



TOWER FINANCE LIMITED



HALF YEAR REPORT

FOR THE SIX MONTHS
ENDED 31 MARCH 2006

CHAIRMAN'S REVIEW

On behalf of the TOWER Finance Limited Board I am pleased to present the TOWER Finance Limited Report for the six months ended 31 March 2006.

TOWER Finance Limited (TOWER Finance) is the issuer of \$125 million Capital Bonds and \$75 million Capital Notes and is a wholly-owned subsidiary of TOWER Limited (TOWER). TOWER guarantees the Capital Bonds and Capital Notes on an unsecured and subordinated basis.

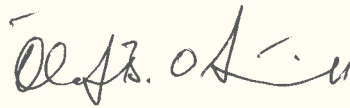
TOWER Finance is confident of its continued ability to meet its interest commitments on the Capital Bonds and Capital Notes.

The six months ended 31 March 2006 has seen continuing momentum for TOWER. The net profit after tax from continuing operations of \$32.5 million compared to \$21.0 million for the previous corresponding period, an increase of 55%. This was a further step for TOWER as it competitively rebuilds and targets increased returns on capital.

The TOWER Finance Limited 2006 Half Year Report is distributed to all Bondholders and Noteholders as required by NZX Listing Rules.

Details of TOWER Limited's result for the six months ended 31 March 2006 are set out in the TOWER Limited 2006 Half Year Report, which Bondholders and Noteholders also receive. Further details can be accessed by visiting TOWER's website www.towerlimited.com.

On behalf of the TOWER Finance Limited Board, I thank you for your ongoing support.



Olaf B O'Duill

Chairman
TOWER Finance Limited

DIRECTORY

REGISTERED OFFICE

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COMPANY SECRETARY AND GENERAL MANAGER
INVESTOR RELATIONS & CORPORATE SERVICES
Philippa Ellis

HOLDING COMPANY
TOWER Financial Services Group Limited

ULTIMATE HOLDING COMPANY
TOWER Limited

AUDITORS
PricewaterhouseCoopers

SOLICITORS
Phillips Fox

INCOME STATEMENT

FOR THE
 SIX MONTHS ENDED
 31 MARCH 2006

(New Zealand dollars in thousands)

	Note	31 March 2006	31 March 2005
		Unaudited	Unaudited
Total revenue	1	9,780	9,515
Operating expenses	2	9,222	9,355
Surplus before taxation		558	160
Taxation expense	3	184	53
Net surplus for the period		374	107

THE INCOME STATEMENT SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

STATEMENT OF CHANGES IN EQUITY

(New Zealand dollars in thousands)

	31 March 2006	31 March 2005
	Unaudited	Unaudited
Equity at beginning of period	1,115	979
Net surplus for the period	374	107
Equity at end of period	1,489	1,086

THE STATEMENT OF CHANGES IN EQUITY SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

BALANCE SHEET

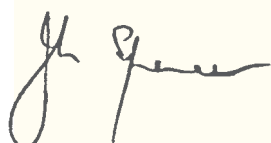
AS AT
 31 MARCH
 2006

(New Zealand dollars in thousands)

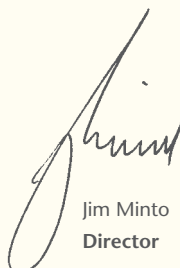
	Note	31 March 2006	31 March 2005	30 September 2005
		Unaudited	Unaudited	Audited
EQUITY				
Capital	5	-	-	-
Reserves	6	1,489	1,086	1,115
		1,489	1,086	1,115
Assets				
Cash and cash equivalents		34	229	61
Related party receivables	7	202,882	200,924	201,866
		202,916	201,153	201,927
Liabilities				
Interest payable		3,590	3,638	3,764
Tax payable		344	16	95
Deferred tax	4	293	423	358
Capital bonds/notes	9	197,200	195,990	196,595
		201,427	200,067	200,812
NET ASSETS		1,489	1,086	1,115

THE BALANCE SHEET SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

The Directors authorised these financial statements for issue on 22 May 2006.



