



\*10059927835\*

**Broadlands Finance Limited**  
(the Company)

**Directors' Certificate**

**Issued under section 37A(1A) of the Securities Act 1978 in respect of Broadlands Finance Limited's registered prospectus number 11, dated 15 September 2010, as amended by memoranda of amendments dated 26 October and 14 December 2010**


We, being two of the directors of the Company, certify on behalf of all of the directors of the Company that in the opinion of all of the directors after due enquiry:

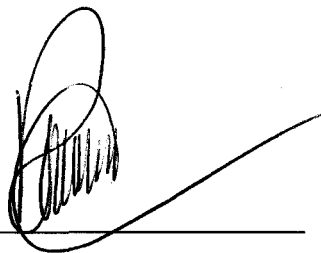
- (i) the financial position shown in the statement of financial position for the period ending 31 March 2010 contained in the Company's registered prospectus number 11, dated 15 September 2010, as amended by memoranda of amendments dated 26 October and 14 December 2010, has not materially and adversely changed during the period from the date of that statement of financial position to the date of this certificate; and
- (ii) the Company's registered prospectus number 11, dated 15 September 2010, as amended by memoranda of amendments dated 26 October and 14 December 2010 is not, at the date of this certificate, false or misleading in a material particular by reason of failing to refer, or give proper emphasis, to adverse circumstances.

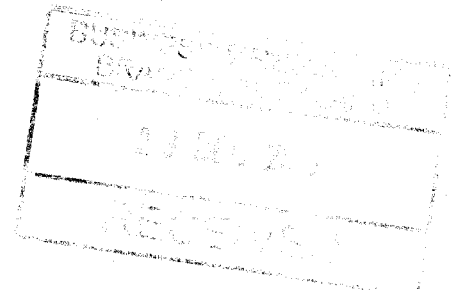
Attached to this certificate are audited financial statements for the six month period from 1 April 2010 to 30 September 2010, prepared in accordance with the Securities Regulations 2009 as if they were required to be contained or referred to in a registered prospectus for debt securities.

Signed for and on behalf of all of the directors of the Company by:

Dated: 22 December 2010

  
\_\_\_\_\_  
**A S Radisich**  
Director

  
\_\_\_\_\_  
**R Kats**  
Director



---

**BROADLANDS FINANCE LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**  
For the six months ended 30 September 2010

---



**CONSOLIDATED FINANCIAL STATEMENTS**

For the six months ended 30 September 2010

---

| <b>CONTENTS</b>                                      | <b>PAGE</b> |
|--|-------------|
| COMPANY DIRECTORY                                    | 2           |
| STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS | 3           |
| STATEMENT OF COMPREHENSIVE INCOME                    | 4           |
| STATEMENT OF CHANGES IN EQUITY                       | 5           |
| STATEMENT OF FINANCIAL POSITION                      | 6           |
| STATEMENT OF CASH FLOW                               | 7           |
| SIGNIFICANT ACCOUNTING POLICIES                      | 8           |
| NOTES TO THE FINANCIAL STATEMENTS                    | 13          |
| INDEPENDENT AUDITOR'S REPORT                         | 36          |



## **COMPANY DIRECTORY**

---

|                               |   |
|-------------------------------|---|
| <b>Date of Incorporation</b>  | 25 January 1995   |
| <b>Nature of Business</b>     | The Company is involved in Consumer Finance, Vehicle Finance, Business Finance and Property Finance. Its subsidiaries are involved in Insurance by way of Consumer Credit Indemnity, Guaranteed Finance Protection and pet insurance and wholesale funding to selected New Zealand companies. |
| <b>Registered Office</b>      | Level 3, 445 Karangahape Road<br>Newton<br>Auckland 1010  |
| <b>Company Number(s)</b>      | Broadlands Finance Limited - 662530<br>Beneficial Insurance Limited - 1196170<br>Vehicle Funding Limited - 2075463  |
| <b>Directors</b>              | Nigel P Smith (Chairman)<br>Anthony S Radisich<br>Timothy I M Storey<br>Rudi Kats   |
| <b>Auditors</b>               | Grant Thornton New Zealand Audit Partnership<br>PO Box 1961<br>Auckland   |
| <b>Bankers</b>                | Westpac Bank Limited<br>Otahuhu, Auckland   |
| <b>Shareholder</b>            | Anthony S Radisich  |
| <b>Trustees</b>               | Trustees Executors Limited<br>Level 12, 45 Queen Street, Auckland   |
| <b>Consulting Actuary</b>     | Davies Financial and Actuarial Limited<br>P O Box 35-258<br>Browns Bay, Auckland  |
| <b>Tax Accountants</b>        | nsaTax Limited<br>The College of Law Building<br>Level 6, 3 City Road<br>P O Box 3697<br>Auckland 1140  |
| <b>Consulting Accountants</b> | KPMG<br>PO Box 1584<br>Auckland   |
| <b>Solicitors</b>             | Bell Gully<br>PO Box 1291<br>Wellington 6140  |



## STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the consolidated financial statements and related information. The independent external auditor, Grant Thornton, has audited the financial statements and their report is attached.

The Directors are also responsible for the systems of internal control and risk management. These are designed to provide reasonable but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. Appropriate systems of internal control have been employed to ensure that all transactions have been executed in accordance with authority and correctly processed and accounted for in the financial statements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the six months ended 30 September 2010.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Company and its subsidiaries ("Charging Group") will not remain a going concern in the foreseeable future.

In the opinion of the Directors:

- the Consolidated Statement of Comprehensive Income is drawn up so as to give a true and fair view of the results of operations of the Charging Group for the six months ended 30 September 2010;
- the Statement of Financial Position is drawn up so as to give a true and fair view of the state of affairs of the Charging Group as at 30 September 2010; and
- There are no reasons to believe that the Charging Group will not be able to pay its debts as and when they fall due.

Signed on behalf of the Board by:

DIRECTOR

21 December 2010

DIRECTOR

**STATEMENT OF COMPREHENSIVE INCOME**  
for the six months ended 30 September 2010

|  | Notes     | CHARGING GROUP      |                     |                     |
|--|-----------|---------------------|---------------------|---------------------|
|  |           | for the 6 months to | for the 6 months to | for the year to     |
|  |           | 30 September 2010   | 30 September 2009   | 31 March 2010       |
|  |           | \$                  | \$                  | \$                  |
| Interest and similar income  |           | 3,220,990           | 3,685,472           | 7,418,281           |
| Interest expense and related charges   |           | (1,159,873)         | (1,222,758)         | (2,367,789)         |
| <b>Net interest income</b>   | <b>7</b>  | <b>2,061,117</b>    | <b>2,462,714</b>    | <b>5,050,492</b>    |
| Fee and commission income  |           | 405,979             | 580,983             | 1,155,402           |
| Fee and commission expense   |           | (32,871)            | (36,454)            | (75,654)            |
| <b>Net fee and commission income</b>   | <b>8</b>  | <b>373,108</b>      | <b>544,529</b>      | <b>1,079,748</b>    |
| Insurance income   |           | 853,375             | 1,696,582           | 2,537,764           |
| Insurance expense and related charges  |           | (358,320)           | (727,445)           | (999,868)           |
| <b>Net insurance income</b>  | <b>9</b>  | <b>495,055</b>      | <b>969,137</b>      | <b>1,537,896</b>    |
| Other income   |           | 30,914              | 24,786              | 326,712             |
| <b>Other operating income</b>  |           | <b>30,914</b>       | <b>24,786</b>       | <b>326,712</b>      |
| <b>Total operating income</b>  |           | <b>2,960,194</b>    | <b>4,001,166</b>    | <b>7,994,848</b>    |
| Employee benefits expense  |           | (904,599)           | (1,054,997)         | (2,047,196)         |
| Net impairment loss on financial assets  | <b>13</b> | 5,122,240           | (608,597)           | (6,353,757)         |
| Lease expenses   | <b>18</b> | (144,987)           | (179,318)           | (332,378)           |
| Depreciation   | <b>17</b> | (43,510)            | (36,427)            | (99,402)            |
| Gain/(loss) on sale of fixed assets  |           | (38,460)            | 87                  | 851                 |
| Audit fees   | <b>10</b> | (102,744)           | (75,791)            | (235,943)           |
| Directors' fees  | <b>26</b> | (50,626)            | (50,626)            | (101,250)           |
| Other operating expenses   | <b>10</b> | (935,911)           | (717,740)           | (1,465,874)         |
| <b>Total expenses</b>  |           | <b>2,901,403</b>    | <b>(2,723,409)</b>  | <b>(10,634,949)</b> |
| <b>Profit/(Loss) before income tax</b>   |           | <b>5,861,597</b>    | <b>1,277,757</b>    | <b>(2,640,101)</b>  |
| Income tax rebate/(expense)  | <b>11</b> | (1,902,623)         | (384,472)           | 789,569             |
| <b>Profit/(Loss) for the period attributable to the shareholder</b>              |           | <b>3,958,974</b>    | <b>893,285</b>      | <b>(1,850,532)</b>  |
| Other Comprehensive Income for the period  |           | -                   | -                   | -                   |
| <b>Total Comprehensive Income for the period attributable to the shareholder</b> |           | <b>3,958,974</b>    | <b>893,285</b>      | <b>(1,850,532)</b>  |



**STATEMENT OF CHANGES IN EQUITY**  
**for the six months ended 30 September 2010**

**CHARGING GROUP:**

|   | <b>Share Capital<br/>(Note 21)</b> | <b>Retained<br/>earnings</b> | <b>Total<br/>Equity</b> |
|---|------------------------------------|------------------------------|-------------------------|
|   | <b>\$</b>                          | <b>\$</b>                    | <b>\$</b>               |
| <b>Balance at 1 April 2009</b>                                      | <b>14,000,000</b>                  | <b>2,931,128</b>             | <b>16,931,128</b>       |
| Profit/(Loss) for the year  | -                                  | (1,850,532)                  | (1,850,532)             |
| Total Comprehensive Income for the year ended 31 March 2010         | -                                  | (1,850,532)                  | (1,850,532)             |
| <b>Balance at 31 March 2010</b>                                     | <b>14,000,000</b>                  | <b>1,080,596</b>             | <b>15,080,596</b>       |
| <b>Balance at 1 April 2009</b>                                      | <b>14,000,000</b>                  | <b>2,931,128</b>             | <b>16,931,128</b>       |
| Profit/(Loss) for the period  | -                                  | 893,285                      | 893,285                 |
| Total Comprehensive Income for the 6 months ended 30 September 2009 | -                                  | 893,285                      | 893,285                 |
| <b>Balance at 30 September 2009</b>                                 | <b>14,000,000</b>                  | <b>3,824,413</b>             | <b>17,824,413</b>       |
| <b>Balance at 1 April 2010</b>                                      | <b>14,000,000</b>                  | <b>1,080,596</b>             | <b>15,080,596</b>       |
| Profit/(Loss) for the period  | -                                  | 3,958,974                    | 3,958,974               |
| Total Comprehensive Income for the 6 months ended 30 September 2010 | -                                  | 3,958,974                    | 3,958,974               |
| <b>Balance at 30 September 2010</b>                                 | <b>14,000,000</b>                  | <b>5,039,570</b>             | <b>19,039,570</b>       |

**STATEMENT OF FINANCIAL POSITION**  
**As at 30 September 2010**

|  | Notes  | CHARGING GROUP    |                   |                   |
|--|--------|-------------------|-------------------|-------------------|
|  |        | as at             | as at             | as at             |
|  |        | 30 September 2010 | 30 September 2009 | 31 March 2010     |
|  |        | \$                | \$                | \$                |
| <b>ASSETS</b>                          |        |                   |                   |                   |
| Cash and cash equivalents              | 12     | 39,911            | 1,606,470         | 1,245,160         |
| Net finance contract receivables       | 13     | 28,867,665        | 27,470,599        | 23,427,794        |
| Held to maturity financial assets      | 16     | 510,000           | 510,000           | 510,000           |
| Other assets                           | 14     | 643,330           | 329,570           | 507,551           |
| Plant and equipment                    | 17     | 226,052           | 261,447           | 303,160           |
| Deferred acquisition costs             | 16     | 722,237           | 611,910           | 723,321           |
| Goodwill                               | 15     | 7,416,751         | 7,416,751         | 7,416,751         |
| Deferred tax asset                     | 11     | 1,368,478         | 2,557,301         | 3,639,016         |
| <b>Total assets</b>                    |        | <b>39,794,424</b> | <b>40,764,048</b> | <b>37,772,753</b> |
| <b>Liabilities</b>                     |        |                   |                   |                   |
| Payables                               | 19     | 672,985           | 535,262           | 694,658           |
| Current tax liabilities                |        | (172,635)         | 923,235           | 559,226           |
| Provision for insurance claims         | 3 & 16 | 148,000           | 169,000           | 169,000           |
| Interest bearing financial liabilities | 23     | 13,262,332        | 15,083,478        | 15,038,259        |
| Loans from related parties             | 23     | 5,749,900         | 5,200,000         | 5,200,000         |
| Insurance premiums in advance          | 16     | 1,094,272         | 1,028,660         | 1,031,014         |
| <b>Total liabilities</b>               |        | <b>20,754,854</b> | <b>22,939,635</b> | <b>22,692,157</b> |
| <b>NET ASSETS</b>                      |        | <b>19,039,570</b> | <b>17,824,413</b> | <b>15,080,596</b> |
| <b>EQUITY</b>                          |        |                   |                   |                   |
| Share capital                          | 21     | 14,000,000        | 14,000,000        | 14,000,000        |
| Retained earnings                      | 21     | 5,039,570         | 3,824,413         | 1,080,596         |
| <b>TOTAL EQUITY</b>                    |        | <b>19,039,570</b> | <b>17,824,413</b> | <b>15,080,596</b> |



**STATEMENT OF CASH FLOW**

for the six months ended 30 September 2010

|  |              | <b>CHARGING GROUP</b>                            |  |  |
|--|--------------|--|--|--|
|  | <b>Notes</b> | <b>for the 6 months to<br/>30 September 2010</b> | <b>for the 6 months to<br/>30 September 2009</b> | <b>for the year to<br/>31 March 2010</b> |
|  |              | <b>\$</b>  | <b>\$</b>  | <b>\$</b>                                |
| <b>Cash flow from operating activities</b>                         |              |  |  |  |
| Receipts from customers (Fee, Insurance and Other Income)          |              | 1,217,748  | 1,326,671  | 2,868,572                                |
| Interest received  |              | 2,131,090  | 3,923,581  | 5,785,045                                |
| Payments to suppliers and employees                                |              | (2,571,647)                                      | (2,503,297)                                      | (4,871,107)                              |
| Interest paid  |              | (1,159,873)                                      | (1,222,758)                                      | (2,367,789)                              |
| Tax paid   |              | (363,946)  | (836,965)  | (1,108,648)                              |
| Net movement in financial receivables                              |              | 772,268  | (2,338,835)                                      | (2,169,844)                              |
| <b>Net cash (outflow)/inflow from operating activities</b>         | <b>22</b>    | <b>25,640</b>                                    | <b>(1,651,603)</b>                               | <b>(1,863,771)</b>                       |
| <b>Cash flows from investing activities</b>                        |              |  |  |  |
| Sale of Plant & equipment  |              | -  | -  | 11,039                                   |
| Purchase of Plant & equipment                                      |              | (4,862)  | (43,096)   | (158,058)                                |
| <b>Net Cash (outflow)/inflow generated by investing activities</b> |              | <b>(4,862)</b>                                   | <b>(43,096)</b>                                  | <b>(147,019)</b>                         |
| <b>Cash flows from financing activities</b>                        |              |  |  |  |
| Net movement in Debentures   |              | (1,775,927)                                      | (78,050)   | (123,269)                                |
| Proceeds/(Payment) of loans from related parties                   |              | 549,900  | (65,494)   | (65,494)                                 |
| <b>Net cash (outflow)/inflow from financing activities</b>         |              | <b>(1,226,027)</b>                               | <b>(143,544)</b>                                 | <b>(188,763)</b>                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>        |              | <b>(1,205,249)</b>                               | <b>(1,838,243)</b>                               | <b>(2,199,553)</b>                       |
| Cash and cash equivalents at beginning of period                   |              | 1,245,160  | 3,444,713  | 3,444,713                                |
| <b>Cash and cash equivalents at end of period</b>                  | <b>12</b>    | <b>39,911</b>                                    | <b>1,606,470</b>                                 | <b>1,245,160</b>                         |



## **1. REPORTING ENTITY**

The consolidated financial statements are for the Charging Group comprising ultimate parent company Broadlands Finance Limited (the "Company"), and subsidiaries Beneficial Insurance Limited and Vehicle Funding Limited (the "Charging Group").

