



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

Board of Directors

G.A. Lennon (Chairman)
G.A. McGilvray (Deputy Chairman)
R.C. Avery (Managing Director)
D.G. Jeffery
I.B. Couper

Company Secretary

D.G. Jeffery

Auditors

HQB Chartered Accountants
Coffs Harbour

Accountants

J.D. Matthews & Associates Coffs Harbour
Chartered Accountants, Coffs Harbour

Solicitors

MBT Lawyers
Coffs Harbour

Bankers

National Australia Bank
Suncorp-Metway Bank

Trustee for Debenture Holders

The Trust Company(Nominees) Limited

Head Office and Registered Office

46 Park Avenue
Coffs Harbour, N.S.W., 2450

Telephone: (02) 6648 7500
Facsimile: (02) 6651 4079

E-mail: nsfcoffs@nsf.com.au

Lismore Office

Ground Floor,
103-105 Molesworth Street
Lismore, N.S.W., 2480

Telephone: (02) 6622 2030
Facsimile: (02) 6622 0600

E-mail: nsflismore@nsf.com.au

Investment Inquiries: 1800 069950



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

DIRECTORS' REPORT

Your Directors present their report on the financial statements for the half-year ended 31 December, 2010.

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2010. The accounts in this report, including the comparatives, are prepared under Australian International Financial Reporting Standards.

DIRECTORS

The following persons hold office as directors at the date of this report:
Messrs G.A. Lennon, R.C. Avery, D.G. Jeffery, G.A. McGilvray and I.B. Couper.

PRINCIPAL ACTIVITIES

The principal continuing activity of the company is provision of a broad range of financial services including loans, housing loans, leases, general finance, insurance premium funding, on-call investments, term investments, debentures and brokerage of finance.

DIVIDENDS PAID

Final Dividend 2010 (Number 43)
Fully franked dividend of \$315,400 (7.0 cps) was paid on 19 November, 2010.

Interim Dividend 2011 (Number 44)
Fully franked dividend of \$225,286 (5.0 cps) was paid on 24 January 2011.

REVIEW OF OPERATIONS

Results for the half-year ended:	31 December 2010	31 December 2009
	\$	\$
Profit from ordinary activities	574,600	628,072
Add: Prior year tax adjustment	0	9,439
Less: Income tax expense	<u>(172,462)</u>	<u>(188,484)</u>
Profit from ordinary activities attributable to members of North State Finance Limited.	<u>402,138</u>	<u>449,027</u>

PARTICULARS OF DIRECTORS' INTERESTS

DIRECTOR'S NAME	INTEREST IN SHARES:		Direct & indirect interest in North State Finance Ltd
	Number of shares held in: North State Finance Limited	Number of shares held in: Jayglen Pty Limited (1)	
G.A. Lennon	15,133	0	0.34%
R.C. Avery	382,863	0	8.50%
D.G. Jeffery	40,284	489,231	11.75%
G.A. McGilvray	0	236,880	5.26%
I.B. Couper	27,015	0	0.60%

Note 1: Jayglen Pty Limited owns 51.29% of the shares in North State Finance Limited and is the parent company. See also Subsequent Events, below.



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

SHARES ISSUED AND PARTLY PAID SHARES

During the half-year there were no new shares issued. All shares are fully paid.

DIRECTORS' BENEFITS AND RELATED PARTIES

Since 30 June, 2010:-

Secretarial, accounting and computer software services have been performed by J.D. Matthews & Associates Coffs Harbour and the company rents premises from Gamp Pty Limited, businesses associated with Mr D.G. Jeffery, director and shareholder.

In the normal course of business every director (or associate) of the company and holding company has either lent money to or borrowed money from North State Finance Limited under terms and conditions no more favourable than those which it is reasonable to expect would have applied if the transaction was at arms length. With the above exceptions no director of the company has received or is entitled to receive any benefit from the company.

