half-year report

31 march 2010

financial highlights

	6 mths to 31/03/2010 $m	6 mths to 31/03/2009 $m	12 mths to 30/09/2009 $m
new loans	128.5	162.8	288.0
total income	41.3	48.8	93.2
profit after taxation	2.8	4.0	8.8
total assets	480.6	609.0	536.4
net loans under administration	446.1	564.0	493.0
capital	65.0	60.5	63.5
net interest income / average loans under administration	7.4%	6.2%	6.6%
expense / average total assets	1.8%	1.6%	1.7%
impaired asset expense / average loans under administration	0.5%	0.9%	1.1%
capital percentage	13.5%	9.9%	11.8%
return on average equity	8.8%	15.6%	16.4%
return on average total assets	1.1%	1.3%	1.5%
basic earnings per ordinary share (dollars)	0.09	0.24	0.38

review of operations

Profit after tax recorded in these accounts is $2.84 million (last year: $4.04 million).

- new loan sales decreased by 21.0% to $128.5m (last year: $162.6m), as motor vehicle sales slowed
- assets reduced by 21.1% to $480.6m, as a consequence of lower sales
- net interest income increased by 0.8%, as margin improved
- expense, excluding bad debt, is down 5.8%, in spite of higher costs related to additional regulatory requirements
- weighted average yield on finance receivables increased to 15.26% (last year: 14.76%)

Net interest income has improved as the full impact of increased credit margins and bank fees has been factored into interest rates charged to customers, and lending criteria remains tight.

Net interest income as a percentage of average loans under administration rose to 7.4% (last year: 6.2%).

Expense, excluding bad debt, continues to be well contained, despite the burden of continuous regulatory change, both current and planned. Changes planned include regulation for financial advisers, anti-money laundering, non-bank deposit takers and amendments to credit contract legislation.

Bad debt expense disclosed arises from individual shareholder losses, not recoverable from the originating shareholder. The company is pursuing the originating shareholders and the borrowers for full recovery.

financial position

Total assets are down 21.1%, to $480.6m, in line with lower sales and a decision to withdraw from operating lease business, made jointly with the major originator of this business, because of capital and funding constraints. Assets will continue to reduce as the operating lease book runs off and new credit contract originations are limited by a sluggish economy and internal constraints on new lending.

Capital, including perpetual preference shares, totals $65.0m (last year $60.5m), giving an improved capital percentage of 13.5% (last year: 11.8%).

funding

At the date of this report, securitised loans are funded by bills of exchange, provided by banks, under a revolving liquidity facility (RLF), an integral part of the securitisation programme since 1995.

The financial statements at 30 September 2009 reported that the RLF was nearing maturity and that MTF was working with the providers to extend the facility. The RLF facility has been extended to 31 March 2011 to fund operating lease finance receivables. We are working with our bankers and professional advisers to implement a new securitisation structure to fund the remaining finance receivables currently funded by the RLF. The new structure is intended to be in place, prior to the RLF maturity on 30 June 2010. In the event the new structure is not in place prior to the maturity of the RLF, the directors believe the RLF will be rolled over to allow time to implement the new structure, consistent with the actions of the same providers in rolling over the RLF on each maturity since June 2007. The directors' confidence is based on discussion with each of the RLF providers, the record of sustainable earnings before dividend distribution, commission paid to transacting shareholders and the quality of the finance receivables.