The Company and the Charging Group are profit oriented entities. The Charging Group provides financial and insurance services in New Zealand. The Company is a limited liability company incorporated and domiciled in New Zealand, and registered under the Companies Act 1993. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Company is also an issuer in terms of the Securities Act 1978.

These financial statements on pages 4 to 35 were approved per issue by the Board of Directors on 21 December 2010. The Company has the power to amend and reissue financial statements.

### **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other interpretations as appropriate to profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements are for the six months ended 30 September 2010, 30 September 2009 and the year ended 31 March 2010.

These financial statements have been prepared under the historical cost convention.

The financial statements are presented in New Zealand Dollars ("NZD"), which is the functional currency presentation currency of the Company and the Charging Group. The amounts in the financial statements have been rounded off to the nearest dollar.

The Company was involved in Consumer Finance, Vehicle Finance, Business Finance, and Property Finance. Its subsidiaries were involved in insurance by way of Consumer Credit Indemnity ("CCI"), Guaranteed Finance Protection ("GFP") and pet insurance and wholesale funding to selected New Zealand motor vehicle dealers.

The preparation of the financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company and Charging Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been applied consistently to all periods presented, unless otherwise stated.

### **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements incorporate the assets and liabilities of the charging subsidiaries of the Company as at 30 September 2010. The Company and its subsidiaries together are referred to in these financial statements as the Charging Group.

Charging subsidiaries are all entities over which the Company has the power to govern the financial and operating policies.

Charging subsidiaries are fully consolidated from the date on which control is transferred to the Company. For the Charging Group, intercompany transactions, balances and unrealised gains on transactions between Charging Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of both the subsidiaries are consistent with the policies adopted by the Company.

### **OPERATING SEGMENTS**

The Charging Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by the Board of Directors based on the manner in which the services are managed, whether financial services or insurance. Discrete financial information about each of these operating businesses is reported to the Board of Directors on a regular basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Charging Group's major risks and have the most effect on the rates of return.

#### *Types of Services*

##### **(i) Broadlands Finance - Financial Services**

Broadlands Finance Limited ("Broadlands" or "the Company") has specialised in providing hire purchase finance, personal loans and property finance to customers who fall outside the lending criteria of the banks and other major lending institutions. Its principal activities involve the provision of finance for the purchase of consumer goods and motor vehicles in the upper half of the North Island, and a small amount of commercial and property mortgage finance.

##### **(ii) Beneficial Insurance – Insurance products**

Beneficial Insurance Limited ("BIL") provides consumer credit indemnity cover to limit the Company's exposure to the redundancy, sickness, injury or death of its clients. Premiums are included by Broadlands in the loans to its clients. BIL also provides insurance for veterinarian expenses in respect of family pets as part of its Pet-n-Sur product. BIL has been carrying on its activities since its incorporation in March 2002.



(iii) Vehicle Funding – Wholesale funding and vehicle trading

Vehicle Funding Limited is a registered vehicle trader and provides funding to motor vehicle importers.

### INTEREST INCOME AND EXPENSE

Interest income and expenses are recognised in the Statement of Comprehensive Income for all financial assets and financial liabilities measured at amortised cost using the effective interest method. The effective interest method allocates the interest income or expense over the life of the contract, or when appropriate a shorter period using the effective interest rate.

The effective interest rate is the discount rate at which the present value of the future cash flows equals the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Charging Group estimates the future cash flows considering all the contractual terms of the contract but does not include future credit losses. The calculation of the effective interest rate includes all fees, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, being the original effective rate on the contract.

### DIVIDEND AND FEE INCOME

Dividend income is recognised in the Statement of Comprehensive Income when the shareholder's right to receive payment is established.

Yield related fees for finance receivables are accrued to income over the term of the loan using the effective interest method. Fees not included in the effective interest calculation are recognised on an accrual basis when the service has been provided.

### INCOME FROM INSURANCE AND INDEMNITY CONTRACTS

Income from insurance and indemnity contracts comprises amounts charged to the policyholders or insurers, excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Premium is earned from the date of attachment of risk over the indemnity period or period of the contract in accordance with the pattern of the incidence of risk expected under the policy.

The receivables book is analysed periodically and progressively and is amortised into loans and receivables which are carried at amortised cost.

### INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### GOODS AND SERVICES TAX

The financial statements have been prepared so that all components are stated exclusive of GST except where the GST is not recoverable from the Inland Revenue Department ("IRD"). In these circumstances the GST component is recognised as part of the underlying item. Trade and other receivables and payables are stated GST inclusive. The net amount of GST recoverable from or payable to the IRD is included within these categories. All amounts are shown inclusive of Goods and Services Tax ("GST").

Tax paid in the cash flow statement includes GST.

### LEASES

Leases in terms of which a significant portion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Leases that transfer to the Charging Group substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred, are classified as finance leases. At the commencement of the lease term, the Charging Group recognises finance leases as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased



item or the present value of the minimum lease payments. The finance charged is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Charging Group's non financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised for the amount by which the asset or its cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating unit). Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. Other impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### INVESTMENT IN SUBSIDIARIES

In the Company's separate financial statements, investment in subsidiaries is stated at cost less any impairment losses.

### CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with banks and other short term and highly liquid investments with original maturities of three months or less. The net movements in finance contract receivables and secured debentures are disclosed for the purposes of the cash flow statement.

### FINANCIAL ASSETS

Financial assets of the Company are classified as loans and receivables as the loan book of the Company was not acquired for the purpose of selling or as held to maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

#### *Loans and receivables*

Loans and receivables are initially measured at fair value plus directly attributable transaction costs.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when money, goods or services are provided directly to a debtor with no intention of trading the receivable. Loans and receivables are included in receivables in the Statement of Financial Position and are measured at amortised cost, using the effective interest method, less impairment losses.

#### *Held to Maturity Financial Assets*

The held to maturity financial asset is New Zealand Government Stock which is carried at amortised cost because there is no intention to sell this asset in the foreseeable future. The Charging Group intends to realise this investment through future cash flows comprising interest payments and redemption/roll-over of the principal at its contractual maturity date.

### ASSET QUALITY DEFINITIONS

Loans are assessed for quality periodically. When the quality of a loan is classified as Past Due or Impaired, it is the entire balance of that loan that is classified as such, not just the Past Due or Impaired portion.

#### *Past Due Assets*

Past Due assets are those loans and advances receivable on which payment of principal or interest is contractually past due 1 day or more.

#### *90 day past due assets*

An asset is 90 days past due when it has not been operated by the counterparty within its key terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through enforcement of security.

#### *Impaired Assets*

The Charging Group classifies impaired assets into one of three categories:

##### *Restructured assets*

Restructured assets are those loans and advances where:

- the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms; and
- the revised terms of the facility are not comparable with the terms of the new facilities with comparable risks; and



- the yield on the asset following restructuring is equal to, or greater than, the Charging Group's average cost of funds, or that a loss is not otherwise expected to be incurred.

#### *Financial Assets acquired through enforcement of security*

Financial assets acquired through the enforcement of security are any financial assets which are legally owned as a result of the enforcement of security.

The Charging Group had no financial assets acquired through the enforcement of security as at 30 September 2010 (September 2009: NIL).

#### *Other Impaired Assets*

Other impaired assets are financial assets that are individually determined to be impaired at reporting date, but that are not classified as restructured assets or financial assets acquired through the enforcement of security.

### **IMPAIRMENT**

#### ***Impairment of Loans and Advances***

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

#### *Individually assessed loans*

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

- Current security values
- Solvency of the borrower and guarantor
- Payment history on the account

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

#### *Collectively assessed loans*

Loans that have been individually assessed but no objective evidence of impairment existed, and loans that are not considered individually significant, are pooled into similar credit risk groups. These groups are then assessed for impairment based on historical loss experience of assets with similar risk characteristics. The historical loss experience is adjusted for the impact of current observable data.

#### *Loan write offs*

Loans are normally written off, either in part or in full, when there is no realistic prospect of recovery of these amounts in a timely manner.

### **PLANT AND EQUIPMENT**

Plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical Cost includes the purchase price and directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Where material parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of property and equipment. The assets' residual values, depreciation methods and useful lives are reviewed and adjusted as appropriate at each reporting date.

Subsequent costs are added to the carrying amount of an item of plant and equipment or recognised as a separate asset, as appropriate, when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Charging Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

Gains or losses arising on the disposal of plant and equipment are determined as the difference between sales proceeds and carrying amount of the asset and are recognised in the Statement of Comprehensive Income.

The Charging Group distinguishes finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases, under which the lessor effectively retains all such risks and benefits. Where the Charging Group acquires non current assets by using a finance lease, the present value of future minimum lease payments is disclosed as equipment under finance lease at the beginning of the lease term. Capitalised lease payments are amortised on a diminishing value basis over the term of the lease. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

#### **Depreciation**

Depreciation is calculated using the diminishing value method to allocate the cost of assets over their estimated useful lives, for the current and prior period as follows:



|                        |               |
|------------------------|---------------|
| Motor Vehicles         | 26.0%         |
| Furniture & Fittings   | 9.6% - 39.6%  |
| Office Equipment       | 9.0% - 80.4%  |
| Leasehold Improvements | 11.0% - 21.6% |
| Leased Assets          | 40.0%         |

### INTANGIBLE ASSETS

Goodwill is measured at cost less accumulated impairment losses.

### INSURANCE

#### *Acquisition Costs*

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

#### *Unearned Premium*

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten.

At each reporting date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out on each portfolio of contracts that are broadly similar and managed together as a single portfolio. If the unearned premium liability, less related intangible assets and deferred acquisition costs, is deficient, then the resulting deficiency is recognized in the Statement of Comprehensive Income of the Charging Group.

#### *Outstanding Claims Liability*

The liability for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported ("IBNR"), claims incurred but not enough reported ("IBNER"), and estimated claims handling costs.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequate to a minimum of 85 per cent.

### FINANCIAL LIABILITIES

#### *Trade and Other Payables*

Trade and other payables are stated at amortised cost and using the effective interest rate method.

#### *Interest Bearing Borrowings*

Interest bearing borrowings are recognised initially at fair value plus directly attributable transaction costs and subsequently at amortised cost using the effective interest method.

### EMPLOYEE BENEFITS

#### *Wages and salaries, annual leave and sick leave*

Liabilities for wages, salaries and annual leave accruing to employees and expected to be settled within twelve months of the reporting date are recognised and measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis. The cost of sick leave is expensed in the period in which it occurs.

### PROVISIONS

Provisions are recognised when the Company and Charging Group have a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### CHANGE IN ACCOUNTING POLICIES

There have been no significant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with prior periods.



### NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS THAT ARE NOT YET EFFECTIVE

(a) The group and company has adopted the following new and amended NZ IFRSs as of 1 April 2009:

- NZ IFRS 8: Operating Segments - NZ IFRS 8 replaces NZ IAS 14: Segment Reporting.

It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. Comparatives for 2009 have been restated. Furthermore, the Group has early adopted the amendment to NZ IFRS 8 (effective 1 January 2010) that clarifies that entities only need to disclose information about segment assets if that information is regularly reviewed by the chief operating decision maker."

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group and company:

- NZ IFRS 9 Financial Instruments (effective from 1 January 2013).

This standard is part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially recorded at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and measured at amortised cost or fair value. Management is still assessing the impact of this standard on the Charging Group.

### 3. PROVISION FOR INSURANCE CLAIMS

|                             | CHARGING GROUP                           |  |                                  |
|-----------------------------|--|--|----------------------------------|
|                             | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|                             | \$                                       | \$                                       | \$                               |
| Brought forward balances    | 169,000                                  | 128,000                                  | 128,000                          |
| Additional claims provision | -  | 41,000                                   | 41,000                           |
| Utilisation                 | (21,000)                                 | -  | -                                |
| As at period end            | <b>148,000</b>                           | <b>169,000</b>                           | <b>169,000</b>                   |

The provision for insurance claims was calculated on 27 October 2010 by Peter Davies, an actuary who is a fully accredited member of the New Zealand Society of Actuaries. His reports on the liabilities required to be taken up at all the reporting dates above were unqualified. The provisions for insurance claims have been derived based on the following assumptions:

- For the pet insurance business, the claim administration allowance is estimated to be 15% (2009: 15%) of outstanding claims. A loss ratio of 52% (2009: 60%) is used based on the pet insurance products available in New Zealand (The actual loss ratio for the period is 52% - September 2009: 46%). A 10% (2009: 25%) risk margin is maintained so as to achieve a 75% likelihood of sufficiency.
- For the CCI and GFP insurance business, the claim administration allowance is estimated to be 15% (2009: 10%) of outstanding claims. A loss ratio is estimated to be 4% (2009: 13%) based on historical financial performance of products. (The actual loss ratio for the period is 4% - September 2009: 13%). A 50% (2009: 50%) risk margin is maintained so as to achieve a 75% likelihood of sufficiency.

Note 9 Provides details of claims paid out during the period. Also refer to Note 16.

As at the reporting date, there was no requirement for BIL to have a credit rating. For the purpose of financial soundness the company has Government Stock of \$510,000 as required by the Insurance Companies' Deposit Act 1953.

### 4. FINANCIAL RISK MANAGEMENT

The principal financial risks faced by the Charging Group and Company are credit risk, liquidity risk and interest rate risk, which are described in the remainder of this note. Since all the Charging Group and Company's activities are conducted in New Zealand and denominated in NZ Dollars, there is no exposure to currency risk.

This note presents information about the Charging Group and Company's exposure to each of the above risks, the Charging Group and Company's objectives, policies and processes for measuring and managing risk, and the Charging Group and Company's management of capital.

#### Risk Management Programme

The Board of Directors has overall responsibility for the establishment and oversight of the Charging Group and Company's risk management programme as approved by the Trustee. The Charging Group and Company's risk management policies are established to identify and analyse the risks faced by the Charging Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies also minimise any potential adverse effects of the risks it faces on financial performance. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products, services offered and emerging best practice.

**(a) Interest Rate Risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Charging Group and Company are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its cash flow risks relating to its financial instruments.

The Charging Group and Company manage interest rate risk in a number of ways as follows:

**(i) Interest rate risk management process**

The management team reviews market interest rates being charged and adjusts its own rates accordingly for both Debentures and Loan Receivables in order to maintain expected internal rates of return. Where rates become unfavorable management seeks to reduce levels of debt.

**(ii) Concentrations of interest rate exposure and maturities**

Management endeavours to match the Charging Group and Company's term of borrowings against the profile of maturing assets. Where shortfalls are identified they are met from existing lines of credit. Borrowings issued at variable rates expose the Charging Group and Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Charging Group and Company to fair value interest rate risk.

The table below summarises the Charging Group and Company's exposure to interest rate risks. It includes the Charging Group and Company's financial instruments at carrying amounts, categorised by the earlier of their contractual re-pricing or maturity dates. Installments overdue are based on expected payment dates. Further to this, it summarises the maturity profiles of the assets and liabilities in question.

