



24 June 2005

Market Information
New Zealand Exchange Limited
ASB Bank Tower
Level 9, 2 Hunter Street
Wellington
NEW ZEALAND

Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
Level 6, 20 Bridge Street
Sydney NSW 2000
AUSTRALIA
ARBN 088 481 234 Incorporated in New Zealand

Dear Sir/Madam

TOWER Limited – Company Announcement

In accordance with Listing Rules, please find attached the following document:

- **TOWER LIMITED HALF YEAR REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2005**

Yours faithfully

P. e. Ellis

Philippa Ellis
General Manager, Investor Relations & Corporate Services
TOWER Limited

*TOWER LIMITED
HALF YEAR REPORT
for the six months ended
31 MARCH 2005*



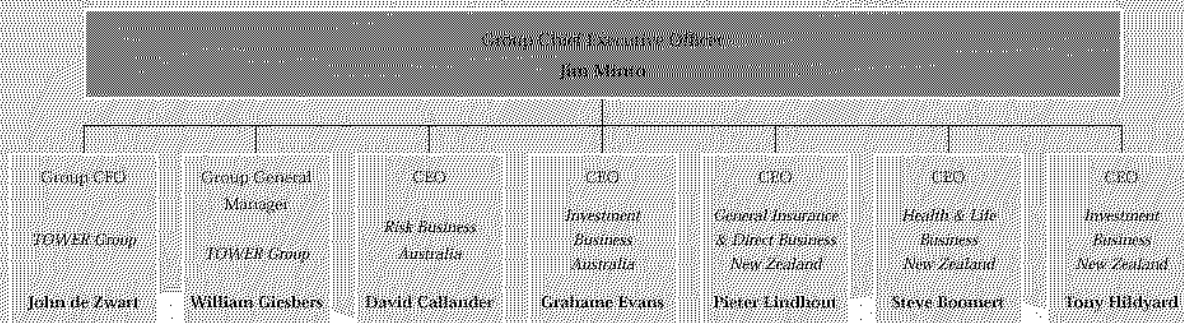
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COMPETITIVE
FOCUS

STRONGER
SERVICE

HIGHLIGHTS

- *Strong growth in operating earnings, including 113% gain by TOWER Australia*
- *Net profit after tax increased to \$55.3 million, including gain on sale of Australian Wealth Management (AWM)*
- *AWM spin-off successfully completed, putting TOWER on a stronger base for core business growth*
- *Lapse rates reduced across all products - growth of 12% in total in-force business*
- *Good New Zealand investment performance relative to market benchmark*
- *New management structure and senior managers appointed to drive future performance (see chart)*


DIRECTORY

The TOWER Limited Half Year Report and TOWER Limited Investor Report for the six months ended 31 March 2005 are available on the TOWER website: www.towerlimited.com.

CONTACT DETAILS

TOWER Limited
ARBN 088 481 234
Incorporated in New Zealand

Registered Office

Level 5
50-64 Customhouse Quay
PO Box 352
Wellington
New Zealand

General Manager Investor Relations and Corporate Services

Philippa Ellis

All figures, unless otherwise stated, are in New Zealand dollars.

SHAREHOLDER ENQUIRIES

Shareholders with enquiries regarding share transactions, changes of address or dividend payments should contact the TOWER Share Registry:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
Private Bag 92119
Auckland 1020
New Zealand

Shareholder enquiries regarding TOWER's operating and financial performance should be addressed to:

Investor Relations
TOWER Limited
PO Box 352
Wellington
New Zealand

or e-mailed to: investor-relations@towerlimited.com

DEAR SHAREHOLDER

We are pleased to report a continued improvement in the operating and financial performance of TOWER. Indeed profitability, which in the end reflects the pace of recovery, picked up in key business areas during the half year ended 31 March 2005.

TOWER achieved operating earnings from continuing activities of \$20.1 million, up 66% from the previous corresponding half year (\$12.1 million). The improvement reflected the ongoing success of strategies implemented to build sustained recovery in the Group's profitability and value after a period of weak performance in 2002 and 2003.

Including a \$23.0 million gain from the sale of Australian Wealth Management (AWM), TOWER achieved a net profit after tax of \$55.3 million for the half year ended 31 March 2005 (\$20.5 million in the previous corresponding period). This result included four months trading by AWM.

