selling and administration expenses	7	35,623	35,766	5,202	12,007
Impaired asset expense and investment write-down	8	32,579	36,975	41,244	1,533
Write-down investment in PGW	9	11,074	37,317	5,774	37,317
Operating (loss)/ profit		**(51,592)**	**(70,395)**	**(47,361)**	**(48,153)**
Share of equity accounted investees' profit / (loss)		(749)	(1,215)	-	-
(Loss) from continuing operations before income tax		**(52,341)**	**(71,610)**	**(47,361)**	**(48,153)**
Income tax (benefit)/ expense	11	(4,638)	14,955	-	380
(Loss) / profit from continuing operations		**(47,703)**	**(86,565)**	**(47,361)**	**(48,533)**
Discontinued operation					
In-specie loss on distribution of BSHL shares	37	-	(52,929)	-	(52,929)
Loss from discontinued operations, before income tax	37	-	(1,820)	-	-
Income tax benefit	11	-	206	-	-
(Loss) / profit from discontinued operation		-	**(54,543)**	-	**(52,929)**
(Loss) / profit for the year		**(47,703)**	**(141,108)**	**(47,361)**	**(101,462)**
Other comprehensive income					
Cash flow hedges:					
Effective portion of changes in fair value, net of income tax		-	600	-	-
Share of associates' other comprehensive income, after tax		(39)	1,014	-	-
Translation of foreign associates		134	-	-	-
Reclassification of cash flow hedges to loss on distribution of BSHL shares		-	1,390	-	-
Total comprehensive income for the year		**(47,608)**	**(138,104)**	**(47,361)**	**(101,462)**
(Loss) / Profit attributable to:					
Owners of the Company		(47,703)	(141,108)	(47,361)	(101,462)
Non-controlling interests		-	-	-	-
(Loss) / profit for the year		**(47,703)**	**(141,108)**	**(47,361)**	**(101,462)**
Total comprehensive income attributable to:					
Owners of the Company		(47,608)	(138,104)	(47,361)	(101,462)
Non-controlling interests		-	-	-	-
Total comprehensive (loss) / income for the year		**(47,608)**	**(138,104)**	**(47,361)**	**(101,462)**
Earnings per share - continuing operations					
Basic earnings per share	14	-22c	-12c		
Diluted earnings per share	14	-22c	-12c		

**2011 Comparatives restated, refer note 2(e).*

The notes on pages 18 to 67 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2012

2011 - GROUP	NOTE	Share Capital $000	Foreign Currency Translation Reserve $000	Cash Flow Hedge Reserve $000	Accumulated Losses $000	Total Equity $000
Balance at 1 July 2010		**345,189**	**-**	**(1,990)**	**123,422**	**466,621**
Total comprehensive income for the year						
Loss for the year		-	-	-	(141,108)	(141,108)
Other comprehensive income						
Share of associates' other comprehensive income, net of income tax		-	-	-	1,014	1,014
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	-	600	-	600
Reclassification of cash flow hedges to loss on distribution of BSHL shares		-	-	1,390	-	1,390
Total other comprehensive income		**-**	**-**	**1,990**	**1,014**	**3,004**
Total comprehensive income for the year		**-**	**-**	**1,990**	**(140,094)**	**(138,104)**
Transactions with owners, recorded directly in equity						
Dividends to shareholders		-	-	-	(11,316)	(11,316)
In-specie distribution of BSHL shares	37	-	-	-	(185,009)	(185,009)
Director and staff share issues	15	1,535	-	-	-	1,535
Dividend Reinvestment Plan and Underwrite	15	11,316	-	-	-	11,316
Total transactions with owners		**12,851**	**-**	**-**	**(196,325)**	**(183,474)**
Balance at 30 June 2011		**358,040**	**-**	**-**	**(212,997)**	**145,043**

2012 - GROUP	NOTE	Share Capital $000	Foreign Currency Translation Reserve $000	Cash Flow Hedge Reserve $000	Accumulated Losses $000	Total Equity $000
Balance at 1 July 2011		**358,040**	**-**	**-**	**(212,997)**	**145,043**
Total comprehensive income for the year						
Loss for the year		-	-	-	(47,703)	(47,703)
Other comprehensive income						
Share of associates' other comprehensive income, net of income tax		-	-	-	(39)	(39)
Gain on translation of foreign associates		-	134	-	-	134
Total other comprehensive income		**-**	**134**	**-**	**(39)**	**95**
Total comprehensive income for the year		**-**	**134**	**-**	**(47,742)**	**(47,608)**
Transactions with owners, recorded directly in equity						
Director and staff share issues	15	74	-	-	-	74
Total transactions with owners		**74**	**-**	**-**	**-**	**74**
Balance at 30 June 2012		**358,114**	**134**	**-**	**(260,739)**	**97,509**

The notes on pages 18 to 67 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 30 June 2012

2011 - HOLDING COMPANY	NOTE	Share Capital $000	Foreign Currency Translation Reserve $000	Cash Flow Hedge Reserve $000	Accumulated Losses $000	Total Equity $000
Balance at 1 July 2010		**345,189**	**-**	**-**	**84,477**	**429,666**
Total comprehensive income for the year						
Loss for the year		-	-	-	(101,462)	(101,462)
Total comprehensive income for the year		**-**	**-**	**-**	**(101,462)**	**(101,462)**
Transactions with owners, recorded directly in equity						
Dividends to shareholders		-	-	-	(11,316)	(11,316)
In-specie distribution of BSHL shares	37	-	-	-	(185,009)	(185,009)
Director and staff share issues	15	1,535	-	-	-	1,535
Dividend Reinvestment Plan and Underwrite	15	11,316	-	-	-	11,316
Total transactions with owners		**12,851**	**-**	**-**	**(196,325)**	**(183,474)**
Balance at 30 June 2011		**358,040**	**-**	**-**	**(213,310)**	**144,730**

2012 - HOLDING COMPANY	NOTE	Share Capital $000	Foreign Currency Translation Reserve $000	Cash Flow Hedge Reserve $000	Accumulated Losses $000	Total Equity $000
Balance at 1 July 2011		**358,040**	**-**	**-**	**(213,310)**	**144,730**
Total comprehensive income for the year						
Loss for the year		-	-	-	(47,361)	(47,361)
Total comprehensive income for the year		**-**	**-**	**-**	**(47,361)**	**(47,361)**
Transactions with owners, recorded directly in equity						
Director and staff share issues	15	74	-	-	-	74
Total transactions with owners		**74**	**-**	**-**	**-**	**74**
Balance at 30 June 2012		**358,114**	**-**	**-**	**(260,671)**	**97,443**

The notes on pages 18 to 67 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000 Restated*	HOLDING COMPANY 2012 $000	HOLDING COMPANY 2011 $000
ASSETS					
Current assets					
Cash and cash equivalents	16	1,459	18,830	58	13,108
Advances to other related parties	29	1,400	-	-	-
Finance receivables	17	47,814	83,062	-	-
Trade and other receivables		16,014	8,753	347	461
Current tax asset		13	-	3	-
Assets held for sale	23	39,162	47,506	-	33,920
Other assets	19	123	176	-	162
Total current assets		**105,985**	**158,327**	**408**	**47,651**
Non-current assets					
Advances to subsidiaries	29	-	-	175,125	115,598
Advances to other related parties	29	16,160	777	-	-
Advances to associates	29	3,765	1,185	-	-
Finance receivables	17	32,076	39,851	-	-
Investment property	18	20,974	39,760	-	-
Deferred tax asset	21	-	2,700	-	-
Property, plant and equipment		3,216	3,907	-	1
Investment in associates	22	24,207	6,011	-	-
Investment in subsidiaries		-	-	34,520	69,520
Other investments	20	31,195	33,644	-	-
Intangible assets	25	5,216	13,292	-	-
Total non-current assets		**136,809**	**141,127**	**209,645**	**185,119**
Total assets		**242,794**	**299,454**	**210,053**	**232,770**
LIABILITIES					
Current liabilities					
Bank overdrafts	16	9,209	2,200	5,023	-
Borrowings	26	14,964	3,833	11,895	-
Advances from subsidiaries	29	-	-	92,117	85,069
Advances from associates	29	879	-	-	-
Other liabilities	27	71,048	98,188	3,575	2,971
Total current liabilities		**96,100**	**104,221**	**112,610**	**88,040**
Non-current liabilities					
Borrowings	26	6,548	6,867	-	-
Other liabilities	27	42,637	43,323	-	-
Total non-current liabilities		**49,185**	**50,190**	**-**	**-**
Total liabilities		**145,285**	**154,411**	**112,610**	**88,040**
EQUITY					
Share capital	15	358,114	358,040	358,114	358,040
Accumulated losses and reserves		(260,605)	(212,997)	(260,671)	(213,310)
Total equity		**97,509**	**145,043**	**97,443**	**144,730**
Total equity and liabilities		**242,794**	**299,454**	**210,053**	**232,770**
Net tangible assets per share	15	43c	60c		

**2011 Comparatives restated, refer note 2(e).*

The notes on pages 18 to 67 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	HOLDING COMPANY 2012 $000	HOLDING COMPANY 2011 $000
Cash flows from operating activities					
Interest received		1,043	142,109	429	104
Rental and fees received from subsidiaries		-	-	-	2,689
Operating lease income received		-	13,667	-	-
Proceeds from sale of operating lease vehicles		-	14,765	-	-
Proceeds from offset of tax losses and subvention payment		7,338	-	-	-
Fees and other income received		23,056	27,614	496	890
Total cash provided from operating activities		**31,437**	**198,155**	**925**	**3,683**
Payments to suppliers and employees		28,583	71,228	4,938	11,420
Interest paid		1,393	92,783	703	69
Purchase of operating lease vehicles		-	17,194	-	-
Taxation paid		13	-	3	-
Payments under RECL management agreement		1,500	-	-	-
Total cash applied to operating activities		**31,489**	**181,205**	**5,644**	**11,489**
Net cash flows from / (applied to) operating activities	13	**(52)**	**16,950**	**(4,719)**	**(7,806)**
Cash flows from investing activities					
Proceeds from sale of intangible assets		-	85	-	-
Proceeds from sale of assets held for sale		10,769	-	-	-
Proceeds from sale of investment in associates		-	41,092	-	39,994
Proceeds from sale of investment property		2,486	-	-	-
Proceeds from staff share purchase schemes		162	151	162	151
Cash and cash equivalents acquired in a business combination		-	277,544	-	-
Total cash provided from investing activities		**13,417**	**318,872**	**162**	**40,145**
Increase in advances to subsidiaries		-	-	25,477	27,972
Increase in advances to associates		2,547	-	-	-
Increase in finance receivables		8,189	19,571	-	-
Increase in other investments		19,536	17,920	-	-
Increase in investment in associates		3,033	-	-	-
Increase in advance to related parties		14,733	-	-	-
Cash and cash equivalents disposed of on distribution of BSHL shares		-	263,197	-	-
Purchase of property, plant, equipment and intangible assets		714	19,051	8	7
Total cash applied to investing activities		**48,752**	**319,739**	**25,485**	**27,979**
Net cash flows from / (applied to) investing activities		**(35,335)**	**(867)**	**(25,323)**	**12,166**

The notes on pages 18 to 67 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2012

		GROUP		HOLDING COMPANY	
		2012	2011	2012	2011
	NOTE	$000	$000	$000	$000
Cash flows from financing activities					
Increase in share capital		74	1,535	74	1,535
Increase in borrowings		10,933	-	11,895	-
Total cash provided from financing activities		**11,007**	**1,535**	**11,969**	**1,535**
Decrease in borrowings		-	99,598	-	-
Total cash applied to financing activities		**-**	**99,598**	**-**	**-**
Net cash flows from / (applied to) financing activities		**11,007**	**(98,063)**	**11,969**	**1,535**
Net (decrease) / increase in cash and cash equivalents		**(24,380)**	**(81,980)**	**(18,073)**	**5,895**
Opening cash and cash equivalents		16,630	98,610	13,108	7,213
Closing cash and cash equivalents	16	**(7,750)**	**16,630**	**(4,965)**	**13,108**

The notes on pages 18 to 67 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

1. REPORTING ENTITY

Pyne Gould Corporation Limited is a listed Company incorporated in New Zealand. The financial statements presented are the consolidated financial statements comprising Pyne Gould Corporation Limited ("the Holding Company" or "the Company") and its subsidiaries, joint ventures and associates ("the Group").