**Interest Rate Gap****30/09/2010 – The Charging Group**

|   |                                      | \$                            | \$                 | \$               | \$                 | \$                 | \$               | \$                |
|---|--------------------------------------|-------------------------------|--------------------|------------------|--------------------|--------------------|------------------|-------------------|
|   | Weighted average effective int. rate | Installments overdue/ On Call | 0 to 6 months      | 7 to 12 months   | 13 to 24 months    | 25 to 60 months    | Over 60 months   | Total             |
| <b>Financial assets</b>                       |                                      |                               |                    |                  |                    |                    |                  |                   |
| Cash and cash equivalents                     | 0.32%                                | 39,911                        | -                  | -                | -                  | -                  | -                | 39,911            |
| Receivables:                                  |                                      |                               |                    |                  |                    |                    |                  |                   |
| - Finance receivables (per note 13)           | 20.42%                               | 15,604,058                    | 1,806,164          | 4,337,661        | 1,668,271          | 2,182,084          | 3,269,427        | 28,867,665        |
| Government Stock                              | 6.00%                                | -                             | -                  | -                | 510,000            | -                  | -                | 510,000           |
|   |                                      | <b>15,643,969</b>             | <b>1,806,164</b>   | <b>4,337,661</b> | <b>2,178,271</b>   | <b>2,182,084</b>   | <b>3,269,427</b> | <b>29,417,576</b> |
| <b>Financial liabilities</b>                  |                                      |                               |                    |                  |                    |                    |                  |                   |
| Interest bearing liabilities                  |                                      |                               |                    |                  |                    |                    |                  |                   |
| -Debentures (On Call)                         | 2.50%                                | 82,502                        | -                  | -                | -                  | -                  | -                | 82,502            |
| -Debentures (Fixed Term)                      | 8.57%                                | -                             | 6,398,643          | 3,051,740        | 2,285,637          | 1,443,811          | -                | 13,179,831        |
| -Finance Leases                               | 10.60%                               | -                             | 54,730             | 12,840           | -                  | -                  | -                | 67,570            |
| Loans from related parties                    | 13.57%                               | -                             | -                  | -                | 1,050,000          | 2,100,000          | 2,599,900        | 5,749,900         |
|   |                                      | <b>632,402</b>                | <b>6,453,373</b>   | <b>3,064,580</b> | <b>3,335,637</b>   | <b>3,543,811</b>   | <b>2,050,000</b> | <b>19,079,803</b> |
| <b>Effective interest rate re-pricing gap</b> |                                      | <b>15,011,567</b>             | <b>(4,647,209)</b> | <b>1,273,081</b> | <b>(1,157,366)</b> | <b>(1,361,727)</b> | <b>1,219,427</b> | <b>10,337,773</b> |

**30/09/2009 – The Charging Group**

|   |                                      | \$                            | \$               | \$                 | \$                 | \$                 | \$                 | \$                |
|---|--------------------------------------|-------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|-------------------|
|   | Weighted average effective int. rate | Installments overdue/ On Call | 0 to 6 months    | 7 to 12 months     | 13 to 24 months    | 25 to 60 months    | Over 60 months     | Total             |
| <b>Financial assets</b>                       |                                      |                               |                  |                    |                    |                    |                    |                   |
| Cash and cash equivalents                     | 2.19%                                | 1,606,470                     | -                | -                  | -                  | -                  | -                  | 1,606,470         |
| Receivables:                                  |                                      |                               |                  |                    |                    |                    |                    |                   |
| - Finance receivables (per note 13)           | 24.01%                               | 13,732,627                    | 4,717,235        | 4,105,970          | 2,312,797          | 1,668,348          | 933,622            | 27,470,599        |
| Government Stock                              | 6.00%                                | -                             | -                | -                  | -                  | 510,000            | -                  | 510,000           |
|   |                                      | <b>15,339,097</b>             | <b>4,717,235</b> | <b>4,105,970</b>   | <b>2,312,797</b>   | <b>2,178,348</b>   | <b>933,622</b>     | <b>29,587,069</b> |
| <b>Financial liabilities</b>                  |                                      |                               |                  |                    |                    |                    |                    |                   |
| Interest bearing liabilities                  |                                      |                               |                  |                    |                    |                    |                    |                   |
| -Debentures (On Call)                         | 2.50%                                | 137,175                       | -                | -                  | -                  | -                  | -                  | 137,175           |
| -Debentures (Fixed Term)                      | 9.06%                                | -                             | 2,060,405        | 7,039,548          | 4,043,391          | 1,802,959          | -                  | 14,946,303        |
| -Finance Leases                               | 10.66%                               | -                             | 21,714           | 21,714             | 21,714             | -                  | -                  | 65,142            |
| Loans from related parties                    | 15.00%                               | -                             | -                | -                  | -                  | 3,150,000          | 2,050,000          | 5,200,000         |
|   |                                      | <b>137,175</b>                | <b>2,082,119</b> | <b>7,061,262</b>   | <b>4,065,105</b>   | <b>4,952,959</b>   | <b>2,050,000</b>   | <b>20,348,620</b> |
| <b>Effective interest rate re-pricing gap</b> |                                      | <b>15,201,922</b>             | <b>2,635,116</b> | <b>(2,955,292)</b> | <b>(1,752,308)</b> | <b>(2,774,611)</b> | <b>(1,116,378)</b> | <b>9,238,449</b>  |





## 31/03/2010 – The Charging Group

|  |                                      | \$                            | \$                 | \$                 | \$               | \$                 | \$                 | \$                |
|--|--------------------------------------|-------------------------------|--------------------|--------------------|------------------|--------------------|--------------------|-------------------|
|  | Weighted average effective int. rate | Installments overdue/ On Call | 0 to 6 months      | 7 to 12 months     | 13 to 24 months  | 25 to 60 months    | Over 60 months     | Total             |
| <b>Financial assets</b>                |                                      |                               |                    |                    |                  |                    |                    |                   |
| Cash and cash equivalents              | 3.29%                                | 1,245,160                     | -                  | -                  | -                | -                  | -                  | 1,245,160         |
| Receivables:                           |                                      |                               |                    |                    |                  |                    |                    |                   |
| - Finance receivables (per note 13)    | 21.51%                               | 9,766,691                     | 3,268,801          | 1,574,513          | 5,266,233        | 2,784,285          | 767,271            | 23,427,794        |
| Government Stock                       | 6.00%                                | -                             | -                  | -                  | 510,000          | -                  | -                  | 510,000           |
|  |                                      | <b>11,011,851</b>             | <b>3,268,801</b>   | <b>1,574,513</b>   | <b>5,776,233</b> | <b>2,784,285</b>   | <b>767,271</b>     | <b>25,182,954</b> |
| <b>Financial liabilities</b>           |                                      |                               |                    |                    |                  |                    |                    |                   |
| Interest bearing liabilities           |                                      |                               |                    |                    |                  |                    |                    |                   |
| -Debentures (On Call)                  | 2.50%                                | 94,788                        | -                  | -                  | -                | -                  | -                  | 94,788            |
| -Debentures (Fixed Term)               | 8.34%                                | -                             | 7,434,748          | 3,252,744          | 2,351,278        | 1,904,701          | -                  | 14,943,471        |
| - Financial Leases                     | 10.60%                               | -                             | 51,619             | 51,619             | 10,247           | -                  | -                  | 113,485           |
| Loans from related parties             | 15.00%                               | -                             | -                  | -                  | 1,050,000        | 2,100,000          | 2,050,000          | 5,200,000         |
|  |                                      | <b>94,788</b>                 | <b>7,486,367</b>   | <b>3,304,363</b>   | <b>3,411,525</b> | <b>4,004,701</b>   | <b>2,050,000</b>   | <b>20,351,744</b> |
| Effective interest rate re-pricing gap |                                      | <b>10,917,063</b>             | <b>(4,217,566)</b> | <b>(1,729,850)</b> | <b>2,364,708</b> | <b>(1,220,416)</b> | <b>(1,282,729)</b> | <b>4,831,210</b>  |

## (iii) Interest rate sensitivity analysis

The interest bearing financial assets and financial liabilities of the Charging Group are not subject to interest rate changes and alterations as they are contractually fixed. An exception to this is the cash that is held on call. As all significant interest rates are fixed, no sensitivity analysis has been prepared, as fluctuations are not expected to impact the Statement of Comprehensive Income of the Charging Group and Company. See above for interest rates.

## (b) Liquidity Risk

Liquidity risk is the risk that the Charging Group and Company will encounter difficulty in meeting payment obligations associated with its financial liabilities when they fall due. It includes the risk that the Charging Group and Company may have insufficient liquid funds, or may not be able to raise sufficient funds at short notice, to meet its payment obligations associated with financial liabilities when they fall due. This situation can arise if there is a significant mismatch of its financial assets and financial liabilities.

## (i) Liquidity risk management process

The Charging Group and Company manages liquidity risk in a number of ways as follows:

- The management team reviews cash flow forecast information in order to ensure contractual cash outflows can be met from current resources, facilities and expected cash inflows. This is done on a daily basis. These forecasts are reviewed and approved by the Board who has put in place loan and other facilities to address any potential liquidity gap. Refer to the contractual and expected cash flows in note 4 (c) (iii).
- The Charging Group and Company has the following funding from a related party Timberton Investments Limited (Timberton), a company wholly owned by Anthony Radisich the sole shareholder of Broadlands Finance Limited; a \$5,200,000 loan and \$4,753,000 in debentures. The loan is unsecured and the debentures rank equally in regard to maturity with other debenture holders. In order to manage liquidity the \$5,200,000 loan has been split into 4 loans with staggered maturity dates. Refer to note 26 for details. The Directors do not guarantee the Debenture Stock.
- The Charging Group also relies on financial support from shareholder Anthony Radisich for the foreseeable 12 months from the date of issue of these financial statements.
- The intercompany loan between the Company and its subsidiary, Beneficial Insurance Limited, has been subordinated.

## (ii) Concentrations of liquidity exposure

Sources of liquidity are regularly reviewed by management to maintain an appropriate diversification by provider, product and term. The Charging Group's sources of funds are equity, related party borrowings and secured debenture stocks. Refer to note 4 (c)(iii) for maturity profile.

The table below details the debenture funding split by geographic region:

|                                       | CHARGING GROUP                        |                                       |                               |
|---------------------------------------|---------------------------------------|---------------------------------------|-------------------------------|
|                                       | for the 6 months to 30 September 2010 | for the 6 months to 30 September 2009 | for the year to 31 March 2010 |
| Auckland                              | 71%                                   | 55%                                   | 55%                           |
| Waikato/Bay of Plenty                 | 11%                                   | 14%                                   | 14%                           |
| Rest of New Zealand and International | 18%                                   | 31%                                   | 31%                           |
|                                       | <b>100%</b>                           | <b>100%</b>                           | <b>100%</b>                   |



## NEW ZEALAND DEPOSIT GUARANTEE SCHEME

Broadlands has a guarantee (the "Guarantee") under the New Zealand deposit guarantee scheme. In broad terms, this means that the Crown guarantees the payment of principal and interest on the Debenture Stock (up to \$1 million for each eligible investor) if Broadlands is not, for any reason, able to pay those amounts. The Guarantee for Broadlands expires on 12 October 2010; from this date no debentures in issue will be guaranteed by the Crown.

Further information about the New Zealand deposit guarantee scheme is available, free of charge and at all reasonable times, on the Internet site maintained by, or on behalf of, the Treasury (being [www.treasury.govt.nz](http://www.treasury.govt.nz)). In addition, the most recent audited statement of financial position of the Crown is available, free of charge, and at all reasonable times, on the Internet site maintained by, or on behalf of, the Treasury.

### (c) Credit Risk

Credit risk is the risk of financial loss to the Charging Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Charging Group's loans and advances to customers.

#### (i) Credit risk management process

The Charging Group manages credit risk in a number of ways as follows:

In the normal course of business, the Charging Group and Company are exposed to credit risk from finance contract receivables. Security for such receivables is generally the motor vehicles, property or other assets acquired with the proceeds of the loan. Security interests over motor vehicles and other assets are registered on the Personal Property Securities Register. Security interests over the real property are generally registered as mortgages under the Land Transfer Act 1952. Every application for loans is subject to a credit verification and approval process. It is impracticable to estimate the fair value of collateral on loans for motor vehicles and consumer goods.

Other financial instruments subject to credit risk include bank balances (cash and cash equivalents). This risk is mitigated through the placement of these funds with Westpac bank which is a registered bank in New Zealand and is rated AA by Standard & Poor's.

#### (ii) Concentrations of credit exposure

The Charging Group and Company has provided funding to customers of certain retail outlets. As at 30 September 2010, the total funding provided by the Charging Group to customers of such retail outlets was \$7,325,165 (September 2009: \$4,643,504). These funds were subject to recourse to the retailer in the event of non payment by the customers. Of the total finance contract receivables 73% in dollar value are for motor vehicle / personal loans, 4% are for property loans, 12% are for commercial loans and 11% relate to wholesale loans.

The six largest loans comprise 14.20% of the Gross Finance Receivables (September 2009: 7.85%).

### Counterparty concentrations of receivables

The Charging Group and Company had no exposure to counterparties (except for the bank) which exceeded 10% of shareholder's equity. However, there are recourse agreements with retailers which represents \$7,325,165 of the gross loans outstanding (September 2009: \$4,643,504). The recourse arrangements are secured by personal guarantees and other assets which have been assigned to the Charging Group during the six months ended 30 September 2010.

### Economic and industry concentrations of receivables

The Charging Group is exposed to economic and industry sector risk.

|                         | CHARGING GROUP    |                   |               |
|-------------------------|-------------------|-------------------|---------------|
|                         | 30 September 2010 | 30 September 2009 | 31 March 2010 |
| % of Book               |                   |                   |               |
| Motor Vehicles/Personal | 73%               | 79%               | 75%           |
| Property                | 4%                | 8%                | 4%            |
| Commercial/Wholesale    | 23%               | 13%               | 21%           |
|                         | 100%              | 100%              | 100%          |
| No of Loans             | 2952              | 4667              | 3742          |
| Average Loan Value      | \$11,541          | \$7,728           | \$9,448       |

### Geographic concentrations of receivables

The table below details the geographic split of receivables:

|                       | CHARGING GROUP    |                   |               |
|-----------------------|-------------------|-------------------|---------------|
|                       | 30 September 2010 | 30 September 2009 | 31 March 2010 |
| Auckland              | 66%               | 74%               | 65%           |
| Waikato/Bay of Plenty | 19%               | 23%               | 20%           |
| Rest of New Zealand   | 15%               | 3%                | 15%           |
|                       | 100%              | 100%              | 100%          |



### iii) Contractual Cash Flows before collateral held or other credit enhancements

The table below analyses the Charging Group's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the undiscounted contractual cash flows and differ from the net carrying amounts as reported in the Statement of Financial Position owing to interest to be incurred in subsequent periods, and therefore do not reflect any expected loss rates. Contractual cash flows differ from the expected cash flows and its maturity dates owing to management's estimates of the expected average life of the finance receivables based on historical experience and asset quality of the ledger. These estimates are reviewed and revised where necessary at each financial reporting date.

