



PROPERTY FINANCE

INTERIM REPORT
PROPERTYFINANCE GROUP LIMITED

For the six months ended 30 September 2008

January 2009



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DIRECTORY

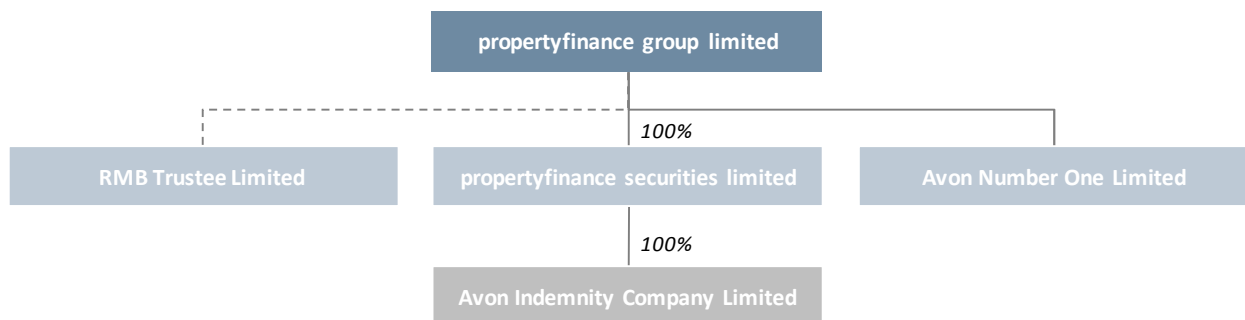
Board of Directors:	Mr Barnaby Sundstrum Chairman 19 Mayfly Lane Clearwater Harewood Christchurch
	Mr Darryl Queen Managing Director 70 Matai Street Riccarton Christchurch
	Mr Peter J M Taylor Director Pauls Road RD 3 Blenheim
Registered Office:	Level 2 propertyfinance building 104 Victoria Street Christchurch
Auditor:	Ernst & Young Ernst & Young House 227 Cambridge Terrace Christchurch
Solicitors:	Buddle Findlay Clarendon Tower 78 Worcester Street Christchurch
Share Registry:	Link Market Services National Bank Chambers 144 Tancred Street Ashburton

COMPANY OVERVIEW

Propertyfinance Group Limited (PFG / the Company) has recorded a loss of \$501,000 for the half year ended 30 September 2008.

We draw attention to shareholders that the 2008 half year financial statements now consolidate the propertyfinance securities limited (PFSL) business. This business was excluded in 2007 due to it being in receivership and not under the control of the directors.

The period under review witnessed a continuation of the survival mode that the Company has operated under since its subsidiary PFSL was placed in receivership in August 2007.



The Company now operates solely from its Christchurch offices, has a small staff who are solely focussed on protecting the Company's residual assets and servicing the PFSL business in accordance with the PFSL restructuring and wind-down.

Notwithstanding the unprecedented changes now occurring in both the global and local financial markets, the Company considers that when conditions improve it is likely that some parts of the group may be able to be used again. However, given the severity of these market disruptions this may be some time away.

In light of these market changes the Company has initiated a wide ranging restructure of the whole group so that stakeholder interests can be better protected. Under this proposal all of the group's liabilities will be either converted into ordinary shares or settled; PFSL and PFG will be merged and the resulting company will be put on a very sound base. It is the directors' intention that the expanded PFG would retain its NZAX listing and use its cashflow to implement a regular dividend policy.

During the period the PFG's Rated Mortgage Bond programme continued to perform well, paying regular coupons to its investors.

An important aspect of PFG is its securitisation programme. A key part of securitisation is that it allowed long-term mortgages to be match funded with long term funding. Given market changes it is clear that these mortgages will run much longer than first thought and this may be beneficial in the long run to PFG. The day to day management of the propertyfinance securities trusts remains with Guardian Trust and Deloitte however it is anticipated that this will be reviewed over the coming year.

There have been no changes to the management or directors of the Company during the reporting period.

As has been widely reported to stakeholders the Board's sole focus is on PFG surviving these extraordinary market events and we will continue to report in that regard in the coming months.

The Company maintains on its website (www.propertyfinance.co.nz) a full library of its previous announcements and reports, for shareholders seeking further insight into PFG's activities; we would refer you to this resource.

