SELACS INSURANCE LIMITED
ANNUAL REPORT
31 DECEMBER 2013

Contents

SELACS INSURANCE LIMITED
DIRECTORY
31 DECEMBER 2013

Board of Directors:
A J Borland
S B Kennelly

Auditor:
Deloitte
50 Hazeldean Road
Christchurch 8024

Banker:
ANZ Bank New Zealand Limited
37-41 Rotherham Street
Christchurch 8041

Solicitor:
Anthony Harper Lawyers
Level 9
HSBC Tower
62 Worcester Boulevard
Christchurch 8011

Registered Office:
52 Cashel Street
Christchurch 8013

Postal Address:
PO Box 1590
Christchurch 8140

Shareholder:

Scales Holdings Limited	1,600,000 ordinary shares

SELACS INSURANCE LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

Results
The year's operation after providing for taxation resulted in a net profit of $641,105 (2012 $580,699).

Dividends
No dividend was paid in respect of the year ended 31 December 2013 (2012 $nil).

Use of Company Information by Directors
No notices were received from Directors pursuant to section 145 of the Companies Act 1993 to use Company information, received in their capacity as Directors, which would otherwise not have been available to them.

Directors' Indemnity and Insurance
The Company has arranged, as provided for under its Constitution, policies of Directors and Officers Liability Insurance which, with a Deed of Indemnity, entered into with all Directors, ensures that to the extent permitted by law, Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines, which may be imposed in respect of breaches of the law.

Disclosures of Interests by Directors
There have been no transactions in which Directors have had an interest.

Auditor
The Auditor, Deloitte, continues in office in accordance with Section 200 of the Companies Act 1993.

General
There has been no change in the main activities of the Company during the year.

The shareholder has resolved that the information required by section 211(1)(a) and (e) to(i) of the Companies Act 1993 need not be disclosed.

The Directors consider the state of the Company's affairs to be satisfactory.

For and on behalf of the Board of Directors

A J Borland
Director
5 May 2014

S B Kennelly
Director
5 May 2014

SELACS INSURANCE LIMITED
DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors are pleased to present the financial statements of Selacs Insurance Limited for the year ended 31 December 2013 on pages 4 to 16.

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Selacs Insurance Limited as at 31 December 2013 and the results of its operations for the year ended 31 December 2013.

The Directors consider that the financial statements of the Company have been prepared using accounting policies appropriate to the Company circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

This Annual Report is dated 5 May 2014 and is signed in accordance with a resolution of the Directors made pursuant to section 211 of the Companies Act 1993.

For and on behalf of the Directors

A J Sorland
Director

S B Kennelly
Director

SELACS INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	31 December 2013 NZ$	31 December 2012 NZ$
Premium income		2,914,313	2,752,823
Outward reinsurance expense		(2,118,302)	(2,029,491)
Net premium income		796,011	723,332
Claims expense	7	23,029	316,606
Net claims incurred		23,029	316,606
Commission income		144,380	113,858
Management fee expense		(48,000)	(48,000)
Net underwriting profit		869,362	472,584
Interest income		169,594	167,216
Audit fee to auditor for the audit of financial statements		(5,000)	(5,000)
Audit fee to auditor for the audit of RBNZ solvency return		(10,000)	-
Interest expenses		(37,428)	(72,399)
Other expenses		(6,527)	(46,866)
PROFIT BEFORE INCOME TAX EXPENSE		980,001	515,535
Income tax expense (credit)	2	338,896	(65,164)
PROFIT FOR THE YEAR		641,105	580,699
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		641,105	580,699

The notes to the financial statements on pages 8 to 16 form part of and should be read in conjunction with this statement.

SELACS INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Share Capital NZ$	Retained Earnings NZ$	Total NZ$
Balance at 1 January 2012		1,600,000	1,579,996	3,179,996
Profit for the year		-	580,699	580,699
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	580,699	580,699
Balance at 31 December 2012		1,600,000	2,160,695	3,760,695
Profit for the year		-	641,105	641,105
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	641,105	641,105
Balance at 31 December 2013		1,600,000	2,801,800	4,401,800

The notes to the financial statements on pages 8 to 16 form part of and should be read in conjunction with this statement.