MTF will continue to assess opportunities to further diversify its debt facilities as the Board deem necessary.

credit quality

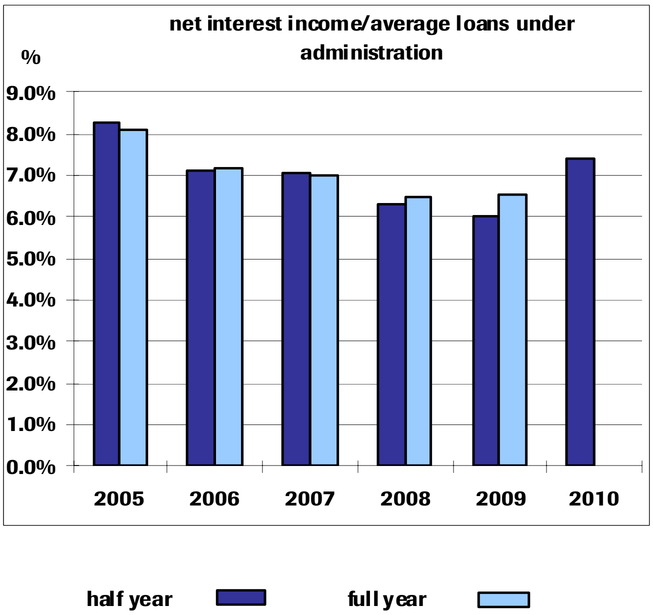
Arrears management has been a primary focus for the company and its shareholders during the period under review and it is pleasing to report that overall arrears are trending down and are below our long term internal benchmark at the date of this report.. Arrears rose above the benchmark for a period, as a small number of shareholders struggled to manage lending that, in hindsight, was always risky and came under impossible pressure during a recession.

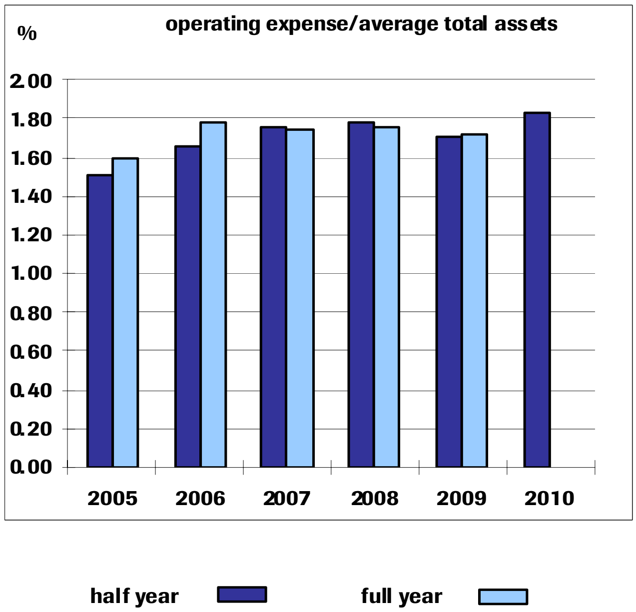
Bad debt expense, reported in the financial statements, is in large part a consequence of irregular lending and the company is pursuing every legal remedy to recover the losses incurred. New procedures have been put in place to detect such irregularities but it will always be difficult to stay ahead of the determined.

Loans are managed and guaranteed by the transacting shareholder. MTF monitors the performance of each transacting shareholder and each portfolio of loans on a regular basis and carries out regular reviews of lending policy and process.

At the date of this report, MTF is managing shareholder ledgers totalling $9.3m (last year $18m), where we believe MTF may be at risk. Provisions for specifically impaired assets total $2.7m (last year: $2.5m), and we have written off loans that we have not been able to recover from borrowers or shareholders totalling $1.1m. Where one shareholder is not able to meet its obligations, all shareholders share in the loss and will share in recoveries, if any.

As a result of our experience in this recession, we have tightened our lending criteria, with the primary focus on our traditional business of used motor vehicles, which provides in excess of 80% of our business, and is less prone to loss.





continuous improvement

Staff have been working on two major bodies of work during the last twelve months, both of which will result in future operating benefits.

The funding programme mentioned above has required a complete review of funding software and overall reporting requirements. The process has been tortuous as it has been dependent on completion of the funding arrangements and as these have dragged on for over eighteen months, the software development has been far from efficient.

The redevelopment of Rapid, the front end loan origination system, has been a long drawn out process, needing to be aligned not only with impending regulations but also with the funding programme.