Entities within the Group offer financial, trustee and asset management services. The registered office address is 80 Queen Street, Auckland.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for investment property recorded at fair value, assets held for sale recorded at the lower of cost or fair value less costs to sell and available for sale financial assets recorded at fair value.

(c) Functional and presentation currency

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

(d) Accounting judgements and major sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements in applying accounting policies

The following are the judgements that the directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in these financial statements:

2. BASIS OF PREPARATION (CONTINUED)

(d) Accounting judgements and major sources of estimation uncertainty (continued)

(i) Application of de-recognition rules to transferred financial assets

When the group transfers a financial asset the directors must evaluate the extent to which it retains the significant risks and rewards of ownership of the assets in order to determine whether the loans can be de-recognised for accounting purposes. The directors determined that certain loans which were transferred out of the Group through the 30 May 2011 in specie distribution of Heartland shares did not meet the requirements under NZ IAS 39 Financial Instruments: Recognition and Measurement to be derecognised. Therefore these loans are recognised in the financial statements of the Group. See note 28 for additional information on the loans and the management agreement.

Major sources of estimation uncertainty

The following are the key sources of estimation uncertainty at 30 June 2012 that have significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(i) Impairment of financial instruments

As described in notes 20, 30, and 32, the directors must evaluate the carrying amount of the group's financial assets for impairment. Where there is no active market price for a financial instrument, the directors must use their judgement in selecting an appropriate valuation technique. Details of the assumptions used are described in notes 20, 30 and 32.

(ii) Impairment of intangible assets

As described in note 3(n) the directors must evaluate the carrying amount of the group's intangible assets. Details of the impairment analysis for the group's intangible assets are included in note 25.

(iii) Valuation of investment property

As described in note 3(i) investment properties are carried at fair value in the financial statements. The directors obtain external valuations and other evidence supporting the carrying amounts of the group's investment properties. Information about the investment properties and their valuations is included in note 18.

(e) Restatement of prior year financial statements

On 30 May 2011 the group disposed of its 72.21% interest in Heartland New Zealand Limited by way of an in specie distribution to PGC's shareholders (see Notes 36 and 37 for more information on the transactions leading up to and including this distribution). As a result, PGC no longer held a controlling interest in MARAC Finance Limited (MARAC), a subsidiary of Heartland New Zealand Limited. Prior to the in specie distribution, Real Estate Credit Limited (RECL), a wholly owned subsidiary of PGC, entered into an agreement with MARAC to manage certain non-core real estate loans for a 5 year period and to assume the risk of loss on the loans up to $33 million (this cap was reduced to $30 million through amendments made to the agreement in October 2011). The Directors have re-examined the impact of this management agreement on the accounting treatment of the related loans and have determined that the loans should not have been derecognised at the time of the in specie distribution. The Group retained significant exposure to the loans through the management agreement and therefore the loans did not meet the de-recognition requirements under NZ IAS 39 *Financial Instruments: Recognition and Measurement.*

2. BASIS OF PREPARATION (CONTINUED)

(e) Restatement of prior year financial statements (continued)

The financial statements for the comparative period have been restated in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The impact of the restatement on the Statement of Financial Position of the Group at 30 June 2011 was to increase finance receivables and financial liabilities by $113.0 million. The impact of the restatement on the Statement of Comprehensive Income was a reclassification of amounts relating to the loans between line items with no change to profit or loss for the year and no change to total comprehensive income for the year. Other income increased by $1.0 million, Interest income increased by $18.3 million, Interest expense increased by $1.3 million, Selling and administration expense increased by $2.2 million, Impaired asset expense and investment write-down increased by $1.5 million, profit from discontinued operations before income tax decreased by $14.3 million and Income tax expense relating to discontinued operations decreased by $4.3 milion. The loss from continuing operations decreased by $10.0 million and the loss from discontinued operations increased by $10.0 million.

There was no impact to the financial statements of the Holding Company arising from the restatement. There was no impact to basic and diluted earnings per share arising from the restatement.

Statements of Financial Position for the Holding Company and Group as at 30 June 2010 have not been presented because there has not been any impact to the Statements of Financial Position at that date.

(f) Going concern

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years, unless otherwise stated.

(a) Investments in subsidiary companies

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

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(b) Investments in associates and jointly controlled entities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Investments in associates and jointly controlled entities (continued)

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

(c) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

(d) Interest

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

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

(e) Fee and commission income

Management and trustee fees are recognised as the related services are rendered.

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

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment. Subsequent costs are capitalised if it is probable that future economic benefits will flow to the Group and the costs can be measured reliably.

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

Buildings	50 years
Plant and equipment	1 - 13 years

(g) Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Tax

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

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

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

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

(i) Investment property

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

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

(j) Finance receivables

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

(k) Other investments

Other investments are carried at fair value, with fair value changes recognised in other comprehensive income, unless the Group has determined that the fair value cannot be reliably determined, refer to note 30 - Fair value.

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

(l) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets and liabilities

Recognition

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

Classification

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

Financial Assets/Liabilities	**Accounting Category**
Finance receivables	Loans and Receivables
Trade and other receivables	Loans and Receivables
Other investments	As disclosed in note 20
Advances to other entities	Loans and Receivables
Advances from other entities	Other liabilities at amortised cost
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Cash and cash equivalents	Loans and Receivables
Bank overdrafts	Other liabilities at amortised cost

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets and liabilities (continued)

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available for sale Financial Assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. Certain investments held by the Group are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in note 30. Gains and losses arising from changes in fair value are recognised directly in the available for sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period. The net gain / loss includes any dividend income on the investments. Certain available for sale investments held by the Group are measured at cost as they do not have a quoted market price and their fair value cannot be measured reliably.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise borrowings, trade and other payables and advances from other entities.

Derivative financial instruments, including hedge accounting

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets and liabilities (continued)

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in the hedging reserve is reclassified immediately to profit or loss as a reclassification adjustment.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

(n) Intangible assets

Goodwill

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

Identifiable intangible assets

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

Advisor books	10 years
Software	3-4 years
Licences	5 years
Statutory right and brand	indefinite useful life
Management contracts	30 years

(o) Impaired assets and past due assets

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

The term collectively impaired asset refers to an asset where an event has occurred which past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset Grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its estimated incurred losses.

Restructured assets are assets where the Group expects to recover all amounts owing although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

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

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

For further information about credit impairment provisioning refer to note 32 - Credit risk exposure.

(p) Employee benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Share schemes

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

General staff share purchase scheme

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

Discretionary share schemes

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

(r) Distribution of non-cash assets to owners

Non-reciprocal distributions of non-cash assets by the Group to its shareholders acting in their capacity as owners are recognised when authorised and approved by the Board of Directors and shareholders. Such distributions are measured at the fair value of assets to be distributed with any corresponding gain or loss recognised through profit or loss.

(s) Provisions

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

(t) Borrowings

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

(u) Financial guarantees

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

(v) GST

All items in the financial statements are stated exclusive of recoverable GST, except for receivables and payables, which are stated on a GST-inclusive basis. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed exclusive of GST.

(w) Statement of Cash Flows

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a gain from a bargain purchase.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(y) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(z) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Segment reporting (continued)

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

(aa) Comparative balances

Where necessary comparative amounts have been reclassified so that the information corresponds to the classification presented for the current year.

(ab) Changes in accounting policies

There have been no material changes in accounting policies in the current year.

(ac) Standards, interpretations and amendments to published standards

The following new standards and amendments to standards were applied during the period:

NZ IAS 24: Related Parties Disclosures (effective for annual reporting periods beginning on or after 1 January 2011):
The amendment simplifies and clarifies the definition of a related party.

FRS 44: New Zealand Additional Disclosures and Harmonisation Amendments (effective 1 July 2011).

FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs.

The Harmonisation Amendments amend various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards. The significant amendments include:

- deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
- inclusion of the option to account for investment property using either cost or fair value model;
- introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

In addition, various disclosure requirements have been deleted.

Adoption of the new rules has not affected any of the amounts recognised in the financial statements, but has simplified some of the Group's current disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 30 June 2012, and have not been applied in preparing these financial statements. The new standards, amendments and interpretations identified which may have an effect on the financial statements of the Group going forward are:

Standard and description	Effective for annual periods beginning on or after:	Expected to be initially applied in period ending:
Amendments to NZ IAS 12 'Income Taxes' - Deferred Tax: Recovery of Underlying Assets', which introduces a presumption that an investment property is recovered entirely through sale.	1-Jan-12	30-Jun-13
NZ IFRS 9 'Financial Instruments', which specifies how an entity should classify and measure financial assets.	1-Jan-15	30-Jun-16
NZ IFRS 10 'Consolidated Financial Statements' introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	1-Jan-13	30-Jun-14
NZ IFRS 11 'Joint Arrangements' focuses on the rights and obligations of joint ventures rather than the legal form as is currently the case and removes the proportionate consolidation option currently available, stipulating that all joint ventures must be equity accounted.	1-Jan-13	30-Jun-14
NZ IFRS 12 'Disclosure of Interests in Other Entities' contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities, and aims to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.	1-Jan-13	30-Jun-14
NZ IFRS 13 'Fair Value Measurement' replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.	1-Jan-13	30-Jun-14

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standard and description	Effective for annual periods beginning on or after:	Expected to be initially applied in period ending:
NZ IAS 27 'Separate Financial Statements' (2011) supersedes NZ IAS 27 (2008). NZ IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.	1-Jan-13	30-Jun-14
NZ IAS 28 'Investments in Associates and Joint Ventures' (2011) supersedes NZ IAS 28 (2008), and states that NZ IFRS 5 applies to an investment, or portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale and on cessation of significant influence or joint control where an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.	1-Jan-13	30-Jun-14
Amendments to NZ IAS 19 'Employee Benefits'	1-Jan-13	30-Jun-14

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

4. SEGMENTAL ANALYSIS

The Group has 4 reportable segments, as described below, which are the Group's strategic divisions.

During the year the Group changed the structure of its internal organisation into 4 new reportable segments (2011: 4). The prior year comparatives have been restated accordingly based on the new segments.

The following summary describes the operations in each of the Group's reportable segments:

Perpetual Group Personal trust, estate and corporate trustee and wealth management services.

Torchlight Investment Group Provider of investment management services and a proprietary investor (both directly and in funds it manages).

Property Group Property Group is responsible for managing the Group's property assets.

Head Office Head Office is the parent Company that holds investments in and advances to /from subsidiaries.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit/(loss) for the year, as included in the internal management reports that are reviewed by the Managing Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

4. SEGMENTAL ANALYSIS (CONTINUED)

GROUP - 2012	Perpetual Group	Torchlight Investment Group	Property Group	Head Office	Inter-segment Elimination	Total
External income						
Commission and fees	16,919	7,017	2,730	-	-	26,666
Interest income	-	254	11,245	766	-	12,265
Other revenue	-	112	2,402	382	-	2,896
Internal income						
Commission and fees	-	-	-	3,800	(3,800)	-
Dividend income	-	5,187	-	-	(5,187)	-
Total segment income	**16,919**	**12,570**	**16,377**	**4,948**	**(8,987)**	**41,827**
Expenses						
Personnel expenses	9,237	978	371	1,094	-	11,680
Interest expense	146	1	13,288	708	-	14,143
Depreciation and amortisation	648	181	4	8	-	841
Other operating expenses	11,527	7,999	3,276	4,100	(3,800)	23,102
Total operating expenses	**21,558**	**9,159**	**16,939**	**5,910**	**(3,800)**	**49,766**
Impairment	571	19,540	23,542	-	-	43,653
Equity accounted share of loss	-	749	-	-	-	749
Loss before tax	**(5,210)**	**(16,878)**	**(24,104)**	**(962)**	**(5,187)**	**(52,341)**
Income tax benefit /(expense)	-	4,638	-	-	-	4,638
Loss after tax	**(5,210)**	**(12,240)**	**(24,104)**	**(962)**	**(5,187)**	**(47,703)**
Total assets	**8,633**	**173,757**	**83,767**	**245,053**	**(268,416)**	**242,794**
Total liabilities	**11,723**	**26,847**	**108,726**	**113,305**	**(115,316)**	**145,285**