The Board of Directors

INTERIM FINANCIAL REPORT

Interim Income Statement

		6 months to 30 Sep 2008 Unaudited \$'000	6 months to 30 Sep 2007 Unaudited \$'000	12 months to 31 Mar 2008 Audited \$'000
	Notes			
Interest income		6,353	1,417	13,828
Interest expense		5,212	1,460	11,044
Net interest income		1,141	(43)	2,784
Other revenue from ordinary activities		205	768	3,430
Total revenue from ordinary activities		1,346	725	6,214
Impairment losses	4	955	-	3,219
Staff costs		99	228	2,597
Receivership and associated costs		-	-	1,165
Operating expenses	5	743	855	6,610
Profit/(loss) from continuing operations before income tax		(451)	(358)	(7,377)
Income tax expense/(benefit)		50	(108)	235
Profit/(loss) after income tax		(501)	(250)	(7,612)
Discontinued operations				
Profit from discontinued operations after income tax		-	-	1,056
Net Profit/(loss) for the period attributable to members of the		(501)	(250)	(6,556)
Earnings per share for profit/(loss) attributable to the equity holders of the Company during the period (expressed in \$				
- basic	6	(0.03)	(0.02)	(0.46)
- diluted	6	(0.03)	(0.02)	(0.46)

The accompanying notes form part of this Interim Financial Report.

Interim Statement of Changes in Equity

6 months ended 30 September 2008 (Unaudited)					
Notes	Share capital	Available for	Retained	Total	
	\$'000	Sale Reserve	earnings	\$'000	
	11,429	-	(9,771)	1,658	
8	30	-	-	30	
	-	-	(501)	(501)	
Balance as at 30 September 2008	11,459	-	(10,272)	1,187	

6 months ended 30 September 2007 (Unaudited)					
Notes	Share capital	Available for	Retained	Total	
	\$'000	Sale Reserve	earnings	\$'000	
	10,923	-	(2,015)	8,908	
8	36	-	-	36	
	-	-	(250)	(250)	
Balance as at 30 September 2007	10,959	-	(2,265)	8,694	

The accompanying notes form part of this Interim Financial Report.

Interim Balance Sheet

	Notes	As At	As At	As At
		30 Sep 2008 Unaudited	30 Sep 2007 Unaudited	31 Mar 2008 Audited
		\$'000	\$'000	\$'000
ASSETS				
Cash and cash equivalents		198	1,109	6,599
Cash held in related trusts	11	6,106	-	-
Related party receivables	12	203	30	121
Sundry debtors & advances		729	916	245
Development property intended for sale	13	4,518	230	700
Loans receivable		15,495	-	19,067
Mortgage backed securities		93,311	38,450	92,709
Trust debtors		6,392	-	6,392
Investment in subsidiaries		-	12,373	-
Intangible assets		101	201	140
Property, plant & equipment		336	30	335
Income tax prepayment		8	-	21
Deferred tax		-	106	-
TOTAL ASSETS		127,397	53,445	126,329
LIABILITIES				
Bank overdraft		-	8	-
Trade and other payables		2,791	891	3,034
Amount due to related party		-	3,508	-
Tax payable		18	142	-
Rated mortgage bonds		37,170	36,515	37,201
Trust creditors		947	-	946
Debenture stock	14	80,320	-	78,515
Other secured borrowings		200	-	96
Redeemable preference shares		3,457	3,457	3,457
Capital notes		1,039	-	1,129
Unsecured borrowings		268	230	293
TOTAL LIABILITIES		126,210	44,751	124,671
NET ASSETS		1,187	8,694	1,658
SHAREHOLDERS' FUNDS				
Share capital	8, 9	11,459	10,959	11,429
Retained deficit		(10,272)	(2,265)	(9,771)
TOTAL SHAREHOLDERS' FUNDS		1,187	8,694	1,658

The accompanying notes form part of this Interim Financial Report.

For and on behalf of the Board of Directors, who authorise the issue of the Interim Financial Report on 30th January 2009.