SELACS INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	NOTE	2013 NZ$	2012 NZ$
EQUITY			
Share capital	3	1,600,000	1,600,000
Retained earnings	4	2,801,800	2,160,695
TOTAL EQUITY		4,401,800	3,760,695
Represented By:			
CURRENT ASSETS			
Cash at bank		-	314,726
Receivables and accruals	5	2,873	6,856
Other financial assets	6	-	502,044
Prepayments		1,056,226	1,094,323
TOTAL CURRENT ASSETS		1,059,099	1,917,949
NON- CURRENT ASSETS			
Other financial assets	6	4,012,180	3,582,443
Deferred tax asset	2	-	65,081
TOTAL NON-CURRENT ASSETS		4,012,180	3,647,524
TOTAL ASSETS		5,071,279	5,565,473
CURRENT LIABILITIES			
Bank overdraft (secured)		362,635	-
Claims and other payables	7	33,029	887,682
Current tax payable	2	273,815	-
Short term borrowings	8	-	917,096
TOTAL CURRENT LIABILITIES		669,479	1,804,778
NET ASSETS		4,401,800	3,760,695

The notes to the financial statements on pages 8 to 16 form part of and should be read in conjunction with this statement.

SELACS INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	2013 NZ$	2012 NZ$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		3,055,820	2,866,681
Interest received		193,722	174,197
		3,249,542	3,040,878
Cash was disbursed to:			
Interest paid		-	109,827
Claims paid		871,606	-
Payments to suppliers		75,603	88,790
Reinsurance premiums paid		2,117,633	2,065,445
		3,064,842	2,264,062
NET CASH GENERATED BY OPERATING ACTIVITIES	10	184,700	776,816
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of New Zealand Government Stock		1,021,520	-
Cash was applied to:			
Advances to Scales Corporation Limited		429,737	3,582,443
Purchase of New Zealand Government Stock		536,748	-
		966,485	3,582,443
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		55,035	(3,582,443)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from borrowings		-	917,096
		-	917,096
Cash was applied to:			
Borrowings repaid		917,096	772,751
		917,096	772,751
NET CASH PROVIDED BY FINANCING ACTIVITIES		(917,096)	144,345
NET (DECREASE) IN NET CASH		(677,361)	(2,661,282)
Cash and cash equivalents at the beginning of the year		314,726	2,976,008
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(362,635)	314,726
Represented by:			
(Bank overdraft) / cash at bank		(362,635)	314,726

The notes to the financial statements on pages 8 to 16 form part of and should be read in conjunction with this statement.

1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

Selacs Insurance Limited (the Company) is a profit-oriented company incorporated in New Zealand and registered under the Companies Act 1993. The principal activity of the Company is as a captive insurance company. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with the Financial Reporting Act 1993.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements comply with International Financial Reporting Standards (IFRS).

Basis of Financial Statement Preparation

The financial statements are presented in New Zealand dollars being the functional currency.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are valued at fair value. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Cost is based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are obsevable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:
Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3 inputs are unobservable inputs for the asset or liability.

The accounting policies set out below have been applied in preparing these financial statements for the year ended 31 December 2013 and the comparative information presented in these financial statements for the year ended 31 December 2012.

Accounting Judgements and Major Sources of Estimation Uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities, that are not readily apparent from other sources. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1 SUMMARY OF ACCOUNTING POLICIES

Accounting Judgements and Major Sources of Estimation Uncertainty (continued)

The carrying values of receivables and accruals (note 5), financial assets (note 6) and claims and other payables (note 7) are determined in accordance with the applicable policies set out below.

Summary of Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Goods and Services Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the taxation authority is classified as operating cash flows and shown net in the statement of cash flows.