4. SEGMENTAL ANALYSIS (CONTINUED)

GROUP - 2011	Perpetual Group	Torchlight Investment Group	Property Group	Head Office	Inter-segment Elimination	Total
External income						
Commission and fees	15,752	3,687	2,679	-	-	22,118
Interest income	112	90	19,687	104	-	19,993
Other revenue	-	44	2,216	105	-	2,365
Internal income						
Commission and fees	-	50	-	2,564	(2,614)	-
Interest income	-	-	106	-	(106)	-
Dividend income	-	5,200	-	-	(5,200)	-
Total segment income	**15,864**	**9,071**	**24,688**	**2,773**	**(7,920)**	**44,476**
Expenses						
Personnel expenses	8,199	1,392	379	7,438	-	17,408
Interest expense	43	3,086	1,721	69	(106)	4,813
Depreciation and amortisation	335	305	-	375	-	1,015
Other operating expenses	7,493	1,456	6,817	4,191	(2,614)	17,343
Total operating expenses	**16,070**	**6,239**	**8,917**	**12,073**	**(2,720)**	**40,579**
Impairment	71	9,613	25,758	38,850	-	74,292
Equity accounted share of loss	-	1,215	-	-	-	1,215
Loss before tax	**(277)**	**(7,996)**	**(9,987)**	**(48,150)**	**(5,200)**	**(71,610)**
Income tax benefit /(expense)	(40)	(497)	(950)	(13,468)	-	(14,955)
Loss after tax	**(317)**	**(8,493)**	**(10,937)**	**(61,618)**	**(5,200)**	**(86,565)**
Loss from discontinued operation						**(54,543)**
Total loss for the year						**(141,108)**
Total assets	**9,505**	**190,865**	**146,063**	**78,200**	**(125,179)**	**299,454**
Total liabilities	**7,080**	**41,370**	**138,033**	**2,991**	**(35,063)**	**154,411**

5. NET INTEREST INCOME

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Interest income				
Bank deposits	70	271	15	104
Finance receivables	1,359	1,390	373	-
Advances to associates	196	-	-	-
Advances to related parties	440	-	378	-
MARAC asset	10,200	18,332	-	-
Total interest income	**12,265**	**19,993**	**766**	**104**
Interest expense				
Bank borrowings	1,393	3,517	707	69
MARAC liability	12,750	1,296	-	-
Total interest expense	**14,143**	**4,813**	**707**	**69**
Net interest income / (expense)	**(1,878)**	**15,180**	**59**	**35**

6. REVENUE AND OTHER INCOME

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Management fees	14,078	10,909	3,800	2,564
Trustee fees	10,182	9,798	-	-
MARAC management fees	2,406	1,411	-	-
Management fees and trustee fees revenue	**26,666**	**22,118**	**3,800**	**2,564**
Other income	2,896	2,365	382	105
Return of capital from subsidiary	-	-	618	-
Total fee and other income	**29,562**	**24,483**	**4,800**	**2,669**

7. SELLING AND ADMINISTRATION EXPENSES

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Personnel expenses	11,680	17,408	1,093	7,439
Superannuation	-	115	-	35
Directors' fees	493	403	493	403
Audit fees - PricewaterhouseCoopers	357	-	119	-
Audit fees - KPMG	10	221	10	108
Audit related fees *	-	189	-	27
Depreciation - buildings	-	11	-	-
Depreciation - plant and equipment	503	369	7	9
Amortisation expense	338	635	-	367
Loss on disposal of assets	135	115	7	-
Operating lease expense as a lessee	1,533	1,026	7	76
Other operating expenses **	20,574	15,274	3,466	3,543
Total selling and administration expenses	**35,623**	**35,766**	**5,202**	**12,007**

** For the year ended 30 June 2011, audit related fees included professional fees in connection with trustee reporting, review of prospectus documentation for various Group entities, ad hoc accounting advice and review work.*

*** Other operating expenses include professional and consultancy fees, property expenses, advisor commissions, listing and regulatory costs and other overhead expenditure.*

8. IMPAIRED ASSET EXPENSE

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Investment property change in fair value	4,313	9,016	-	-
Impairment of assets held for sale	623	-	-	-
Impairment of MARAC finance receivables	13,624	10,854	-	-
Impairment expense on MARAC management agreement	4,562	-	-	-
Impairment of other finance receivables individually assessed	352	5,959	-	-
Impairment of available for sale financial assets	3,269	6,713	6,244	-
Impairment in investment in subsidiaries	-	-	35,000	-
Impairment of EPIC management contract	2,552	-	-	-
Impairment of EPIC goodwill	-	2,400	-	-
Impairment of EPIC investment	2,728	-	-	-
Impairment of building	570	-	-	-
Impairment of AA licence	-	1,533	-	1,533
Other assets individually assessed for impairment	(14)	500	-	-
Total impaired asset expense	**32,579**	**36,975**	**41,244**	**1,533**

9. WRITE-DOWN INVESTMENT IN PGW

PGG Wrightson Limited (PGW)

At 30 June 2011, the fair value of PGW shares held for sale was $33.9 million, resulting in an impairment charge of $37.3 million. This investment was classified as a held for sale asset as at 30 June 2011 and remained as held for sale at 30 June 2012.

During the year ended 30 June 2012, the Group reduced its shareholding from 9.50% to 7.02%. At 30 June 2012 the fair value of the shares was $15.4 million, resulting in a further impairment charge of $11.1 million.

In the Holding Company an impairment charge of $5.8 million was recorded prior to the shares being transferred to a wholly owned subsidiary during the year. The impairment charge reflected the share price of PGW at the date of transfer.

The majority of the shares in PGW were sold subsequent to balance date in July 2012 as disclosed in Note 39.

10. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES

Significant subsidiaries	**Nature of business**	**2012 % held**	**2011 % held**
Perpetual Trust Limited	Trustee services	100%	100%
Perpetual Group Limited	Holding company	100%	100%
and its subsidiaries:			
Perpetual Portfolio Management Limited	Funds management	100%	100%
Perpetual Asset Management Limited	Asset management	100%	100%
Torchlight Investment Group Limited	Holding company	100%	100%
and its subsidiaries:			
Equity Partners Asset Management Limited	Asset management	100%	100%
Torchlight Securities Limited	Asset management	100%	0%
Ferrero Investments Limited	Holding company	100%	100%
Torchlight Fund No. 2 Limited Partnership	Investment holding entity	100%	100%
Torchlight Australia Pty Limited *	Investment holding entity	100%	100%
Equity Partners Infrastructure Management	Asset management	100%	100%
Torchlight (GP) 1 Limited	Asset management	100%	100%
Torchlight Management Limited	Asset management	100%	100%
Real Estate Credit Limited	Property asset management	100%	100%
Property Assets Limited	Property asset management	100%	100%
MARAC Financial Services Limited	Investment holding company	100%	100%
and its subsidiaries:			
MARAC Securities Limited **	Arranging structured finance	0%	100%
MARAC Investments Limited	Property and commercial financing	100%	100%
Associates			
Equity Partners Infrastructure Company No.1 Limited	Infrastructure investment	27%	11.1%
Van Eyk Research Limited	Investment research and fund management	38.2%	38.2%

** Torchlight Australia Pty Limited is incorporated in Australia. All other subsidiaries are incorporated in New Zealand.*

*** MARAC Securities Limited was struck off as a Registered Company on 3 May 2012.*

11. TAX

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Current tax (benefit) / expense				
Current year	-	-	-	-
Reversal of previously recognised tax losses, tax credits and tax offsets	-	1,001	-	(10)
Deferred tax expense / (benefit)				
Origination and reversal of temporary differences	-	-	-	-
Impact of tax rate change	-	-	-	-
Prior year adjustment	-	70	-	90
Reversal of previously recognised tax losses, tax credits and net temporary differences	-	13,678	-	300
Proceeds received in relation to previously unrecognised tax losses	(4,638)	-	-	-
Total income tax expense / (benefit)	**(4,638)**	**14,749**	**-**	**380**
Reconciliation of effective tax rate				
(Loss) / profit before income tax	(52,341)	(126,359)	(47,361)	(101,082)
Less share of equity accounted investees' (profit) / loss	749	1,215	-	-
Total taxable profit / (loss)	**(51,592)**	**(125,144)**	**(47,361)**	**(101,082)**
Prima facie tax at 28% (2011: 30%)	(14,446)	(37,543)	(13,261)	(30,325)
(Less) / plus tax effect of items not taxable / deductible	9,033	33,277	13,457	28,125
Unused tax losses and tax offsets not recognised as deferred tax assets	5,413	4,266	(196)	2,200
Reversal of previously recognised tax losses, tax credits and tax offsets	-	1,001	-	(10)
Prior year adjustment	-	70	-	90
Reversal of previously recognised tax losses, tax credits and net temporary differences	-	13,678	-	300
Proceeds received in relation to previously unrecognised tax losses	(4,638)	-	-	-
Total income tax expense / (benefit) *	**(4,638)**	**14,749**	**-**	**380**

The Company tax rate was reduced from 30% to 28% effective for the 2012 income tax year which, for the Company and Group commenced on 1 July 2011.

** Income tax expense for the year ended 30 June 2011 comprised of $14.9 million continuing operations and ($0.2) million of discontinued operation.*

12. IMPUTATION CREDIT ACCOUNT

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Balance at end of year available for use in subsequent reporting periods	**8**	**15,992**	**3**	**11,238**

13. RECONCILIATION OF PROFIT / (LOSS) AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Loss for the year	**(47,703)**	**(141,108)**	**(47,361)**	**(101,462)**
Add / (less) non-cash items:				
Non-cash movements related to in-specie distribution of BSHL shares	-	66,415	-	-
Accruals, capitalised interest and prepaid items	(1,655)	(5,843)	(337)	-
Disposal of property, plant and equipment	135	20	7	-
Disposal of business	-	(13,952)	-	52,949
Trade receivables written off as uncollectible	-	27,749	-	-
Reversal of trade receivables written off	-	(410)	-	-
Share of equity accounted investees' (profit) / loss	749	62	-	-
Change in fair value of hedging instruments	-	1,912	-	-
Impairment loss on non-current assets recognised in profit and loss	46,135	20,136	47,018	1,443
Write-down investment in associates - assets held for sale	-	38,407	-	37,317
Depreciation and amortisation of non-current assets	841	12,045	7	376
Return of capital from subsidiary	-	-	(618)	-
Management fees	(4,784)	-	(3,800)	-
Current tax	-	(18,715)	-	80
Deferred tax	-	33,294	-	300
Total non-cash items	**41,421**	**161,120**	**42,277**	**92,465**

13. RECONCILIATION OF PROFIT / (LOSS) AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

	GROUP		HOLDING COMPANY	
	2012	**2011**	**2012**	**2011**
	$000	**$000**	**$000**	**$000**
Add / (less) movements in working capital items:				
Trade and other receivables	1,398	1,199	114	890
Other assets	(109)	(2,364)	-	-
Other liabilities	393	3,674	2,031	(81)
Advances to subsidiaries	-	-	220	-
Advances to related parties	-	235	-	-
Advances to associates	(163)	-	-	-
Advances from associates	879	-	-	-
Trade and other payables	1,145	206	(1,997)	382
Operating lease vehicles	-	(6,011)	-	-
Current tax	(13)	-	(3)	-
Deferred tax	2,700	-	-	-
Total movements in working capital items	**6,230**	**(3,061)**	**365**	**1,191**
Add / (less) items classified as investing activities:				
Gain on sale of property	-	(1)	-	-
Total items classified as investing activities	**-**	**(1)**	**-**	**-**
Net cash flows from operating activities	**(52)**	**16,950**	**(4,719)**	**(7,806)**

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 30 June 2012 is based on the loss from continuing operations of $47.703 million (2011 loss: $86.565 million), and a weighted average number of shares on issue of 216.630 million (2011: 742.024 million). Earnings per share in relation to discontinued operations is disclosed in note 37.

15. SHARE CAPITAL

	2012 shares 000	2011 shares 000
Number of Issued shares		
Opening balance	216,630	773,522
Dividend Reinvestment Plan and Underwrite	-	30,419
Senior executive share plan	-	4,379
Cancellation of shares upon in-specie distribution	-	(591,690)
Closing balance	**216,630**	**216,630**

The shares have equal voting rights and rights to dividends and distributions and do not have a par value.

