SELACS INSURANCE LIMITED
ANNUAL REPORT
31 DECEMBER 2014

Contents

SELACS INSURANCE LIMITED
DIRECTORY
31 DECEMBER 2014

Board of Directors:
A J Borland
A R Isaac (appointed 10 October 2014)
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 2014

Results

The year's operation after providing for taxation resulted in a net profit of $745,129 (2013 $641,105).

Dividends

No dividend was paid in respect of the year ended 31 December 2014 (2013 $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
23 April 2015

S B Kennelly
Director
23 April 2015

SELACS INSURANCE LIMITED
DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors are pleased to present the financial statements of Selacs Insurance Limited for the year ended 31 December 2014 on pages 4 to 17.

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 2014 and the results of its operations for the year ended 31 December 2014.

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 23 April 2015 and is signed in accordance with a resolution of the Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Directors

A J Borland
Director

S B Kennelly
Director

SELACS INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 NZ$	2013 NZ$
Premium income		2,828,716	2,914,313
Outward reinsurance expense		(2,183,297)	(2,118,302)
Net premium income		645,419	796,011
Claims expense	6	884	23,029
Net claims incurred		884	23,029
Commission income		213,350	144,380
Management fee expense		(48,000)	(48,000)
Net underwriting profit		809,885	869,362
Interest income		239,079	169,594
Audit fee to auditor for the audit of financial statements		(5,000)	(5,000)
Fee to auditor for the assurance services regarding the RBNZ solvency return		(5,000)	(10,000)
Interest expense		-	(37,428)
Other expenses		(4,063)	(6,527)
PROFIT BEFORE INCOME TAX EXPENSE		1,034,901	980,001
Income tax expense	2	289,772	338,896
PROFIT FOR THE YEAR		745,129	641,105
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		745,129	641,105

The notes to the financial statements on pages 8 to 17 form part of and should be read in conjunction with this statement.

Deloitte. For Identification

SELACS INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital NZ$	Retained Earnings NZ$	Total NZ$
Balance at 1 January 2013	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
Profit for the year	-	745,129	745,129
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	745,129	745,129
Balance at 31 December 2014	1,600,000	3,546,929	5,146,929

The notes to the financial statements on pages 8 to 17 form part of and should be read in conjunction with this statement.

Deloitte. For Identification

SELACS INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	NOTE	2014 NZ$	2013 NZ$
EQUITY			
Share capital	3	1,600,000	1,600,000
Retained earnings	4	3,546,929	2,801,800
TOTAL EQUITY		5,146,929	4,401,800
Represented By:			
CURRENT ASSETS			
Receivables		3,405	2,873
Prepayments		1,127,071	1,056,226
TOTAL CURRENT ASSETS		1,130,476	1,059,099
NON- CURRENT ASSETS			
Other financial assets	5	4,948,964	4,012,180
TOTAL NON-CURRENT ASSETS		4,948,964	4,012,180
TOTAL ASSETS		6,079,440	5,071,279
CURRENT LIABILITIES			
Bank overdraft (secured)	9	544,944	362,635
Claims and other payables	6	97,795	33,029
Current tax payable	2	289,772	273,815
TOTAL CURRENT LIABILITIES		932,511	669,479
NET ASSETS		5,146,929	4,401,800

The notes to the financial statements on pages 8 to 17 form part of and should be read in conjunction with this statement.

Deloitte. For Identification

SELACS INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 NZ$	2013 NZ$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers and commissions		3,127,662	3,055,820
Interest received		239,079	193,722
		3,366,741	3,249,542
Cash was disbursed to:			
Claims paid		23,913	871,606
Payments to suppliers		60,396	75,603
Reinsurance premiums paid		2,254,142	2,117,633
Tax paid		273,815	-
		2,612,266	3,064,842
NET CASH GENERATED BY OPERATING ACTIVITIES	8	754,475	184,700
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		936,784	429,737
Purchase of New Zealand Government Stock		-	536,748
		936,784	966,485
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		(936,784)	55,035
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was applied to:			
Borrowings repaid		-	917,096
		-	917,096
NET CASH USED IN FINANCING ACTIVITIES		-	(917,096)
NET (DECREASE) IN NET CASH		(182,309)	(677,361)
Cash and cash equivalents at the beginning of the year		(362,635)	314,726
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(544,944)	(362,635)
Represented by:			
Bank overdraft		(544,944)	(362,635)

The notes to the financial statements on pages 8 to 17 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), International Financial Reporting Standards and other applicable financial reporting standards as appropriate for profit-oriented entities.