30/09/2010

The Charging Group

|                                      | \$                                  | \$                 | \$                | \$                 | \$                 | \$                | \$                | \$                 |
|--------------------------------------|-------------------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
|                                      | Installments<br>Overdue/<br>On Call | 0 to 6<br>months   | 7 to 12<br>months | 13 to 24<br>months | 25 to 60<br>months | Over 60<br>months | Total             | Carrying<br>Amount |
| <b>Financial Assets</b>              |                                     |                    |                   |                    |                    |                   |                   |                    |
| Cash and cash equivalents            | 39,911                              | -                  | -                 | -                  | -                  | -                 | 39,911            | 39,911             |
| Receivables:                         |                                     |                    |                   |                    |                    |                   |                   |                    |
| - Finance receivables                | 19,387,782                          | 2,244,129          | 5,389,471         | 2,072,799          | 2,711,203          | 4,062,208         | 35,867,592        | 28,867,665         |
| Government Stock                     | -                                   | 15,300             | 15,300            | 525,300            | -                  | -                 | 555,900           | 510,000            |
| Other financial assets               | -                                   | 643,330            | -                 | -                  | -                  | -                 | 643,330           | 643,330            |
|                                      | <b>19,427,693</b>                   | <b>2,902,759</b>   | <b>5,404,771</b>  | <b>2,598,099</b>   | <b>2,711,203</b>   | <b>4,062,208</b>  | <b>37,106,733</b> | <b>30,060,906</b>  |
| <b>Financial Liabilities</b>         |                                     |                    |                   |                    |                    |                   |                   |                    |
| Interest bearing liabilities:        |                                     |                    |                   |                    |                    |                   |                   |                    |
| - Debentures                         | 82,502                              | 6,695,457          | 3,193,301         | 2,391,661          | 1,510,785          | -                 | 13,873,706        | 13,262,332         |
| Payables                             | -                                   | 672,984            | -                 | -                  | -                  | -                 | 672,984           | 672,920            |
| Loans from related parties           | -                                   | 431,243            | 431,243           | 1,754,985          | 3,269,955          | 2,599,900         | 8,487,326         | 5,749,900          |
|                                      | <b>82,502</b>                       | <b>7,799,684</b>   | <b>3,624,544</b>  | <b>4,146,646</b>   | <b>4,780,740</b>   | <b>2,599,900</b>  | <b>23,034,016</b> | <b>19,685,152</b>  |
| <b>Net Contractual Cash Flow Gap</b> | <b>19,345,191</b>                   | <b>(4,896,925)</b> | <b>1,780,227</b>  | <b>(1,548,547)</b> | <b>(2,069,537)</b> | <b>1,462,308</b>  | <b>14,072,717</b> | <b>10,375,754</b>  |

30/09/2009

The Charging Group

|                                      | \$                                  | \$               | \$                 | \$                 | \$                 | \$                | \$                | \$                 |
|--------------------------------------|-------------------------------------|------------------|--------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
|                                      | Installments<br>Overdue/<br>On Call | 0 to 6<br>months | 7 to 12<br>months  | 13 to 24<br>months | 25 to 60<br>months | Over 60<br>months | Total             | Carrying<br>Amount |
| <b>Financial Assets</b>              |                                     |                  |                    |                    |                    |                   |                   |                    |
| Cash and cash equivalents            | 1,606,470                           | -                | -                  | -                  | -                  | -                 | 1,606,470         | 1,606,470          |
| Receivables:                         |                                     |                  |                    |                    |                    |                   |                   |                    |
| - Finance receivables                | 19,180,572                          | 6,588,635        | 5,734,872          | 3,230,320          | 2,330,207          | 1,304,005         | 38,368,611        | 27,470,599         |
| Government Stock                     | -                                   | 15,300           | 15,300             | 30,600             | 525,300            | -                 | 586,500           | 510,000            |
| Other financial assets               | -                                   | 329,570          | -                  | -                  | -                  | -                 | 329,570           | 329,570            |
|                                      | <b>20,787,042</b>                   | <b>6,933,505</b> | <b>5,750,172</b>   | <b>3,260,920</b>   | <b>2,855,507</b>   | <b>1,304,005</b>  | <b>40,891,151</b> | <b>29,916,639</b>  |
| <b>Financial Liabilities</b>         |                                     |                  |                    |                    |                    |                   |                   |                    |
| Interest bearing liabilities:        |                                     |                  |                    |                    |                    |                   |                   |                    |
| - Debentures                         | 137,175                             | 2,215,386        | 7,569,054          | 4,347,530          | 1,938,575          | -                 | 16,207,720        | 15,083,478         |
| Payables                             | -                                   | 535,262          | -                  | -                  | -                  | -                 | 535,262           | 535,262            |
| Loans from related parties           | -                                   | 390,000          | 390,000            | 780,000            | 4,072,500          | 2,050,000         | 7,682,500         | 5,200,000          |
|                                      | <b>137,175</b>                      | <b>3,140,648</b> | <b>7,959,054</b>   | <b>5,127,530</b>   | <b>6,011,075</b>   | <b>2,050,000</b>  | <b>24,425,482</b> | <b>20,818,740</b>  |
| <b>Net Contractual Cash Flow Gap</b> | <b>20,649,867</b>                   | <b>3,792,857</b> | <b>(2,208,882)</b> | <b>(1,866,610)</b> | <b>(3,155,568)</b> | <b>(745,995)</b>  | <b>16,465,669</b> | <b>9,097,899</b>   |



31/03/2010

## The Charging Group

|                           | \$                                  | \$               | \$                | \$                 | \$                 | \$                | \$                | \$                 |
|---------------------------|-------------------------------------|------------------|-------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
|                           | Installments<br>Overdue/<br>On Call | 0 to 6<br>months | 7 to 12<br>months | 13 to 24<br>months | 25 to 60<br>months | Over 60<br>months | Total             | Carrying<br>Amount |
| <b>Financial Assets</b>   |                                     |                  |                   |                    |                    |                   |                   |                    |
| Cash and cash equivalents | 1,245,160                           | -                | -                 | -                  | -                  | -                 | 1,245,160         | 1,245,160          |
| Receivables:              |                                     |                  |                   |                    |                    |                   |                   |                    |
| - Finance receivables     | 16,154,799                          | 5,406,829        | 2,604,356         | 8,710,722          | 2,836,991          | 1,269,120         | 36,982,817        | 23,427,794         |
| Government Stock          | -                                   | 15,300           | 15,300            | 540,600            | -                  | -                 | 571,200           | 510,000            |
| Other financial assets    | -                                   | 507,551          | -                 | -                  | -                  | -                 | 507,551           | 507,551            |
|                           | <b>17,399,959</b>                   | <b>5,929,680</b> | <b>2,619,656</b>  | <b>9,251,322</b>   | <b>2,836,991</b>   | <b>1,269,120</b>  | <b>39,306,728</b> | <b>25,690,505</b>  |

**Financial Liabilities**

Interest bearing liabilities:

|                            |               |                  |                  |                  |                  |                  |                   |                   |
|----------------------------|---------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| - Debentures               | 94,788        | 7,982,522        | 3,492,398        | 2,524,514        | 2,045,035        | -                | 16,139,257        | 15,038,259        |
| Payables                   | -             | 694,658          | -                | -                | -                | -                | 694,658           | 694,658           |
| Loans from related parties | -             | 390,000          | 390,000          | 1,672,500        | 3,022,500        | 2,050,000        | 7,525,000         | 5,200,000         |
|                            | <b>94,788</b> | <b>9,067,180</b> | <b>3,882,398</b> | <b>4,197,014</b> | <b>5,067,535</b> | <b>2,050,000</b> | <b>24,358,915</b> | <b>20,932,917</b> |

**Net Contractual Cash Flow**

|     |                   |                    |                    |                  |                    |                  |                   |                  |
|-----|-------------------|--------------------|--------------------|------------------|--------------------|------------------|-------------------|------------------|
| Gap | <b>17,305,171</b> | <b>(3,137,500)</b> | <b>(1,262,742)</b> | <b>5,054,308</b> | <b>(2,230,544)</b> | <b>(780,880)</b> | <b>14,947,813</b> | <b>4,757,588</b> |
|-----|-------------------|--------------------|--------------------|------------------|--------------------|------------------|-------------------|------------------|

**Expected Cash Flows before collateral held or other credit enhancements**

The table below analyses the Charging Group's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the expected maturity date. The amounts disclosed in the table are the undiscounted expected cash flows and differ from the net carrying amounts as reported in the balance sheet owing to interest to be incurred in subsequent periods, and are net of impairment allowances as they reflect projected loss rates.

30/09/2010

## The Charging Group

|                               | \$               | \$               | \$                | \$                 | \$                 | \$                | \$                | \$                 |
|-------------------------------|------------------|------------------|-------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
|                               | On Call          | 0 to 6<br>months | 7 to 12<br>months | 13 to 24<br>months | 25 to 60<br>months | Over 60<br>months | Total             | Carrying<br>Amount |
| <b>Financial Assets</b>       |                  |                  |                   |                    |                    |                   |                   |                    |
| Cash and cash equivalents     | 39,911           | -                | -                 | -                  | -                  | -                 | 39,911            | 39,911             |
| Receivables:                  |                  |                  |                   |                    |                    |                   |                   |                    |
| - Finance receivables         | -                | 7,450,097        | 5,631,279         | 5,855,561          | 4,698,524          | 6,502,922         | 30,138,383        | 28,867,665         |
| Government Stock              | -                | 15,300           | 15,300            | 525,300            | -                  | -                 | 555,900           | 510,000            |
| Other financial assets        | -                | 643,330          | -                 | -                  | -                  | -                 | 643,330           | 643,330            |
|                               | <b>39,911</b>    | <b>8,108,727</b> | <b>5,646,579</b>  | <b>6,380,861</b>   | <b>4,698,524</b>   | <b>6,502,922</b>  | <b>31,377,524</b> | <b>30,060,906</b>  |
| <b>Financial Liabilities</b>  |                  |                  |                   |                    |                    |                   |                   |                    |
| Interest bearing liabilities: |                  |                  |                   |                    |                    |                   |                   |                    |
| - Debentures                  | 82,502           | 6,695,457        | 3,193,301         | 2,391,661          | 1,510,785          | -                 | 13,873,706        | 13,262,332         |
| Payables                      | -                | 672,984          | -                 | -                  | -                  | -                 | 672,984           | 672,920            |
| Loans from related parties    | 549,900          | 390,000          | 390,000           | 780,000            | 2,340,000          | 5,200,000         | 9,649,900         | 5,749,900          |
|                               | <b>632,402</b>   | <b>7,758,441</b> | <b>3,583,301</b>  | <b>3,171,661</b>   | <b>3,850,785</b>   | <b>5,200,000</b>  | <b>24,196,590</b> | <b>19,685,152</b>  |
| <b>Net Expected Cash Flow</b> |                  |                  |                   |                    |                    |                   |                   |                    |
| Gap                           | <b>(592,491)</b> | <b>350,286</b>   | <b>2,063,278</b>  | <b>3,209,200</b>   | <b>847,739</b>     | <b>1,302,922</b>  | <b>7,180,934</b>  | <b>10,375,754</b>  |



30/09/2009

## The Charging Group

|                                   | \$               | \$               | \$               | \$               | \$                | \$                | \$                | \$                |
|-----------------------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
|                                   | On Call          | 0 to 6 months    | 7 to 12 months   | 13 to 24 months  | 25 to 60 months   | Over 60 months    | Total             | Carrying Amount   |
| <b>Financial Assets</b>           |                  |                  |                  |                  |                   |                   |                   |                   |
| Cash and cash equivalents         | 1,606,470        | -                | -                | -                | -                 | -                 | 1,606,470         | 1,606,470         |
| Receivables:                      |                  |                  |                  |                  |                   |                   |                   |                   |
| - Finance receivables             | -                | 6,448,801        | 4,914,302        | 6,255,729        | 14,240,691        | 9,541,501         | 41,401,024        | 27,470,599        |
| Government Stock                  | -                | 15,300           | 15,300           | 30,600           | 91,800            | 540,600           | 693,600           | 510,000           |
| Other financial assets            | -                | 329,570          | -                | -                | -                 | -                 | 329,570           | 329,570           |
|                                   | <b>1,606,470</b> | <b>6,793,671</b> | <b>4,929,602</b> | <b>6,286,329</b> | <b>14,332,491</b> | <b>10,082,101</b> | <b>44,030,664</b> | <b>29,916,639</b> |
| <b>Financial Liabilities</b>      |                  |                  |                  |                  |                   |                   |                   |                   |
| Interest bearing liabilities:     |                  |                  |                  |                  |                   |                   |                   |                   |
| - Debentures                      | 137,175          | 2,215,386        | 7,569,054        | 4,347,530        | 1,938,575         | -                 | 16,207,720        | 15,083,478        |
| Payables                          | -                | 535,262          | -                | -                | -                 | -                 | 535,262           | 535,262           |
| Loans from related parties        | -                | 390,000          | 390,000          | 780,000          | 2,340,000         | 5,200,000         | 9,100,000         | 5,200,000         |
|                                   | <b>137,175</b>   | <b>3,140,647</b> | <b>7,959,054</b> | <b>5,127,530</b> | <b>4,278,575</b>  | <b>5,200,000</b>  | <b>25,842,982</b> | <b>20,818,740</b> |
| <b>Net Expected Cash Flow Gap</b> | <b>1,469,295</b> | <b>3,653,023</b> | <b>3,029,452</b> | <b>1,158,799</b> | <b>10,053,916</b> | <b>4,882,101</b>  | <b>18,187,682</b> | <b>9,097,899</b>  |

31/03/2010

## The Charging Group

|                                   | \$               | \$               | \$               | \$                | \$                | \$               | \$                | \$                |
|-----------------------------------|------------------|------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------|
|                                   | On Call          | 0 to 6 months    | 7 to 12 months   | 13 to 24 months   | 25 to 60 months   | Over 60 months   | Total             | Carrying Amount   |
| <b>Financial Assets</b>           |                  |                  |                  |                   |                   |                  |                   |                   |
| Cash and cash equivalents         | 1,245,160        | -                | -                | -                 | -                 | -                | 1,245,160         | 1,245,160         |
| Receivables:                      |                  |                  |                  |                   |                   |                  |                   |                   |
| - Finance receivables             | -                | 8,378,940        | 6,418,257        | 12,719,644        | 19,775,178        | 5,092,528        | 52,384,547        | 23,427,794        |
| Government Stock                  | -                | 15,300           | 15,300           | 30,600            | 91,800            | 540,600          | 693,600           | 510,000           |
| Other financial assets            | -                | 507,551          | -                | -                 | -                 | -                | 507,551           | 507,551           |
|                                   | <b>1,245,160</b> | <b>8,901,791</b> | <b>6,433,557</b> | <b>12,750,244</b> | <b>19,866,978</b> | <b>5,633,128</b> | <b>54,830,858</b> | <b>25,690,505</b> |
| <b>Financial Liabilities</b>      |                  |                  |                  |                   |                   |                  |                   |                   |
| Interest bearing liabilities:     |                  |                  |                  |                   |                   |                  |                   |                   |
| - Debentures                      | 94,788           | 7,982,522        | 3,492,398        | 2,524,514         | 2,045,035         | -                | 16,139,257        | 15,038,259        |
| Payables                          | -                | 694,658          | -                | -                 | -                 | -                | 694,658           | 694,658           |
| Loans from related parties        | -                | 390,000          | 390,000          | 780,000           | 2,340,000         | 5,200,000        | 9,100,000         | 5,200,000         |
|                                   | <b>94,788</b>    | <b>9,067,180</b> | <b>3,882,398</b> | <b>3,304,514</b>  | <b>4,385,035</b>  | <b>5,200,000</b> | <b>25,933,915</b> | <b>20,932,917</b> |
| <b>Net Expected Cash Flow Gap</b> | <b>1,150,372</b> | <b>(165,389)</b> | <b>2,551,159</b> | <b>9,445,730</b>  | <b>15,481,943</b> | <b>433,128</b>   | <b>28,896,943</b> | <b>4,757,588</b>  |

## (iv) Receivables renegotiated

The carrying amount of receivables that would otherwise be past due or impaired whose terms have been renegotiated at 30 September 2010 was \$1,266,757 (30 September 2009: \$1,769,009)

## (v) Impaired receivables

For details of impaired receivables refer to Note 13.

## (d) Fair Value estimation

The fair value of financial liabilities and financial assets is estimated by discounting the future expected cash flows at the current market effective interest rate applicable to the Charging Group for similar instruments. The fair values of the Group's financial assets and liabilities are considered to be approximately their carrying values net of impairments.

## (e) Capital management

The Charging Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Charging Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.



|  | CHARGING GROUP    |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | 30 September 2010 | 30 September 2009 | 31 March 2010     |
|  | \$                | \$                | \$                |
| <b>Capital</b>                                       |                   |                   |                   |
| <b>Tier one capital</b>                              |                   |                   |                   |
| Share capital  | 14,000,000        | 14,000,000        | 14,000,000        |
| Retained earnings                                    | 5,039,570         | 3,824,413         | 1,080,596         |
| <b>Total tier one capital</b>                        | <b>19,039,570</b> | <b>17,824,413</b> | <b>15,080,596</b> |
| <b>Tier two</b>                                      |                   |                   |                   |
| Unsecured Related Party Loan Debt *                  | 5,200,000         | 5,200,000         | 5,200,000         |
| <b>Total tier two</b>                                | <b>5,200,000</b>  | <b>5,200,000</b>  | <b>5,200,000</b>  |
| <b>Total capital and subordinated unsecured debt</b> | <b>24,239,570</b> | <b>23,024,413</b> | <b>20,280,596</b> |

#### Capital Adequacy Ratios

|   |     |     |     |
|---|-----|-----|-----|
| Tier one capital expressed as percentage of Total Assets                              | 48% | 44% | 40% |
| Total capital and subordinated unsecured debt expressed as percentage of Total Assets | 61% | 56% | 54% |

\* The unsecured related party loan debt is ranking behind debentures and pari passu with other unsecured, unsubordinated indebtedness.