In December 2010, the Company issued 12,422,517 new shares at 37.2 cents per share under the Dividend Reinvestment Plan that operated for the special dividend paid on 3 December 2010. The Company also issued a further 17,996,215 new shares at 37.2 cents per share under the terms of an Underwrite Agreement entered into with First NZ Capital Securities Limited in respect of that dividend.

During the year ended 30 June 2011, the Company also issued 4,378,998 new shares at 36.74 cents per share for a Senior Executive Plan. The shares were vested to executives in three tranches on 1 October 2011, 1 November 2011 and 1 December 2011. During the year ended 30 June 2012, share capital increased by $73,743, being the final proceeds from the share issue, following former MARAC/PGC executives fulfilling the conditions of the plan (2011: $1,535,000).

In the year ended 30 June 2011, the Company distributed to its shareholders its 72.21% ownership interest in Building Society Holdings Limited (BSHL) effective 30 May 2011. In consideration for this distribution, 72.21% of the Company's shares, being 591,689,961 shares were cancelled. BSHL subsequently changed its name to Heartland New Zealand Limited (HNZ).

Net tangible assets are calculated by deducting deferred tax, intangible assets and liabilities from total assets. Net tangible assets per share are calculated by dividing the net tangible assets by the shares on issue at 30 June 2012.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of:

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Cash and cash equivalents	717	18,830	50	13,108
Perpetual cash mortgage fund investment - related party	742	-	8	-
Bank overdrafts	(9,209)	(2,200)	(5,023)	-
Total cash and cash equivalents	**(7,750)**	**16,630**	**(4,965)**	**13,108**

The Group has a multi option facility agreement which includes an overdraft facility of $5.0 million, a committed cash advance facility of $2.5 million, a property facility of $1.2 million and a client account overdraft of $0.5 million. The overdraft facility is repayable on demand, the committed cash advance facility expires on 30 June 2013, the property facility expires on 31 December 2012 and the client account overdraft expires 31 December 2012. The Holding Company is guarantor for the Group's multi option facility agreement.

17. FINANCE RECEIVABLES

		GROUP	
		2012	2011
	NOTE	$000	$000
Current			
Gross finance receivables - MARAC	28	62,422	89,042
Less allowance for impairment - MARAC	32	(25,564)	(13,164)
Gross finance receivables - other		11,805	8,522
Less allowance for impairment - other	32	(849)	(1,338)
Total current		**47,814**	**83,062**
Non-Current			
Gross finance receivables - MARAC	28	26,104	37,090
Gross finance receivables - other		5,972	2,761
Total non-current		**32,076**	**39,851**
Total finance receivables		**79,890**	**122,913**

Finance receivables are loans with various terms and interest rates. Further information on finance receivables is provided in note 32.

18. INVESTMENT PROPERTY

	GROUP	
	2012	**2011**
	$000	**$000**
Opening balance	39,760	41,838
Acquisitions and enforced security	1,800	23,588
Change in fair value	(4,313)	(9,016)
Disposals	(13,436)	(3,064)
Transfer to assets held for sale	(2,837)	(13,586)
Closing balance	**20,974**	**39,760**

As at 30 June 2012, investment property comprises a mix of residential and commercial properties. During the year $1.8 million of investment properties were acquired as a result of enforcement of security over finance receivables (June 2011: $23.6 million).

The following amounts were recognised in the statement of comprehensive income in respect of investment property held during the year ended 30 June:

	GROUP	
	2012	**2011**
	$000	**$000**
Rental income	1,729	1,565
Direct operating expenses arising from investment property that generated investment income	2,023	1,344
Direct operating expenses arising from investment property that did not generate investment income	1,707	1,626

19. OTHER ASSETS

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Staff share purchase schemes	-	162	-	162
Prepayments	123	14	-	-
Total other assets	**123**	**176**	**-**	**162**

20. OTHER INVESTMENTS

	GROUP	
	2012	2011
	$000	$000
Available for sale financial assets		
Torchlight Fund No. 1 Limited Partnership (TLP)	15,298	14,359
Strait Resources Limited (SRQ)	1,167	-
Equity Partners Infrastructure Company No 1 Limited (EPIC) - refer note 22	-	9,695
Other investments *	1,227	1,125
	17,692	**25,179**
Loans and receivables		
Zero coupon bond	8,948	8,465
Other loans and receivables	4,555	-
	13,503	**8,465**
Total other investments	**31,195**	**33,644**

** Other investments consists of a 10% investment in a Limited Partnership.*

As described in note 22, the Group increased its shareholding in EPIC during the year ended 30 June 2012 and now considers the investment an associate. An impairment of $ 2.7 million was recognised prior to transfer to investment in associates.

An impairment of $0.6 million was recognised in relation to the Group's investment in Torchlight Fund No. 1 LP (Torchlight) in the year ended 30 June 2011. This impairment was reversed during the year ended 30 June 2012.

21. DEFERRED TAX

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Recognised deferred tax assets and liabilities				
Plant and equipment	-	-	-	-
Employee entitlements	-	-	-	-
Finance receivables	-	-	-	-
Derivatives held for risk management	-	-	-	-
Tax losses subject to a loss offset agreement	-	2,700	-	-
Tax assets	**-**	**2,700**	**-**	**-**
Plant and equipment	-	-	-	-
Intangible assets	-	-	-	-
Operating lease vehicles	-	-	-	-
Accruals	-	-	-	-
Unexpensed commissions	-	-	-	-
Tax liabilities	**-**	**-**	**-**	**-**
Net tax assets	**-**	**2,700**	**-**	**-**

The following deferred tax assets have not been recognised as at 30 June:

	GROUP 2012 $000	GROUP 2011 $000	HOLDING COMPANY 2012 $000	HOLDING COMPANY 2011 $000
Tax losses (subject to meeting shareholder continuity requirements)	6,528	15,008	-	1,877
Deductible temporary differences	3,915	4,431	510	489
Total unrecognised deferred tax assets	**10,443**	**19,439**	**510**	**2,366**

22. INVESTMENT IN ASSOCIATES

	GROUP	
	2012	2011
	$000	$000
Carrying amount at end of year	**24,207**	**6,011**
Total assets of associates	97,784	4,639
Total liabilities of associates	(5,945)	(2,271)
Total revenue of associates	1,260	12,380
Total net profit / (loss) after tax of associates	(2,149)	(20)

22. INVESTMENT IN ASSOCIATES (CONTINUED)

Van Eyk Research Pty Limited (Van Eyk)

At 30 June 2012, the Group held a 38.2% stake in Van Eyk, an Australian based investment research and fund management company. The original purchase price included AUD$1.6 million (NZD$1.8 million) which was payable over 18 months. The balance which was included in other liabilities was fully paid in November 2011 (June 2011: NZD$0.57 million). Van Eyk is not a publicly listed entity and consequently does not have a published market value.

Equity Partners Infrastructure Company No.1 Limited (EPIC)

At 30 June 2011, the Group held a 11.1% stake in EPIC and it was treated as an investment. On 5 April 2012, the Group purchased 7,222,222 EPIC shares from Torchlight Fund No. 1 LP, at a cost of $3.03 million. On 4 May 2012, EPIC issued an additional 5,960,000 of ordinary shares to Equity Partners Infrastructure Management Ltd (EPIM), a wholly owned subsidiary of the Group, as part satisfaction of the amount owing from EPIC to EPIM (refer note 29). This brought the Group's interest up to 19.9% of EPIC's total issued share capital. The investment has been treated as an associate from this date. On 29 June 2012 a further issue of 13,707,687 shares was made to the Group in full satisfaction of the termination fee, management fee and Moto performance fee. This brought the Group's interest in EPIC to 26.96% of total issued capital.

EPIC is not a publicly listed entity and consequently does not have a published market value. Recent off market trades value the shares at $0.45 per share, which has been taken as fair value and used to value the investment at 30 June 2012. Impairment expense of $2.7 million was recognised in the current year prior to the reclassification.

23. ASSETS HELD FOR SALE

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Balance at end of year	**39,162**	**47,506**	**-**	**33,920**
Represented by:				
Investment property	4,365	13,586	-	-
Investment in HNZ	19,427	-	-	-
Investment in PGW	15,370	33,920	-	33,920
	39,162	**47,506**	**-**	**33,920**

At 30 June 2011 the investment in PGW was classified as an asset held for sale. The PGW investment was reclassified from held for sale to other investments during the six months ended 31 December 2011 as the Group was no longer actively marketing the investment for sale. The Group then recommenced actively marketing the investment in June 2012 so the shares have been classified as assets held for sale at 30 June 2012. The PGW investment is included in the Torchlight Investment Group segment.

23. ASSETS HELD FOR SALE (CONTINUED)

The investment has been marked-to-market based on a closing NZX bid price of $0.29 at 30 June 2012, with a total fair value of $15.4 million (2011: $33.9 million), resulting in an impairment charge of $11.1 million (2011: $37.3 million). The majority of this investment was sold subsequent to balance date, refer note 39.

During the year $2.8 million of investment property was reclassified to assets held for sale from investment properties, as these properties are being actively marketed for sale. The investment properties are included in the Property Group segment.

On 30 August 2011, the Group participated in the Heartland New Zealand Limited (HNZ) placement of shares and the underwrite of HNZ's share purchase plan. The Group subscribed for 13,333,333 new HNZ shares at $0.75 per share for an aggregate issue price of $10 million, and acquired an additional 10,048,352 new HNZ shares for $6.5 million at an issue price of $0.65 per share under the underwrite obligations. Following various purchases and sales of HNZ shares, at balance date the Group held 38,092,990 shares. The fair value of the shares, based on a closing NZX bid price of $0.51 was $19.4 million. Total impairment of $3.8 million was recognised in the Statement of Comprehensive Income for the year ended 30 June 2012. This investment was reclassified to Assets Held for Sale as at 30 June 2012. The HNZ investment is included in the Torchlight Investment Group segment.

24. INVESTMENT IN JOINT VENTURE

	GROUP	
	2012 $000	2011 $000
Carrying amount at beginning of year	-	2,124
Investment in joint venture	-	-
Equity accounted earnings of joint venture	-	(32)
Disposal of investment in joint venture	-	(2,092)
Carrying amount at end of the year	-	-

As at 30 June 2010, MARAC JV Holdings Limited (MJV) was jointly owned by the Group and The New Zealand Automobile Association Limited. During the year ended 30 June 2011, the Group disposed of this equity investment.

25. INTANGIBLE ASSETS

	GROUP					
	AA Licence & advisor books $000	Computer software $000	Statutory right & brands $000	Goodwill $000	Management contracts $000	Total $000
Cost						
Opening balance 1 July 2010	2,000	3,722	12,901	13,548	8,025	40,196
Additions	2,368	-	-	20,141	-	22,509
Impairment	(2,000)	-	-	(2,400)	-	(4,400)
Disposal	-	(3,722)	(9,500)	(31,289)	-	(44,511)
Closing balance 30 June 2011	**2,368**	**-**	**3,401**	**-**	**8,025**	**13,794**
Opening balance 1 July 2011	2,368	-	3,401	-	8,025	13,794
Additions	125	-	-	-	-	125
Impairment	-	-	-	-	(2,552)	(2,552)
Price adjustment	(475)	-	-	-	-	(475)
Disposal	-	-	-	-	(5,473)	(5,473)
Closing balance 30 June 2012	**2,018**	**-**	**3,401**	**-**	**-**	**5,419**
Accumulated amortisation						
Opening balance 1 July 2010	100	2,821	-	-	235	3,156
Disposal	(467)	(2,821)	-	-	-	(3,288)
Amortisation charge for the year	367	-	-	-	267	634
Closing balance 30 June 2011	**-**	**-**	**-**	**-**	**502**	**502**
Opening balance 1 July 2011	-	-	-	-	502	502
Disposal	-	-	-	-	(636)	(636)
Amortisation charge for the year	203	-	-	-	134	337
Closing balance 30 June 2012	**203**	**-**	**-**	**-**	**-**	**203**
Opening net book value	2,368	-	3,401	-	7,523	13,292
Closing net book value	**1,815**	**-**	**3,401**	**-**	**-**	**5,216**

During the year ended 30 June 2012, the Group acquired one Adviser book for $0.1 million. Also during the year the final price of an Adviser book purchased in the prior year was reduced based on a pricing methodology agreed with the vendor over a transition period, the amount of this revision was $0.5 million.

During the year ended 30 June 2011, the Group acquired three advisor books for $2.4 million.