External Reporting Board Standard A1: Accounting Standards Framework (For-profit Entities Update) XRB A1

XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must comply with. The Company is a tier 1 entity.

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 observable 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 2014 and are consistent with the accounting policies applied in the previous financial year.

1 SUMMARY OF ACCOUNTING POLICIES

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.

The carrying values of receivables, financial assets (note 5) and claims and other payables (note 6) 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 are 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.

1 SUMMARY OF ACCOUNTING POLICIES

(e) Interest Expense

Interest expense is accrued on a time basis using the effective interest method and is recognised in profit or loss in the period in which it is 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.

(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.

1 SUMMARY OF ACCOUNTING POLICIES

(g) Income Tax (cont'd)

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, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(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 at cost or amortised cost. Gains and losses on a financial asset designated in this category and not part of a hedging relationship are recognised in profit or loss.

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 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. Intragroup balances due from Group companies are measured at amortised cost less impairment losses.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(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).

1 SUMMARY OF ACCOUNTING POLICIES

(i) Impairment of Assets (cont'd)

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of 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 Company 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.

Adoption of New and Revised Standards and Interpretations

i Standards and Interpretations Effective in the Current Period

The adoption of Standards, Interpretations and Amendments that became effective in the current year has not led to any changes in the Group's accounting policies, with no measurement or recognition impact on the periods presented in these financial statements.

ii Standards and Interpretations in Issue not yet Effective

The Group has reviewed all Standards, Interpretations and Amendments to existing Standards in issue not yet effective and, with the exception of NZ IFRS 9 (2014) *Financial Instruments* which is effective for the financial year ending 31 December 2018 and NZ IFRS 15 *Revenue* which is effective for the year ending 31 December 2017, does not expect these Standards to have a material effect on the financial statements of the Company. NZ IFRS 9 (2014) *Financial Instruments* establishes the principles for hedge accounting and impairment of financial assets. NZ IFRS 15 *Revenue* establishes principles for reporting useful information about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company has not yet determined the potential impact of these Standards.

2. TAXATION

(a) Income Tax Recognised in Profit

	2014 NZ$	2013 NZ$
Income tax expense comprises:		
Current tax expense	289,772	273,815
Deferred tax expense relating to the origination and reversal of temporary differences	-	65,081
Total income tax expense recognised in profit or loss	289,772	338,896

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

	2014 NZ$	2013 NZ$
Profit from operations	1,034,901	980,001
Income tax expense calculated at 28%	289,772	274,400
Under provision of income tax in previous year	-	64,496
	289,772	338,896

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

	2014 NZ$	2013 NZ$
Balance at beginning of the year	273,815	-
Taxation paid	(273,815)	-
Taxation expense	289,772	273,815
Balance at end of the year	289,772	273,815

(c) Deferred Tax Balances

	Opening balance NZ$	(Charged) to income NZ$	Closing balance NZ$
2013			
Gross deferred tax asset:			
Trade and other payables	65,081	(65,081)	-

3. SHARE CAPITAL

	2014 NZ$	2013 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

	2014 NZ$	2013 NZ$
Balance at beginning of the year	2,801,800	2,160,695
Profit for the year	745,129	641,105
Balance at end of the year	3,546,929	2,801,800

5. OTHER FINANCIAL ASSETS

Non-current assets:

	2014 NZ$	2013 NZ$
At amortised cost:		
Advance to Scales Corporation Limited	4,948,964	4,012,180
	4,948,964	4,012,180

6. CURRENT CLAIMS AND OTHER PAYABLES

	2014 NZ$	2013 NZ$
Accruals	97,795	10,000
Liability for outstanding claims:		
Opening balance	23,029	871,606
Claims in year	884	23,029
Claims paid	(23,913)	(871,606)
Closing balance	-	23,029
	97,795	33,029

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 reviewed the financial statements compared to the previous year, and is satisfied with the reasonableness and accuracy of the financial statements. Being a captive insurer with a very simple premium structure, with only two claims in recent years, he is satisfied that no further checks of the data are required.

The Actuary has reviewed the actuarial information including the deferred reinsurance premium and, in his opinion, the actuarial information contained in the financial statements has been appropriately included and used in the preparation of the financial statements.

7. RELATED PARTY DISCLOSURES

The holding company is Scales Holdings Limited which is a wholly owned subsidiary of Scales Corporation Limited.

Liqueo Bulk Storage Limited, Meateor Foods Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Polarcold Stores Limited, Scales Logistics Limited and Whakatu Coldstores Limited are also subsidiaries of Scales Corporation Limited.