SUBSEQUENT EVENTS

On 10 January, 2011 Westlawn Finance Limited (Westlawn) announced a conditional cash takeover Offer of \$2.15 per share for all the issue shares in North State Finance Limited. A Bidder's Statement was served on North State on 14 January 2011. In a Target's Statement dated 21 January 2011 the Directors of North State unanimously recommended all shareholders accept the Westlawn offer. On 7 February, 2011 Westlawn announced the Offer was unconditional and they held acceptances for 95.83% of North State Finance shares. On 16 February, 2011 Westlawn announced it held acceptances for 100% of North State Finance shares.

The Board of North State Finance had previously announced that if the Offer became unconditional then North State Finance will pay a Special Cash fully franked dividend of 44 cents per share to all North State Finance shareholders. The books for this dividend closed on 14 January, 2011. As a consequence of the payment of the Special Cash dividend the consideration payable for shares is reduced to \$1.71.

Payment of the Special Dividend and shares is expected on 25 February 2011.

In previous reports, Jayglen Pty Limited has been noted as the Holding Company. On 28 January, 2011 all the shares owned by Jayglen Pty Ltd were transferred to the shareholders of Jayglen and North State Finance ceased to be a subsidiary entity of Jayglen Pty Limited.

In addition to the consideration and dividend noted above and with the consent of Westlawn, an Interim Dividend of 5 cents per share was paid on 24 January 2011.

There are no other reportable events subsequent to the end of the financial year.

AUDITORS

HQB Chartered Accountants continue in office in accordance with s.327 of the Corporations Law. The auditors did not provide any non-audit services during the financial year.

The auditors have provided the Board of Directors with the following Auditor's Independence Declaration.



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF NORTH STATE FINANCE LIMITED**

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2010, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

HQB Chartered Accountants

13-15 Park Avenue
Coffs Harbour NSW 2450

William Herd

22 February, 2011

Signed at Coffs Harbour on 24 February, 2011, in accordance with a resolution of the Directors.

GEORGE A LENNON

GARTH A MCGILVRAY



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

INCOME STATEMENT
for the half-year ended:

	31 December 2010	31 December 2009
	\$	\$
<u>REVENUE FROM ORDINARY ACTIVITIES</u>		
Revenue from finance operations	1,993,255	1,821,323
Interest revenue	80,479	52,504
Application fees	88,952	86,050
Brokerage and commission revenue	104,082	150,959
Profit on sale of fixed assets	0	668
Other	<u>12,532</u>	<u>5,247</u>
Total revenue from ordinary activities	<u>2,279,300</u>	<u>2,116,751</u>
<u>LESS: EXPENSES FROM ORDINARY ACTIVITIES</u>		
Expenses from ordinary activities excluding interest, borrowing costs and items listed below	685,812	677,901
Interest	1,012,969	797,499
Provision for impaired loans	0	6,000
Bad debts written off	0	1,849
Loss on disposal of non-current assets	762	399
Trust deed and borrowing costs	<u>5,156</u>	<u>5,031</u>
Total expenses from ordinary activities	<u>1,704,699</u>	<u>1,488,679</u>
Profit from ordinary activities before income tax	574,601	628,072
Add: Prior period adjustment to income tax	0	9,439
Less: Income tax expense relating to operations	<u>(172,462)</u>	<u>(188,484)</u>
Profit from ordinary activities after income tax attributable to members of North State Finance Limited	<u>402,139</u>	<u>449,027</u>
Basic and diluted earnings per share (cents per share)	8.90	10.10

The above income statement should be read in conjunction with the accompanying notes and prior annual reports.

EQUITY STATEMENTS

	Contributed Equity \$	Retained Equity \$	Total Equity \$
Balance at 1 July 2009	4,973,130	2,022,222	6,995,352
Fully paid ordinary shares issued	133,266		133,266
Profit for half year ended 31 December 2009		449,027	449,027
Dividends paid out of profits		<u>(444,220)</u>	<u>(444,220)</u>
Balance at 31 December 2009	<u>5,106,396</u>	<u>2,027,029</u>	<u>7,133,425</u>
Balance at 1 July 2010	5,106,396	2,188,461	7,294,857
Fully paid ordinary shares issued	0		0
Profit for half year ended 31 December 2010		402,139	402,139
Dividends paid out of profits		<u>(315,400)</u>	<u>(315,400)</u>
Balance at 31 December 2010	<u>5,106,396</u>	<u>2,275,200</u>	<u>7,381,596</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes and prior annual reports.