25. INTANGIBLE ASSETS (CONTINUED)

During the year ended 30 June 2012, the reduction in intangible assets predominantly relates to the exchange of the management contract intangible for shares in EPIC, refer note 29. During the year ended 30 June 2011, the reduction in intangible assets was as a result of a $4.4 million impairment charge, and the in-specie distribution of the Group's ownership interest in Building Society Holdings Limited. Refer to note 37 for further information.

Impairment of intangible assets

Statutory right and brands are considered to have an indefinite life. The statutory right and brands of $3.4 million is allocated to Perpetual Trust Limited, which is included in the Perpetual group segment. During the year both the statutory right and the brands have continued to be used in the Group's business and the Group invested further in them to maintain their value.

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

The recoverable amount was determined based on its value in use. No impairment losses were recognised against the carrying amount of the Statutory right, brands or goodwill for the year ended 30 June 2012.

During the year ended 30 June 2011, goodwill of $2.4 million relating to the original acquisition of Equity Partners Asset Management Limited was impaired. Also, during the year ended 30 June 2011 the Group fully impaired its investment in the AA Licence.

26. BORROWINGS

	GROUP		HOLDING COMPANY	
	2012	**2011**	**2012**	**2011**
	$000	**$000**	**$000**	**$000**
Current				
Bank borrowings sourced from New Zealand	11,895	-	11,895	-
Property book borrowings sourced from New Zealand	3,069	3,833	-	-
Total current borrowings	**14,964**	**3,833**	**11,895**	**-**
Non-current				
Property book borrowings sourced from New Zealand	6,548	6,867	-	-
Total borrowings	**21,512**	**10,700**	**11,895**	**-**

As at 30 June 2012, the Group has bank facilities totalling $21.7 million (2011: $9.2 million). Also, Property Asset Limited, a wholly owned subsidiary has $9.6 million of debt (2011: $10.7 million), secured over various property assets. The Group's bank borrowings were repaid subsequent to balance date, refer note 39.

Bank borrowings are secured by a general security interest over the assets of the Holding Company and specific subsidiary companies, including the Group's shares in HNZ and PGW.

27. OTHER LIABILITIES

		GROUP		HOLDING COMPANY	
		2012	2011	2012	2011
	NOTE	$000	$000	$000	$000
Current					
Trade payables		11,599	6,693	1,529	1,523
Liability for MARAC finance receivables	28	54,358	86,709	-	-
Income in advance		2,648	2,206	-	-
Employee entitlements		2,443	2,580	2,046	1,448
Total other current liabilities		**71,048**	**98,188**	**3,575**	**2,971**
Non-current					
Income in advance		5,533	7,733	-	-
Liability for MARAC finance receivables	28	37,104	35,590	-	-
Total other non-current liabilities		**42,637**	**43,323**	**-**	**-**
Total other liabilities		**113,685**	**141,511**	**3,575**	**2,971**

28. FINANCE RECEIVABLES SUBJECT TO MANAGEMENT AGREEMENT

On 5 January 2011, Real Estate Credit Limited (RECL), a wholly owned subsidiary of PGC, entered into a management agreement with MARAC Finance Limited (MARAC). Under this arrangement, RECL agreed to manage certain non-core real estate loans of MARAC for a 5 year period (ending 5 January 2016) and assumed the risk of loss on those loans for that period. The maximum amount payable to MARAC under the initial agreement was $33 million. Amendments to the agreement on 19 October 2011 reduced the maximum amount payable to $30 million (including interest accruing on the loan balances until the due date for payment). Any payment by RECL to MARAC in respect of that loss is due at the end of the 5 year period (with some limited right on the part of MARAC to earlier payment).

The payment obligations of RECL are "limited in recourse" to a pool of security provided by RECL. The terms of the agreement require the pool of security to include an $11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA- by Standard & Poor's (Australia) Pty Limited), and a minimum $19 million in security value of other assets (initially real estate or real estate loans) less any amounts paid to MARAC. In September 2011, RECL paid $1.5 million cash for claims to MARAC (2011: nil). This payment reduced the required minimum security value of the other assets to $17.5 million. The Group will be obliged to top up the security pool to the extent there is a shortfall in the security value of the other assets. The directors believe RECL has a pool of assets including RECL cash reserves that are sufficient to meet its obligations under the agreement at this time.

MARAC paid RECL an upfront fee of $11 million (which is being amortised over the 5 year period of the arrangement) and will pay an on-going management fee of $200,000 per annum for the 5 year period.

28. FINANCE RECEIVABLES SUBJECT TO MANAGEMENT AGREEMENT (CONTINUED)

On 30 May 2011 the Group disposed of its 72.21% interest in Heartland New Zealand Limited by way of an in specie distribution to PGC's shareholders (see note 37). MARAC, a subsidiary of Heartland, was therefore no longer a part of the consolidated group. Until the date of the in specie distribution, all of the risks and rewards of the loans subject to the RECL management agreement were retained within the group because the loans were held by MARAC and the guarantee was provided by RECL, both subsidiaries of PGC. Once the Heartland shares were distributed in May 2011, MARAC was no longer part of the consolidated group and therefore the group effectively transferred the loans. However the group retained a significant amount of risk in relation to the loans through the RECL management agreement. The directors have determined that the loans did not meet the de-recognition requirements under NZ IAS 39 *Financial Instruments: Recognition and Measurement.* Therefore the group is recognising the remaining loan balances on its Statement of Financial Position during the period of the agreement and is recognising an associated liability representing the carrying amount of the loans which are legally owned by MARAC and the amount expected to be paid to MARAC in relation to the guarantee.

29. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Assets				
Australasian Equity Partners No.1 LP (AEP) *	311	-	311	-
Advances to subsidiaries	-	-	175,125	115,598
Torchlight Fund No.1 LP (TLP) **	17,560	777	-	-
Equity Partners Infrastructure Company No.1 Ltimited (EPIC) ***	163	-	-	-
Van Eyk Research Pty Ltd (Van Eyk) ***	3,602	1,185	-	-
Total	**21,636**	**1,962**	**175,436**	**115,598**
Liabilities				
Advances from subsidiaries	-	-	92,117	85,069
EPIC ****	879	-	-	-
Total	**879**	**-**	**92,117**	**85,069**

** Included in trade and other receivables*

*** Included in advances to other related parties*

**** Included in advances to associates*

***** Included in advances from associates*

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Ultimate Controlling Party

AEP is the ultimate controlling party of PGC following the takeover offer during the year ended 30 June 2012 and held 76.77% of PGC's shares at balance date.

The Group charged AEP $0.3 million (2011: nil) for various attendances in relation to the AEP takeover offer. The full outstanding amount is recognised in trade and other receivable at balance date. AEP charged PGC management fees of $0.5 million during the year which were paid prior to balance date.

Subsidiaries

Advances to and from subsidiaries are interest free and repayable on demand. During the year ended 30 June 2012, no impairment was recognised in respect of these advances (2011: impairment of $3.0 million).

Management fees of $3.8 million (2011: $2.6 million) were recognised for head office services provided to subsidiaries.

Associates

Equity Partners Infrastructure Company No.1 Ltd (EPIC)

During the year ended 30 June 2011, the Group provided management services to EPIC and received performance fees in relation to EPIC's investment in Moto International Parent Limited (Moto) under the terms of the Management Agreement between the two parties. The performance fee is based on the internal rate of return achieved by Moto in the period to the earlier of 20 June 2019 or the date that the investment in Moto is sold, listed on a stock exchange, a change of control occurs in EPIC or the manager of EPIC changes.

On 13 February 2012, the parties agreed to terminate the Management Agreement. Under the termination arrangement, EPIC agreed to pay a termination fee of $4.8 million, a final Moto performance fee of $3.3 million and to provide certain management services under a secondment agreement over a 12 month period for $0.7 million. The secondment fee is repayable pro rata to EPIC if the Group terminate the agreement or fail to provide the services. The Group also agreed to reimburse EPIC for advisors fees incurred in connection with the termination arrangement. Following the termination of the Management Agreement, an impairment charge of $2.5 million was recognised against the management contract previously recognised as an intangible asset (note 25).

On 4 May 2012 and 29 June 2012, EPIC issued an additional 5.96 million and 13.7 million shares respectively to the Group in satisfaction of the $8.8 million owing under the termination arrangement. From 4 May 2012, EPIC is considered an associate of the Group – refer note 22 for further information. Prior to this reclassification, the Group recognised an impairment charge of $2.7 million on its existing investment in EPIC.

During the year ended 30 June 2011, EPIC decided to redeem its investment in Thames Water (a UK utility company), and pay the Group a retainer fee of $65,000 per month from April 2011 through to the completion of the redemption and a completion fee of 1.75% of total redemption proceeds. During the year ended 30 June 2012 retainer and redemption fees of $0.6 million and $1.3 million respectively were recognised by the Group in full satisfaction of the agreement.

For the year ended 30 June 2012 management fee income of $1.0 million (2011: $1.5 million) was recognised.

The Group acquired a $14.0 million participation in National Australia Bank's (NAB) first ranking loan facilities to EPIC by advancing funds on 8 and 15 July 2011. The NAB loan was repaid by EPIC on 13 December 2011 including the $14.0 million sub participation by PGC. Interest received during the year was $0.4 million (2011: Nil).

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Van Eyk
On 28 October 2011, the Group advanced an interest free loan of AU$1.8 million (NZ$2.34 million) to Van Eyk. The loan is repayable on demand and was outstanding at balance date.

On 20 April 2011, the Group advanced AU$0.9 million (2012: NZ$1.26 million, 2011: NZ$1.19million) to an associated party of Van Eyk. The loan is repayable on demand, accrues interest at 8% per annum and was outstanding at balance date.

A further advance was made to Van Eyk of AU$7.2 million (NZ$9.4 million) subsequent to year end – refer note 39.

Other Related Parties
Torchlight Fund No.1 LP (TLP)
TLP is considered a related party because the controlling person of PGC is a member of the key management personnel of TLP.

The Group as manager of TLP receives management, investment acquisition and performance fees from TLP. In addition, the Group has a partnership interest of 10% in TLP and has advanced funds.

During the year ended 30 June 2012, a receivable of $4.75 million was acquired from TLP at fair value.

Management fees are equal to 1.85% per annum of total committed capital until the end of the Investment Period (three years from 26 October 2010, unless terminated earlier by the manager or extended by the advisory committee) and 1.85% per annum of the invested capital thereafter. Investment acquisition fees are 1.5% of the purchase price of investments made and performance fees are 20% of returns in excess of 8% per annum paid to Limited Partners on a pro rata basis.

Total fees recognised during the year ended 30 June 2012 were $2.8 million (2011: $4.6 million).

At balance date, the amount receivable from TLP was $16.2 million (2011: $0.8 million). Of the outstanding balance $9.1 million is interest free with the remaining $7.1 million accruing interest at 9%.

On 22 March 2012 and 26 March 2012, the Group paid $0.95 million and $0.45 million respectively to facilitate additional investment in TLP by an unrelated party which was guaranteed in full by TLP. This was repaid in full subsequent to balance date.

Fund management fees
Fees of $6.8 million were received by the Perpetual Group segment for fund management services provided during the year ended 30 June 2012 (2011: $5.3 million). In addition, the Perpetual Group has paid expenses on behalf of Funds which are subsequently reimbursed. The amounts receivable at 30 June 2012 were $0.2 million (2011: amount payable $0.3 million).

Former Related Parties
There were a number of transactions during the year ended 30 June 2011 with MARAC entities who were considered related parties of the Group at the time of the transactions. Following the Group's disposition of its shareholding in BSHL, these entities were no longer considered related parties. Details of these transactions are provided in note 37.

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with key management personnel

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

	GROUP		HOLDING COMPANY	
	2012	**2011**	**2012**	**2011**
	$000	**$000**	**$000**	**$000**
Debenture investing:				
Maximum balance	-	872	-	-
Closing balance	-	-	-	-
Key management personnel compensation is as follows:				
Short-term employee benefits*	3,200	5,113	1,076	4,251
Share-based payments	-	1,937	-	1,937
Total	**3,200**	**7,050**	**1,076**	**6,188**

** In 2011 senior executives received a cash bonus which was utilised to acquire shares in the Company.*

30. FAIR VALUE

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

Finance receivables
The fair value of the Group's finance receivables was calculated based on discounted cash flow analysis using current market interest rates for loans of similar nature and term or by reference to the value of the underlying collateral.