The successful completion of the AWM spin-off in February was another significant step forward in concentrating TOWER's resources on the provision of risk insurance and related investment products, and on building value within these core areas of business. TOWER's strategy is to:

- enhance the value and competitiveness of products that demonstrate TOWER's leadership in target markets;
- simplify operating structures and processes, and make TOWER easy for clients and others to do business with;
- develop strong distribution relationships with third parties; and

- keep costs under tight control as the business grows.

During the half year, progress was made with each strategy. TOWER also introduced a new management structure to strengthen accountabilities for driving performance within each business unit. Progress was clear in the half year results of TOWER's businesses on both sides of the Tasman.

AUSTRALIA

TOWER Australia achieved a net profit after tax of \$17.9 million, up 70% from the previous corresponding period (\$10.5 million). This result included 113% growth in operating earnings after tax to \$9.6 million, and a 38% increase in investment returns on shareholders' funds to \$8.3 million.

These pleasing results came largely from strong growth in life insurance sales, continued reduction in lapse rates and a decline in the cost-to-income ratio. In particular, TOWER Australia lifted sales of individual life insurance products by 51% during the half year compared with the previous corresponding period. Lapse rates on life insurance fell to 14%, which was better than assumptions made for the long term in this business. The level of in-force business climbed to A\$240 million, up 16% from a year earlier.

Growth in business volumes was achieved without significantly increased staffing or overhead costs. A shift to selling more products with lower up-front commissions helped reduce the level of expense in this area. Overall, TOWER Australia's ratio of costs to income fell to 64% during the half year.

TOWER Australia has now firmly established itself as a specialist non-bank life insurance provider focusing on adviser and business-to-business distribution of its products. The Company has a market share of around 6% of Australia's term life insurance market. Strategic objectives include building that market share through product competitiveness, diversification in product sales across the existing customer base and developing stronger relationships with advisers and other product distribution channels.

During the half year, two new Chief Executive appointments were made to strengthen accountability for performance in the Life Insurance and Investment businesses of TOWER Australia. The Company is also committed to building a strong service delivery culture among staff.

NEW ZEALAND

Insurance

TOWER New Zealand Insurance businesses achieved a net profit after tax for the half year of \$12.4 million, up 24% from the previous corresponding period (\$10.0 million). This result included 41% growth in operating earnings to \$9.9 million, which was partially offset by a 17% contraction in the investment return on shareholders' funds to \$2.5 million.

The growth in operating earnings came largely from a strong improvement in TOWER

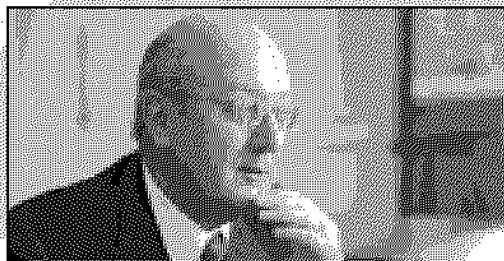
New Zealand's General Insurance business combined with a reduction in lapse rates across all lines. In particular, the lapse rate for Group Life and Health insurance fell significantly to under 10% during the period. Product sales were down slightly overall, but the level of in-force business increased to \$327.5 million, up 14% from a year earlier. Recurring management expenses were tightly controlled in the half year, with an increase of just 1.5% compared with the preceding six months ended 30 September 2004.

During the half year, new Chief Executive appointments were made in the General Insurance and Direct Business, and in the Health and Life Business, with clear mandates established for growth in sales and profitability. Strategic objectives for the Insurance businesses include a significant improvement in customer service levels, through extensive staff training, and upgrading in telephony and sales support systems.

Investments

TOWER New Zealand Investment businesses achieved a net profit after tax for the half year of \$0.7 million, which compared with \$1.2 million for the previous corresponding period. Total funds under management and administration at 31 March 2005 were \$5.6 billion.

These businesses include TOWER's well proven wholesale asset management capabilities and a



Olaf B. O'Duill
Chairman

key strategic objective includes leveraging this into New Zealand's retail investment market. TOWER is a leader in the domestic wholesale funds management market, with a 17% market share and recognition as FundSource Fund Manager of the Year in 2004. A new Chief Executive was appointed during the half year and the immediate focus for TOWER's Investment Businesses is on development of its profitable products and business areas.

OUTLOOK

TOWER is well advanced with the programme of recovery initiated two years ago. The AWM spin-off was an important milestone during the half year in the drive for increased profitability in the core risk insurance and related investment businesses of TOWER. The spin-off has strengthened the Group's capital base for the next phase of recovery and growth.