(b) Revenue Recognition

Premium Income

Premium income is recognised by reference to the pattern of risk and the proportion of the policy period covered by the premium that is completed at balance date. The adequacy of the unearned premium liability is assessed by considering the current estimates of the present value of the expected cash flows relating to future claims arising from the rights and obligations under current insurance contracts against the unearned premium liability.

Interest

Interest revenue is accrued on a time basis using the effective interest method.

Commission

Commission income is recognised as revenue when the Company's right to receive payment becomes unconditional.

(c) Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the incidence of risk and pattern of reinsurance service received.

(d) Claims Expense and Outstanding Claims

Claims paid are treated as an expense. Provision is made for the estimated cost of all claims notified but not settled at balance date and claims incurred but not yet reported, based on past experience and any changes in circumstances such as recent catastrophic events, that may affect the pattern of unreported claims.

(e) Finance Costs

Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds. Interest expense is accrued on a time basis using the effective interest method.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(f) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not reported are assessed in a manner similar to the assessment of outstanding claims.

1 SUMMARY OF ACCOUNTING POLICIES

(g) Income tax

Income tax expense in relation to the profit for the year comprises current tax and deferred tax.

Current Tax

Current tax is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computations of taxable profit, and is accounted for using the balance sheet liability method.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets and current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Year

Current tax and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity.

(h) Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'measured at amortised cost'.

The classification depends on the business model for managing the financial asset and the cash flow characteristics of the financial asset and is determined at the time of initial recognition or when a change in the business model occurs.

Financial Assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss if they are not measured, or designated as, at amortised cost. Gains and losses on a financial asset designated in this category are recognised in profit or loss.

1 SUMMARY OF ACCOUNTING POLICIES

(h) Financial Assets (continued)

The fair value of certain deposits and bonds held by the Company designated as being at fair value through profit and loss are determined with reference to quoted market prices.

Financial assets measured at amortised cost

The Group's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents, trade receivables and related party advances are classified in this category.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised in profit or loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

(i) Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

(j) Other payables

Other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Payables are recognised at amortised cost.

(k) Statement of Cash Flows

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank net of outstanding bank overdrafts.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Company.

1 **SUMMARY OF ACCOUNTING POLICIES**

(l) Adoption of New and Revised Standards and Interpretations

i Standards and Interpretations Effective in the Current Period

NZ IFRS 13 Fair Value Measurement

The Company has applied NZ IFRS 13 for the first time in the current year. NZ IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of IFRS 13 apply to both financial instrument and non-financial instrument items for which other IFRS's require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions (NZ IFRS 2 Share-based Payment), leasing transactions (NZ IAS 17 Leasing) and measurements that have some similarities to fair value but are not fair value.

NZ IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under NZ IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, NZ IFRS 13 includes extensive disclosure requirements.

NZ IFRS 13 requires propective application from 1 January 2013. Specific transitional provisions were given such that the Company is not required to apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Accordingly, the Company has not made any new disclosures required by NZ IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of NZ IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

The adoption of other Standards, Interpretations and Amendments that became effective in the current period has not led to any material changes in the Company's accounting policies with measurement or recognition impact on the periods presented in these financial statements.

ii Standards and Interpretations in Issue not yet Adopted

The Company has reviewed all Standards and Interpretations in issue not yet adopted and does not expect these standards to have any material impact on the financial statements of the Company when adopted.

2. TAXATION

(a) Income Tax Recognised in Profit

	31 December 2013 NZ$	31 December 2012 NZ$
Income tax expense comprises:		
Current tax expense	273,815	-
Deferred tax expense relating to the origination and reversal of temporary differences	65,081	(65,164)
Total income tax expense (credit) recognised in profit	338,896	(65,164)

The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	31 December 2013 NZ$	31 December 2012 NZ$
Profit (loss) from operations	980,001	515,535
Income tax expense calculated at 28%	274,400	144,350
Group taxation loss offset	-	(165,524)
Under (over) provision of income tax in previous year	64,496	(43,990)
	338,896	(65,164)

The tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law.