Investments - listed securities
The fair value of the Group's listed securities is determined based on the closing bid price of each security at 30 June.

Other investments - zero coupon bond
The fair value of the zero coupon bond is based on the present value of expected cash flows from the bond, using market interest rates as at the balance date.

Other investments - other loans and receivables
The fair value of other loans and receivables are considered equivalent to their carrying value due to their short term nature.

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

30. FAIR VALUE (CONTINUED)

Other financial assets and liabilities

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

	2012		2011	
	Carrying Value $000	Fair Value $000	Carrying Value $000	Fair Value $000
GROUP				
Financial assets				
Cash and cash equivalents	1,459	1,459	18,830	18,830
Finance receivables - MARAC	62,962	60,948	112,968	112,835
Finance receivables - other	16,928	16,928	9,945	9,945
Other investments	22,247	22,247	25,179	25,179
Zero coupon bond	8,948	9,477	8,465	8,465
Assets held for sale - shares	34,797	34,797	33,920	33,920
Advances to other related parties	17,560	17,560	777	777
Advances to associates	3,765	3,765	1,185	1,185
Other financial assets	16,014	16,014	8,753	8,753
Total financial assets	**184,680**	**183,195**	**220,022**	**219,889**
Financial liabilities				
Bank overdrafts	9,209	9,209	2,200	2,200
Borrowings	21,512	21,512	10,700	10,700
Advances from associates	879	879	-	-
Liability for MARAC finance receivables	91,462	89,448	122,299	122,166
Other financial liabilities	14,042	14,042	9,273	9,273
Total financial liabilities	**137,104**	**135,090**	**144,472**	**144,339**

30. FAIR VALUE (CONTINUED)

	2012		2011	
	Carrying Value $000	Fair Value $000	Carrying Value $000	Fair Value $000
HOLDING COMPANY				
Financial assets				
Cash and cash equivalents	58	58	13,108	13,108
Advances to subsidiaries	175,125	175,125	115,598	115,598
Assets held for sale - shares	-	-	33,920	33,920
Other financial assets	347	347	461	461
Total financial assets	**175,530**	**175,530**	**163,087**	**163,087**
Financial liabilities				
Bank overdrafts	5,023	5,023	-	-
Borrowings	11,895	11,895	-	-
Advances from subsidiaries	92,117	92,117	85,069	85,069
Other financial liabilities	3,575	3,575	2,971	2,971
Total financial liabilities	**112,610**	**112,610**	**88,040**	**88,040**

Fair Value Heirarchy
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value grouped as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and

c) Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

30. FAIR VALUE (CONTINUED)

	GROUP 2012			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Available for sale investments held at fair value	1,167	16,525	-	17,692
Assets held for sale	34,797	-	-	34,797
Total Financial Assets	**35,964**	**16,525**	**-**	**52,489**

	GROUP 2011			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Available for sale investments held at fair value	-	15,484	9,695	25,179
Assets held for sale	33,920	-	-	33,920
Total Financial Assets	**33,920**	**15,484**	**9,695**	**59,099**

31. RISK MANAGEMENT POLICIES

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

Management of capital
No members of the Group had externally imposed capital requirements in relation to their borrowing facilities.

32. CREDIT RISK EXPOSURE

Credit risk management framework
Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. To manage this risk, the Board of Directors (Board) approves all transactions that would subject the Group to significant credit risk.

Reviewing and assessing credit risk
The credit risk management strategies ensure that:
- Credit origination meets agreed levels of credit quality at point of approval.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

32. CREDIT RISK EXPOSURE (CONTINUED)

Collateral requirements - MARAC finance receivables

The MARAC finance receivables are primarily secured by way of first mortgages with some loans secured by way of second mortgages over the properties to which the loans relate. The group's maximum exposure to the loans under the management agreement (see note 28) is $28.5 million at 30 June 2012 (2011: $33 million). The fair value of the collateral for many of the loans has decreased. Where MARAC has acquired investment property through enforcement of security this has in some cases resulted in a shortfall between the fair value of the collateral and the gross loan value. The Group anticipates that it will be required to pay the maximum amount under the agreement so the group has recognised impairment expense up to its full exposure to the loans.

Collateral requirements - other finance receivables

The Group normally requires collateral for finance receivables. All other finance receivables have partial or full collateral in place. The collateral is usually by way of first charge over the asset financed and generally includes personal guarantees from borrowers and business owners.

(a) Credit impairment provisioning

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. A collective impairment is made where an event has occurred which past history indicates that there is an increased possibility that the Group will not collect all of the principal and interest as it falls due.

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

MARAC finance receivables provision for impaired assets

	GROUP	
	2012	**2011**
	$000	**$000**
Provision for individually impaired assets		
Opening individual impairment	2,778	8,712
Impairment loss for the year		
- charge for the year	(1,756)	1,674
- recoveries	-	-
- write offs	159	(6,999)
- effect of discounting	(155)	(609)
Closing individual impairment	**1,026**	**2,778**

32. CREDIT RISK EXPOSURE (CONTINUED)

(a) Credit impairment provisioning (continued)

	GROUP	
	2012	**2011**
	$000	**$000**
Provision for collectively impaired assets		
Opening collective impairment	10,386	4,463
Impairment loss for the year		
- charge / (credit) for the year	15,380	9,180
- recoveries	-	3
- write offs	(1,228)	(3,260)
Closing collective impairment	**24,538**	**10,386**
Total provision for impairment	**25,564**	**13,164**
Individually impaired assets (recovery) / expense	(1,756)	1,674
Collectively impaired assets expense	15,380	9,180
Total impaired asset expense	**13,624**	**10,854**

There is a provision for individually impaired assets at 30 June 2012 of $0.9 million (2011: $1.3 million) relating to other finance receivables. For the year ended 30 June 2012, total impairment charge of $0.4 million against finance receivable includes a reversal of prior period impairment of $0.5 million.

Concentrations of credit risk
The Group has a concentration of credit risk in both the current and prior year in relation to its cash and cash equivalents balances and zero coupon bond in other investments which are deposited with a small number of financial institutions.

At 30 June 2012, included in trade and other receivables and other finance receivables are $20.5 million (2011: $9.8 million) of loan receivables relating to the property sector. All of the MARAC finance receivables relate to the property sector.

Maximum Exposure to Credit Risk
The carrying amount of the Group's financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained, except for the MARAC finance receivables where the Group's exposure is limited to $28.5 million (2011: $33 million). See note 28 for more information.

32. CREDIT RISK EXPOSURE (CONTINUED)

(i) Individually impaired assets

MARAC finance receivables individually impaired assets

	GROUP	
	2012	**2011**
	$000	**$000**
Opening	19,636	19,165
Additions	17,819	32,000
Deletions	(21,283)	(31,529)
Closing gross individually impaired assets	**16,172**	**19,636**

At 30 June 2012, the Group has considered $1.6 million of other finance receivables to be impaired. At 30 June 2011 the Group had $6.2 million in other finance receivables which were considered to be impaired. In each case the counterparties to the impaired finance receivable have failed to make a payment when it was due under the terms of the agreement. In determining that these receivables were impaired the directors considered the business prospects for the counterparty and the likely cost and duration of the work out process.

(ii) Past due but not impaired

MARAC finance receivables past due but not impaired

	GROUP	
	2012	**2011**
	$000	**$000**
Less than 30 days past due	365	5,108
At least 30 and less than 60 days past due	139	18,432
At least 60 but less than 90 days past due	1,565	4,358
At least 90 days past due	27,167	43,479
Total past due but not impaired	**29,236**	**71,377**

At 30 June 2012 the Group did not have any other receivables which were past due but not impaired (2011: nil).

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments.

The Group managed liquidity and funding risk by actively monitoring cash on a daily basis to ensure sufficient liquid resources are available to meet requirements. Cash flow forecasts are prepared regularly and corrective action taken where a shortfall in cash is expected.

33. LIQUIDITY RISK (CONTINUED)

Contractual liquidity profile of financial liabilities

	0-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
2012 - GROUP					
Financial liabilities					
Borrowings	14,952	7,577	-	-	22,529
Bank overdraft	9,209	-	-	-	9,209
Advances from associates	879	-	-	-	879
Other financial liabilities	14,042	-	-	-	14,042
Liability for MARAC finance receivables	57,317	5,716	35,021	-	98,054
Total financial liabilities	**96,399**	**13,293**	**35,021**	**-**	**144,713**

	0-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
2011 - GROUP					
Financial liabilities					
Borrowings	11,602	2,002	-	-	13,604
Other financial liabilities	9,273	-	-	-	9,273
Liability for MARAC finance receivables	118,097	720	12,640	-	131,457
Total financial liabilities	**138,972**	**2,722**	**12,640**	**-**	**154,334**
Undrawn committed bank facilities	7,000	-	-	-	7,000

In July 2012 (as outlined in Note 39) the Holding Company's borrowings and bank overdraft were repaid in July 2012.

33. LIQUIDITY RISK (CONTINUED)

	0-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
2012 - HOLDING COMPANY					
Financial liabilities					
Borrowings	11,895	-	-	-	11,895
Bank overdraft	5,023	-	-	-	5,023
Advances from subsidiary companies	92,117	-	-	-	92,117
Other financial liabilities	3,575	-	-	-	3,575
Total financial liabilities	**112,610**	**-**	**-**	**-**	**112,610**

	0-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
2011 - HOLDING COMPANY					
Financial liabilities					
Advances from subsidiary companies	85,069	-	-	-	85,069
Other financial liabilities	2,971	-	-	-	2,971
Total financial liabilities	**88,040**	**-**	**-**	**-**	**88,040**
Undrawn committed bank facilities	5,000	-	-	-	5,000

The tables above show the undiscounted cash flows of the Group and Holding Company's financial liabilities on the basis of their earliest possible contractual maturity.

There were no significant undrawn committed bank facilities at 30 June 2012 for the Group or Holding Company (Group 2011: $7.0 million, Parent 2011: $5.0 million).

There were no unrecognised loan commitments for the Group or Holding company for the year ended 30 June 2012 (2011: nil).

In the tables above, total financial liabilities do not include undrawn committed bank facilities.

34. MARKET RISK

Interest rate risk
Interest rate risk is the risk that market interest rates will change and impact on the Group's financial results.

The Group's interest rate risk relates to financial assets and financial liabilities which are on floating interest rates. The Group does not have significant interest rate risk as at 30 June 2012 or 30 June 2011 therefore no sensitivity analysis has been provided. The Group is not exposed to interest rate risk on the finance receivables which are subject to the RECL management agreement as the interest and principal cash flows are owned by MARAC (see note 28).

34. MARKET RISK (CONTINUED)

Equity price risk
The Group is exposed to equity price risks arising from its listed and unlisted equity investments. Information on the Group's equity investments is included in note 20 and note 23 (for those held for sale at 30 June).

Equity price sensitivity analysis
The sensitivity analysis below has been determined based on the exposure to equity price risks at 30 June 2012.

If equity prices had been 10% higher, the Group's:

- Profit for the year ended 30 June would have increased by $3.6 million (2011: $6.0 million) due to the reduction in impairment recognised on available-for-sale investments.
- Other equity reserves would have increased by $1.7 million (2011: $1.0 million) as a result of changes in the fair value of investments.

If equity prices had been 10% lower, the Group's:

- Profit for the year ended 30 June would have decreased by $5.2 million (2011: $6.0 million) due to the increase in impairment recognised on available-for-sale investments.
- Other equity reserves would have been unaffected as the impairment would be recognised in profit or loss (2011: nil).

If equity prices had been 10% higher, the Holding Company's:

- Profit for the year ended 30 June would be unaffected (2011: $3.39 million) as the holding company transferred its investment in available-for sale financial assets during the year to a wholly owned subsidiary.
- Other equity reserves would have been unaffected (2011: nil).

If equity prices had been 10% lower, the Holding Company's:

- Profit for the year ended 30 June would be unaffected (2011: $3.39 million) as the holding company transferred its investment in available-for sale financial assets during the year to a wholly owned subsidiary.
- Other equity reserves would have been unaffected (2011: nil)

Foreign exchange risk
The Group's exposure to foreign currency risk arises from its investment in shares in an ASX listed company, loans to and investment in its Australian associate Van Eyk and foreign currency bank accounts, all denominated in AUD. A 10% increase/decrease in the New Zealand dollar against the Australian dollar would have resulted in a $0.126 million increase/decrease to profit or loss for the year (2011: $0.06 million). The effect in equity would be nil (2011: nil).