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

BALANCE SHEET as at:

	31 December 2010	31 December 2009
	\$	\$
ASSETS		
Cash and cash equivalents	3,153,480	3,245,783
Accrued income and receivables	16,594	8,671
Loans and advances	34,778,914	31,549,184
Property, plant and equipment	492,808	502,021
Other financial assets	137,833	127,302
Deferred tax assets	0	28,235
Intangible assets	<u>295,493</u>	<u>302,476</u>
TOTAL ASSETS	<u>38,875,122</u>	<u>35,763,672</u>
LIABILITIES		
Trade and other payables	829,775	725,373
Borrowings	30,271,382	27,563,276
Tax liabilities	217,405	175,517
Provisions	131,531	126,109
Deferred tax liabilities	<u>43,433</u>	<u>39,972</u>
TOTAL LIABILITIES	<u>31,493,526</u>	<u>28,630,247</u>
NET ASSETS	<u>7,381,596</u>	<u>7,133,425</u>
EQUITY		
Issued capital	5,106,396	5,106,396
Retained earnings	<u>2,275,200</u>	<u>2,027,029</u>
TOTAL EQUITY	<u>7,381,596</u>	<u>7,133,425</u>

The above balance sheet should be read in conjunction with the accompanying notes and prior annual reports.

**STATEMENT OF CASH FLOWS
For the half-year ending**

	31 December 2010	31 December 2009
	\$	\$
Cash flows from operating activities		
Finance operations	2,111,561	1,945,456
Brokerage and other fees received	238,920	263,462
Interest and finance costs paid	(913,481)	(892,083)
Cash expenses including payments to employees	(648,659)	(640,379)
Net cash funds received from (advanced to) customers	(1,353,672)	597,764
Interest received	80,479	52,504
Rent received	1,440	1,240
Distributions from related Trust received	16,772	3,344
Net taxes	<u>(107,819)</u>	<u>(80,200)</u>
Net cash flow from operating activities	<u>(574,459)</u>	<u>1,251,108</u>
Cash flows from investing activities		
Payments for plant & equipment	(15,627)	(2,013)
Payment for future income stream	(13,406)	0
Proceeds from sale of plant & equipment	<u>0</u>	<u>21,975</u>
Net cash flow from investing activities	<u>(29,033)</u>	<u>19,962</u>



**NORTH STATE FINANCE
LIMITED**
A.B.N. 18 003 959 126

STATEMENT OF CASH FLOWS (Continued) For the half-year ending	31 December 2010	31 December 2009
	\$	\$
Cash flows from financing activities		
Net increase (decrease) in borrowings	622,542	(617,829)
Proceeds from contributed capital	0	133,266
Dividends paid	<u>(315,400)</u>	<u>(444,220)</u>
Net cash flow from financing activities	<u>307,142</u>	<u>(928,783)</u>
Net cash (decrease) increase for half year	(296,350)	342,287
Cash at beginning of half year	<u>3,449,830</u>	<u>2,903,496</u>
Cash at the end of the half year	<u>3,153,480</u>	<u>3,245,783</u>

The above statement of cash flows should be read in conjunction with the accompanying

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE HALF YEAR ENDED 31 DECEMBER, 2010.

1. ACCOUNTING POLICY

These general purpose half year accounts have been prepared in accordance with Australian International Financial Reporting Standards (AIFRS) and Accounting Standard AASB 134: Interim Financial Reporting.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2010 and any public announcements made by North State Finance Limited during the half year in accordance with any continuous disclosure obligations arising under the Corporations Act.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting periods.