Barney Sundstrum
Chairman



Darryl Queen
Director

Interim Statement of Cash Flows

		6 months to 30 Sep 2008 Unaudited	6 months to 30 Sep 2007 Unaudited	12 months to 31 Mar 2008 Audited
Notes	\$'000	\$'000	\$'000	
Cash flows from operating activities				
Receipts from customers	191	503	5,174	
Payments to suppliers and employees	(1,020)	(680)	(10,599)	
Interest received	4,800	1,381	11,883	
Interest paid	(1,888)	(1,148)	(5,115)	
Tax payments	(341)	-	(490)	
Net cash inflow /(outflow) from operating activities	15	1,742	56	853
Cash flows from investing activities				
Loans and advances to customers	-	41	(285,535)	
Repayment of loans and advances	3,418	-	28,030	
Proceeds from repayment of deposits	-	-	-	
Purchase of property, plant and equipment	(51)	(31)	(345)	
Sale of property, plant and equipment	-	-	67	
Purchase of investment property	-	(230)	-	
Purchase of development property from loan customers	(3,817)	-	-	
Purchase of shares	-	-	(443)	
Sale of shares	-	-	6,928	
Trust establishment costs	-	-	(1,248)	
Loan advance to related party	(82)	(33)	(91)	
Terms deposits and trust-held cash	(14)	-	-	
Sale of mortgage backed securities	-	-	4,314	
Purchase of mortgage backed securities	-	(25,700)	(43,606)	
Net cash inflow/(outflow) from investing activities		(546)	(25,953)	(291,929)
Cash flows from financing activities				
Proceeds from debt notes	-	-	-	
Proceeds from secured borrowings	104	-	10,857	
Proceeds from unsecured borrowings	-	230	2,219	
Proceeds from related party borrowings	-	1,335	-	
Repayment of secured loan	-	-	(595)	
Repayment of other borrowings	-	-	(1,132)	
Repayment of debenture stock	(1,639)	-	(25,787)	
Sale of secured loans	-	-	280,299	
Issue of redeemable preference shares	-	-	-	
Repayment of redeemable preference shares	-	(20)	(20)	
Issue of rated mortgage bonds	-	24,514	25,700	
Increase in share capital	30	36	506	
Net cash inflow from financing activities		(1,505)	26,095	292,047
Net increase /(decrease) in cash held		(309)	198	971
Add opening cash brought forward		507	903	5,628
Cash held at year end		198	1,101	6,599

The accompanying notes form part of this Interim Financial Report.

NOTES TO THE INTERIM FINANCIAL REPORT

1. Reporting Entity

The interim financial report presented is the consolidated interim financial statements of Propertyfinance Group Limited (the "Company") and its subsidiaries and controlled entities ("the Group"). The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and the financial statements comply with that Act, the Companies Act 1993 and the Securities Regulations 1983. The Company is an issuer under the Financial Reporting Act 1993. Reliance is placed on the Company continuing as a going concern.

The Company is domiciled in New Zealand. The registered office address is: Level 2, 104 Victoria Street, Christchurch.

2. Basis of Preparation

A) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practices in New Zealand (NZ GAA P) for entities adopting the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and its interpretations as appropriate to interim financial statements for profit-oriented entities. These financial statements comply with NZ IAS 34 - Interim Financial Reporting.

B) Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments and investment property. Cost is based on the fair values of the consideration given in exchange for assets.

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.

3. Significant Accounting Policies

A) Basis of consolidation

Subsidiaries are entities that are controlled, either directly or indirectly by the Company. All inter-group balances and gains and losses on transactions between Group companies have been eliminated.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

On 29 August 2007 propertyfinance securities limited (PFSL), a wholly-owned subsidiary of the Group was placed in receivership. As a consequence of the receivership the Group lost control of PFSL and so PFSL was not consolidated in the results for the six months ended 30 September 2007. The comparative period income statement and the balance sheet as at 30 September 2007 therefore do not include the results of PFSL. On 18 February 2008 PFSL was removed from receivership. The current period income statement and the balance sheet as at 30 September 2008 therefore include the results of PFSL. PFSL was included in the 31 March 2008 results as it was a controlled subsidiary at that time consequent to the receivership being completed.

In preparing the consolidated financial statements, all inter-entity balances and transactions, and unrealised profits and losses arising within the consolidated entity are eliminated in full.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

B) Segment reporting

All business activities are carried out in New Zealand so there is no geographic segment reporting. All activities are in the property finance sector.

C) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments with maturity within twelve months. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

D) Loans and receivables

Other financial assets are classified as “loans and receivables” depending on the nature and purpose of the financial assets at the time of initial recognition.

Loans and other receivables are recorded at amortised cost using the effective interest method less impairment.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

i) Loan Policy

The Company’s short-term loans are provided on the expectation that they will be rolled over on a number of occasions.

This roll-over function allows the Company to control the relationship and charge appropriate fees when the roll over is considered.

ii) Arrears

The Company has an active arrears management process that incorporates, if necessary, the purchase of defaulting loan property, if the Company considers the realisation value of the property can be enhanced by the Company being the vendor compared to a mortgagee sale process.

E) Mortgage Backed Securities

Mortgage Backed Securities are classified as “loans and receivables” being the nature and purpose of the financial assets at the time of initial recognition.

Mortgage Backed Securities are recorded at amortised cost using the effective interest method less impairment.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

F) Development Property Intended For Sale

Development properties are valued at the lower of cost or fair value less any direct selling costs.

Borrowing costs directly attributable to Development properties intended for sale are capitalised as part of the cost of those assets.

Where real estate assets are acquired through enforcement of security the asset is recognised when legal title of the property passes to the Group. The cost of the asset is determined by reference to the value of the corresponding loan balance outstanding when title passes.