#### (i) Trust Deed Covenants and Compliance

The Charging Group's borrowing activities are governed by a Trust Deed dated 26 April 2001, a Deed of Modification dated 3 October 2002, and the Supplemental Deeds dated 11 April 2005 and 7 September 2009 between the Charging Group and the Trustee for the Debenture Holders, Trustee Executors Limited.

The following details the Charging Group's compliance with the financial covenants contained in clause 5 of the Debenture Trust Deed.

|  | GROUP             |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | 30 September 2010 | 30 September 2009 | 31 March 2010     |
|  | \$                | \$                | \$                |
| <b>Total Liabilities Ratio - (Clause 5.1(a))</b>                       |                   |                   |                   |
| Total Tangible Assets (TTA)  | 31,009,195        | 30,789,996        | 26,716,986        |
| Total Liabilities  | 20,754,854        | 22,939,635        | 22,692,157        |
| <b>Excess of TTA over Liabilities</b>                                  | <b>10,254,341</b> | <b>7,850,361</b>  | <b>4,024,829</b>  |
| Liabilities as percentage of TTA                                       | 67%               | 75%               | 85%               |
| Not to exceed 89%  |                   |                   |                   |
| <b>Stock and Prior Charges Ratio - (Clause 5.1 (b))</b>                |                   |                   |                   |
| Principal Amount of Stock  | 13,262,332        | 15,083,478        | 15,038,259        |
| Total Contingent Liabilities secured by Stock                          | Nil               | Nil               | Nil               |
| Principal amount of Prior Charges                                      | Nil               | Nil               | Nil               |
| <b>Total Debentures (1)</b>  | <b>13,262,332</b> | <b>15,083,478</b> | <b>15,038,259</b> |
| 95% Total Readily Realisable Investments                               | 37,915            | 1,526,146         | 1,182,902         |
| 90% Total Secured Receivables  | 25,980,899        | 24,723,539        | 21,085,014        |
| 85% of Total Unsecured Receivables                                     | 546,830           | 280,135           | 431,418           |
| 60% of Other Total Tangible Assets                                     | 874,973           | 830,014           | 921,889           |
| <b>Total Attributable Assets (2)</b>                                   | <b>27,440,618</b> | <b>27,359,834</b> | <b>23,621,223</b> |
| <b>Excess of 2 over 1</b>  | <b>14,178,285</b> | <b>12,276,356</b> | <b>8,582,964</b>  |
| <b>Total Contingent Liabilities Ratio - (Clause 5.1(c))</b>            |                   |                   |                   |
| 150% Shareholders' Funds (excluding intangible assets)                 | 15,381,512        | 11,775,542        | 6,037,244         |
| Total Contingent Liabilities   | Nil               | Nil               | Nil               |
| <b>Excess of Shareholders' Funds over Total Contingent Liabilities</b> | <b>15,381,512</b> | <b>11,775,542</b> | <b>6,037,244</b>  |



|   |                |                |                |
|---|----------------|----------------|----------------|
| <b>Prior Charges Limitation - (Clause 5.1(d))</b> |                |                |                |
| 2% of Total Tangible Assets                       | 620,184        | 615,800        | 534,340        |
| Prior Charges                                     | Nil            | Nil            | Nil            |
| Excess of 2% of TTA over Prior Charges            | <b>620,184</b> | <b>615,800</b> | <b>534,340</b> |

|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>Particulars of Related Party Transactions</b>    |           |           |           |
| <b>Business Loans from Related Parties:</b>         |           |           |           |
| Timberton Limited                                   | 5,749,900 | 5,200,000 | 5,200,000 |
| <b>Debenture Stock Invested by Related Parties:</b> |           |           |           |
| Timberton Investments Ltd                           | 4,753,000 | 2,300,085 | 2,318,000 |

The company breached a non financial reporting covenant in respect of the 31 March 2010 audited financial statements in that it did not provide these statements to its trustee by 30 June 2010. This breach was remedied on 20 August 2010.

## 5. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Management discusses with the Board the development, selection and disclosure of the Charging Group's critical accounting policies and estimates and the application of these policies and estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Charging Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

- (1) The Charging Group has assessed goodwill arising from the acquisition of Beneficial Insurance for impairment. This assessment was performed using discounted forecast cash flows for that business. The key assumptions are listed in Note 15.
- (2) Impairment allowances for finance receivables are calculated on individually significant loans and loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised. Management regularly review and adjust the methodology and assumptions for impairment testing as improved analysis becomes available to minimise any differences between loss estimates and actual loss experienced. Refer to Note 13 for details of the impairment allowances.
- (3) The Deferred Tax benefit of temporary differences have been recognised as they are expected to reverse in the foreseeable future and that taxable profits are expected to be available against which the temporary differences can reverse. Refer to note 11 for further details.
- (4) Outstanding claims liabilities in respect of insurance policies written. Refer to Note 16 for further details.

## 6. SEGMENT INFORMATION

| For the 6 months to<br>30 September 2010           | Broadlands<br>Finance Limited<br>\$ | Beneficial<br>Insurance Limited<br>\$ | Vehicle<br>Funding Limited<br>\$ | Total<br>\$       |
|--|-------------------------------------|---------------------------------------|----------------------------------|-------------------|
| <b>Revenue</b>                                     |                                     |                                       |                                  |                   |
| Revenue from external customers                    | 3,617,652                           | 868,713                               | 24,893                           | 4,511,258         |
| <b>Total segment revenue</b>                       | <b>3,617,652</b>                    | <b>868,713</b>                        | <b>24,893</b>                    | <b>4,511,258</b>  |
| <b>Segment net profit after tax</b>                | <b>4,213,177</b>                    | <b>(215,121)</b>                      | <b>(622)</b>                     | <b>3,997,434</b>  |
| Interest revenue                                   | 3,220,953                           | 37                                    | -                                | 3,220,990         |
| Interest expense                                   | (1,159,873)                         | -                                     | -                                | (1,159,873)       |
| Depreciation                                       | (36,385)                            | (7,125)                               | -                                | (43,510)          |
| Impairment charge for credit losses and write offs | 5,116,729                           | -                                     | -                                | 5,116,729         |
| Recovery of amounts previously written off         | 5,512                               | -                                     | -                                | 5,512             |
| Income tax expense                                 | (2,081,981)                         | 179,112                               | 245                              | (1,902,624)       |
| <b>Segment operating assets</b>                    | <b>38,443,297</b>                   | <b>4,578,769</b>                      | <b>34,339</b>                    | <b>43,056,405</b> |
| Goodwill   | 9,300,000                           | -                                     | -                                | 9,300,000         |
| Capital expenditure                                | -                                   | 4,862                                 | -                                | 4,862             |
| Deferred tax assets                                | 1,579,206                           | (210,728)                             | -                                | 1,368,478         |
| Government Stock                                   | -                                   | 510,000                               | -                                | 510,000           |
| Deferred acquisition costs                         | -                                   | 722,237                               | -                                | 722,237           |
| <b>Segment operating liabilities</b>               | <b>23,041,669</b>                   | <b>111,354</b>                        | <b>31,977</b>                    | <b>23,185,000</b> |


**For the 6 months to  
30 September 2009**

|  | Broadlands<br>Finance Limited<br>\$ | Beneficial<br>Insurance Limited<br>\$ | Vehicle<br>Funding Limited<br>\$ | Total<br>\$       |
|--|-------------------------------------|---------------------------------------|----------------------------------|-------------------|
| <b>Revenue</b>                                     |                                     |                                       |                                  |                   |
| Revenue from external customers                    | 4,275,894                           | 1,711,930                             | -                                | 5,987,824         |
| <b>Total segment revenue</b>                       | <b>4,275,894</b>                    | <b>1,711,930</b>                      | <b>-</b>                         | <b>5,987,824</b>  |
| <b>Segment net profit after tax</b>                | <b>569,047</b>                      | <b>324,151</b>                        | <b>-</b>                         | <b>893,198</b>    |
| Interest revenue                                   | 3,685,424                           | 48                                    | -                                | 3,685,472         |
| Interest expense                                   | (1,216,835)                         | (5,923)                               | -                                | (1,222,758)       |
| Depreciation                                       | (34,205)                            | (2,222)                               | -                                | (36,427)          |
| Impairment charge for credit losses and write offs | (616,751)                           | -                                     | -                                | (616,751)         |
| Recovery of amounts previously written off         | 8,154                               | -                                     | -                                | 8,154             |
| Income tax expense                                 | (245,185)                           | (139,287)                             | -                                | (384,472)         |
| <b>Segment operating assets</b>                    | <b>38,643,073</b>                   | <b>5,149,181</b>                      | <b>-</b>                         | <b>43,792,254</b> |
| Goodwill   | 9,300,000                           | -                                     | -                                | 9,300,000         |
| Capital expenditure                                | 20,299                              | 22,947                                | -                                | 43,246            |
| Deferred tax assets                                | 2,503,296                           | 54,005                                | -                                | 2,557,301         |
| Government Stock                                   | -                                   | 510,000                               | -                                | 510,000           |
| Deferred acquisition costs                         | -                                   | 611,910                               | -                                | 611,910           |
| <b>Segment operating liabilities</b>               | <b>25,045,067</b>                   | <b>87,841</b>                         | <b>-</b>                         | <b>25,132,909</b> |

**For the year to  
31 March 2010**

|  | Broadlands<br>Finance Limited<br>\$ | Beneficial<br>Insurance Limited<br>\$ | Vehicle<br>Funding Limited<br>\$ | Total<br>\$        |
|--|-------------------------------------|---------------------------------------|----------------------------------|--------------------|
| <b>Revenue</b>                                     |                                     |                                       |                                  |                    |
| Revenue from external customers                    | 8,843,409                           | 2,568,351                             | 26,400                           | 11,438,160         |
| <b>Total segment revenue</b>                       | <b>8,843,409</b>                    | <b>2,568,351</b>                      | <b>26,400</b>                    | <b>11,438,160</b>  |
| <b>Segment net profit after tax</b>                | <b>(2,164,291)</b>                  | <b>310,664</b>                        | <b>2,244</b>                     | <b>(1,851,383)</b> |
| Interest revenue                                   | 7,418,183                           | 99                                    | -                                | 7,418,281          |
| Interest expense                                   | (2,372,577)                         | 4,788                                 | -                                | (2,367,789)        |
| Depreciation                                       | (86,765)                            | (12,637)                              | -                                | (99,402)           |
| Impairment charge for credit losses and write offs | (6,374,485)                         | -                                     | -                                | (6,374,485)        |
| Recovery of amounts previously written off         | 20,728                              | -                                     | -                                | 20,728             |
| Income tax expense                                 | 925,092                             | (134,540)                             | (983)                            | 789,569            |
| <b>Segment operating assets</b>                    | <b>34,279,078</b>                   | <b>4,919,520</b>                      | <b>29,763</b>                    | <b>39,228,361</b>  |
| Goodwill   | 9,300,000                           | -                                     | -                                | 9,300,000          |
| Capital expenditure                                | 101,092                             | 56,966                                | -                                | 158,058            |
| Deferred tax assets                                | 3,584,784                           | 54,232                                | -                                | 3,639,016          |
| Government Stock                                   | -                                   | 510,000                               | -                                | 510,000            |
| Deferred acquisition costs                         | -                                   | 723,321                               | -                                | 723,321            |
| <b>Segment operating liabilities</b>               | <b>24,734,061</b>                   | <b>120,654</b>                        | <b>26,535</b>                    | <b>24,881,250</b>  |

**CHARGING GROUP**

|  | for the 6 months to<br>30 September 2010<br>\$ | for the 6 months to<br>30 September 2009<br>\$ | for the year to<br>31 March 2010<br>\$ |
|--|--|--|--|
| <b>(a) Segment revenue reconciliation to<br/>Statement of Comprehensive Income</b> |  |  |  |
| Total segment revenue  | 4,511,258                                      | 5,987,824                                      | 11,438,160                             |
| Total revenue per Statement of<br>Comprehensive Income                             | <b>4,511,258</b>                               | <b>5,987,824</b>                               | <b>11,438,160</b>                      |

**(b) Segment net profit after tax reconciliation to Statement of Comprehensive Income**

The Board of Directors meet on a monthly basis to assess the performance of each segment by analyzing the segment's net profit after tax. A segment's net profit after tax excludes non operating income and expenses such as dividends received, fair value gains and losses, gains and losses on disposal of assets these are generating. Income tax expenses are calculated as 30% (2009: 30%) of the segment's net profit before tax adjusted for permanent differences.

Reconciliation of segment net profit after tax to net profit/loss before tax:

|  |                  |                |                    |
|--|------------------|----------------|--------------------|
| Segment net profit after tax                                   | 3,997,434        | 893,198        | (1,851,383)        |
| Net gain on disposal of plant and equipment                    | (38,460)         | 87             | 851                |
| Net profit after tax from Statement of<br>Comprehensive Income | <b>3,958,974</b> | <b>893,285</b> | <b>(1,850,532)</b> |



**(c) Segment assets reconciliation to Statement of Financial Position**

In assessing the segment performance on a monthly basis, the Board of Directors analyse the segment results as described above and its relationship to segment assets. Segment assets are those operating assets of the entity that the Board of Directors views as directly attributing to the performance of the segment. These assets include the cash and cash equivalents, net finance contract receivables, held to maturity financial assets, other assets, plant and equipment and investments in subsidiaries and exclude loans to related parties, deferred acquisition costs and deferred tax assets.

Reconciliation of segment operating assets to total assets:

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Segment operating assets                         | 43,056,405        | 43,792,254        | 39,228,361        |
| Intersegment eliminations                        | (5,352,696)       | (6,197,417)       | (5,817,945)       |
| Deferred tax assets                              | 1,368,478         | 2,557,301         | 3,639,016         |
| Deferred acquisition costs                       | 722,237           | 611,910           | 723,321           |
| Total assets per Statement of Financial Position | <b>39,794,424</b> | <b>40,764,048</b> | <b>37,772,753</b> |

**(d) Segment liabilities reconciliation to Statement of Financial Position**

Segment liabilities include trade and other payables and debt. The charging group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations. The Board of Directors review the level of debt for each segment in the monthly meetings.

Reconciliation of segment liabilities to total liabilities:

|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Segment operating liabilities                         | 23,185,000        | 25,132,909        | 24,881,250        |
| Intersegment eliminations                             | (3,499,784)       | (4,314,169)       | (3,948,333)       |
| Income tax payable                                    | (172,634)         | 923,235           | 559,226           |
| Provisions  | 148,000           | 169,000           | 169,000           |
| Insurance premiums in advance                         | 1,094,272         | 1,028,660         | 1,031,014         |
| Total liabilities per Statement of Financial Position | <b>20,754,854</b> | <b>22,939,635</b> | <b>22,692,157</b> |

**7. NET INTEREST INCOME**

|  | <b>CHARGING GROUP</b>                            |  |  |
|--|--|--|--|
|  | <b>for the 6 months to<br/>30 September 2010</b> | <b>for the 6 months to<br/>30 September 2009</b> | <b>for the year to<br/>31 March 2010</b> |
|  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>                                |
| <b>Interest and similar income</b><br>(for financial assets not at fair value though profit or loss) |  |  |  |
| Finance receivables  |  |  |  |
| Interest Income (not impaired)   | 1,226,165  | 1,521,887  | 3,193,591                                |
| Interest Income (impaired)   | 950,148  | 1,507,919  | 2,541,856                                |
| Imputed Interest Income  | 1,039,798  | 615,557  | 1,636,859                                |
| Total Interest Income  | 3,216,111  | 3,645,363  | 7,372,306                                |
| Bank deposits  | 4,879  | 40,109   | 45,950                                   |
| Other Interest Income  | -  | -  | 25                                       |
|  | <b>3,220,990</b>                                 | <b>3,685,472</b>                                 | <b>7,418,281</b>                         |
| <b>Interest and similar expense (at amortised cost)</b>  |  |  |  |
| Interest - bank overdraft  | -  | (3)  | (295)                                    |
| Interest - debentures  | (596,611)  | (695,333)  | (1,329,735)                              |
| Interest - related party borrowings  | (395,313)  | (390,002)  | (774,518)                                |
| Direct expenses - Finance receivables  | (167,949)  | (137,420)  | (263,241)                                |
|  | <b>(1,159,873)</b>                               | <b>(1,222,758)</b>                               | <b>(2,367,789)</b>                       |
| <b>Net interest income</b>   | <b>2,061,117</b>                                 | <b>2,462,714</b>                                 | <b>5,050,492</b>                         |

Interest income includes imputed interest income on impaired assets. A corresponding charge has been recognised under the 'Impairment Expense' line in the Statement of Comprehensive Income.