The Holding Company had no significant exposure to foreign exchange risk at 30 June 2012 (2011: nil).

35. CONTINGENT LIABILITIES AND COMMITMENTS

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Letters of credit, guarantees and performance bonds	890	-	275	75
Commitments to further investment	-	375	-	-
Bank guarantee - Perpetual Trust Limited	-	-	3,000	4,200
Total contingent liabilities	**890**	**375**	**3,275**	**4,275**

The liability in relation to the MARAC management agreement is described in note 28.

Operating lease commitments
Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities:

	GROUP		HOLDING COMPANY	
	2012	2011	2012	2011
	$000	$000	$000	$000
Within 1 year	976	954	-	-
Between 1 & 5 years	2,754	2,832	-	-
Over 5 years	1,640	2,109	-	-
Total operating lease commitments	**5,370**	**5,895**	**-**	**-**

36. ACQUISITION OF SUBSIDIARY

Business combination
There were no business combinations during the year ended 30 June 2012.

On 5 January 2011, MARAC Financial Services Limited (MFSL), a wholly owned subsidiary of PGC, exchanged its 100% shareholding in MARAC and its 50% investment in MARAC JV Holdings for 72.21% of the shares in Building Society Holdings Limited (BSHL). The agreed consideration of $206.8 million converted to the issue of 3.94 fully paid shares in BSHL in exchange for each MARAC share. On the same date, Combined Building Society, a wholly owned subsidiary of BSHL, acquired all of the assets and engagements of Southern Cross Building Society (SCBS) and CBS Canterbury (CBS) for the total agreed consideration of $79.6 million. Combined Building Society then subsequently acquired all of the shares in MARAC through BSHL transferring its shareholding in MARAC to CBS (through its subsidiaries as intermediate holders).

As a result of the above transaction, PGC disposed of 27.79% of its investment in MARAC Finance Limited in exchange for a 72.21% shareholding in BSHL.

37. DISCONTINUED OPERATIONS

In-specie distribution of BHSL Shares

On 30 May 2011, the Group disposed of its remaining interest in MARAC Finance Limited and MARAC JV Holdings Limited, held via its 72.21% shareholding in BSHL, by way of a in-specie distribution to PGC shareholders. As a result, PGC relinquished control of BSHL and the resulting loss on disposal has been recognised in profit and loss for the year ended 30 June 2011. The distribution of the BSHL shares and cancellation of a proportion of PGC shares was effective as at 30 May 2011. The net effect of the distribution, including any profit or loss, is that the Group's net assets have reduced by $317.5 million during the year ended 30 June 2011.

The profit/(loss) for the year ended 30 June 2011 from discontinued operations represents 100% of MARAC Finance Limited's profit/(loss) for the period 1 July 2010 to 6 January 2011, and 72.21% of BSHL's profit/(loss) for the period 7 January 2011 to 30 May 2011.

There were no discontinued operations during the year ended 30 June 2012.

	GROUP	
	2012	**2011**
	$000	**$000**
Results of discontinued operations		
Revenue	-	147,872
Expenses	-	149,692
Results from operating activities	**-**	**(1,820)**
Income tax benefit	-	206
Results from operations, net of income tax	**-**	**(1,614)**
Loss on remeasurement to fair value	-	-
Loss on disposal of discontinued operation	-	52,929
Income tax on gain on sale of discontinued operation	-	-
Profit/(Loss) from discontinued operations for the period	**-**	**(54,543)**
Profit/(Loss) from discontinued operations attributable to:		
Owners of the Company	-	(55,327)
Non-controlling interests	-	784
Profit/(Loss) from discontinued operations for the period	**-**	**(54,543)**
Basic earnings/(loss) per share	-	-7c
Diluted earnings/(loss) per share	-	-7c
Cash flows from discontinued operations		
Net cash from operating activities	-	13,854
Net cash from investing activities	-	(1,453)
Net cash from financing activities	-	(113,153)
Net cash from/(used in) discontinued operations	**-**	**(100,752)**

37. DISCONTINUED OPERATIONS (CONTINUED)

	GROUP 2012 $000	GROUP 2011 $000
Effect of disposal on the financial position of the Group		
Cash and cash equivalents	-	(263,197)
Finance receivables	-	(1,614,688)
Operating lease vehicles	-	(32,899)
Investments	-	(19,273)
Investment property	-	(9,899)
Trade receivables	-	(6,078)
Other assets	-	(27,423)
Deferred tax asset	-	(6,460)
Intangible assets	-	(40,834)
Borrowings	-	1,790,266
Trade creditors	-	21,369
Other liabilities	-	(108,396)
Reduction in equity	**-**	**(317,512)**
Less non controlling interest	-	79,574
Less In-specie loss on distribution of BSHL shares	-	52,929
Movements in Equity	**-**	**(185,009)**
Consideration received	-	-
Cash and cash equivalents disposed of	-	(263,197)
Net cash inflow	**-**	**(263,197)**

In-specie distribution transaction summary

	GROUP 2012 $000	GROUP 2011 $000
BSHL carrying value	-	317,512
Less non controlling interest	-	(79,574)
Carrying value of PGC's investment in BSHL	-	237,938
Less fair value of in-specie distribution	-	(164,639)
Loss on disposal/in-specie distribution	-	(73,299)
Recognised directly in equity in relation to dilution	-	(20,370)
Recognised directly in profit and loss in relation to the in-specie distribution	-	(52,929)
	-	**(73,299)**

37. DISCONTINUED OPERATIONS (CONTINUED)

(a) Transactions with former related parties

There were a number of transactions with entities during the year ended 30 June 2011 which ceased being related entities by 30 June 2011. These transactions are detailed below:

Sale of non-performing loans
In September 2009 MARAC entered into a sale and purchase agreement to transfer and assign legal and beneficial title to $175 million of non performing loans to its parent company MFSL.

The loans were transferred from MARAC at book value. In October 2009 the transfer was completed with MFSL paying $125 million in cash, and issuing a loan note of $50 million for the balance. As at 30 June 2010 the balance of the loan note was $42.6 million excluding accrued interest. During the year ended 30 June 2011 the loan note was settled in full, with MARAC receiving $39.8 million in cash and the remaining $3.9 million in tax losses (2010: $7.4 million tax losses). PGC guaranteed the obligations of MFSL under the loan note. Interest was accrued on the loan note on an arms length basis.

As a consequence of the loan transfer, MARAC entered into an Underwrite Agreement under which PGC undertook to underwrite credit losses on certain impaired property loans. The Underwrite Agreement was terminated on the 5 January 2011.

AA Licence
In March 2010, PGC entered into a 5 year exclusivity agreement with New Zealand Automobile Association (NZAA) to enable a range of financial services to be offered to NZAA members. In May 2011 as part of the in specie distribution of shares in Heartland New Zealand Limited to PGC shareholders, PGC entered into a sub licence with MARAC Finance Limited where MARAC obtained the right to use the specified intellectual property of the NZAA, for an annual licence fee of $1.

Due to the Building Society Holdings Limited in-specie distribution, MARAC is no longer a related party of the Group.

38. STAFF SHARE OWNERSHIP ARRANGEMENTS

General staff share purchase scheme

At 30 June 2012 there were no shares held under this scheme. During the year to 30 June 2011 the Trustees sold the 22,215 unallocated shares held in their name. At 30 June 2011 there were no shares held under this scheme.

Discretionary staff share schemes

At 30 June 2012 there were no shares held under this scheme. At 30 June 2011 the Trustees held 14,072 shares in PGC and 14,072 shares in Heartland New Zealand Limited on behalf of senior staff of MARAC Finance Limited. The shares were held in trust for MARAC employees, formerly part of PGC Group and were transferred to these employees during the year.

Directors' retirement share scheme

At 30 June 2012 the Trustees held 31,413 shares in PGC and 31,413 shares in HNZ on behalf of Directors. At 30 June 2011 the Trustees held 61,430 shares in PGC and 61,430 shares in HNZ on behalf of Directors. On 31 January 2012, 30,017 shares in PGC and 30,017 shares in HNZ were transferred to Bruce Irvine on his retirement from the Board.

Executive share plan

At 30 June 2012 there were no shares held under this scheme. At 30 June 2011 the Trustees held 586,786 shares in PGC and 586,786 shares in Heartland New Zealand Limited for MARAC employees and former PGC employees. During the year, the shares were transferred to the MARAC and former PGC employees.

39. SUBSEQUENT EVENTS

PGW and HNZ Share Sales

Between 6 July 2012 and 5 September 2012 52.0 million shares in PGW were sold for $15.4 million and 38.09 million shares in HNZ for $19.7 million. This resulted in a gain on sale of the PGW investment of $0.3 million and a gain on sale of the HNZ investment of $0.2 million.

Repayment of BNZ loan and overdraft

The BNZ term loan of $11.9 million and overdraft facility of $5.0 million were repaid on 11 July 2012 and 17 July 2012 respectively.

Torchlight Fund No. 1 LP (TLP)

An additional $10.3 million was invested in Torchlight Fund No.1 LP ('TLP') on 11 July 2012 and 19 July 2012 by acquiring the interests of existing unrelated parties.

Subsequent to balance date, $4.73 million of amounts owing from TLP to the Group have been repaid.

Loans

On 25 July 2012, a further advance of AU$7.2 million (NZ$9.4 million) was provided to associate investment Van Eyk Research Pty Limited.

Residential Communities Limited (RCL)

Between 20 July 2012 and 13 September 2012, the Group invested $14.1 million (AU$10.88 million) in debt instruments issued by RCL.

Independent Auditors' Report

to the shareholders of Pyne Gould Corporation Limited

Report on the Financial Statements

We have audited the financial statements of Pyne Gould Corporation Limited ("the Company") on pages 12 to 67, which comprise the statements of financial position as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Pyne Gould Corporation Limited or any of its subsidiaries other than in our capacities as auditors and providers of audit related services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

Pyne Gould Corporation Limited

Opinion

In our opinion, the financial statements on pages 12 to 67:

(i) comply with generally accepted accounting practice in New Zealand;
(ii) comply with International Financial Reporting Standards; and
(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2012 and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30th June 2012:

(i) we have obtained all the information and explanations that we have required; and
(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants Auckland
21 September 2012

STATUTORY DISCLOSURES

DIRECTORS

The following persons respectively held office as directors of the Company and the Company's subsidiaries during the year ended 30 June 2012.

Pyne Gould Corporation Ltd
GCD Kerr
BW Mogridge
BR Irvine (resigned 31/01/12)
J Duncan (resigned 26/04/12)
M Tinkler (appointed 14/02/12)
R Naylor (appointed 14/02/12)
G Bright (appointed 02/05/12)

Aegis Asset Holdings Ltd
J Duncan (resigned 26/04/12)
M Tinkler (appointed 01/05/12)

Arvensis Holdings Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Corporate Trust of New Zealand Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Crawford Property Fund Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Equity Partners Asset Management Ltd
P Middleton (resigned 23/02/12)
BW Mogridge
J Duncan (resigned 26/04/12)
M Tinkler (appointed 07/05/12)

Equity Partners Infrastructure Management Ltd
P Middleton (resigned 23/02/12)
BW Mogridge
J Duncan (resigned 26/04/12)
M Tinkler (appointed 07/05/12)

Ferrero Investments Ltd
J Duncan (resigned 26/04/12)
P Middleton (resigned 23/02/12)
M Tinkler (appointed 01/05/12)
R Naylor (appointed 26/04/12)

Insignis Nominees Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Khyber Pass Ltd
J Duncan (resigned 26/04/12)
M Tinkler (appointed 01/05/12)

Land House Ltd
J Duncan (resigned 26/04/12)
M Tinkler (appointed 01/05/12)

Perpetual Group Ltd
GCD Kerr
BW Mogridge
J Duncan (resigned 26/04/12)

Perpetual Nominees Christchurch Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Perpetual Nominees Ltd
P Middleton
J Duncan (resigned 06/03/12)

Perpetual Portfolio Management Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Perpetual Trust Ltd
P Middleton
BW Mogridge
J Duncan (resigned 23/03/12)

Perpetual Trust Security Trustee Ltd
E Abernathy
S Maling
K Rushbrook

Perpetual Trust Services Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

DIRECTORS (CONTINUED)