(b) Current Tax Balances

	31 December 2013 NZ$	31 December 2012 NZ$
Balance at beginning of the year	-	-
Taxation expense	273,815	-
Balance at end of the year	273,815	0

(c) Deferred Tax Balances

	Opening balance NZ$	(Charged) Credited to income NZ$	Closing balance NZ$
2013			
Gross deferred tax asset:			
Trade and other payables	65,081	(65,081)	0
2012			
Gross deferred tax asset:			
Trade and other payables	(83)	65,164	65,081

3. SHARE CAPITAL

	2013 NZ$	2012 NZ$
1,600,000 ordinary shares	1,600,000	1,600,000

Changes to the Companies Act 1993 abolished the authorised capital and par value concept in relation to share capital from 1 July 1994. Therefore the Company does not have a limited amount of authorised capital and issued shares do not have a par value.
All ordinary shares are fully paid, have equal voting rights and share equally in dividends and net assets on winding up.

4. RETAINED EARNINGS

	2013 NZ$	2012 NZ$
Balance at beginning of the year	2,160,695	1,579,996
Profit for the year	641,105	580,699
Balance at end of the year	2,801,800	2,160,695

5. RECEIVABLES AND ACCRUALS

	2013 NZ$	2012 NZ$
Interest accrued	-	6,856
Other receivables	2,873	-
	2,873	6,856

6. OTHER FINANCIAL ASSETS

	2013 NZ$	2012 NZ$
Current assets:		
Designated as at fair value through profit and loss:		
New Zealand Government Stock - Matured 15 April 2013	-	502,044
Non-current assets:		
At amortised cost:		
Advance to Scales Corporation Limited	4,012,180	3,582,443
	4,012,180	4,084,487

7. CURRENT CLAIMS AND OTHER PAYABLES	31 December 2013 NZ$	31 December 2012 NZ$
Accruals	10,000	16,076
Liability for outstanding claims:		
Opening balance	871,606	555,000
Claims in year	23,029	316,606
Claims paid	(871,606)	-
Closing balance	23,029	871,606
	33,029	887,682

The liability for outstanding claims relates to material damage and loss of profits claims resulting from the Christchurch earthquake. If a claim event occurs the Group managing director is notified immediately and an assessor is appointed to determine the value of the claim. Reinsurers are advised if the claim is likely to exceed the Company excess.

The liability for outstanding claims is stated at the actual amounts claimed by the related company and agreed by the assessor. As a result no adjustments are required in respect of risk margins, claims handling costs and discounting for the time value of money.

The report by the consulting actuary, Peter Davies B.Bus.Sc., FIA, FNZSA, states that he has no reason to doubt the reasonableness of the estimated cost of the outstanding claim based on his review of the data provided. The report did not include any qualifications.
The consulting actuary's calculation of the Company's position under the Reserve Bank of New Zealand Solvency Standard for non-life Captives is actual solvency capital of $4,401,800 compared with minimum required solvency capital of $1,185,225.

8. SHORT TERM BORROWINGS
Short term borrowings were unsecured and carried at amortised cost. The interest rate was 4.74%.

9. RELATED PARTY DISCLOSURES
The holding company is Scales Holdings Limited which is a wholly owned subsidiary of Scales Corporation Limited.

The ultimate holding company is Direct Capital Investments Limited.

Oashreal Properties Limited (In Liquidation), Liqueo Bulk Storage Limited, Meateor Foods Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Polarcold Stores Limited, Scales Logistics Limited, Scales Property Development Limited, Silverstream Industrial Park Limited, Whakatu Coldstores Limited and Whakatu Property Management Limited are fellow subsidiaries of Scales Corporation Limited.

	2013 NZ$	2012 NZ$
Insurance premium income from companies within the Scales Corporation Limited Group.	2,914,313	2,752,823
Interest income received from Scales Corporation limited	164,352	142,888
Insurance claims paid to companies within the Scales Corporation Limited Group.	871,606	-
Insurance claims payable to companies within the Scales Corporation Limited Group.	23,029	871,606
Advance to Scales Corporation Limited included in other financial assets	4,012,180	3,582,443

The advance to Scales Corporation Limited is repayable on demand. The interest rate is 4.5%.
The Directors, who are also the managing director and chief financial officer of Scales Corporation Limited, are the key management personnel.