**8. NET FEE AND COMMISSION INCOME**

|                                      | CHARGING GROUP                           |  |                                  |
|--------------------------------------|--|--|----------------------------------|
|                                      | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|                                      | \$                                       | \$                                       | \$                               |
| <b>Fee and commission income</b>     |  |  |                                  |
| Credit related fees and commissions  |  |  |                                  |
| - External                           | 405,979                                  | 580,983                                  | 1,155,402                        |
|                                      | <b>405,979</b>                           | <b>580,983</b>                           | <b>1,155,402</b>                 |
| <b>Fee and commission expense</b>    |  |  |                                  |
| Other fees paid                      | (32,871)                                 | (36,454)                                 | (75,654)                         |
|                                      | <b>(32,871)</b>                          | <b>(36,454)</b>                          | <b>(75,654)</b>                  |
| <b>Net fee and commission income</b> | <b>373,108</b>                           | <b>544,529</b>                           | <b>1,079,748</b>                 |

**9. NET INSURANCE INCOME**

|   | CHARGING GROUP                           |  |                                  |
|---|--|--|----------------------------------|
|   | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|   | \$                                       | \$                                       | \$                               |
| <b>Insurance income</b>                       |  |  |                                  |
| Insurance/Indemnity premium                   | 853,375                                  | 1,696,582                                | 2,537,764                        |
|   | <b>853,375</b>                           | <b>1,696,582</b>                         | <b>2,537,764</b>                 |
| <b>Insurance expenses and related charges</b> |  |  |                                  |
| Insurance/Indemnity claims                    | (350,536)                                | (457,134)                                | (830,348)                        |
| Acquisition cost Incurred                     | (7,784)                                  | (270,311)                                | (169,520)                        |
|   | <b>(358,320)</b>                         | <b>(727,445)</b>                         | <b>(999,868)</b>                 |
| <b>Net insurance income</b>                   | <b>495,055</b>                           | <b>969,137</b>                           | <b>1,537,896</b>                 |

**10. OTHER OPERATING EXPENSES**

|   | CHARGING GROUP                           |  |                                  |
|---|--|--|----------------------------------|
|   | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|   | \$                                       | \$                                       | \$                               |
| Accounting Fees                               | (45,265)                                 | (6,449)                                  | (19,831)                         |
| Advertising                                   | (80,313)                                 | (67,496)                                 | (110,366)                        |
| Computer                                      | (41,655)                                 | (45,449)                                 | (106,848)                        |
| Motor Vehicle & Travel                        | (48,377)                                 | (89,077)                                 | (142,001)                        |
| Telephone                                     | (94,891)                                 | (118,213)                                | (215,525)                        |
| Office, Printing & Postage                    | (124,821)                                | (108,683)                                | (259,315)                        |
| Other Expenses not detailed above             | (500,589)                                | (282,373)                                | (611,988)                        |
| <b>Total Other Expenses</b>                   | <b>(935,911)</b>                         | <b>(717,740)</b>                         | <b>(1,465,874)</b>               |
| Audit fees                                    | (102,744)                                | (75,791)                                 | (235,943)                        |
| Other assurance services performed by auditor | (20,668)                                 | (14,841)                                 | (18,736)                         |
| <b>Total fees paid to auditors</b>            | <b>(123,412)</b>                         | <b>(90,632)</b>                          | <b>(254,679)</b>                 |

**11. TAXATION**

|   | CHARGING GROUP                           |  |                                  |
|---|--|--|----------------------------------|
|   | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | For the year to<br>31 March 2010 |
|   | \$                                       | \$                                       | \$                               |
| <b>(a) Income tax expense</b>                     |  |  |                                  |
| Current tax                                       | (181,542)                                | 405,728                                  | 313,402                          |
| Deferred tax                                      | 2,002,842                                | (21,256)                                 | (1,102,971)                      |
| Under (over) provided in prior periods            | 81,323                                   | -  | -                                |
|   | <b>1,902,623</b>                         | <b>384,472</b>                           | <b>(789,569)</b>                 |
| <b>(b) Reconciliation of income tax expense</b>   |  |  |                                  |
| Profit before income tax                          | 5,861,597                                | 1,277,757                                | (2,640,101)                      |
| Taxation at the statutory tax rate of 30%         | 1,758,479                                | 383,327                                  | (792,030)                        |
| Permanent Differences                             | 62,821                                   | 1,145                                    | 2,461                            |
| Income Tax Expense                                | <b>1,902,623</b>                         | <b>384,472</b>                           | <b>(789,569)</b>                 |
| <b>(c) Imputation credit account</b>              |  |  |                                  |
| Balance at beginning of period                    | 3,280,460                                | 2,222,802                                | 2,222,802                        |
| Imputation credits attached to dividends received | 422                                      | 420                                      | 420                              |
| Income tax paid during period                     | 116,639                                  | 836,905                                  | 1,108,568                        |
| Resident withholding tax received                 | 12                                       | 60                                       | 80                               |
| Transfers and other adjustments                   | -  | -  | 51,410                           |
|   | <b>3,397,533</b>                         | <b>3,060,187</b>                         | <b>3,280,460</b>                 |

On 20 May 2010, the New Zealand Government announced a change in the corporate tax rate from 30% to 28% for the 2011/12 tax year. This does materially affect deferred tax in these financial statements and has not been adjusted for.

**(d) Deferred tax assets**

The balance comprises temporary differences at 30% attributable to:

|                            |                  |                  |                  |
|----------------------------|------------------|------------------|------------------|
| Impairment allowance       | 1,550,668        | 2,469,627        | 3,553,362        |
| Employee benefits          | 34,481           | 36,974           | 34,954           |
| Outstanding Claims         | -                | 50,700           | 50,700           |
| Deferred acquisition costs | (216,671)        | -                | -                |
| Net deferred tax assets    | <b>1,368,478</b> | <b>2,557,301</b> | <b>3,639,016</b> |

**Movements:**

|                              |                  |                  |                  |
|------------------------------|------------------|------------------|------------------|
| Opening balance              | 3,639,016        | 2,536,045        | 2,536,045        |
| Credited to income statement | (2,270,538)      | 21,255           | 1,102,971        |
|                              | <b>1,368,478</b> | <b>2,557,301</b> | <b>3,639,016</b> |

Obtaining the benefits of the deferred tax assets is dependent upon deriving sufficient assessable income (as forecast by the directors) and complying with relevant tax legislation.

**12. CASH AND CASH EQUIVALENTS**

|                           | CHARGING GROUP    |                   |                  |
|---------------------------|-------------------|-------------------|------------------|
|                           | 30 September 2010 | 30 September 2009 | 31 March 2010    |
|                           | \$                | \$                | \$               |
| Cash at bank              | 39,911            | 1,606,070         | 1,245,160        |
| Cash on hand              | -                 | 400               | -                |
| Cash and cash equivalents | <b>39,911</b>     | <b>1,606,470</b>  | <b>1,245,160</b> |

The carrying amount of cash and cash equivalents represents fair value. Cash and cash equivalents are held at call and bear interest rates of between 0.30% and 3.60% per annum.

**13. RECEIVABLES**

|   | CHARGING GROUP    |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | 30 September 2010 | 30 September 2009 | 31 March 2010     |
|   | \$                | \$                | \$                |
| Gross Finance Contract Receivables      | 34,067,023        | 36,017,742        | 35,352,900        |
| Allowance for unearned interest         | (30,465)          | (315,052)         | (80,566)          |
| Allowance for impairment                | (5,168,893)       | (8,232,091)       | (11,844,540)      |
| <b>Net Finance Contract Receivables</b> | <b>28,867,665</b> | <b>27,470,599</b> | <b>23,427,794</b> |

The Charging Group provides finance to customers primarily for purchase of motor vehicles, consumer goods and commercial and property loans.

Gross Finance Contract Receivables are summarised as follows:

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Not past due and not impaired          | 13,485,561        | 13,400,171        | 12,156,977        |
| Individually past due but not impaired | 1,756,333         | -                 | -                 |
| Collectively past due but no impaired  | 7,992,108         | 3,802,765         | 2,878,091         |
| Individually past due and impaired     | 816,585           | -                 | -                 |
| Collectively past due and impaired     | 10,016,437        | 18,814,806        | 20,317,832        |
| Allowance for unearned interest        | (30,465)          | (315,052)         | (80,566)          |
| Allowance for impairment               | (5,168,893)       | (8,232,091)       | (11,844,540)      |
| <b>Total</b>                           | <b>28,867,666</b> | <b>27,470,599</b> | <b>23,427,794</b> |

The aging is as follows:

|  |                  |   |   |
|--|------------------|---|---|
| 1 to 30 Days                           | 903,333          | - | - |
| 31 to 89 Days                          | 78,280           | - | - |
| 90 Days Plus                           | 774,720          | - | - |
| Individually past due but not impaired | <b>1,756,333</b> | - | - |

|                                       |                  |                  |                  |
|---------------------------------------|------------------|------------------|------------------|
| 1 to 30 Days                          | 7,440,646        | 1,921,790        | 1,101,000        |
| 31 to 89 Days                         | 551,462          | 1,880,975        | 1,777,091        |
| 90 Days Plus                          | -                | -                | -                |
| Collectively past due but no impaired | <b>7,992,108</b> | <b>3,802,765</b> | <b>2,878,091</b> |

|                                    |                |   |   |
|------------------------------------|----------------|---|---|
| 1 to 30 Days                       | 137,788        | - | - |
| 31 to 89 Days                      | -              | - | - |
| 90 Days Plus                       | 678,797        | - | - |
| Individually past due and impaired | <b>816,585</b> | - | - |

|                                    |                   |                   |                   |
|------------------------------------|-------------------|-------------------|-------------------|
| 1 to 30 Days                       | -                 | -                 | -                 |
| 31 to 89 Days                      | -                 | -                 | -                 |
| 90 Days Plus                       | 10,016,437        | 18,814,806        | 20,317,832        |
| Collectively past due and impaired | <b>10,016,437</b> | <b>18,814,806</b> | <b>20,317,832</b> |

|                                       |                    |                    |                     |
|---------------------------------------|--------------------|--------------------|---------------------|
| Individually Impaired                 | (616,069)          | -                  | -                   |
| Collectively Impaired                 | (4,552,824)        | (8,232,091)        | (11,844,540)        |
| <b>Total Allowance for impairment</b> | <b>(5,168,893)</b> | <b>(8,232,091)</b> | <b>(11,844,540)</b> |

At reporting date finance receivables which were individually determined to be impaired totaled \$816,587 (September 2009:\$Nil).

The table below shows a reconciliation of the movement in the allowance for impairment of finance receivables which are determined to be impaired. The table also includes the Bad Debts written off.

|  | CHARGING GROUP     |                    |                     |
|--|--------------------|--------------------|---------------------|
|  | 30 September 2010  | 30 September 2009  | 31 March 2010       |
|  | \$                 | \$                 | \$                  |
| Balance of Impairment Allowance at beginning of period     | (11,844,540)       | (8,232,091)        | (8,232,091)         |
| (Increase)/decrease in Impairment Allowance                | 6,675,647          | -                  | (3,612,449)         |
| <b>Balance of Impairment Allowance of at end of period</b> | <b>(5,168,893)</b> | <b>(8,232,091)</b> | <b>(11,844,540)</b> |
| Movement in Impairment Allowance                           | 6,675,647          | -                  | (3,612,449)         |
| Receivables written off during the period                  | (519,121)          | (1,194)            | (1,125,177)         |
| Imputed Interest written off during the period             | (1,039,798)        | (615,557)          | (1,636,859)         |
| Receivables recovered during the period                    | 5,512              | 8,154              | 20,729              |
| <b>Net Impairment gain/(loss) on financial assets</b>      | <b>5,122,240</b>   | <b>(608,597)</b>   | <b>(6,353,757)</b>  |



The creation and release of the allowance for impaired receivables has been included in "impairment charge for credit losses" in the Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The impairment allowance represents the difference between the carrying value of the finance receivables and their estimated present value. The assessment for the level of impairment is based on management's credit provisioning policy which has been prepared in accordance with the requirements of NZ IAS 39.

#### 14. OTHER ASSETS

|                                   | CHARGING GROUP    |                   |               |
|-----------------------------------|-------------------|-------------------|---------------|
|                                   | 30 September 2010 | 30 September 2009 | 31 March 2010 |
|                                   | \$                | \$                | \$            |
| Prepayments and other Receivables | 643,330           | 329,570           | 507,551       |

All of the assets included in "Other assets" are current assets

#### 15. GOODWILL

|                                | CHARGING GROUP    |                   |               |
|--------------------------------|-------------------|-------------------|---------------|
|                                | 30 September 2010 | 30 September 2009 | 31 March 2010 |
|                                | \$                | \$                | \$            |
| Balance at beginning of period | 7,416,751         | 7,416,751         | 7,416,751     |
| Impairment (loss)              | -                 | -                 | -             |
| Balance at end of period       | 7,416,751         | 7,416,751         | 7,416,751     |

The following key assumptions have been made:

Management prepared an assessment of the goodwill arising from the investment in the subsidiary, Beneficial Insurance Limited, using a discounted cash flow methodology.

- The intangible assets have been assigned to one cash generating unit – Beneficial Insurance Limited.
- Insurance and indemnity claims continue at the same % as experienced in the last 12 months.
- The forecast cash flows were discounted at a pre tax rate in the range from 21.6% to 22.5%.
- The PetnSur business growth rates of \$750,000 per annum for the forecast period based on growth trends.
- The growth rates assumed for the BFL loan book are 20% for the periods ending 31 March 2012 and 2013, and 30% for the remaining periods and the uptake of insurance on this book continues at historic levels.
- The Guarantee Scheme will continue until 12 October 2010. We have assumed the probability that the Guarantee Scheme will not continue beyond this point.
- The projections are representative of conditions prevalent on the date of this report and the BIL business is capable of achieving the projected financial performance.
- A terminal growth rate of 3% for calculating the continuing value of the BIL business.
- BIL's operating costs for 2011 are assumed to be \$1.1M and growing at 3% thereafter until 2016. BIL's Management consider this level of expenditure to be appropriate for operating the BIL business as envisaged. This level of expenditure reflects a consideration of actual costs incurred in the period ended 31 March 2010, one off expenses incurred which will not be required in the future, cost efficiencies achieved and consideration of expenditure which would be required for operating the BIL business as planned. Substantial analysis has been undertaken by BFL and BIL Management for this purpose. We have assumed operating costs to be at this level in the cash flow projections for 2011 to 2016.
- There will be no change in the current arrangements for funding between BFL and BIL.
- There will be no changes in the legal environment for either BFL or BIL.
- The operating cost assumptions are reasonable and achievable.
- The Directors have performed a sensitivity analysis over the goodwill impairment model and have provided for a probability of achievement adjustment in its forecasted cash flows.
- The fair market value of the BIL business is assessed to be in the range of \$7.99 and \$8.38 million corresponding to discount and growth rate combinations: 22.5%; 3% and 21.6%; 2.5%.

#### 16. INSURANCE ASSETS

|   | CHARGING GROUP    |                   |               |
|---|-------------------|-------------------|---------------|
|   | 30 September 2010 | 30 September 2009 | 31 March 2010 |
|   | \$                | \$                | \$            |
| Deferred acquisition costs at end of the period | 722,237           | 611,910           | 723,321       |
| Government stock                                | 510,000           | 510,000           | 510,000       |
|   | 1,232,237         | 1,121,910         | 1,233,321     |

##### Deferred acquisition costs analysis

|   |           |           |           |
|---|-----------|-----------|-----------|
| Deferred acquisition costs at beginning of the period | 723,321   | 875,486   | 875,486   |
| Acquisition cost deferred                             | 637,126   | 496,982   | 618,221   |
| Amortisation charged to profit or loss                | (638,210) | (760,558) | (770,386) |
| Deferred acquisition costs as at end of the period    | 722,237   | 611,910   | 723,321   |



### **Current / Non - Current Split**

|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| Current Portion of Deferred acquisition costs at end of period     | 637,127          | 496,982          | 618,221          |
| Non Current Portion of Deferred acquisition costs at end of period | 85,110           | 114,928          | 105,100          |
| Non Current Portion of Government stock                            | 510,000          | 510,000          | 510,000          |
|  | <b>1,232,237</b> | <b>1,121,910</b> | <b>1,233,321</b> |

## **Actuarial Assumptions and Methods**

### **Methods**

Significant estimates and judgements are made by BIL's approved actuary to arrive at certain key liability amounts disclosed in the financial statements. These estimates are determined by a qualified and experienced practitioner with reference to historical data and reasoned expectations of future events. The key areas in which critical estimates and judgements are applied are described below.