The regulators have played their part in frustrating our efforts to become more efficient, by issuing poorly drafted rules that have had to be reviewed again and again before they have become practical in application. The whole industry has been frustrated by uncertainty and lack of clarity, which is a cost to the industry and ultimately a cost to the consumer with little evidence of any tangible consumer benefit.

staff and shareholders

The Company has put considerable pressure on shareholders and staff, since the beginning of the global financial crisis, as it has wrestled with uncertainty in every facet of the business. Both groups have never failed to give their support and confidence, even as necessary changes to the way we operate have made life more difficult.

dividends

Perpetual preference share dividends totalling $1.1m (gross) were paid during the period. The dividend rate is set annually, at 30 September, at 2.40% over the one year swap rate, and was reset to 5.67% on 30 September 2009, for the twelve months to 30 September 2010.

Ordinary share dividends totalling $0.7m (gross) were paid to ordinary shareholders for the period, On 23 April 2010, the directors declared an interim dividend on paid-up ordinary shares of 6.00% (1.5c per share), for the quarter ending 31 March 2010. The dividend was paid on 30 April 2010.

outlook

New loan originations bottomed out in August 2009 and since that date we have seen a monthly increase in sales activity. Feedback from shareholders and from economic commentators suggests that it will be many months before we see the sales levels achieved prior to the global financial crisis.

On a positive note, the MTF Direct franchise continues to grow by the number of franchises and the volume of business generated. Used car financing, on a “same store” basis, is approaching the levels experienced prior to 2007 and we are seeing some strength returning to the motor cycle business, where we are a significant player. New car financing is well down but recovering and we will continue to look at funding opportunities that enable us to re-enter the operating lease market.

Regulation continues to suck energy from the business and from the economy. Too often it seems that the regulators have no idea of what goes on in the real world and that regulations have been drafted to catch a horse that has already bolted and without adequate consultation with the industry or the public. Despite the opprobrium attached to the industry, there is still a large number of well managed, successful, customer friendly finance companies providing reliable returns to investors and loan products that meet the needs of the market.

We face the future with confidence, because MTF has survived in a market where the actions of others have impacted unfavourably on its business but where its business model has proved to be both durable and successful. We have been managing uncertainty, around the actions of others, since July 2007 and we expect that uncertainty will be a major challenge for at least another two years.

Angus Bradshaw
Managing Director

Roger Bonifant
Chairman

financial statements

statement of comprehensive income

six months ended 31 march 2010	*note*	*6 mths to 31/03/2010 $000 (unaudited)*	*6 mths to 31/03/2009 $000 (unaudited)*	*12 mths to 30/09/2009 $000 (audited)*
interest income		36,336	43,183	83,499
interest expense		18,895	25,886	48,078
net interest income		**17,441**	**17,297**	**35,421**
payment waiver net income		420	450	841
fees		4,555	4,588	8,900
net interest income and fees		**22,416**	**22,335**	**45,162**
expense				
employee		2,223	2,128	4,575
communication and processing		789	839	1,560
depreciation and amortisation		596	715	1,611
administration		1,046	1,259	2,196
bad debt		1,134	302	1,905
operating expense		5,788	5,243	11,847
profit before commission and other gains (losses)		**16,628**	**17,092**	**33,315**
commission		11,984	10,135	20,605
profit before net gain (loss) from financial instruments designated at fair value		**4,644**	**6,957**	**12,710**
net gain (loss) from financial instruments designated at fair value and foreign currency translation	8	(588)	(105)	(384)
profit before taxation		4,056	6,852	12,326
taxation		1,218	2,810	3,562
profit after taxation		**$2,838**	**$4,042**	**$8,764**
other comprehensive income		-	-	-
total comprehensive income		**$2,838**	**$4,042**	**$8,764**