	2014 NZ$	2013 NZ$
Insurance premium income from companies within the Scales Corporation Limited Group.	2,667,879	2,914,313
Interest income received from Scales Corporation Limited	239,079	164,352
Insurance claims paid to companies within the Scales Corporation Limited Group.	23,913	871,606
Insurance claims payable to companies within the Scales Corporation Limited Group.	-	23,029
Advance to Scales Corporation Limited included in other financial assets	4,948,964	4,012,180

The advance to Scales Corporation Limited is repayable on demand. The interest rate is 5.5% (2013 4.5%).
The Directors include the managing director and chief financial officer of Scales Corporation Limited who are the key management personnel of Selacs Insurance Limited.

8. NET CASH GENERATED BY OPERATING ACTIVITIES

Reconciliation of profit for the period to net cash generated by		
Profit for the year	745,129	641,105
Non-cash items:		
Amortisation of prepayments	-	17,272
Deferred tax	-	65,081
Changes in net assets and liabilities:		
Receivables and accruals	(532)	3,983
Other current assets	(70,845)	38,097
Claims and other payables	64,766	-854,653
Current tax payable	15,957	273,815
Net cash generated by operating activities	754,475	184,700

9. 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. The total facility is $102,000,000. Based on the current financial performance of the Group the likelihood of the guarantee being called is considered by the directors to be very low.	41,000,000	60,000,000

Deloitte.
For Identification

10. CREDIT RATING

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

11. REINSURANCE

Selacs Insurance Limited has reinsurance cover in the market of $150 million in respect of earthquake and other natural disaster losses but $75 million in respect of fire and perils losses, in annual aggregate, but retains risks of up to $2.7 million (2013: $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.

12. 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 insurance risk 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 has developed, implemented and maintained 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 systems.

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 claims.
- The mix of assets in which we invest is driven by the nature and term of insurance.
- The diversification over separate geographical areas (Canterbury, Hawke's Bay and Otago) seeks to reduce variability in loss experience.

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.

13. 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 fluctuations 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.

13. FINANCIAL INSTRUMENTS

(a) Capital Management (cont'd)

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:

	2014 NZ$	2013 NZ$
Actual solvency capital	5,146,929	4,401,800
Minimum solvency capital	7,478,789	1,185,225
Solvency margin (deficit)	(2,331,860)	3,216,575
Solvency coverage ratio	0.69	3.71

The latest solvency return completed as at 31 December 2014 reported a solvency margin deficit of $2,331,860. This breach of the minimum capital requirements under the RBNZ Solvency Standard for Captive Insurers transacting Non-Life Business has occurred due to the inclusion of the Company in a General Security Agreement (GSA) applying to the Scales Corporation Limited Group.

The RBNZ was advised of this breach on 23 March 2015. The Group's bankers subsequently removed Selacs Insurance Limited from the GSA effective 15 April 2015.

If Selacs Insurance Limited had not been included in the GSA at 31 December 2014, the minimum solvency capital would have been $1,328,789, the solvency margin $3,818,140 and the solvency coverage ratio 3.87.

(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:

	2014	2013	Interest Rate Review Period
Short term borrowings	-	-	30 - 90 days
Advances to Scales Corporation Limited	5.50%	4.50%	Six weekly

(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 related party advances. The Company continuously monitors the credit quality of its investments and does not anticipate non-performance of those customers.

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 14.

	2014 NZ$	2013 NZ$
(f) Categories of Financial Instruments		
Financial Assets:		
Amortised cost	4,952,369	4,015,053
Financial Liabilities:		
Amortised cost	642,739	395,664

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.

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Identification

13. FINANCIAL INSTRUMENTS

(g) 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 2014 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 $33,300 (2013 $28,800).

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

14. 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$
2014				
Claims and other payables	97,795	-	-	97,795
Bank overdraft	544,944	-	-	544,944
	642,739	-	-	642,739
2013				
Claims and other payables	33,029	-	-	33,029
Bank overdraft	362,635	-	-	362,635
	395,664	-	-	395,664

15. EVENTS OCCURRING AFTER BALANCE DATE

There have been no significant post balance date events (2013 - Nil).

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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 17, which comprise the statement of financial position as at 31 December 2014, and the 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 shareholders, as a body, 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 and the provision of other assurance services regarding the RBNZ Solvency Return, we have no relationship with or interests in Selacs Insurance Limited. These services have not impaired our independence as auditors of Selacs Insurance Limited.

Opinion

In our opinion, the financial statements on pages 4 to 17:

- 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 2014, 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 2014:

- 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
23 April, 2015
Christchurch, New Zealand