G) Goodwill and Other Intangibles

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

Software is amortised on a straight line basis so as to write off the net cost of each intangible over the estimated useful life. The estimated useful life of software is 3 years.

H) Property, Plant, Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on office furniture and equipment. Land is not depreciated. Depreciation is calculated on a straight line basis so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The estimated useful lives are:

- Office furniture and equipment 5 years
- Leasehold improvements 5 years

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

I) Leased Assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

J) Impairment

i) Impairment of Loans and Receivables

Losses for impaired loans are recognised immediately when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised.

Losses for impaired Mortgage Backed Securities would be recognised immediately when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment would be deemed to have occurred if the loans arrears or credit enhancement in the underlying trusts was to deteriorate or the investment grade rating was withdrawn. Losses expected from future events, no matter how likely, are not recognised.

ii) Individually Assessed Loans

At each balance sheet date, the Group assesses on a case by case basis whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining impairment losses on these loans, the following factors are considered:

- The Groups aggregate exposure to the customer
- The viability of the customers' business model and their capability to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
- The amount and timing of expected receipts and recoveries
- The realisable value of security and likelihood of successful repossession

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loans current carrying amount. Any loss is charged in the income statement. The carrying amount of impaired loans on the balance sheet is reduced through use of an allowance account.

iii) Collectively Assessed Loans

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For groups of loans that are not considered individually significant.

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects the impairment losses incurred at the balance sheet date which will only be individually identified in the future.

iv) Loan Write Offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security has been received.

v) Impairment of Assets Carried at Fair Value

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement – is removed from equity and recognised in the Income Statement.

vi) Purchase of Security Asset

In some situations; when a loan defaults the option of purchasing the underlying security by the Group is exercised. In these situations the Group will record the asset at valuation. These assets are only acquired with the interest of offering them for sale and to minimise any loss to the Group.

K) Impairment of Other Assets

At each reporting date, the consolidated entity reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill is tested for impairment annually when there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

L) Tax

Income tax expense for the period comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 accounted for using the balance sheet method, providing for 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.

M) De-recognition of Financial Assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired,
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or

- The Group has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

N) Trade and Other Payables

Trade payable and other accounts payable and accrued expenses are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group become obliged to make future payments in respect of the purchase of goods and services. The amounts are unsecured.

O) Liabilities Including Rated Mortgage Bonds, Capital Notes, Debt Notes, Debenture Stock, Redeemable Preference Shares, and Bank Loan

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in income statement over the period of the borrowing using the effective interest rate method. Interest expense is recognised in the income statement using the effective interest rate method.

Borrowing Costs

Borrowing costs are recognised as an expense when incurred except when they are directly attributable to the acquisition, construction or production of a qualifying asset. When this is the case the borrowing costs are capitalised as part of the cost of that asset.

P) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance sheet date. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to that liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Employee leave benefits. Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Q) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

R) Discontinued Operations

A discontinued operation is a component of an entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

S) Revenue Recognition

i) Recognition of Income and Expenses

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

ii) Interest and Similar Income and Expense

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

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

The Group recognises interest revenue, management fees, and establishment fees on an accruals basis when the services are rendered using the effective interest rate method.

iii) Fee and Commission Income

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

Fee income earned from services that are provided over a certain period of time. Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Discharge fees and deferred establishment fees are received by the SPE's upon early termination of mortgage loans. On a consolidated basis these fees are treated as a recuperation of the transaction costs spent by the Company in establishing the mortgage loans. These fees form part of the interest effective yield on the loans and are accrued and recognised into

the consolidated income statement over the weighted average expected life of the mortgage loans using the effective interest method.

iv) Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance are recognised after fulfilling the corresponding criteria.

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rental income – Rental income from investment properties, and where applicable sublease income, is accounted for on a straight-line basis over the lease term.

Dividends – Revenue is recognised when the Group's right to receive the payment is established.

T) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

U) Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends; and
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares;
- Divided by the weighted average number of ordinary shares (including available share options) and dilutive potential ordinary shares.

V) Significant Accounting Judgements, Estimates and Assumptions

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors. All judgements, estimates and assumptions made are believed to be reasonably based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

i) Recovery of Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

ii) Allowances for Impairment Loss

Where loan receivables are outstanding beyond the normal contractual terms, the likelihood of the recovery of these loans is assessed by management. The specific impairment loss is estimated with reference to the loan to property value ratio (LVR), the probability of recovery, the cost of possible acquisition through enforcement of security and related costs and sale proceeds. The 2007 collective loan provision is estimated using available market data and historic trends. No collective provision is applicable in 2008.