John Spencer
 Director



Jim Minto
 Director

STATEMENT OF CASH FLOWS

FOR THE
 SIX MONTHS ENDED
 31 MARCH 2006

(New Zealand dollars in thousands)

	Note	31 March 2006	31 March 2005
		Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		9,780	9,515
Interest paid		(8,713)	(8,790)
Payments to suppliers		(78)	(86)
Taxation paid		-	-
Net cash inflows/(outflows) from operating activities	8	989	639
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to related parties		(1,016)	(654)
Net cash (outflows) from investing activities		(1,016)	(654)
Net (decrease)/increase in cash held		(27)	(15)
Cash at beginning of period		61	244
Cash at end of period		34	229

THE STATEMENT OF CASHFLOWS SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

STATEMENT OF ACCOUNTING POLICIES

FOR THE
SIX MONTHS ENDED
31 MARCH 2006

1. BASIS FOR PREPARATION

The financial statements for the interim half year reporting period ended 31 March 2006 have been prepared in accordance with the NZ IAS 34 'Interim Financial Reporting', New Zealand Companies Act 1993 and the Financial Reporting Act 1993.

COMPLIANCE WITH IFRS

The financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that the financial statements and notes of TOWER Finance Limited comply with International Financial Reporting Standards.

This is the first financial report to be prepared in accordance with NZ IFRS and comparatives for the half year ended 31 March 2005 and year ended 30 September 2005 have been restated accordingly.

Reconciliations and descriptions of the effect of transition from previous NZ GAAP to NZ IFRS on equity and net income are provided in Note 14.

The financial statements have been prepared on the historical cost basis, with any exceptions noted in the accounting policies below.

2. SPECIFIC ACCOUNTING POLICIES

The specific accounting policies used in the preparation of the financial statements are as follows:

2.1. INTEREST INCOME AND EXPENSE

Interest income and expense are recognised on an accrual basis.

2.2. TAXATION

CURRENT TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for

each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2.3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the balance sheet.

2.4. CAPITAL BONDS AND CAPITAL NOTES

Capital Bonds and Capital Notes are valued at amortised cost. Costs incurred in issuing TOWER Capital Bonds and TOWER Capital Notes have been capitalised and are amortised on a straight line basis from the date of issue to the first election date (Capital Bonds: 15 October 2007 and Capital Notes: 15 October 2009).

2.5. DERIVATIVE FINANCIAL INSTRUMENTS

All derivatives are recognised at fair value through profit or loss.

2.6. PAYABLES

These amounts represent liabilities for goods and services provided to the company prior to the end of the period which are unsettled.

2.7 CONTRIBUTED EQUITY

Ordinary shares issued by the company are classified as equity and are recognised at fair value less direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE
 SIX MONTHS ENDED
 31 MARCH 2006

(New Zealand dollars in thousands)

	31 March 2006	31 March 2005
	Unaudited	Unaudited
1. TOTAL REVENUE		
Total revenue comprises:		
Interest		
- external	4	11
- related parties	9,776	9,504
Total revenue	9,780	9,515

2. OPERATING EXPENSES

Included in operating expenses are the following:

Interest expense	8,538	8,664
Amortisation of capital raising costs	605	605

AUDIT FEES

No fees for audit or other services were paid by TOWER Finance Limited to its auditors during the period.
 TOWER Corporation Holdings Limited paid all fees for audit services provided to TOWER Finance Limited.

3. TAXATION

Surplus before taxation	558	160
Income tax at current rate 33 cents	184	53
Taxation expense	184	53
Analysis of taxation expense		
Current taxation	249	118
Deferred taxation	(65)	(65)
	184	53

(New Zealand dollars in thousands)

	31 March 2006	31 March 2005	30 September 2005
	Unaudited	Unaudited	Audited
4. DEFERRED TAXATION			
Balance at beginning of period	358	488	488
Movements during the period:			
Income statement charged for the period	(65)	(65)	(130)
Balance at end of period	293	423	358

IMPUTATION CREDITS

TOWER Finance Limited is a member of the TOWER Limited Consolidated Group. All imputation credits are recorded in the TOWER Limited's Consolidated Group Imputation Credit Account.

NOTES TO THE FINANCIAL STATEMENTS

	31 March 2006	31 March 2005	30 September 2005
	Unaudited	Unaudited	Audited
	Number of Shares	Number of Shares	Number of Shares
5. CAPITAL			
Fully paid shares issued to TOWER Financial Services Group Limited for \$1 each	100	100	100

The ultimate parent is TOWER Limited. All shares rank equally with one vote attached to each fully paid share.