Property Assets Ltd
J Duncan (resigned 26/04/12)
M Tinkler (appointed 11/05/12)

Real Estate Credit Ltd
BW Mogridge
J Duncan (resigned 26/04/12)
M Tinkler (appointed 26/04/12)

Streat Property Fund Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Supreme 2010 Ltd
J Duncan (resigned 26/04/12)
M Tinkler (appointed 11/05/12)

Torchlight (GP) 1 Ltd
GCD Kerr
P Middleton (resigned 23/02/12)
BW Mogridge (resigned 31/10/11)
J Duncan (resigned 26/04/12)
M Tinkler (appointed 20/02/12)

MARAC Financial Services Ltd
BR Irvine (resigned 19/07/11)
J Greenslade (resigned 19/07/11)
J Duncan (appointed 19/07/11, resigned 24/04/12)
BW Mogridge (appointed 19/07/11)

MARAC Investments Ltd
BW Mogridge
J Duncan (resigned 26/04/12)

New Zealand Credit Trustee Ltd
GCD Kerr
M Tinkler (appointed 26/04/12)

Nikau Apartments Ltd
P Middleton (resigned 23/02/12)
J Duncan (resigned 26/04/12)
M Tinkler (appointed 26/04/12)

NZ Foundation Nominees Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Pegasus Fund Managers Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Pegasus Investment Fund Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Perpetual Asset Management Ltd
P Middleton
BW Mogridge
J Duncan (resigned 06/03/12)

Perpetual Charitable Nominees Ltd
J Duncan (resigned 26/04/12)
M Tinkler (appointed 01/05/12)

Torchlight (GP) 2 Ltd
GCD Kerr
J Duncan (resigned 26/04/12)
M Tinkler (appointed 26/04/12)

Torchlight Investment Group Ltd
GCD Kerr
BW Mogridge (resigned 31/10/11)
J Duncan (resigned 26/04/12)
M Tinkler (appointed 20/02/12)

Torchlight Management Ltd
GCD Kerr
BW Mogridge (resigned 31/10/11)
J Duncan (resigned 26/04/12)
M Tinkler (appointed 26/04/12)
P Middleton (resigned 23/02/12)

Willis Limited
J Duncan (resigned 26/04/12)
M Tinkler (appointed 01/05/12)

Ascend Finance Ltd (Struck Off 13/06/12)
BW Mogridge
J Duncan (resigned 26/04/12)

Greenlight Finance Ltd (Struck Off 13/06/12)
BW Mogridge
J Duncan (resigned 26/04/12)

DIRECTORS (CONTINUED)

i-financial Services Ltd (Struck Off 13/06/12)
BW Mogridge
J Duncan (resigned 26/04/12)

Webserve Ltd (Struck Off 13/06/12)
BW Mogridge
J Duncan (resigned 26/04/12)

MARAC Securities Ltd (Struck Off 13/06/12)
BW Mogridge
J Duncan (resigned 26/04/12)

STATUTORY DISCLOSURES

DISCLOSURE OF INTERESTS

The following are disclosures of interest given by the Directors:

BW Mogridge

Director and shareholder
Rakon Ltd (Chairman)
Mainfreight Ltd
IEF Entertainment Pty Ltd (Chairman)
Mogridge and Associates Ltd (Chairman)

Director
Yealands Wine Group Ltd (Chairman)
Bupa Care NZ Ltd (Chairman)

Ownership of limited partnership interests in Torchlight Fund No.1 LP

GCD Kerr
Director and shareholder
Australasian Equity Partners (GP) No.1 Ltd

Ownership of limited partnership interests in Australasian Equity Partners Fund No.1 LP

During the year GCD Kerr disposed of his limited partnership interests in Torchlight Fund No.1 LP as well as his beneficial interest in Heartland New Zealand Ltd.

GENERAL DISCLOSURE

All directors have provided a general notice that they may from time to time undertake personal business transactions with the Company, including utilising the Company's services. All such transactions are carried out in accordance with the Company's normal business criteria for those types of transactions. The company obtains consulting services from Naylor Partners Pty Ltd of which R Naylor is a director and shareholder, and legal services from Tinkler & Co. These services are provided on normal commercial terms.

INFORMATION USED BY DIRECTORS

No notices were received from directors of the Company requesting to disclose or use Company information received in their capacity as directors which would not otherwise have been available to them.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has given indemnities to directors and selected employees and has arranged insurance for directors and officers of the Company and its subsidiaries.

These indemnify and insure directors and officers against liability and costs for actions undertaken by them in the course of their duties to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Company and its subsidiaries for the year was $49,231.

SHARES HELD AND SHARE DEALINGS BY DIRECTORS

Details of individual directors share dealings are as follows:

	Beneficial	Associated Person
GCD Kerr		
Balance as at 30 June 2011	28,594,252	1,792,314
21.02.12 Takeover Transfer	(28,594,252)	(1,792,314)
21.02.12 Takeover Transfer		99,184,860
28.02.12 Takeover Transfer		2,760,611
06.03.12 Takeover Transfer		2,587,487
12.03.12 Takeover Transfer		44,375,901
13.03.12 Takeover Transfer		1,757,908
23.03.12 Takeover Transfer		2,842,790
03.04.12 Takeover Transfer		1,379,532
04.04.12 Takeover Transfer		3,838,866
17.04.12 Takeover Transfer		7,581,805
Balance at 30 June 2012	**-**	**166,309,760**
BW Mogridge		
Balance as at 30 June 2011	44,899	1,336,048
Balance at 30 June 2012	**44,899**	**1,336,048**
G Bright		
Balance as at 30 June 2011	-	-
Balance at 30 June 2012	**-**	
R Naylor		
Balance as at 30 June 2011	-	-
Balance at 30 June 2012	**-**	**-**
M Tinkler		
Balance as at 30 June 2011	-	-
Balance at 30 June 2012	**-**	**-**

REMUNERATION OF DIRECTORS

The total remuneration received by each director who held office in the Company and its subsidiary companies during the 30 June 2012 year was as follows:

Parent Company directors			Remuneration
BW Mogridge	Non-Executive	Independent	$235,500
B Irvine (resigned 31/01/12)	Non-Executive	Independent	$48,417
G Bright (appointed 02/05/12)	Non-Executive	Independent	$13,333
GCD Kerr*	Executive	Non-Independent	$195,833
			$493,083

** GCD Kerr was a non executive director up to 26 April 2012, at which point he was appointed managing director of the Company. His income for the 2 months where he was an executive director is disclosed below.*

REMUNERATION OF DIRECTORS (CONTINUED)

Executive Directors do not receive directors' fees. Their remuneration paid during the period in respect of non-directorial services performed for the Company were as follows:

J Duncan	$333,333
P Middleton	$367,500
GCD Kerr	$39,167

EXECUTIVE EMPLOYEES' REMUNERATION

The number of employees of the Company and its subsidiary companies, who received remuneration, including non-cash benefits, in excess of $100,000 for the year-ended 30 June 2012 is set out in the remuneration bands detailed below:

Remuneration	Total Group	PGC
$100,000 to $110,000	1	-
$110,000 to $120,000	2	-
$120,000 to $130,000	2	1
$130,000 to $140,000	3	-
$140,000 to $150,000	-	-
$150,000 to $160,000	1	-
$160,000 to $170,000	5	2
$170,000 to $180,000	1	-
$180,000 to $190,000	1	-
$190,000 to $200,000	-	-
$200,000 to $210,000	-	-
$210,000 to $220,000	1	-
$220,000 to $230,000	1	1
$230,000 to $240,000	1	-
$290,000 to $300,000	-	1
$330,000 to $340,000	1	-
$360,000 to $370,000	1	-

DONATIONS

During the previous financial year ended 30 June 2011 the Company established a charitable trust - the PGC Earthquake Trust - to receive financial donations to support those PGC staff and their families affected by the collapse of the PGC Building during the devastating earthquake on 22 February.

No donations were made in the period to 30 June 2012.

SHAREHOLDER INFORMATION

As at 2 September 2012

SIZE OF SHAREHOLDING

	Number of holders	% of share capital
1 - 1,000	417	17.94
1,001 - 5,000	802	34.51
5,001 - 10,000	461	19.84
10,001 - 50,000	502	21.60
50,001 - 100,000	85	3.66
100,001 and over	57	2.45
Total	**2,324**	**100.00**

GEOGRAPHIC DISTRIBUTION

	Number of holders	% of share capital
New Zealand	215,286,956	99.38
Overseas	1,342,654	0.62
Total	**216,629,610**	**100.00**

LARGEST SHAREHOLDERS

Rank	Name	Number of shares	% of share capital
1	Australasian Equity Partners Fund No. 1 LP	166,309,760	76.77
2	New Zealand Central Securities Depository Limited	10,733,590	4.95
3	Loris Equities Limited	2,100,852	0.97
4	Hugh Green Investments Limited	1,449,523	0.67
5	JB Were (NZ) Nominees Limited	1,394,032	0.64
6	Mogridge Family Trust	1,336,048	0.62
7	Paul Rex Chaney & Diane Joan Chaney	1,018,400	0.47
8	Justine Elinor Thompson	636,467	0.29
9	Ronald James Woodrow	579,600	0.27
10	Bruce Stewart Miles	562,800	0.26
11	Graham Henry Bierne & Lynley Anne Bernie & Richard Vaughan Smith	500,000	0.23
12	Simon Dennistoun Martin	399,785	0.18
13	Investment Custodial Services	364,482	0.17
14	Alistair Blair Mccredie	321,600	0.15

LARGEST SHAREHOLDERS (CONTINUED)

		Number of shares	% of share capital
15	FNZ Custodians Limited	289,506	0.13
16	Annette Sylvia Presley & Professional Trustees Limited	281,400	0.13
17	JB Were (NZ) Nominees Limited	277,277	0.13
18	Perpetual Trust Limited & Diana Frances Wallace & Margaret Frances Hulse	268,050	0.12
19	Frederick Garnet Adams & Rosena Elizabeth Adams	267,772	0.12
20	Cash IT Limited	267,464	0.12
Total Top Holders Balance		**189,358,408**	**87.39**

SUBSTANTIAL SECURITY HOLDERS

As at 2 September 2012 Australasian Equity Partners Fund No.1 LP (AEP) held 166,309,760 ordinary shares in the company, being 76.77% of the issued capital of the Company.

NEW ZEALAND STOCK EXCHANGE WAIVERS

During the year the Company obtained the following waivers from the NZX:

Minimum of two independent directors

NZSX listing rule 3.3.1 (c) requires the Board of an Issuer to have a minimum of two independent directors and NZSX listing rule 3.6.2 (c) requires the Audit Committee of an Issuer to be comprised mainly of independent directors. Following the resignation of B Irvine, the company had only one independent director.

This was a temporary waiver granted until 30 April 2012 until the outcome of the AEP takeover was known. On 2 May 2012 Gregory Bright was appointed to the Board and the Audit committee as an independent director.

June 2011 Results Announcement

NZX listing rule 10.4.1 requires the Company to make an announcement to the market before the release of the annual report and within 60 days after the end of the financial year to which the report relates in relation to the 30 June 2011 Result.

This was granted as a result of the effects of the Canterbury Earthquake and the serious loss suffered by PGC compounded by a snow storm. The company was required to make an announcement on or before 16 September 2011.

HNZ Subscription and Underwrite

NZX listing rule 9.2.1 requires shareholder approval for a material transaction with a related party. This was in relation to the Subscription and underwrite of HNZ shares.

This was granted as NZX Market Supervision (NZXMS) was satisfied there was no evidence the transaction was not at an arms length basis, there was clear commercial rationale for the transactions and the related party did not appear to have material influence into the decision to enter the transaction.

SHAREHOLDER INFORMATION

As at 2 September 2012

NEW ZEALAND STOCK EXCHANGE WAIVERS (CONTINUED)

Sub participation in EPIC NAB Debt

NZX listing rule 9.2.1 requires shareholder approval for a material transaction with a related party. This was in relation to PGC's sub participation in EPIC's NAB Loan Facilities.

This was granted as the NZXMS was satisfied there was no evidence the transaction was not at an arms length basis, there was clear commercial rationale for the transactions and the related party did not appear to have material influence into the decision to enter the transaction.

DIRECTORY

DIRECTORS
Bryan Mogridge
George Kerr
Russell Naylor
Michael Tinkler
Gregory Bright

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