The impairment assessment has been made after taking into account the Company's ability to manage the sale process so that mortgagee auctions are avoided.

iii) Estimation of Average Lives of Loans used to defer Fees and Costs

The estimation of the useful lives of loans has been based on historical experience, market and statistical trends, and competitor information. In addition, the average life of loans is assessed at least once per year and considered against the remaining contractual life. Adjustments to average life are made when considered necessary. The average life of loans is used to defer fees and costs under the effective interest rate method.

iv) Estimation of Expected Lives of Mortgage Backed Securities, Rated Mortgage Bonds and Debenture Stock

The expected life of Mortgage Backed Securities, Rated Mortgage Bonds and Debenture Stock is used to amortise interest income/expense, fees and costs using the effective interest rate method. The expected life of the Mortgage Backed Securities and Rated Mortgage Bonds, and the period costs have been amortised over; is December 2010 and has been based on the current obligation to repay all Debenture Stock by 31 December 2010. This was one of the conditions of having Propertyfinance Securities Limited removed from receivership.

4. Impairment

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
Impairment changes:			
Movement in specific provision - Loans receivable	100	-	-
Impairment - Loans receivable	55	-	-
Impairment - Debt notes	800	-	1,295
Impairment - Development property	-	-	1,146
Impairment - Goodwill	-	-	604
Impairment - Investment in subsidiary	-	-	174
	955	-	3,219

5. Operating Expenses

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
Depreciation – office furniture & equipment	49	2	90
Loss on disposal of office furniture	-	-	541
Administrative expenses	515	625	5,445
Software amortisation	39	10	54
Operating lease payments	140	218	480
	743	855	6,610

No Directors fees were paid during the period ended 30 September 2008 (6 months to 30 September 2007: \$54,000; 12 months to 31 March 2008: \$54,000)

6. Earnings Per Share

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
(a) Earnings used in calculating earnings per share			
For basic earnings per share			
Net profit/(loss) attributable to ordinary equity holders of the parent	(501)	(250)	(6,556)
For diluted earnings per share			
Net profit attributable to ordinary equity holders of the parent	(501)	(250)	(6,556)
(b) Weighted average number of shares			
Weighted average number of shares for basic earnings per share	16,108,578	13,687,233	14,322,566
Effect of dilution:			
Share options	-	206,400	-
Weighted average number of ordinary shares	16,108,578	13,893,633	14,322,566
Earnings per share - basic – expressed in \$ per share	(0.03)	(0.02)	(0.46)
Earnings per share – diluted – expressed in \$ per share	(0.03)	(0.02)	(0.46)

7. Dividends on Ordinary Shares

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
Dividends - ordinary shares	-	-	-

8. Share Capital

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
Share capital¹			
Opening on issue	11,429	10,923	10,923
Issue of Shares	30	36	506
	11,459	10,959	11,429

¹ Shares have no par value.

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	No. shares	No. shares	No. shares
Share capital			
Opening on issue	16,059,812	13,673,833	13,673,833
Issue of Shares	49,305	-	2,349,379
Exercise of options	-	36,600	36,600
	16,109,117	13,710,433	16,059,812

9. Net Tangible Assets Per Ordinary Share

	As At 30 Sep 2008	As At 30 Sep 2007	As At 31 Mar 2008
Net Tangible Assets (\$'000)	1,187	8,694	1,658
Shares on issue at end of the period - number of shares	16,109,117	13,710,433	16,059,812
Net Tangible Assets per share, expressed in \$ per share	0.07	0.63	0.10

10. Investment in Subsidiaries

	Annual Balance Date	As At 30 Sep 2008	As At 30 Sep 2007	As At 31 Mar 2008
Parent entity: propertyfinance group limited				
Shares in subsidiaries				
Propertyfinance securities limited	31-Mar-08	100	100	100
Propertyfinance Holdings Limited	31-Mar-08	100	100	100
PF Property Holdings Limited	31-Mar-08	100	-	-
PF Takapuna Limited	31-Mar-08	100	-	-
Propertyfinance Operations CM-2006 Ltd	31-Mar-08	100	100	100
Propertyfinance Operations LS-2005 Ltd	31-Mar-08	100	100	100
Propertyfinance Operations RML-2005 Ltd	31-Mar-08	100	100	100
Propertyfinance Operations CM-2005 Ltd	31-Mar-08	100	100	100
Propertyfinance Operations RM-2005 Ltd	31-Mar-08	100	100	100
Avon Number One Limited	31-Mar-08	100	100	100
Avon Indemnity Company Limited	31-Mar-08	100	100	100

The comparative period income statement and the balance sheet as at 30 September 2007 do not include the results of PFSL which was in receivership at that time, and therefore not controlled by the Group (refer note 3 A).