Across TOWER we are targeting growth in new product sales, improved business retention and cost containment. We are working to improve

our competitive position in New Zealand. While the New Zealand Insurance and Investment businesses continued to perform well overall in the latest period, improvement is clearly required in some areas.

The Board and Management are committed to delivering returns on capital higher than represented by the half year results. We have recently made new senior appointments within a management structure designed to strengthen accountability and promote performance from this point forward. This, combined with the strategies now being implemented, provides more grounds for confidence in TOWER's future.

The Board will consider its dividend policy at the end of the 2005 year. To date the Board has seen the remediation of TOWER and building value for shareholders as more important than paying a dividend.

Thank you for your interest in and support of TOWER.

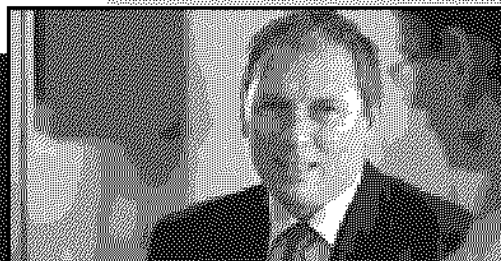


Olaf B. O'Duill
Chairman



Jim Minto
Group Chief Executive Officer

Jim Minto
Group Chief Executive Officer



CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 March 2005

	Note	Six months ended 31 March 2005 <i>Unaudited NZ\$000</i>	Six months ended 31 March 2004 <i>Unaudited NZ\$000</i>	Year ended 30 September 2004 <i>Audited NZ\$000</i>
Net premium income		249,715	220,846	478,591
Investment income	3	224,664	211,525	393,452
Fee and other income		65,620	80,428	175,139
Total operating revenue	4	539,999	512,799	1,047,182
Payments to policyholders		151,200	135,891	282,026
Change in policyholder liabilities		95,656	102,900	177,266
Management and sales expenses		203,216	207,027	450,077
Amortisation of goodwill and intangibles		2,537	3,409	6,749
Investment expenses		5,104	5,268	9,611
Total operating expenses		457,713	454,495	925,729
Financing costs	3	(8,272)	(7,421)	(16,244)
Gain on disposal	10	23,045	-	-
Surplus before taxation		97,059	50,883	105,209
Taxation expense		41,467	30,429	50,473
Net surplus after taxation		55,592	20,454	54,736
Net surplus attributable to minority interests		(285)	-	(143)
Net surplus attributable to shareholders		55,307	20,454	54,593
Net surplus comprises:				
Net surplus from continuing activities		26,650	20,454	54,593
Net surplus from discontinued activities	10	28,657	-	-
		55,307	20,454	54,593
		<i>NZ cents</i>	<i>NZ cents</i>	<i>NZ cents</i>
Basic earnings per share ^{(1) & (2)}		13.90	5.04	13.37
Basic earnings per share on continuing activities ^{(1) & (3)}		6.70	5.04	13.37

Note: (1) Earnings per share is based on the weighted average of 397.8 million (31 March 2004: 405.8 million, 30 September 2004 408.4 million) fully paid equivalent shares on issue.

(2) Basic earnings per share in the period to 31 March 2005 includes \$23.0 million (5.79 cents per share) from the gain on disposal of Australian Wealth Management.

(3) Basic earnings per share on continuing activities in the period to 31 March 2005 excludes profits from Australian Wealth Management and the gain on disposal.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

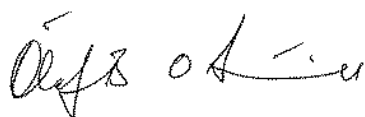
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2005