statement of changes in equity

six months ended 31 march 2010

shareholder equity at beginning of period		63,473	43,282	43,282
ordinary shares issued		-	14,429	14,429
ordinary share dividend (net)		(476)	-	(395)
perpetual preference share dividend (net)		(794)	(1,290)	(2,607)
transactions with shareholders		(1,270)	13,139	11,427
total comprehensive income		**2,838**	**4,042**	**8,764**
total attributable revenue and expense		2,838	4,042	8,764
shareholder equity at end of period	2	**$65,041**	**$60,463**	**$63,473**

balance sheet

31 march 2010	*note*	*31/03/2010 $000 (unaudited)*	*31/03/2009 $000 (unaudited)*	*30/09/2009 $000 (audited)*
funds employed				
share capital		22,695	21,863	22,322
retained earnings		3,380	(366)	2,185
perpetual preference shares		38,966	38,966	38,966
total shareholder equity	2	65,041	60,463	63,473
liabilities				
bank overdraft		-	1,773	-
provision for taxation		404	-	-
accounts payable and accrued expense		8,367	5,122	7,320
unearned payment waiver fees		4,456	4,614	4,417
short-term loans - secured		-	8,700	-
bills of exchange - secured		386,786	474,285	425,100
derivative financial instruments		8,810	42,932	26,421
deferred taxation		6,773	11,151	9,637
total liabilities excluding share capital repayable on demand		415,596	548,577	472,895
total funds employed		**$480,637**	**$609,040**	**$536,368**
employment of funds				
cash at bank		1,745	-	6,515
cash in restricted bank accounts		23,653	27,777	25,484
taxation refund due		-	398	1,050
accounts receivable		719	3,284	500
payment waiver indemnity prepayment		2,759	2,840	2,737
finance receivables	7	446,058	563,973	492,991
deferred taxation		2,671	6,936	4,020
property, plant and equipment		528	773	493
intangible assets		2,504	3,059	2,578
total assets		**$480,637**	**$609,040**	**$536,368**

Angus Bradshaw
Managing Director

Roger Bonifant
Chairman

20 May 2010

statement of cash flow

six months ended 31 march 2010	*note*	*6 months to 31/03/2010 $000 (unaudited)*	*6 months to 31/03/2009 $000 (unaudited)*	*12 months to 30/09/2009 $000 (audited)*
cash flow from operating activities				
interest and fee income		40,834	47,867	92,305
funding and securitisation costs		(19,086)	(26,378)	(48,468)
income taxation paid		(1,278)	(1,324)	(1,324)
commission		(10,298)	(9,455)	(17,431)
operating expense		(5,702)	(3,639)	(10,155)
net cash flow from operating activities before net changes in operating assets and liabilities		4,470	7,071	14,927
net changes in operating assets and liabilities:				
finance receivable instalments		168,961	199,669	386,329
increase (decrease) in bills of exchange - net		(51,335)	126,891	68,217
(decrease) in euro commercial paper - net		-	(149,572)	(146,873)
(increase) in finance receivable advances		(126,802)	(168,565)	(293,010)
(decrease) in short-term loans - net		-	(19,700)	(28,400)
		(9,176)	(11,277)	(13,737)
net cash flow from operating activities	**5**	**(4,706)**	**(4,206)**	**1,190**
cash flow from investing activities				
sale of property, plant and equipment		25	7	64
purchase of property, plant and equipment		(145)	(27)	(40)
purchase of intangible assets		(505)	(255)	(324)
net cash flow from investing activities		**(625)**	**(275)**	**(300)**
cash flow from financing activities				
repay share capital and transacting shareholder deposits		(15)	(20)	33
proceeds from share issue		15	5,362	7,644
dividend to perpetual preference shareholders		(794)	(1,291)	(2,607)
dividend to ordinary shareholders		(476)	-	(395)
net cash flow from financing activities		**(1,270)**	**4,051**	**4,675**
net increase (decrease) in cash		(6,601)	(430)	5,565
cash on hand at beginning of period		31,999	26,434	26,434
cash on hand at end of period		**$25,398**	**$26,004**	**$31,999**
represented by:				
cash at bank (overdraft)		1,745	(1,773)	6,515
cash in restricted bank accounts		23,653	27,777	25,484
		$25,398	**$26,004**	**$31,999**

notes to financial statements

note 1: presentation and accounting policies

(a) basis for preparation

reporting entity

The unaudited condensed half-year financial statements are those of Motor Trade Finances Limited (MTF or Company) and its subsidiaries (Group). The principal activities of MTF consist of accepting finance receivables entered into by transacting shareholders.