Other controlled entities:

As at 30 September 2008:	As at 30 September 2007:	As at 31 March 2008:
RMB Trustee Limited	RMB Trustee Limited	RMB Trustee Limited
Rated Mortgage CM 2006-1 Trust	Rated Mortgage CM 2006-1 Trust	Rated Mortgage CM 2006-1 Trust
Rated Mortgage RML 2006-2 Trust	Rated Mortgage RML 2006-2 Trust	Rated Mortgage RML 2006-2 Trust

New Subsidiaries:

The following wholly owned subsidiaries were formed by the Group during the period:

- PF Takapuna Limited, incorporated on 23 May 2008.
- PF Property Holdings Limited, incorporated on 29 May 2008

The trading results of the above new subsidiaries during the period were not material to the Group.

11. Cash Held in Trusts

	As At 30 Sep 2008	As At 30 Sep 2007	As At 31 Mar 2008
	\$'000	\$'000	\$'000
Cash held in Rated Mortgage trusts	1,102	-	-
Subsidiary's cash deposit with a related Trust, not accessible by the company	5,004	-	-
	6,106	-	-

12. Related Party Transactions

	As At 30 Sep 2008	As At 30 Sep 2007	As At 31 Mar 2008
	\$'000	\$'000	\$'000
Amounts due from related parties			
Advances to Directors	203	30	121

During the period the following transactions were undertaken with related parties:

Mr B I Sundstrum

Mr Sundstrum holds 338,162 shares in the Company.

An unsecured loan of \$230,000 was made to the Group during the six months ended 30 September 2007 by a party related to Mr Sundstrum. The loan matured on 30 September 2008, and the current balance of \$268,000 has not yet been repaid. No interest was paid on this loan during the current period. (30 September 2007: \$8,050; 31 March 2008: \$24,724).

Mr Sundstrum is a Trustee of the Estate of K P Sundstrum which previously held unsecured deposits with the Group. No interest was paid to the Estate during the current period (31 March 2008: \$1,897).

Mr D B Queen

Mr Queen is a director and shareholder in Kipling Partners Limited, which holds 1,119,289 shares in the Company. Mr Queen also owns 638,119 shares in the Company.

The Group had an advance to Mr Queen of \$202,928 at balance date (30 September 2007: \$30,000; 31 March 2008: \$121,254). No interest was charged on this loan during the period (30 September 2007: Interest of \$750 was charged on a portion of the loan at 10% p.a.; 31 March 2008: Interest of \$923 was charged). The advance is expected to be expensed against services provided to the Company by Mr Queen.

Mr P J M Taylor

Mr Taylor is a member of Marsh Limited's New Zealand Advisory Board. Marsh acted for the Group in arranging Director and Officer Indemnity Insurance.

13. Development Property Intended for Sale

	As At 30 Sep 2008	As At 30 Sep 2007	As At 31 Mar 2008
	\$'000	\$'000	\$'000
Land & Buildings			
Opening Balance	700	-	-
Land & buildings acquired through enforcement of security	3,583	-	700
Additions through further development	290	-	-
Other acquisitions	-	230	-
Allowance for impairment loss	(55)	-	-
Closing Balance	4,518	230	700

During the period, and during both comparative periods, no interest was capitalised on development properties.

14. Debenture Stock

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
Opening balance - Debenture stock	78,515	-	86,653
Debenture stock issued	-	-	10,761
Repayments of debenture stock	(1,639)	-	(23,691)
Accrued interest	3,444	-	4,792
Debenture stock on issue	80,320	-	78,515

The debenture stock is secured under a Debenture Stock Trust Deed between propertyfinance securities limited and Covenant Trustee Company Limited as Trustee. The Deed creates a floating charge in favour of the Trustee over all of the assets and undertakings of the charging group.

PFSL breached the Debenture Stock Trust Deed in August 2007 with the non-payment of matured debentures. The Directors requested that the Trustee appoint a receiver to protect all stakeholders.

With the PFSL receivership and subsequent restructuring by way of a Extraordinary Resolution of debenture holders, all of PFSL debenture stock has been converted to a new three-year term. The debenture stock accrues interest at 9.33% (plus 0.67% to the extent possible from profits) payable on maturity at 21 December 2010. The principal sum is payable as to \$15 million before 21 December 2008, \$15 million before 21 December 2009 and the balance of \$49.8 million on 21 December 2010. PFSL had repaid principal of \$7,200,000 prior to 21 December 2008, and was in breach of the Stock Trust Deed in respect of repayment of \$7,800,000 principal due at that date. The trustee has requested that PFSL convene a meeting of debentureholders in February 2009 to waive the breach in respect of the shortfall in principal repayments. Refer note 16 A.