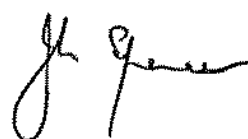
	Note	As at 31 March 2005 <i>Unaudited</i> NZ\$000	As at 31 March 2004 <i>Unaudited</i> NZ\$000	As at 30 September 2004 <i>Audited</i> NZ\$000
Cash		18,718	39,147	37,523
Accounts receivable		193,893	255,539	245,685
Fixed interest securities		2,368,808	2,285,462	2,166,625
Equity securities		1,495,831	1,512,921	1,451,824
Property investments		330,020	266,379	333,730
Other investments		336,260	458,216	467,347
Taxation receivable		20,709	35,702	60,471
Other current assets		11,144	5,275	12,116
Property, plant and equipment		75,711	103,087	88,599
Deferred tax benefit		14,587	51,764	11,769
Goodwill		16,858	79,960	72,539
Total assets		4,882,539	5,093,452	4,948,228
Accounts payable	8	316,886	370,959	391,550
Senior debt	7	10,921	85,112	10,610
Insurance provisions		238,104	234,448	237,448
Other liabilities		27,047	28,854	29,281
Policyholder liabilities		3,359,664	3,453,061	3,282,940
Capital bonds/notes	7	200,000	125,000	200,000
Total liabilities		4,152,622	4,297,434	4,151,829
NET ASSETS		729,917	796,018	796,399
Represented by:				
Equity share capital		910,519	1,038,662	1,040,340
Retained earnings		(116,816)	(194,183)	(157,322)
Reserves		(70,846)	(48,461)	(94,274)
Minority interests		7,060	-	7,655
SHAREHOLDERS' EQUITY		729,917	796,018	796,399
Net asset backing per share (dollars per share)		2.04	1.94	1.93
Gearing ⁽¹⁾		22.42%	20.88%	20.91%

Note: (1) Gearing is defined as total debt to total debt plus equity.

The financial statements were approved for issue by the Board on 18 May 2005.



Olaf B. O'Duill
Chairman
TOWER Limited



John Spencer
Director
TOWER Limited

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 March 2005

Note	Six months ended 31 March 2005 <i>Unaudited NZ\$000</i>	Six months ended 31 March 2004 <i>Unaudited NZ\$000</i>	Year ended 30 September 2004 <i>Audited NZ\$000</i>
Net surplus for the period, comprising			
Parent Shareholders' interest	55,307	20,454	54,593
Minority interests	285	-	143
	55,592	20,454	54,736
Other recognised revenue and expenses			
Movement in foreign currency translation reserve	8,626	(75)	(45,888)
	64,218	20,379	8,848
Total recognised revenue and expenses			
Sale of treasury stock	-	16,008	16,008
Shares issued	1,170	-	4,400
Minority interest	(880)	(37)	7,475
Distribution of Australian Wealth Management shares ⁽¹⁾	(130,990)	-	-
	(66,482)	36,350	36,731
Movements in Equity for the period			
Opening Equity			
Parent Shareholders' Interest	788,744	759,631	759,631
Minority interest	7,655	37	37
	796,399	759,668	759,668
Equity at end of period, comprising			
Parent Shareholders' Interest	722,857	796,018	788,744
Minority interest	7,060	-	7,655
	729,917	796,018	796,399

Note: (1) Shares in the newly listed Australian Wealth Management company were transferred to existing TOWER shareholders and 55.7 million TOWER Limited shares were cancelled as part of this separation of the Australian Wealth Management business in February 2005.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2005

Note	Six months ended 31 March 2005 <i>Unaudited NZ\$000</i>	Six months ended 31 March 2004 <i>Unaudited NZ\$000</i>	Year ended 30 September 2004 <i>Audited NZ\$000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from/(applied to)			
	346,135	433,788	962,240
	58,600	56,683	121,012
	17,667	27,748	52,765
	57,589	30,018	53,388
	71,412	75,668	166,565
	(307,175)	(401,130)	(923,951)
	(199,174)	(238,038)	(468,917)
	(7,705)	(6,654)	(13,130)
	(4,658)	18,016	12,684
2	32,691	(3,901)	(37,344)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from/(applied to)			
(Purchase)/sale of investments⁽¹⁾			
10	(204,613)	(8,516)	37,196
	11,471	(1,778)	(53,503)
	45,668	9,634	60,071
	97,089	238	-
	(2,671)	(1,731)	(5,173)
	(53,056)	(2,153)	38,591
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from/(applied to)			
	1,170	-	-
	-	-	75,000
	-	12,031	12,031
	670	-	(78,729)
	1,840	12,031	8,302
	(18,525)	5,977	9,549
	35,463	27,220	27,220
	80	64	(1,306)
	17,018	33,261	35,463
Comprising:			
	18,718	39,147	37,523
	(1,700)	(5,886)	(2,060)
	17,018	33,261	35,463

Note: (1) TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER and it is considered acceptable to report only the net changes in cash flows for these items. This is based on the fact that either, the turnover of these items is quick, the amounts are large and the maturities are short or in the case of property, plant and equipment the value of the sales are immaterial.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 March 2005

1. ACCOUNTING POLICIES

Reporting Entity

The financial statements are for the economic entity comprising TOWER Limited and its subsidiaries.