(New Zealand dollars in thousands)

	31 March 2006	31 March 2005	30 September 2005
	Unaudited	Unaudited	Audited
6. RESERVES			
Retained Earnings			
Balance at beginning of period	1,115	979	979
Net surplus for the period	374	107	136
Balance at end of period	1,489	1,086	1,115

7. RELATED PARTY RECEIVABLE

Amounts receivable/(payable) between the company and related parties are:

TOWER Financial Services Group Limited ⁽¹⁾	22,952	20,639	19,865
TOWER Finance (Capital Bonds) Limited ⁽²⁾	179,930	180,285	182,001
Total Related Party Receivable	202,882	200,924	201,866

⁽¹⁾ TOWER Finance advanced \$22.2m to TOWER Financial Services Group Limited on 2 August 2004. The remaining balance represents payments made on behalf of the company by TOWER Financial Services Group Limited. Interest has been charged on the balance from 2 August 2004. Prior to this the loan was of a working capital nature and did not bear interest. Interest is payable on the advance at market interest rates and is repayable on demand.

⁽²⁾ The Company advanced funds to TOWER Finance (Capital Bonds) Limited. Interest is payable on the advance at market interest rates and is repayable on demand.

(New Zealand dollars in thousands)

	31 March 2006	31 March 2005
	Unaudited	Unaudited
8. RECONCILIATION OF NET SURPLUS FOR THE PERIOD WITH NET CASH FLOW FROM OPERATING ACTIVITIES:		
Reported profit after taxation	374	107
Non-cash items and investment activities:		
Amortisation of preliminary expenses	605	605
Increase/(decrease) in deferred taxation	(65)	(65)
Movements in working capital		
Interest payable	(174)	(126)
Taxation	249	118
Net cash flows from operating activities	989	639

(New Zealand dollars in thousands)

	31 March 2006	31 March 2005	30 September 2005
	Unaudited	Unaudited	Audited
9. CAPITAL BONDS/NOTES			
Capital Bonds	125,000	125,000	125,000
Capital Bonds unamortised transaction costs	(995)	(1,659)	(1,327)
Capital Notes	75,000	75,000	75,000
Capital Notes unamortised transaction costs	(1,805)	(2,351)	(2,078)
	197,200	195,990	196,595

NOTES TO THE FINANCIAL STATEMENTS

CAPITAL BONDS

On 19 March 2002 TOWER Finance Limited, a subsidiary of TOWER Limited, issued a prospectus offering \$125 million of unsecured, subordinated Capital Bonds (the Bonds). The issue was fully subscribed. The Bonds are non-cumulative debt securities of TOWER Finance Limited, and are convertible into TOWER Limited shares in certain circumstances. TOWER Limited provides a subordinated guarantee for these Bonds.

On the first election date of 15 October 2007 a bondholder may elect to:

- 1) retain some or all of the bonds at the new interest rate and/or
- 2) request the company to sell some or all of the Bonds at the issue price on the election date using the resale facility established by the company for that purpose.

The Bonds had an issue price of \$1.00 and interest will be paid quarterly in arrears at a fixed rate of 8.75% until the first election date of 15 October 2007. Interest on the Bonds will be paid in priority to dividends paid on TOWER Limited ordinary shares.

In certain circumstances, bondholders may require that some or all of their Bonds be converted into TOWER Limited shares:

- 1) on any election date but only in respect of any Bonds which the Bondholder requested TOWER Finance Limited sell but which were not sold through the resale facility at the issue price; or
- 2) if a Takeover (as defined in the Capital Bonds Trust Deed) of TOWER Limited occurs.

TOWER Finance Limited may also convert all Bonds on issue into TOWER Limited shares:

- 1) on any election date
- 2) where the TOWER Finance Limited board resolves that a change in law or the application or interpretation of any law risks exposing TOWER Limited to more than a negligible increase in costs (including for example tax) or impose unacceptable additional requirements in respect of the Bonds; or
- 3) where the aggregate issue price of Bonds on issue is less than \$30 million.

Funds raised from the Bond issue were used to repay senior ranking borrowing.

CAPITAL NOTES

On 18 June 2004 TOWER Finance Limited, a subsidiary of TOWER Limited, issued a prospectus offering \$65 million of unsecured, subordinated Capital Notes (the Notes) with an additional \$15 million over subscription permitted. \$75 million was subscribed. The Notes are non-cumulative debt securities of TOWER Finance Limited, and are convertible into TOWER Limited shares in certain circumstances. TOWER Limited provides a subordinated guarantee for these Notes.