15. Note to Interim Statement of Cashflows

	6 months to 30 Sep 2008	6 months to 30 Sep 2007	12 months to 31 Mar 2008
	\$'000	\$'000	\$'000
Profit/(loss) after income tax	(501)	(250)	(6,556)
Non cash or non operating cash flow items:			
Depreciation	49	2	90
Amortisation of software	39	10	54
Loss on disposal of fixed assets	-	-	541
Gain on sale of investments	-	-	(24)
Impairment provisions	955	-	3,182
Non cash portion of interest expense / income	-	-	297
Deconsolidation of Trusts	-	-	5,934
Changes in assets and liabilities:			
(Increase)/decrease in sundry debtors and advances	(483)	456	902
(Increase)/decrease in taxation prepaid	(14)	-	(21)
(Increase)/decrease in accrued interest on debt notes	(1,406)	-	-
(Increase)/decrease in trust debtors	-	-	(6,392)
(Increase)/decrease in loans receivable interest accrued	-	-	(1,215)
(Increase)/decrease in deferred tax asset	-	(106)	701
Increase/(decrease) in compound interest on debentures	-	-	315
Increase/(decrease) in debenture interest payable accrued	3,444	-	5,535
Increase/(decrease) in capital note interest payable accrued	(90)	-	-
Increase/(decrease) in trade and other payables	(268)	(55)	(3,071)
Increase/(decrease) in trust payables	-	-	946
Increase/(decrease) in tax liability	17	-	(154)
Increase/(decrease) in deferred tax liability	-	(1)	(211)
Net cash inflow (outflow) from operating activities	1,742	56	853

16. Subsequent Events

A) Going Concern

The Group's principal subsidiary PFSL was placed in receivership on 29 August 2007. The Directors restructured PFSL's debenture stock repayment terms by way of an Extraordinary Resolution that allowed PFSL to be removed from receivership on 18 February 2008 (refer Note 14).

Whilst the primary intention of the PFSL restructure is to wind-down its asset base so it can repay secured debenture stock liabilities, it is the expectation of the Directors for the Group, including PFSL, to be a going concern for the foreseeable future.

The PFSL business has no other liabilities aside from the debenture stock and accrued interest.

On 23 January 2009 PFG announced that it is planning to restructure the Group and to form a simplified and robust company better able to withstand continuing changes and challenges in the property and finance markets. In formulating this merger proposal, the PFG Board concluded that the restructuring of PFSL in late 2007 needed to be revisited. The lower liquidity in the property markets, when combined with the reduced ability of borrowers to refinance, meant that customers would be slower repaying their mortgages and in turn PFSL would not be able to repay its stockholders as quickly as had been anticipated in 2007.

The merger proposal would provide for PFSL debentureholders waiving the accrued interest on debenture stock and accepting an offer from PFG to swap the PFSL debenture stock into PFG ordinary and preference shares. PFSL would be amalgamated into PFG. Concurrently, PFG would make an offer to its existing redeemable preference shareholders, to

swap their shares into PFG ordinary shares. PFG's existing unsecured creditors would be settled either by issuing shares or a discounted cash settlement, as a pre condition to the merger proceeding.

The outcome would be that PFSL's secured debenture stock holders would own approximately 90% of the post-merger PFG and would forego accrued but unpaid interest. Before the merger, the PFG ordinary shares will be consolidated by retaining one share for every 3.33 shares currently held. The new ordinary shares will be issued at a nominal issue price of 50¢ per share. In total, PFSL's debenture stockholders would therefore have received a \$0.09 cash payment per \$1.00 of debenture stock (already paid under the existing PFSL restructuring proposal) and would in addition receive (for each \$1.00 of debenture stock) a 1 year fixed term preference share, equivalent to 11c, with the balance of 80¢ in PFG ordinary shares.

The result will see the restructured PFG being debt free with fully paid tradeable shares listed on the NZAX. PFG will use its cashflow to provide regular dividends.

The financial statements have been prepared on the basis that the company will be successful in concluding its recapitalisation programme and is a going concern. For the recapitalisation programme to be successful PFG specifically needs to:

- a) complete prospectuses for the offers of PFG ordinary shares and fixed term preference shares to existing PFSL debenture stock holders, and for an exchange offer of ordinary PFG shares to Redeemable Preference Shareholders (RPS) and unsecured creditors;
- b) hold a meeting of the PFSL debentureholders to consider resolutions including for a waiver of accrued debenture stock interest and for acceptance of the offer by PFG to convert the remaining PFSL debenture stock into PFG ordinary shares and fixed term preference shares (these resolutions will require 75% approval of the debenture stock represented at the meeting); and
- c) concurrently throughout this process the Company has to raise sufficient cash to meet its working capital needs including the repayment or refinance of its current loan facility, this can be by way of any one or combination of the following – placement of new shares, rights issue, sale of assets or new debt facilities.