### **Central Estimate of Outstanding Claims Liabilities**

The estimation of outstanding liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments for claims incurred up to the reporting date. Each class of business is examined separately and some or all of the following will be considered for each class in projecting future claim payments:

- i) Historical trends in the incidence and development of the number of claims reported, claim payments and reported incurred costs.
- ii) Exposure details, including earned premiums and policy limits.
- iii) Claim frequencies and average claim sizes.
- iv) The legislative framework, legal and court environments and social and economic factors that may impact upon each class of business.
- v) Historical and likely future trends in standard inflationary pressures relating to commodity prices and wages.
- vi) Historical and likely future trends on inflationary pressures in addition to price or wage inflation, termed superimposed inflation.
- vii) Historical and likely future trends of expenses associated with managing claims to finalisation.
- viii) Historical and likely future trends of recoveries from sources such as subrogation and third party actions.
- ix) Insurer specific, relevant industry data and more general economic data utilised in the estimation process.

Projected future claim payments and associated claim handling costs are discounted to a present value as required using appropriate risk free discount rates. A projection of future claims payments, both gross and net of reinsurance and other recoveries is undertaken.

In selecting valuation methodologies, actuarial methods are applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a blend of methods, is selected taking into account the characteristics of the class of business and the extent of the development of each past incident period.

### **Risk Margins**

As an estimate of future outcomes, the net central estimate of outstanding claims liability is subject to uncertainty. Uncertainty is examined for each class of business and expressed as the volatility of the net central estimate. The volatility for each class of business was derived after consideration of stochastic modeling and benchmarking to industry analysis.

### **Assumptions**

The claims liabilities have been assessed by Peter Davies, an actuary who is a fully credited member of the New Zealand Society of Actuaries. (Refer to note 3 in respect of the assumptions that were used in his assessment of the claims provisions and note 9 for details of claims paid during the period).

The valuations included in the reported results are calculated using assumptions including:

- i) Discount Rate - Because the outstanding claims liability represents payments that will be made in the future, they are discounted to reflect the time value of money effectively recognising that the assets held to back insurance liabilities will earn a return during that period. Discount rates are based on gross yields to maturity of NZ Government bonds of appropriate terms as at 30 September 2010.
- ii) Future settlement patterns and weighted average term to settlement. The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claims patterns.
- iii) Assumed loss ratios. Assumed loss ratios were determined from a consideration of observed loss ratios for historical loss quarters.
- iv) Risk Margin. The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimates for each class. The assumptions regarding uncertainty for each class are



applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 75 per cent.

- v) Expense allowance. An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims.

#### Insurance contracts-risk management policies and procedures

The financial condition and operation of the Charging Group are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Charging Group's policies and procedures in respect of managing these risks are set out in this note.

#### Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Charging Group has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short term variability is, to some extent, a feature of insurance business.

Key aspects of the processes established to mitigate risks include:

- i) The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- ii) The use of actuarial models based on historical data to calculate premiums and monitor claim patterns.
- iii) The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets.

#### Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Charging Group. The majority of direct insurance contracts written are entered into on a standard form. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

#### Concentration of insurance risk

The Charging Group's exposure is diversified across classes of business with risk spread across New Zealand.

#### Financial Risk

- i) Interest rate risk. The Charging Group is exposed to interest rate risk arising on interest bearing assets. The Charging Group manages some of its exposure to this risk by holding the majority of such assets on short term maturities.
- ii) Credit risk. The credit risk on financial assets of the Charging Group is generally the carrying amount, net of any provisions for doubtful debts. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counter party. The Charging Group does not expect any counter parties to fail to meet their obligation and therefore does not require collateral or other security to support credit risk exposures.
- iii) Market risk. The Charging Group is exposed to market risk including fair value, interest risk and price risk. Market risks arise from open positions in interest rate products which are exposed to general and specific market movements. The market risks that the Charging Group primarily faces are interest rate risk, due to the nature of its investments and liabilities.
- iv) Liquidity risk. The Charging Group is exposed to daily calls on its available cash resources from the policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Charging Group manages this risk by considering potential daily calls in unison with its overall cash management position.

#### Unexpired risk liability

The Liability Adequacy Test ("LAT") has identified an unexpired risk liability in a portfolio of contracts with broadly similar risks that are managed together. The liability has resulted in a write down of deferred acquisition costs of \$637,126 (September 2009: \$263,576).

The LAT has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio.

The process of determining the overall risk margin, including the way in which diversification of risk has been allowed for. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy.

#### Insurance Maturity Analysis

The table below analyses the Charging Group's insurance assets and insurance liabilities into relevant maturity groupings based on the expected maturity dates.

#### 30/09/2010 – The Charging Group

|                              | \$<br>0 to 6<br>Months | \$<br>7 to 12<br>Months | \$<br>13 to 24<br>Months | \$<br>25 to 60<br>Months | \$<br>Over 60<br>Months | \$<br>Total |
|------------------------------|------------------------|-------------------------|--------------------------|--------------------------|-------------------------|-------------|
| <b>Insurance Assets</b>      |                        |                         |                          |                          |                         |             |
| Deferred acquisition cost    | 509,461                | 127,666                 | 85,110                   | -                        | -                       | 722,237     |
| <b>Insurance Liabilities</b> |                        |                         |                          |                          |                         |             |
| Provision for claims         | 148,000                |                         |                          |                          |                         | 148,000     |
| Unearned premium liabilities | 179,668                | 806,024                 | 104,069                  | 4,511                    | -                       | 1,094,272   |
|                              | 327,668                | 806,024                 | 104,069                  | 4,511                    | -                       | 1,242,272   |

**30/09/2009 – The Charging Group**

|                              | \$<br>0 to 6<br>Months | \$<br>7 to 12<br>Months | \$<br>13 to 24<br>Months | \$<br>25 to 60<br>Months | \$<br>Over 60<br>Months | \$<br>Total      |
|------------------------------|------------------------|-------------------------|--------------------------|--------------------------|-------------------------|------------------|
| <b>Insurance Assets</b>      |                        |                         |                          |                          |                         |                  |
| Deferred acquisition cost    | <b>324,589</b>         | <b>172,393</b>          | <b>114,928</b>           | -                        | -                       | <b>611,910</b>   |
| <b>Insurance Liabilities</b> |                        |                         |                          |                          |                         |                  |
| Provision for claims         | 169,000                | -                       | -                        | -                        | -                       | <b>169,000</b>   |
| Unearned premium liabilities | 189,840                | 563,302                 | 252,375                  | 23,143                   | -                       | <b>1,028,660</b> |
|                              | <b>358,840</b>         | <b>563,302</b>          | <b>252,375</b>           | <b>23,143</b>            | -                       | <b>1,197,660</b> |

**31/03/2010 – The Charging Group**

|                              | \$<br>0 to 6<br>Months | \$<br>7 to 12<br>Months | \$<br>13 to 24<br>Months | \$<br>25 to 60<br>Months | \$<br>Over 60<br>Months | \$<br>Total      |
|------------------------------|------------------------|-------------------------|--------------------------|--------------------------|-------------------------|------------------|
| <b>Insurance Assets</b>      |                        |                         |                          |                          |                         |                  |
| Deferred acquisition cost    | <b>460,570</b>         | <b>157,651</b>          | <b>105,100</b>           | -                        | -                       | <b>723,321</b>   |
| <b>Insurance Liabilities</b> |                        |                         |                          |                          |                         |                  |
| Provision for claims         | 169,000                | -                       | -                        | -                        | -                       | <b>169,000</b>   |
| Unearned premium liabilities | 172,351                | 605,171                 | 236,487                  | 17,005                   | -                       | <b>1,031,014</b> |
|                              | <b>341,351</b>         | <b>605,171</b>          | <b>236,487</b>           | <b>17,005</b>            | -                       | <b>1,200,014</b> |

**17. PLANT AND EQUIPMENT****30 September 2010****CHARGING GROUP:****COST**

|                        | Leasehold<br>improvements<br>\$ | Furniture &<br>fittings<br>\$ | Office<br>equipment<br>\$ | Motor<br>vehicles<br>\$ | Total<br>\$      |
|------------------------|---------------------------------|-------------------------------|---------------------------|-------------------------|------------------|
| At beginning of period | 142,160                         | 198,459                       | 395,943                   | 106,937                 | <b>843,499</b>   |
| Additions              | -                               | 3,000                         | 1,862                     | -                       | <b>4,862</b>     |
| Disposals              | (77,530)                        | -                             | (108,527)                 | -                       | <b>(186,057)</b> |
|                        | <b>64,630</b>                   | <b>201,459</b>                | <b>289,278</b>            | <b>106,937</b>          | <b>662,304</b>   |

**ACCUMULATED DEPRECIATION**

|                         |               |                |                |               |                  |
|-------------------------|---------------|----------------|----------------|---------------|------------------|
| At beginning of period  | 64,720        | 136,070        | 304,503        | 35,046        | <b>540,339</b>   |
| Charge for the period   | 4,578         | 5,700          | 20,291         | 12,941        | <b>43,510</b>    |
| Eliminated on disposals | (43,207)      | -              | (104,390)      | -             | <b>(147,597)</b> |
|                         | <b>26,091</b> | <b>141,770</b> | <b>220,404</b> | <b>47,987</b> | <b>436,252</b>   |

**NET BOOK VALUE**

|                             |               |               |               |               |                |
|-----------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>At 30 September 2010</b> | <b>38,539</b> | <b>59,689</b> | <b>68,874</b> | <b>58,950</b> | <b>226,052</b> |
| At 1 April 2010             | 77,440        | 62,389        | 91,440        | 71,891        | 303,160        |

**30 September 2009****CHARGING GROUP:****COST**

|                        | Leasehold<br>improvements<br>\$ | Furniture &<br>fittings<br>\$ | Office<br>equipment<br>\$ | Motor<br>vehicles<br>\$ | Total<br>\$    |
|------------------------|---------------------------------|-------------------------------|---------------------------|-------------------------|----------------|
| At beginning of period | 129,561                         | 195,814                       | 353,099                   | 18,500                  | <b>696,974</b> |
| Additions              | 3,935                           | -                             | 4,637                     | 34,674                  | <b>43,246</b>  |
| Disposals              | -                               | -                             | (1,410)                   | -                       | <b>(1,410)</b> |
|                        | <b>133,496</b>                  | <b>195,814</b>                | <b>356,326</b>            | <b>53,174</b>           | <b>738,810</b> |

**ACCUMULATED DEPRECIATION**

|                         |               |                |                |               |                |
|-------------------------|---------------|----------------|----------------|---------------|----------------|
| At beginning of period  | 55,085        | 123,065        | 253,463        | 10,670        | <b>442,283</b> |
| Charge for the period   | 4,634         | 6,416          | 21,829         | 3,548         | <b>36,427</b>  |
| Eliminated on disposals | -             | -              | (1,347)        | -             | <b>(1,347)</b> |
|                         | <b>59,719</b> | <b>129,481</b> | <b>273,945</b> | <b>14,218</b> | <b>477,363</b> |

**NET BOOK VALUE**

|                             |               |               |               |               |                |
|-----------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>At 30 September 2009</b> | <b>73,777</b> | <b>66,333</b> | <b>82,381</b> | <b>38,956</b> | <b>261,447</b> |
| At 1 April 2009             | 74,476        | 72,749        | 99,636        | 7,830         | 254,691        |





| 31 March 2010                   | Leasehold improvements | Furniture & fittings | Office equipment | Motor vehicles | Total          |
|---------------------------------|------------------------|----------------------|------------------|----------------|----------------|
|                                 | \$                     | \$                   | \$               | \$             | \$             |
| <b>CHARGING GROUP:</b>          |                        |                      |                  |                |                |
| <b>COST</b>                     |                        |                      |                  |                |                |
| At beginning of period          | 129,561                | 195,815              | 353,099          | 18,500         | 696,975        |
| Additions                       | 12,599                 | 2,644                | 44,254           | 98,561         | 158,058        |
| Disposals                       | -                      | -                    | (1,410)          | (10,124)       | (11,534)       |
|                                 | <b>142,160</b>         | <b>198,459</b>       | <b>395,943</b>   | <b>106,937</b> | <b>843,499</b> |
| <b>ACCUMULATED DEPRECIATION</b> |                        |                      |                  |                |                |
| At beginning of period          | 55,085                 | 123,065              | 253,464          | 10,670         | 442,284        |
| Charge for the period           | 9,635                  | 13,005               | 52,386           | 24,376         | 99,402         |
| Eliminated on disposals         | -                      | -                    | (1,347)          | -              | (1,347)        |
|                                 | <b>64,720</b>          | <b>136,070</b>       | <b>304,503</b>   | <b>35,046</b>  | <b>540,339</b> |
| <b>NET BOOK VALUE</b>           |                        |                      |                  |                |                |
| <b>At 31 March 2010</b>         | <b>77,440</b>          | <b>62,389</b>        | <b>91,440</b>    | <b>71,891</b>  | <b>303,160</b> |
| At 1 April 2009                 | 74,476                 | 72,750               | 99,635           | 7,830          | 254,691        |

|   | CHARGING GROUP    |                   |                |
|---|-------------------|-------------------|----------------|
|   | 30 September 2010 | 30 September 2009 | 31 March 2010  |
|   | \$                | \$                | \$             |
| Vehicles and office equipment includes the following amounts where the group is a lessee under a finance lease: |                   |                   |                |
| Cost - capitalised finance leases   | 207,536           | 155,882           | 207,536        |
| Accumulated depreciation  | (126,641)         | (73,160)          | (104,055)      |
| Net book value  | <b>80,895</b>     | <b>82,722</b>     | <b>103,481</b> |

## 18. COMMITMENTS

|  | CHARGING GROUP    |                   |               |
|--|-------------------|-------------------|---------------|
|  | 30 September 2010 | 30 September 2009 | 31 March 2010 |
|  | \$                | \$                | \$            |
| The Charging Group has no known material capital commitments | NIL               | NIL               | NIL           |

### Operating leases

|   |         |         |         |
|---|---------|---------|---------|
| Minimum lease payments paid under operating expenses recognised as an expense in the period | 144,987 | 179,318 | 332,378 |
|---|---------|---------|---------|

At the reporting date, the Charging Group had outstanding commitments under non - cancellable operating lease commitments which are due as follows:

|   |                |                |                |
|---|----------------|----------------|----------------|
| Within one year   | 215,260        | 218,673        | 298,648        |
| Later than one year but not later than five years         | 74,022         | 146,678        | 144,152        |
| Later than five years                                     | -              | -              | -              |
| <b>Commitments not recognised in financial statements</b> | <b>289,282</b> | <b>365,351</b> | <b>442,800</b> |

Operating lease payments represent rentals payable by the Charging Group for its premises and certain of its equipment. Leases were negotiated and rentals were fixed. Rent is reviewed on every renewal date to reflect market rentals.

## 19. PAYABLES

|                           | CHARGING GROUP    |                   |                |
|---------------------------|-------------------|-------------------|----------------|
|                           | 30 September 2010 | 30 September 2009 | 31 March 2010  |
|                           | \$                | \$                | \$             |
| Trade payables            | 214,987           | 86,245            | 118,145        |
| Accrued expenses          | 110,680           | 147,729           | 194,501        |
| Employee related accruals | 138,660           | 133,902           | 127,172        |
| Withholding tax payable   | 48,215            | 68,467            | 61,914         |
| GST (refund) payable      | 15,968            | (716)             | (9,805)        |
| Financial lease liability | 65,200            | 60,410            | 115,159        |
| Other payables            | 79,274            | 39,225            | 87,572         |
|                           | <b>672,984</b>    | <b>535,262</b>    | <b>694,658</b> |



All of the items included in "Payables" are current payables with the exception of the finance lease as shown below.