10. NET CASH GENERATED BY OPERATING ACTIVITIES

Reconciliation of profit for the period to net cash generated by operating activities:		
Profit for the year	641,105	580,699
Non-cash items:		
Amortisation of prepayments	17,272	8,172
Deferred tax	65,081	(65,164)
Changes in net assets and liabilities:		
Receivables and accruals	3,983	(1,191)
Other current assets	36,097	(73,382)
Claims and other payables	(854,653)	327,682
Current tax payable	273,815	-
Net cash generated by operating activities	184,700	776,816

11. SECURITIES GIVEN

Selacs Insurance Limited is a party to a registered General Security Deed and has granted a charge over all of its assets to secure the borrowings of the Scales Corporation Limited group of companies. Based on the current financial performance of the Group the likelihood of the guarantee being called is very low.	60,000,000	69,450,000

12. CREDIT RATING
The Company does not have, has not sought and is not required to have a credit rating.

13. REINSURANCE

Selacs Insurance Limited has reinsurance cover in the market of $100 million, in annual aggregate, but retains risks of up to $2.8 million (2012: $2.875 million) per claim. There are no unexpected catastrophe risks or adverse claim numbers that would impact the Company since reporting date. Selacs Insurance Limited has a credit risk with respect to the reinsurers, this risk is mitigated by choosing reinsurers with good financial strength.

14. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES

The Company was issued with a licence under the Insurance (Prudential Supervision) Act 2010 on 31 July 2013.

The financial condition and operation of the company is affected by a number of key risks including insurance risk, interest rate risk, market risk, compliance risk and operational risk. The Company'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 Company has an objective to control insurance risk thus minimising substantial unexpected losses that would expose the Company to an adverse financial capital loss.

The Board of the Company have developed, implemented and maintain policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Board reviews these strategies.

Key aspects of the processes established to mitigate risks include:

- The maintenance and use of management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience is used as part of the process.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes.
- The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim patterns.
- The mix of assets in which we invest is driven by the nature and term of insurance.
- The diversification over separate geopgraphical areas (Canterbury, Hawke's Bay and Otago) seeks to reduce variability in loss experience.

Interest Rate Risk

The average interest rate earned from the advance to Scales Corporation Limited and New Zealand Government Stock during the year was 4.2% (2012: 4.71%). None of the other financial assets or liabilities arising from insurance or reinsurance contracts entered into by the Company are directly exposed to interest rate risk.

Insurance Risk

Insurance exposures are managed by the Company through:

- Implementation of a reinsurance programme that limits the Company's insurance exposures. This reinsurance programme is reviewed annually by the Board.
- The ability to review insurance contracts in place and in particular adjust future premium rates.
- Geographical spread, with properties being located within Canterbury, Hawke's Bay and Otago.

15. FINANCIAL INSTRUMENTS

(a) Capital Management

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain shareholder, creditor and customer confidence and to sustain the future development of the business.

Solvency Requirements under the Insurance (Prudential Supervision) Act 2010

Separate to the insurance contract liabilities (ie the Unearned Premium Liabilities and/or Liability for Outstanding Claims) recognised in the financial statements, insurance companies are required to maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctations and unexpected adverse circumstances on the insurance businesses. The methodology and bases for determining the solvency requirements are in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010.

The actual equity and minimum equity required to be retained to meet solvency requirements over and above the insurance contract liabilities for the Company are:

	2013	2012
	NZ$	NZ$
Actual solvency capital	4,401,800	3,760,695
Minimum solvency capital	1,185,225	1,002,033
Solvency margin	3,216,575	2,758,662
Solvency coverage ratio	3.71	3.75

(b) Financial Risk Management Objectives

The Company's activities expose it primarily to interest rate and credit risk.