Basis of Preparation

The consolidated financial statements for TOWER Limited have been prepared in accordance with Financial Reporting Standard FRS 24 "Interim Financial Statements" and should be read in conjunction with the Statement of Accounting Policies and Notes to the Financial Statements contained in TOWER's 30 September 2004 Annual Report.

The accounting policies used are consistent with those used in the previously published interim financial statements and previous annual report.

Changes in Accounting Policies

There were no changes in accounting policy during the six months ended 31 March 2005.

2. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES:

	Six months ended 31 March 2005 <i>Unaudited</i> <i>NZ\$000</i>	Six months ended 31 March 2004 <i>Unaudited</i> <i>NZ\$000</i>	Year ended 30 September 2004 <i>Audited</i> <i>NZ\$000</i>
Net surplus	55,307	20,454	54,593
Add/(less) non cash items			
Depreciation	7,769	8,324	15,370
Write off capitalised expenditure	-	432	6,932
Amortisation of Goodwill	2,537	3,409	6,749
Movement in capitalised acquisition costs	(1,480)	(287)	(1,578)
Change in policyholder liabilities	46,942	25,289	(6,288)
Unrealised (gain)/loss on fixed interest	4,825	(8,002)	3,334
Unrealised (gain)/loss on shares	(101,684)	(70,837)	(109,779)
Unrealised (gain)/loss on property	(4,328)	(5,083)	(33,526)
Unrealised (gain)/loss on other	(13,482)	(9,227)	(23,023)
Increase/(decrease) in deferred taxation	(2,818)	(9,735)	34,126
	(6,412)	(45,263)	(53,090)
Add/(less) movements in working capital			
(Increase)/decrease in accounts receivable	6,693	2,593	(9,457)
Increase/(decrease) in accounts payable	(7,217)	(15,545)	(3,828)
(Increase)/decrease in taxation	39,627	54,314	29,031
	39,103	41,362	15,746
Net cash inflows from operating activities	32,691	(3,901)	(37,344)
3. INTEREST			
Included in Investment income are the following:			
Interest Revenue	58,482	59,689	121,132
Included in Financing costs are the following:			
Interest Expense	7,580	6,552	14,021
4. REVENUE			
Operating revenue comprises:			
Operating revenue from continuing activities	505,880	512,799	1,047,182
Operating revenue from discontinued activities	34,119	-	-
	539,999	512,799	1,047,182

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 March 2005

5. SEGMENTAL REPORTING Business Segments	Savings & Investment NZ\$000	Risk Insurance NZ\$000	Asset Management NZ\$000	Trustee Services NZ\$000	Discontinued activities NZ\$000	Other ⁽¹⁾ NZ\$000	Total NZ\$000
Six months ended March 2005 - unaudited							
Operating margins including revaluation of life insurance subsidiaries	10,466	7,448	677	-	4,937	2,021	25,549
Investment return on shareholder capital	7,981	1,762	146	-	675	926	11,490
Gain on disposal	-	-	-	-	23,045	0	23,045
Financing costs	-	-	-	-	-	(4,777)	(4,777)
Net profit after taxation	18,447	9,210	823	-	28,657	(1,830)	55,307
Total revenue	347,466	146,091	12,190	-	34,119	133	539,999
Total assets	4,238,306	399,812	9,402	-	-	235,019	4,882,539
Assets under management/advice ⁽²⁾	7,907,245	399,812	2,082,196	-	-	235,019	10,624,272
Six months ended March 2004 - unaudited							
Operating margins including revaluation of life insurance subsidiaries	4,087	5,069	1,211	2,243	-	2,247	14,857
Investment return on shareholder capital	6,312	5,156	173	319	-	(1,646)	10,314
Financing costs	-	-	-	-	-	(4,717)	(4,717)
Net profit after taxation	10,399	10,225	1,384	2,562	-	(4,116)	20,454
Total revenue	340,740	136,078	11,935	26,452	-	(2,406)	512,799
Total assets	4,367,084	376,241	9,845	34,959	-	305,323	5,093,452
Assets under management/advice	11,975,080	376,241	1,927,389	8,398,148	-	305,323	22,982,181
Year ended September 2004 - audited							
Operating margins including revaluation of life insurance subsidiaries	18,148	8,167	2,780	4,232	-	8,009	41,336
Investment return on shareholder capital	16,079	3,789	222	116	-	2,935	23,141
Financing costs	-	-	-	-	-	(9,884)	(9,884)
Net profit after taxation	34,227	11,956	3,002	4,348	-	1,060	54,593
Total revenue	703,952	273,169	24,361	53,683	-	(7,983)	1,047,182
Total assets	4,192,024	394,576	8,818	38,243	-	314,567	4,948,228
Assets under management/advice	11,866,169	394,576	2,048,434	8,819,707	-	314,567	23,443,453

Note: (1) Other includes parent company assets, head office expenses, financing costs, and eliminations.