The Board is actively working on this overall recapitalisation plan and expects to have it concluded in the first quarter of 2009.

The Directors consider some of the Group's assets (such as debt notes held in the securitisation trusts) will be held long-term to be funded by capital and/or debt and for the Group to have positive shareholder equity and again trade profitably.

If the Group is not successful in achieving its proposed recapitalisation programme as set out, and is thereby not a going concern then asset values assigned would be based on recoverable amounts and would be materially different from those under the going concern assumption.

B) Market Events

Clearly the past 24 months has seen a material change in both domestic and international credit markets. These events have been widely documented and reported upon in the media. Amongst others there have a number of collapses; the freezing of funds and rating downgrades on securities. It is not known if these market disruptions have passed or if further changes and/or disruptions will occur; and how these events will impact on the liquidity and recoverability of assets.

C) Trust Debtors

The Company has paid, on behalf of the securitisation trusts, various establishment costs and issuance costs. It is also owed by the trusts various amounts including excess servicer fees, debt note interest and expense reserves. According to the accounting records of the Company, the total balance receivable from the Trusts is \$8,621,000; made up of trust debtors of \$6,393,000 and accrued interest of \$2,228,000. The Company no longer manages the securitisation trusts and is working with the Trustee to firstly obtain access to financial records and second to agree on the amount and establish a payment plan. To date the Company has not been successful in either of these two points. If the Company's negotiations with the Trustee are unsuccessful then some or all of the Company's trust debtor assets may be impaired.

However the Directors are comfortable that the debt will ultimately be paid due to the unique structure of the cash flow allocation within each trust. In the event the trust debtor is disputed then the cash surplus within the trust will increase by an equivalent sum. This cash surplus is automatically distributed to the Company by way of excess servicer fees. As there is a time lag between these events it would result in a recognition adjustment between the current year and when the excess servicer fee is received.

D) Value of Debt Notes

The Directors have assessed the value of the debt notes and have continued to record the debt notes at amortised cost. In making this assessment the Directors have been conscious of the long term nature of the mortgage loans within each trust that provide the backing to the debt notes; whilst the debt notes held by the Company may be charged off against due to cash flow shortfalls, in the short term it does not necessarily hold true that the charge-off will be a permanent impairment. The Directors consider there to be favourable trends within each trust that will support these carrying values including but not limited to improvement in the net interest margins on the residential backed mortgages, a reduction in the servicing and management cost as the mortgage pools reduce in size, a lengthening of the expected average life due to market constraints on the availability of credit and the seasoning of the loan pools.

The Directors are unable to make knowledgeable judgements on the asset quality of the trusts as they are no longer involved on a day to day basis and have limited access to trust records. Information has been requested so that an assessment can be made however this information is yet to be received by the Company. The Directors do however anticipate losses in both the residential and commercial trusts due to fundamental changes in the New Zealand property market.

Should in the future any of the underlying loan assets of the respective trusts be significantly impaired then it will have flow on consequences to the company through either the ultimate recovery of the debt note investment together and/or the level of excess service fees and other charges the company would expect to earn from the trusts.

At balance date, the Trustee of the Propertyfinance RML 2005-3 Trust has charged-off \$2.853 million, comprising all of the Class G notes (\$0.38 million) and \$2.473 million of the Class F notes. Under the payment methodology the charge-offs can be reimbursed from future cashflows (as they allow) when distributions are made.

Subsequent to balance date an additional \$2.035 million has been charged-off the RML Class F notes.

At balance date interest entitlements on debt notes was unpaid on the following notes:

- CM 2005-2 Trust owed the Group \$1.041 million of unpaid interest comprising \$0.990m of interest on Class G notes and \$0.051 million of interest on Class H notes.
- RML 2005-3 Trust owed the Group \$1.246 million of unpaid interest comprising \$1.225 million of interest on Class F notes and \$0.021 million of interest on Class G notes.
- RM 2005-1 Trust owed the Group \$0.018 million of unpaid interest on Class E notes.

The unpaid interest has been accrued in the financial statements at balance date. Under the payment methodology unpaid interest can be paid from future cashflows (as they allow).

Subsequent to balance date the CM 2005-2 Trust has paid \$0.15 million of the previously unpaid interest entitlement, and in respect of the RML 2005-3 Trust Class F notes a further \$0.20 million of interest entitlement was unpaid.

The Company has provided for an impairment of \$1.946 million in respect to the charge-offs and unpaid interest, in addition to providing for a trust payable of \$742,000. Of the impairment provision \$1.146 million was made in the year ended 31 March 2008 and a further \$0.800 million provided in the current period.