2. FINANCING ACTIVITIES ON CASH FLOW STATEMENT

During the half year ended 31 December, 2010 the economic entity acquired property, plant and equipment with an aggregate fair value of \$2,960,250 for the purpose of leasing and disposed of leased items with an original cost of \$820,535 for \$288,061. These amounts are not itemised in the Statement of Cash Flows.

3. CLASSIFICATION OF EXPENSES BY NATURE for the half-year ended:	31 December 2010	31 December 2009
	\$	\$
Interest paid to financial institutions	36	106
Interest paid on deposits, notes and debentures	1,012,933	797,393
Prospectus expenses	3,818	4,362
Trust deed and borrowing costs	5,156	5,031
Provision for impaired loans	0	6,000
Bad debts written off	0	1,849
Depreciation, impairment and amortisation	18,707	19,003
Motor vehicle expenses excluding depreciation	627	4,050
Employment costs excluding future entitlements	441,258	435,332
Provision for employee entitlements	18,493	11,569
Occupation costs	53,419	49,653
All other expenses	<u>150,252</u>	<u>154,331</u>
Total expenses from ordinary activities	<u>1,704,699</u>	<u>1,488,679</u>



NORTH STATE FINANCE LIMITED

A.B.N. 18 003 959 126

	31 December 2010 \$	31 December 2009 \$
4. CREDIT FACILITIES		
Total credit facility available	3,500,000	3,500,000
Less: Facility used at balance date	<u>2,344</u>	<u>0</u>
Unused bank facilities	<u>3,497,656</u>	<u>3,500,000</u>
5. SCHEDULE OF NET RECEIVABLES		
Debts receivable -		
At call	0	0
Not longer than 3 months	4,008,087	3,924,163
Longer than 3 and not longer than 12 months	10,703,555	9,511,903
Longer than 1 and not longer than 5 years	19,821,752	17,836,058
Longer than five years	<u>248,311</u>	<u>284,569</u>
	<u>34,781,705</u>	<u>31,556,693</u>
6. SCHEDULE OF DEBTS PAYABLE		
Borrowings from other than financial institutions		
At call	1,522,777	766,415
Not longer than 3 months	7,451,472	8,866,713
Longer than 3 and not longer than 12 months	16,838,708	14,409,301
Longer than 1 and not longer than 5 years	4,457,184	3,490,847
Longer than 5 years	<u>0</u>	<u>30,000</u>
	<u>30,270,140</u>	<u>27,563,276</u>
Borrowings from other financial institutions		
At call	0	0
Longer than 1 and not longer than 5 years	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>
Total of borrowed funds repayable	<u>30,270,140</u>	<u>27,563,276</u>



NORTH STATE FINANCE LIMITED

A.B.N. 18 003 959 126

DIRECTOR'S DECLARATION

1. In the opinion of the directors:-
 - (a) the financial report set out on pages 1 to 8 is drawn up so as to give a true and fair view of the state of affairs of the company as at 31 December 2010 and of its profit for the half-year ended on that date; and
 - (b) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.
2. The accompanying accounts of the Company have been made out in accordance with all applicable Accounting Standards.

Signed at Coffs Harbour on 24 February, 2011.
in accordance with a resolution of the directors.

GEORGE A LENNON

GARTH A MCGILVRAY



INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF

NORTH STATE FINANCE LIMITED

Scope

We have reviewed the accompanying half-year financial report of North State Finance Limited which comprises the Balance Sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the director's declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors are responsible for the preparation and fair presentation of the half-year financial report in that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including; giving a true and fair view of the entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134; Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of North State Finance Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirement of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of North State Finance Limited on 22 February 2011 would be in the same terms if provided to the directors as at the date of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of North State Finance Limited is not in accordance with the *Corporations Act 2001*, including:

- A. giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and
- B. complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

13-15 Park Avenue HQB Chartered Accountants
Coffs Harbour

W.B. HERD Partner

25th February 2011