(2) The reduction in assets under management/advice is primarily due to the disposal of Australian Wealth Management, which had assets under management/advice of \$14.149.1 million as at 31 January 2005.

Geographical Segments	Total Revenue NZ\$000	Revaluations and amortisations NZ\$000	Adjusted Profit after tax ⁽¹⁾ NZ\$000	Net surplus /(deficit) after tax NZ\$000	Total Assets NZ\$000	Assets Under Management /advice NZ\$000
Six months ended March 2005 - unaudited						
New Zealand	186,778	3,699	(382)	5,384	1,460,040	6,158,073
Australia - continuing	303,245	3,899	21,678	18,733	3,346,524	4,390,224
Australia - discontinued	34,119	(1,650)	30,307	28,657	-	-
Other	15,857	-	2,533	2,533	75,975	75,975
Total	539,999	5,948	54,136	55,307	4,882,539	10,624,272
Six months ended March 2004 - unaudited						
New Zealand	206,384	7,759	8,864	17,087	1,492,405	6,057,801
Australia	294,322	(8,513)	15,939	2,245	3,521,841	16,845,174
Other	12,093	-	1,122	1,122	79,206	79,206
Total	512,799	(754)	25,925	20,454	5,093,452	22,982,181
Year ended September 2004 - audited						
New Zealand	376,088	6,035	11,764	19,606	1,487,659	6,142,614
Australia	643,886	6,465	36,411	31,139	3,394,934	17,235,204
Other	27,208	-	3,848	3,848	65,635	65,635
Total	1,047,182	12,500	52,023	54,593	4,948,228	23,443,453

Note: (1) excluding financing costs, revaluations and amortisations

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 March 2005

6. DISTRIBUTIONS TO SHAREHOLDERS

There were no dividends paid out during the current period.

7. DEBT

TOWER's debt comprises the following:

Senior debt:

Bank overdrafts as at 31 March 2005 \$1.7 million (30 September 2004 \$2.1 million; 31 March 2004 \$5.9 million)

Long term loan facility within Financial Services Partners Pty Limited that is partially drawn down as at 31 March 2005 \$9.2 million (30 September 2004: \$8.6 million; 31 March 2004: Nil)

At 31 March 2004 TOWER also had \$79.2 million in secured senior bank debt that was repaid in August 2004.

Subordinated Debt:

\$125 million Capital Bonds. These bonds are unsecured, subordinated, non cumulative securities. On the first election date of 15 October 2007 (and then every five years thereafter) the bondholder has election rights relating to retention of the bonds or requesting the company to sell the bonds under a resale facility. The bonds may be converted to company shares in certain circumstances. The interest rate is fixed at 8.75% for the period until the first election date.

\$75 million Capital Notes. These notes are unsecured, subordinated, non cumulative securities. On the first election date of 15 October 2009, a Noteholder may elect to either retain some or all of the Notes on the new conditions; or convert some or all of their Notes to TOWER shares. The interest rate is fixed at 8.65% for the period until the first election date.

8. ACCOUNTS PAYABLE

As at 31 March 2005 accounts payable includes a contracted forward settlement for \$159.9 million of Government Stock (30 September 2004: \$158.2 million, 31 March 2004: \$159.4 million). The asset is recognised under Fixed Interest securities.

9. CONTINGENT LIABILITIES

Guarantees have been given in respect of the Capital Guaranteed Fund of the TOWER FuturePlan and the capital of the TOWER Mortgage Income Trust. Additionally, TOWER guarantees certain funds managed by TOWER Australia and TOWER Life (NZ).

10. SIGNIFICANT EVENTS

Spin-off of Australian Wealth Management (AWM) businesses

During the period, TOWER Limited (TOWER) separated and listed on the Australian Stock Exchange (ASX), its Australian Wealth Management business.