(c) Interest Rate Risk Management

The Company is exposed to interest rate risk as it both invests in interest bearing instruments and borrows funds at fixed interest rates. Management monitors the level of interest rates on an ongoing basis.

At balance date financial assets and liabilities are subject to interest rate risk as follows:

	2013	2012	Interest Rate Review Period
Short term borrowings	-	4.74%	30 - 90 days
Advances to Scales Corporation Limited	4.50%	4.50%	Six weekly
Government securities	-	4.71%	

	2013 NZ$	2012 NZ$

15. FINANCIAL INSTRUMENTS (continued)

(d) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which potentially subject the Company to credit risk principally consist of cash and cash equivalents and related party advances. The Company continuously monitors the credit quality of its investments and does not anticipate non-performance of those customers. Cash and cash equivalents are placed with high credit quality financial institutions.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

(e) Liquidity Risk Management

The Company manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The maturity profile of financial liabilities is disclosed in note 16.

	2013 NZ$	2012 NZ$
(f) Categories of Financial Instruments		
Financial Assets:		
Fair value through profit or loss		
-Designated as at FVTPL	-	502,044
Amortised cost	4,012,180	3,897,169
	4,012,180	4,399,213
Financial Liabilities:		
Amortised cost	395,664	1,804,778

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair value.

(g) Fair Value Measurements

The New Zealand Government Stock held at 31 December 2012 was measured at fair value on a recurring basis. At 31 December 2012 it was valued on the basis of quoted bid prices in an active market which is Level 1 in the fair value hierachy.

(h) Sensitivity Analysis

In managing interest rate risk the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer-term, however, permanent changes in interest rates will have an impact on profit and equity.

At 31 December 2013 it is estimated that a general increase of one percent in interest rates would increase the Company's profit after income tax and equity by approximately $28,800 (2012 $26,400).

A decrease in interest rates would have the opposite impact on profit and equity to that described above.

16. MATURITY PROFILE OF FINANCIAL LIABILITIES

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Within Three Months NZ$	Four Months to One Year NZ$	Two to Five Years NZ$	Total NZ$
2013				
Claims and other payables	33,029	-	-	33,029
Bank overdraft	362,635	-	-	362,635
	395,664	0	0	395,664
2012				
Claims and other payables	887,682	-	-	887,682
Borrowings	572,714	381,810	-	954,524
	1,460,396	381,810	0	1,842,206

17. EVENTS OCCURRING AFTER BALANCE DATE

There have been no significant post balance date events (2012 - Nil).

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SELACS INSURANCE LIMITED

Report on the Financial Statements

We have audited the financial statements of Selacs Insurance Limited on pages 4 to 16, which comprise the statement of financial position as at 31 December 2013, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

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

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the 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 Selacs Insurance Limited.

Opinion

In our opinion, the financial statements on pages 4 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Selacs Insurance Limited as at 31 December 2013, and its financial performance and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Selacs Insurance Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
5 May 2014
Christchurch, New Zealand

Davies Financial and Actuarial Limited

26th May 2014

To: The Directors
Selacs Insurance Limited

From: Peter Davies
Appointed Actuary

Re: Selacs Insurance Limited ("the Company"): Report as at 31st December 2013 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for the Company as at 31st December 2013. "Actuarial information" includes the following:

   - claim provisions and unexpired risk / unearned premium provisions;
   - balance sheet and other information allowed for in the calculation of the company's solvency position; and
   - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

Level 1, 3 Shea Terrace, Takapuna 0622 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
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3. I am independent with respect to the Company as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. The Company's position as at 31st December 2013 under the RBNZ Solvency Standard for Captive Insurers Transacting Non-life Insurance Business can be summarised as follows:

	31 December 2013	30 June 2013
Actual solvency capital:	4,401,800	4,107,241
Minimum solvency capital:	1,185,225	1,061,786
Solvency margin:	3,216,575	3,045,455
Solvency coverage ratio:	3.71	3.87

The Company is projected to meet the requirements of this Standard at all times over the next three years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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