MTF is a profit-orientated entity, incorporated in New Zealand under the Companies Act 1993. MTF is an issuer for the purpose of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the aforementioned Acts.

The registered office of the Company is 193 Princes Street, Dunedin.

statement of compliance

The unaudited condensed half-year financial statements are prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for interim financial statements (NZ IAS 34). The half-year financial statements should be read in conjunction with the Group annual report for the year ended 30 September 2009.

The accounting policies, estimates and methods of computation in these interim financial statements are the same as those used to prepare the financial statements and related notes included in the Group annual report for the year ended 30 September 2009.

note 2: equity

31 March 2010	share capital	retained earnings	perpetual preference shares	total equity
Balance at beginning of period	22,322	2,185	38,966	63,473
Bonus issue from retained profits withheld from former co-operative shareholders not fully participating in cash issue	373	(373)	-	-
Total comprehensive income	-	2,838	-	2,838
Ordinary share dividends	-	(476)	-	(476)
Preference share dividends	-	(794)	-	(794)
Balance at end of period	**$22,695**	**$3,380**	**$38,966**	**$65,041**

31 March 2009	share capital	retained earnings	perpetual preference shares	total equity
Balance at beginning of period	-	4,316	38,966	43,282
Conversion of shares repayable on demand to ordinary shares	6,366	-	-	6,366
Cash issue of ordinary shares	8,063	-	-	8,063
Bonus issue from August and September 2008	6,964	(6,964)	-	-
retained profit allocated to former co-operative shareholders			-	-
Bonus issue from retained profits withheld from former	470	(470)	-	-
co-operative shareholders not fully participating in cash issue			-	-
Total comprehensive income	-	4,042	-	4,042
Preference share dividends	-	(1,290)	-	(1,290)
Balance at end of period	**$21,863**	**($366)**	**$38,966**	**$60,463**

30 September 2009				
Balance at beginning of period	-	4,316	38,966	43,282
Conversion of shares repayable on demand to ordinary shares	6,366	-	-	6,366
Cash issue of ordinary shares	8,063	-	-	8,063
Bonus issue from August and September 2008	6,964	(6,964)	-	-
retained profit allocated to former co-operative shareholders			-	-
Bonus issue from retained profits withheld from former	929	(929)	-	-
co-operative shareholders not fully participating in cash issue			-	-
Total comprehensive income	-	8,764	-	8,764
Ordinary share dividends	-	(395)	-	(395)
Preference share dividends	-	(2,607)	-	(2,607)
Balance at end of period	**$22,322**	**$2,185**	**$38,966**	**$63,473**

note 3: contingent liabilities

The Company has a contingent liability arising from impending legal action by the Commerce Commission, in relation to fees charged under the Credit Contracts and Consumer Finance Act 2003. In January 2010 MTF received notice of High Court civil proceedings, brought by the Commerce Commission for alleged breaches of the Credit Contracts & Consumer Finance Act 2003 and the Fair Trading Act 1986, in respect of various fees charged in credit contracts. MTF will vigorously defend the proceedings.

note 4: going concern

The financial statements have been prepared using the going concern assumption.

The considered view of the directors of MTF is that, after making due enquiry there is a reasonable expectation that the Company has adequate resources to continue operations at existing levels for the next twelve months from the date of this report and consequently the directors believe the going concern assumption is a valid basis on which to prepare the interim financial statements.

The directors reached this conclusion having regard to the circumstances which they consider likely to affect the Company during the period of one year from the date of these interim financial statements, and having regard to other circumstances which they believe will occur after that date, which could affect the validity of the going concern assumption.

These interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

The financial statements at 30 September 2009 reported that the RLF was nearing maturity and that MTF was working with the providers to extend the facility. The RLF facility has been extended to 31 March 2011 to fund operating lease finance receivables. We are working with our bankers and professional advisers to implement a new securitisation structure to fund the remaining finance receivables currently funded by the RLF. The new structure is intended to be in place, prior to the RLF maturity on 30 June 2010. In the event the new structure is not in place prior to the maturity of the RLF, the directors believe the RLF will be rolled over to allow time to implement the new structure, consistent with the actions of the same providers in rolling over the RLF on each maturity since June 2007. The directors' confidence is based on discussion with each of the RLF providers, the record of sustainable earnings before dividend distribution, commission paid to transacting shareholders and the quality of the finance receivables.

MTF will continue to assess opportunities to further diversify its debt facilities as the Board deem necessary.

note 5: reconciliation of profit after taxation to net cash flow from operating activities

	6 months to 31/03/2010 $000 (unaudited)	6 months to 31/03/2009 $000 (unaudited)	12 months to 30/09/2009 $000 (audited)
profit after taxation	2,838	4,042	8,764
non-cash items	639	929	2,012
	3,477	4,971	10,776
movement in other items			
(increase) in accounts receivable	(240)	(396)	(200)
increase (decrease) in accounts payable and accrued expense	1,086	(442)	1,559
increase in provision for taxation	404	190	-
(increase) decrease in taxation refund due	1,050	-	(462)
increase (decrease) in deferred taxation	(1,514)	1,296	2,698
decrease in finance receivables	46,933	21,400	92,383
increase (decrease) in bills of exchange	(38,315)	107,649	58,464
(decrease) in euro commercial paper	-	(149,572)	(149,572)
increase (decrease) in derivative financial instruments	(17,612)	30,391	13,880
(decrease) in short term loans	-	(19,700)	(28,400)
	(8,208)	(9,184)	(9,650)
Movement in working capital items classified as investing or financing activities	25	7	64
net cash surplus (deficit) from operating activities	**$(4,706)**	**$(4,206)**	**$1,190**

note 6: events after balance date

On 23 April 2010, the directors declared an interim dividend on paid-up ordinary shares of 6.00% (1.5c per share), for the quarter ending 31 March 2010. The dividend was paid on 30 April 2010.

note 7: asset quality

(a) asset quality - finance receivables			
neither past due nor impaired	440,415	548,438	482,084
individually impaired	9,273	18,039	14,823
past due but not impaired	1,145	575	799
specific impairment allowance	(2,701)	(2,504)	(3,341)
collective impairment allowance	(2,074)	(574)	(1,374)
total carrying amount	**$446,058**	**$563,973**	**$492,991**
(b) individually impaired assets - managed transacting shareholders			
finance receivables	9,273	18,039	14,823
balances available for offset, including collateral.	(6,572)	(15,535)	(11,482)
specific impairment allowance	**($2,701)**	**($2,504)**	**($3,341)**

note 8: net gain (loss) from financial instruments designated at fair value and foreign currency translations	***6 mths to 31/03/2010 $000 (unaudited)***	***6 mths to 31/03/2009 $000 (unaudited)***	***12 mths to 30/09/2009 $000 (audited)***
net gain(loss) arising on:			
finance receivables	(5,118)	13,263	4,697
individual impairment allowance	640	(2,420)	(3,255)
collective impairment allowance	(700)	-	(800)
interest rate swap derivatives - realised	-	201	(1,428)
interest rate swap derivatives - unrealised	4,590	(11,149)	402
foreign currency derivatives - unrealised/realised	13,021	(19,242)	(12,452)
foreign currency translation of BOE	(13,021)	19,242	12,452
	($588)	**($105)**	**($384)**

directory

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Angus Bradshaw *BCA, ACA, F Fin (Managing Director)*
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