Key transactions were as follows:

- AWM purchased Bridges and TOWER Trust for A\$250 million, in exchange for 120 million A\$1 shares and a cash payment of A\$130 million.
- These 120 million shares in AWM were transferred to existing TOWER shareholders and, in consideration, an equivalent value of TOWER shares held by existing TOWER shareholders was acquired and cancelled.
- AWM was listed on the Australian Stock Exchange.
- AWM undertook a capital raising of approximately A\$130 million, by way of an entitlements offer of additional shares in AWM, to fund the cash payment to TOWER.
- Following the scheme and completion of the capital raising, TOWER has no equity or any other interest in AWM.

The financial impact on TOWER is shown in the table below:

	Statement of Financial Performance A\$m	Net Assets A\$m
Sale Proceeds	250.0	
Less Carrying Value	(223.3)	
Less costs of separation	(5.6)	
Gain recognised on distribution of shares A\$m	21.1	21.1
Gain recognised on distribution of shares NZ\$m	23.0	
Distribution of Australian Wealth Management shares ⁽¹⁾		(120.0)
Impact on Net Assets A\$m		(98.9)
Impact on Net Assets NZ\$m		(107.3)

Note: (1) The A\$120.0 million distribution of shares converted to NZ \$130.99 million using the exchange rate at the date of the transaction.

A \$14.8 million reclassification of the foreign currency translation reserve to retained earnings was made.

The net surplus from discontinued activities per the Statement of Financial Performance includes a gain on disposal of \$23.0 million plus profit for the period to 31 January 2005 of \$5.6 million.

	NZ\$000
Effect of disposal	
Investments	24,732
Current Assets	71,753
Other assets	140,546
Goodwill	56,845
Current liabilities	(50,117)
Net assets disposed of	243,759
Shares Issued	(130,990)
Gain on Sale	23,045
Net cash received (after expenses)	135,814
Cash disposed of	(38,725)
Net Cash impact of disposal	97,089

Proceeds from the disposal of Australian Wealth Management were invested in fixed interest securities.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 March 2005

11. INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 24 November 2004 the Accounting Standards Review Board approved the stable platform of New Zealand Equivalents to International Accounting Standards (NZ IFRS).

This put in place the framework that enables companies to implement the decision made in December 2002, by the Accounting Standards Review Board, that all New Zealand reporting entities be required to adopt New Zealand International Financial Reporting Standards for accounting periods beginning on or after 1 January 2007 with the option of early adoption for periods beginning on or after 1 January 2005. Upon adoption of NZ IFRS, entities are required to restate comparative financial statements to reflect the application of NZ IFRS to that comparable period. In addition an opening position for the comparative period must also be determined as if NZ IFRS had always been in place, subject to exemptions provided under NZ IFRS 1 First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards that recognise the practical difficulties of retrospective application.

TOWER has not yet determined the most appropriate date to adopt NZ IFRS. The decision on the appropriate date for adoption will be made once the full assessment has been completed and TOWER believes that it is in the best interests of TOWER shareholders to adopt.

TOWER is continuing work to assess the full impacts from the adoption of NZ IFRS and is progressing to convert existing accounting policies and reporting processes to NZ IFRS. TOWER has established a NZ IFRS Steering Committee to oversee the adoption of NZ IFRS across the Group and is using a combination of internal resources and external expert consultants to analyse requirements, assess the impacts and implement the changes on a schedule that will enable adoption within the required timeframe.

The areas that have been identified to date where significant accounting policy changes will be required are shown below. A number of these policy changes are subject to ongoing interpretation and review. Consequently TOWER is currently unable to reliably quantify the impact on the consolidated financial performance or position at this time.

An overview of the most significant differences in accounting policies that are expected to impact TOWER on the adoption of NZ IFRS follows:

Accounting for life insurance companies

Under current accounting standards all transactions carried out by, and assets and liabilities of a life insurance business including those of the shareholders' funds are accounted for under FRS34 Life Insurance Business. In the event of a conflict between FRS34 and any other standard, the requirements of FRS34 prevail.

Under NZ IFRS there is no specific accounting standard for life insurance businesses. There is a standard for insurance contracts but for all other transactions and balances, other standards will apply. The insurance standard will only apply for contracts that meet the definition of insurance contracts and as a result it is expected a significant portion of TOWER contracts will be classified and accounted for as investment contracts.

Investment contracts will be accounted for under the financial instruments standard that requires recognition at either amortised cost or, with appropriate designation at inception, at fair value with any movements recognised in the statement of financial performance. It is expected that all investment contracts within TOWER will be recorded at fair value.