The Notes had an issue price of \$1.00 and interest will be paid quarterly in arrears at a fixed rate of 8.65% until the first election date of 15 October 2009. Interest on the Notes will be paid in priority to dividends paid on TOWER Limited ordinary shares.

On the first election date of 15 October 2009 a noteholder may elect to either:

- 1) retain some or all of the Notes on the new conditions; or
- 2) convert some or all of their Notes to TOWER shares (dependant on the approval of shareholders).

Despite a noteholder's election, on the election date the company may elect to redeem or purchase for cash some or all of the Notes at their issue price together with interest due. If it wishes to only redeem or purchase part of the notes, it must do so on a pro-rata basis.

If noteholders are unable to convert Notes to TOWER shares, the company will elect whether to compulsorily redeem or purchase notes, or deem the Notes rolled over for a further year of not more than two years at the market rate.

At the end of that year, noteholders may:

- 1) require the company to redeem or purchase some of their Notes; or
- 2) accept new conditions to apply to some or all of their Notes.

Funds raised from the Notes issue were used to fully repay senior bank debt within the TOWER Group.

10. FINANCIAL INSTRUMENTS

INTEREST RATE RISK

The Capital Bonds incur interest at a fixed rate of 8.75% until 15 October 2007 and the Capital Notes incur interest at a fixed rate of 8.65% until 15 October 2009. The related party receivables earns interest at a rate set by the Directors from time to time. The effective interest rate as at 31 March 2006 is 9.4% - 10.1% (31 March 2005: 9.2% - 9.5%, 30 September 2005: 9.2%-9.4%). Bank balances earn interest at the current market rate.

The effective interest rate as at 31 March 2006 is 7.25% (31 March 2005: 6.75%, 30 September 2005: 6.75%). The Company's remaining financial assets and financial liabilities do not bear interest.

The Company enters into currency derivative contracts with other financial institutions from time to time to manage interest rate risk within the TOWER Group. The benefits are passed to other Group companies through matching derivative contracts with those related entities. All derivative contracts were closed out in 2002.

CREDIT RISK

The Company has advanced funds to other New Zealand companies in the TOWER Group. The Company does not require collateral or other security to support credit exposures. As the Company is a finance company for the TOWER Group with nominal equity, disclosure of counter parties to which the Company has a credit exposure equal to or in excess of 10% of equity is not meaningful.

FAIR VALUES

With the exception of the Capital Bonds and Capital Notes, the carrying value of all financial instruments is equivalent to their fair value. The fair value of the Capital Bonds and Capital Notes is dependent on interest rate movements between the date interest rates were set and the equivalent interest rate the market would offer for equivalent Bonds at balance date. The fair value of the Capital Bonds and Notes as at 31 March 2006 was \$126.5 million (31 March 2005: \$126.7 million, 30 September 2005: \$126.7 million) and \$77.0 million (31 March 2005:\$76.4 million, 30 September 2005:\$76.7 million) respectively.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not have sufficient funds available to meet its cash flow obligations. The Company's liquidity policies are designed to ensure that it has sufficient funds available to meet these obligations. Liquidity is controlled by monitoring and managing the current and future cash flows to contain the net cash outflow position within acceptable parameters. As at 31 March 2006 the Company had liquid assets of \$34,000 (31 March 2005: \$229,000, 30 September 2005: \$61,000).

11. SEGMENTS

TOWER Finance Limited operates in the financial services industry within New Zealand.

12. CAPITAL COMMITMENTS

There are no capital commitments as at 31 March 2006 (31 March 2005: Nil, 30 September 2005: Nil).

13. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2006 (31 March 2005: Nil, 30 September 2005: Nil).

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

There were no material changes in net equity or in reported profit and loss due to the implementation of NZ IFRS. Further details of the impacts of the implementation of NZ IFRS are noted below:

FINANCIAL LIABILITIES

Under NZ IFRS financial liabilities can continue to be carried at amortised cost and capital raising costs are required to be capitalised and amortised. As a result there is no material impact on net assets or the profit and loss for the period. Under NZ IFRS the capitalised costs are not shown as a separate item on the balance sheet and are offset against the financial liability.

ACCOUNTING FOR TAX

Under NZ IAS 12 Income Taxes, deferred tax must be recognised on temporary differences, whereas under NZ IFRS deferred tax is recognised on timing differences. As a result there is no material impact on net assets or the profit and loss for the period.

Under NZ IAS 12, the discounting of tax assets and liabilities required by NZ IFRS is prohibited. This has no impact on the net assets or profit for the period.