#### Financial leases

At the reporting date, the Charging Group had outstanding commitments under non - cancellable financial lease commitments which are due as follows:

|   |               |               |                |
|---|---------------|---------------|----------------|
| Within one year                                       | 67,570        | 43,428        | 103,238        |
| Later than one year but not later than five years     | -             | 21,714        | 10,247         |
| Later than five years                                 | -             | -             | -              |
| <b>Commitments recognised in financial statements</b> | <b>67,570</b> | <b>65,142</b> | <b>113,485</b> |

The average interest rate on the financial leases is 10.60% (September 2009: 10.66%). The security to the lessor for the financial leases is limited to the value of the assets (2010: \$80,895, 2009: \$82,722).

## 20. INVESTMENT IN SUBSIDIARIES

The consolidated financial statement incorporates the assets, liabilities and results of Beneficial Insurance Limited, a 100% subsidiary incorporated in New Zealand which deals in Insurance activities. The investment in the subsidiary has been stated at cost. During the current financial year, the subsidiary, Vehicle Funding Limited, operated as a vehicle trading business. This subsidiary is 100% owned and is incorporated in New Zealand.

## 21. SHARE CAPITAL

|                              | CHARGING GROUP    |                   |               |
|------------------------------|-------------------|-------------------|---------------|
|                              | 30 September 2010 | 30 September 2009 | 31 March 2010 |
|                              | \$                | \$                | \$            |
| <b>Issued and fully paid</b> |                   |                   |               |
| 12,738 ordinary shares       | 14,000,000        | 14,000,000        | 14,000,000    |

#### Ordinary shares

At 31 March 2010, the authorised and paid up share capital comprised 12,738 ordinary shares (2009: 12,738). In the last financial year there was no new issue of shares or buybacks.

#### Retained earnings

This comprises the cumulative results of the Company and its subsidiaries net of taxation. The movements in retained earnings are detailed in the "Statement of Changes in Equity".

#### Dividends

The Directors do not recommend payment of a dividend in the current period (September 2009: \$Nil).

## 22. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|  | CHARGING GROUP                        |                                       |                               |
|--|---------------------------------------|---------------------------------------|-------------------------------|
|  | for the 6 months to 30 September 2010 | for the 6 months to 30 September 2009 | for the year to 31 March 2010 |
|  | \$                                    | \$                                    | \$                            |
| <b>Net (Loss)/Profit after tax</b>                     | 3,958,974                             | 893,285                               | (1,850,532)                   |
| <b>Add Non-Cash Items</b>                              |                                       |                                       |                               |
| Depreciation   | 43,510                                | 36,427                                | 99,402                        |
| Profit/Loss on Sales of Asset                          | 38,460                                | (87)                                  | (851)                         |
| Impairment of receivables                              | (5,122,240)                           | 608,597                               | 5,332,455                     |
| Decrease / (increase) in deferred tax                  | 2,270,538                             | (21,255)                              | (1,102,971)                   |
| <b>Add movements in other working capital items</b>    |                                       |                                       |                               |
| (Decrease)/ increase in tax payable                    | (731,861)                             | (431,237)                             | (795,246)                     |
| Decrease /(increase) in Accounts receivable            | (452,326)                             | (1,915,750)                           | (2,886,193)                   |
| (Decrease) / increase in Accounts Payable and Accruals | 20,585                                | (821,583)                             | (659,835)                     |
|  | <b>25,640</b>                         | <b>(1,651,603)</b>                    | <b>(1,863,771)</b>            |

**23. INTEREST BEARING LIABILITIES**

|  | CHARGING GROUP    |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | 30 September 2010 | 30 September 2009 | 31 March 2010     |
|  | \$                | \$                | \$                |
| <b>Secured</b>                                 |                   |                   |                   |
| Debentures                                     | 13,262,332        | 15,083,478        | 15,038,259        |
| Total secured interest bearing borrowings      | <b>13,262,332</b> | <b>15,083,478</b> | <b>15,038,259</b> |
| <b>Unsecured</b>                               |                   |                   |                   |
| Subordinated Loan from related party (note 26) | 5,749,900         | 5,200,000         | 5,200,000         |
|  | <b>5,749,900</b>  | <b>5,200,000</b>  | <b>5,200,000</b>  |
| Total interest bearing liabilities             | <b>19,012,232</b> | <b>20,283,478</b> | <b>20,238,259</b> |

**(a) Assets pledged as security**

Under the Debenture trust deed all assets of the charging group are pledged against the first ranking general security interest in favour of the Trustee.

**(b) Debentures**

Debenture stock which is issued on the basis that it is repayable on demand may be repaid by the Company at any time. Other debenture stock is issued on terms ranging from 3 months to 5 years and is repayable on the maturity date.

**(c) Current/Non-current**

|                        |                   |                   |                   |
|------------------------|-------------------|-------------------|-------------------|
| Current borrowings     | 9,532,885         | 9,237,128         | 10,727,707        |
| Non-current borrowings | 9,479,347         | 11,046,350        | 9,510,552         |
|                        | <b>19,012,232</b> | <b>20,283,478</b> | <b>20,238,259</b> |

**(d) Priority of claims**

In the event that the Charging Group was liquidated or ceased trading Debentures rank first as to the priority of claims over the Charging Group's assets. The subordinated loan from the related party ranks behind these secured interest bearing liabilities.

**24. CURRENT AND TERM AGGREGATES**

|                                   | CHARGING GROUP    |                   |               |
|-----------------------------------|-------------------|-------------------|---------------|
|                                   | 30 September 2010 | 30 September 2009 | 31 March 2010 |
|                                   | \$                | \$                | \$            |
| Aggregate Current Assets          | 13,795,217        | 13,329,744        | 16,580,508    |
| Aggregate Non Current Assets      | 25,999,207        | 27,434,304        | 21,192,245    |
| Aggregate Current Liabilities     | 11,974,144        | 11,236,877        | 13,044,366    |
| Aggregate Non Current Liabilities | 8,780,710         | 11,702,758        | 7,837,791     |

**25. SUBSEQUENT EVENTS**

The following events have occurred subsequent to the reporting date:

- a) The New Zealand Deposit Guarantee Scheme expired on 12 October 2010. Broadlands had no default events since the reporting date; consequently no claims have been made in terms of this guarantee and no claims are payable in the future.
- b) On 29 November 2010, the Company amended its Trust Deed in order to comply with the capital ratio, related party exposure and liquidity requirements. The Trust Deed provides that the Company and each of the Charging Subsidiaries covenants with the Trustee that they will not permit:
  - the Company's capital ratio to be less than 9%;
  - the Company's aggregate related party exposure ratio to exceed 15%; or
  - the liquid assets of the Charging Group, for the period from 1 December 2010 to 30 November 2011, to be less than 3.5% of the aggregate principal amount of Stock outstanding and, thereafter, 5%.
- c) On 25 February 2010, the Company was assigned a BB- long term issuer credit rating from approved rating agency Standard & Poor's, with negative outlook. The Company's short term credit rating is B. By announcement dated 8 December 2010, Standard & Poor's lowered the Company's long-term issuer credit rating from BB- to B. The outlook on the rating remains as negative. Standard & Poor's affirmed the Company's short term credit rating as B.

There were no subsequent events requiring disclosure or measurement changes to the financial statements in the September 2009 and March 2010 accounts.



## 26. RELATED PARTY TRANSACTIONS

### (a) Controlling party

The Charging Group's immediate and ultimate controlling party is the sole shareholder, Anthony S Radisich, an individual ordinarily resident in New Zealand. Anthony Radisich does not guarantee the Debenture Stock.

### (b) Directors Remuneration – Short term benefits only.

|                             | CHARGING GROUP                           |  |                                  |
|-----------------------------|--|--|----------------------------------|
|                             | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|                             | \$                                       | \$                                       | \$                               |
| A. Radisich                 | -  | -  | -                                |
| N. Smith                    | 25,313                                   | 25,313                                   | 50,625                           |
| T. Storey                   | 25,313                                   | 25,313                                   | 50,625                           |
| R. Kats (Appointed 13/5/09) | -  | -  | -                                |
|                             | <b>50,626</b>                            | <b>50,626</b>                            | <b>101,250</b>                   |

### (c) Key management and personnel compensation

Key management personnel compensation for the six month periods ended 30 September 2010, 30 September 2009 and the year ended 31 March 2010 are set out below. The key management personnel are all the directors of the Company and the Senior Management with the greatest authority for the strategic direction and management of the Company and the Charging Group.

Key management personnel compensation for the period comprised:

|                       | CHARGING GROUP                           |  |                                  |
|-----------------------|--|--|----------------------------------|
|                       | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|                       | \$                                       | \$                                       | \$                               |
| Employee Remuneration | 213,822                                  | 325,573                                  | 616,991                          |

### (d) Other transactions with key management personnel or entities related to them

There were no other transactions with key management personnel or entities related to them, other than compensation, as set out above.

During the period the Charging Group entered into the following transactions with related parties which are entities owned or controlled by Anthony Radisich or the company.

|   | Country of<br>incorporation | Relationship     | Type of<br>Service | CHARGING GROUP                           |  |                                  |
|---|-----------------------------|------------------|--------------------|--|--|----------------------------------|
|   |                             |                  |                    | for the 6 months to<br>30 September 2010 | for the 6 months to<br>30 September 2009 | for the year to<br>31 March 2010 |
|   |                             |                  | \$                 | \$                                       | \$                                       |                                  |
| <b>Purchase of goods/ services</b>      |                             |                  |                    |  |  |                                  |
| Executive Trustees Limited              | New Zealand                 | Common ownership | Rent               | 127,832                                  | 135,599                                  | 272,229                          |
| Penrose Enterprises Limited             | New Zealand                 | Common ownership | Vehicle Leasing    | 4,107                                    | 4,577                                    | 10,102                           |
| Natwest Finance Limited                 | New Zealand                 | Common ownership | Vehicle Financing  | 19,886                                   | 13,162                                   | 27,559                           |
|   |                             |                  |                    | <b>151,825</b>                           | <b>153,338</b>                           | <b>309,890</b>                   |
| <b>Amounts due to related parties</b>   |                             |                  |                    |  |  |                                  |
| <b>Current</b>                          |                             |                  |                    |  |  |                                  |
| Timberton Investments Limited           | New Zealand                 | Common ownership | Advance            | 1,050,000                                | -  | -                                |
| Timberton Investments Limited           | New Zealand                 | Common ownership | Debenture          | 3,015,000                                | 800,085                                  | 1,818,000                        |
| <b>Non-current</b>                      |                             |                  |                    |  |  |                                  |
| Timberton Investments Limited           | New Zealand                 | Common ownership | Advance            | 4,699,900                                | 5,200,000                                | 5,200,000                        |
| Timberton Investments Limited           | New Zealand                 | Common ownership | Debenture          | 1,738,000                                | 1,500,000                                | 500,000                          |
| <b>Total payable to Related Parties</b> |                             |                  |                    | <b>10,502,900</b>                        | <b>7,500,085</b>                         | <b>11,452,696</b>                |



Timberton Investments Limited has charged the Company interest at 15% p.a. (September 2009: 15%) on the loan with a closing balance of \$5,200,000 and 0% p.a. on the loan with a closing balance of \$549,900. Timberton Investments Limited has the following maturity dates for the loans:

- \$1,050,000 Maturing October 2011
- \$1,050,000 Maturing October 2012
- \$1,050,000 Maturing October 2013
- \$2,050,000 Maturing October 2015
- \$549,900 Maturing October 2015

Interest has been charged at an average rate of 8.2% on the Debentures held by the related parties as at 30 September 2010 (September 2009: 11.0%).

Timberton Investments Limited has charged the subsidiary, Beneficial Insurance Limited interest at 10% p.a. (September 2009: 10%) on the loan with a closing balance of \$NIL (September 2009: \$NIL). This loan was fully repaid by Beneficial on 22 September 2009.

These loans were unsecured as at 30 September 2010. The loan from Timberton to the Company is ranking behind debentures and pari passu with other unsecured, unsubordinated indebtedness.

The intercompany loan between the Company and its subsidiary, Beneficial Insurance Limited, has been subordinated.

No allowance for impairment has been raised in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

## **27. CONTINGENCIES**

There were no known material contingent liabilities at 30 September 2010 (September 2009: \$Nil).

## **28. NON-BANK DEPOSIT TAKERS ("NBDT") LEGISLATION**

The Reserve Bank of New Zealand regulates deposit takers (known as non-bank deposit takers or NBDTs) in New Zealand for the purposes of promoting the maintenance of a sound and efficient financial system, and avoiding significant damage to the financial system that could result from the failure of a non-bank deposit taker.

Deposit takers are defined in the Reserve Bank of New Zealand Act 1989 ("the Act") as entities that offer debt securities to the public (as those terms are defined in the Securities Act 1978) in New Zealand and carry on the business of borrowing and lending money, or providing financial services (or both). The definition includes building societies and credit unions but excludes registered banks, amongst others. The Company meets this definition and is required to comply with the Part 5D of the Act.

Among the main items of Part 5D of the Act that are applicable to non-bank deposit takers are:

- Section 157I which requires non-bank deposit takers to have a long term issuer credit rating from 1 March 2010 from either Fitch Ratings, Moody's Investors Service, or Standard & Poor's Rating Services;
- Section 157L which requires the governing body of the NBDT to include at least 2 independent directors, that the chairperson must not be an employee of the deposit taker or a related party and that, where the deposit taker is a subsidiary, the constitution must not include provisions allowing the directors to act otherwise than in the best interest of the NBDT;
- Section 157M which requires NBDTs to have a risk management programme which outlines how the NBDT identifies and manages its key risks and is approved by the Trustee;
- Section 157P which relates to minimum capital (not yet in force);
- Section 157S which relates to capital ratio requirements to be included in trust deeds from 1 December 2010;
- Section 157V which relates to requirements to be included in trust deeds from 1 December 2010 regarding maximum limit on exposures to related parties ; and
- Section 157Z which relates to liquidity requirements to be included in trust deeds from 1 December 2010.

The Company has a risk management programme in place which has been approved by the Trustee. The Company also complies with the governance requirements described in section 157L of the Act.

The Reserve Bank is currently developing policy recommendations for Cabinet to consider, which are expected to lead to a second Bill and will complete the legislative framework for the NBDT sector. The proposals include a requirement for all NBDTs to be licensed by the Reserve Bank, together with fit and proper person requirements for directors and senior office holders, and controls on changes of ownership of NBDTs. It is expected that the second Bill will be introduced to Parliament in the early part of 2011.

# Independent Auditor's Report

**Audit****Grant Thornton New Zealand Audit  
Partnership**

L4, Grant Thornton House  
152 Fanshawe Street  
PO Box 1961  
Auckland 1140

T +64 (0)9 308 2570  
F +64 (0)9 309 4892  
[www.granthornton.co.nz](http://www.granthornton.co.nz)

**To the shareholder of Broadlands Finance Limited****Report on the Consolidated Financial Statements**

We have audited the consolidated financial statements of Broadlands Finance Limited and its subsidiaries (the "group") on pages 4 to 35, which comprise the consolidated balance sheet as at 30 September 2010 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the period then ended and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Consolidated Financial Statements**

The group's Directors are responsible for the preparation of consolidated financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditors' Responsibilities**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion the effectiveness of the entity's internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in Broadlands Finance Limited or any of its subsidiaries.

### **Opinion**

In our opinion, the consolidated financial statements on pages 4 to 35:

- Comply with generally accepted accounting practice in New Zealand;
- Comply with International Financial Reporting Standards;
- Give a true and fair view of the consolidated financial position of Broadlands Finance Limited and its subsidiaries as at 30 September 2010 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the period ended on that date.

### **Report on Other Legal and Regulatory Requirements**

Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 require us to comment on whether we have obtained all the information and explanations that we have required from Broadlands Finance Limited and its subsidiaries and whether we consider that appropriate accounting records have been kept.

We have obtained all the information and explanations that we have required.

In our opinion proper accounting records have been kept by Broadlands Finance Limited and its subsidiaries as far as appears from an examination of those records.



**Grant Thornton New Zealand Audit Partnership**  
Auckland, New Zealand  
21 December 2010