Accounting for insurance contracts under NZ IFRS is being introduced under a two phase plan. The first phase which will apply on initial adoption of NZ IFRS will see current practice continue largely unchanged although some policy liabilities will be discounted at a lower rate as a risk free rate will be applied rather than the market rate of the investment assets that support policy liabilities as is currently the case. The lower discount rate may result in the recognition of a higher liability which will be adjusted through opening retained earnings on first time adoption of NZ IFRS.

Phase II which is not expected to come into effect until at least 2008 will introduce a new standard, yet to be developed, on the recognition and measurement of insurance contracts.

Deferred Acquisition Costs

Under current accounting standards acquisition costs incurred in acquiring business of a life insurance entity, both insurance and investment contracts, are implicitly deferred and recognised over the life of the contracts, via the policy liability calculation. These costs include both direct and allocated acquisition costs.

On adoption of NZ IFRS this treatment will continue for life insurance contracts but the ability to defer acquisition costs related to investment contracts will be significantly reduced.

The level of acquisition costs that can be deferred for investment business will only be those incremental costs directly attributable to securing the contract. As a result it is expected that a significant amount of currently deferred acquisition costs will be written off on adoption of NZ IFRS. The change in the carrying value of deferred acquisition costs on the adoption of IFRS will be restated through opening retained earnings as required on the first time adoption of NZ IFRS.

As the write off of deferred acquisition cost on adoption will not impact future cash flows this effectively results in the recognition of higher profits from the related products. This impact may be offset by the lower level of expenses deferred on new business and any change to the amortisation pattern applied to deferred acquisition costs.

Investment Contracts

As noted above, accounting for investment contracts under NZ IFRS will no longer be on the same basis as insurance contracts and will not be measured and reported under MoS.

Under NZ IFRS investment contracts will be treated under a combination of standards that require the separation of a service component of the investment contract, which deferred acquisition costs will relate to, fair valuing of the investment contract liability, and the recognition of entry fees based only on services provided at inception.

The treatment of investment contracts under NZ IFRS is a significant issue for the industry internationally and at this point in time the appropriate treatment has yet to be confirmed.

Excess of market value over net tangible assets (EMVONTA)

Under current accounting standards the subsidiaries of life insurance companies are required to be carried at market value with the excess of market value over net tangible assets recorded in the statement of financial position as EMVONTA. EMVONTA includes both acquired and internally generated goodwill. Any change in EMVONTA arising from revaluations is reported through the statement of financial performance. Revaluing subsidiaries to market value and recognising internally generated goodwill is a treatment only applicable to life companies under FRS 34 Life Insurance Business, which overrules all other standards.

Under NZ IFRS life companies will apply the same standards as all other companies and as such will not revalue subsidiaries nor recognise internally generated goodwill. On initial adoption of NZ IFRS EMVONTA will be restated to only include goodwill on acquisition less amortisation and impairment with the restatement being made through opening retained earnings.

The restatement of EMVONTA will also include an assessment of the make up of goodwill on acquisition to determine if there were any intangible assets that need to be recognised under IFRS. Any intangibles recognised, that have a less than infinite life, will be amortised over the useful life.

Goodwill

Under current accounting standards any goodwill, being the excess of purchase price over the net tangible assets of the acquired entity is recognised as an asset and must be amortised over the period of expected benefit, up to a maximum of twenty years. The goodwill asset is also subject to an impairment test.

Under NZ IFRS goodwill is not amortised but the carrying value is still subject to regular and strict impairment testing with any impairment being reported through the statement of financial performance.

As with the restatement of EMVONTA, goodwill is to be assessed to determine if there are any previously unrecognised intangibles that need to be recognised under NZ IFRS.

Share based payments

TOWER currently operates an executive option scheme. Under current accounting standards options issued to employees under performance incentive schemes are not recognised as an expense in the statement of financial performance.

Under NZ IFRS the cost of option schemes entered into with employees will be recognised through the statement of financial performance as an expense over the periods the equity instruments vest. The expense will be based on the value of the options at the grant date and the number of options that ultimately vest.

Regulatory Capital

The adoption of IFRS will impact the net assets and equity of TOWER Limited and the entities within the TOWER Group including life companies that adhere to the industry reporting requirements applicable. The New Zealand based life company capital requirements are determined by the New Zealand Society of Actuaries who at this point in time have not announced that there will be any changes arising from the adoption of NZ IFRS. The Australian life company capital requirements are regulated by the Australian Prudential Regulation Authority (APRA). APRA has advised that it will not be making any changes related to the adoption of IFRS until it has made a full assessment of the implications of IFRS and this will not be before 1 July 2005.



TOWER