South Pacific Warranty Services Limited
Registration Number 1595617

Annual Report for the year ended 30 June 2012

South Pacific Warranty Services Limited

Annual report

For the year ended 30 June 2012

Contents

South Pacific Warranty Services Limited

Company Directory

Directors

The following persons were directors of South Pacific Warranty Services Limited during the reporting period and up to the date of this report:

Anthony David Jones
Kevin Ellis
Simon Cook
Craig Methven
Jason Thompson

Unless otherwise stated, the directors held office for the entire period.

Principal activities

The Company provides warranty underwriting services. There has been no change to the principal activity of the Company during the year.

Registered Office

Grant Thornton Auckland Limited
Chartered Accountants
97-101 Hobson Street
Auckland

Company details

Company incorporation number	159617
Inland Revenue Department (IRD) number	090 001 620

Holding Company

ICF Holdings (NZ) Limited RN 1695428

Solicitors

Phillips Fox
Queen Street, Auckland

Bankers

ANZ Banking Group (NZ) Limited
15 Mercari Way
Albany, Auckland

Auditors

KPMG
10 Shelley Street,
Sydney, Australia

South Pacific Warranty Services Limited

Directors' declaration

In the opinion of the Directors of South Pacific Warranty Services Limited (the Company), the financial statements and notes, on pages 3 to 38

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2012 and the results of operations and cash flows for the year ended on that date; and
- have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:

Simon Cook	Kevin Ellis
Director	Director
Date : 11/10/2012	Date : 11/10/12

South Pacific Warranty Services Limited

Statement of comprehensive income

For the year ended 30 June 2012

In thousands of AUD	***Note***	**2012**	**2011**
Premium revenue	*4*	69,079	56,354
Outwards reinsurance premium expense	*11*	(37,449)	(28,243)
Net premium		31,630	28,111
Claims expense	*17*	(51,536)	(52,534)
Reinsurance recoveries	*4*	26,011	23,882
Net Claims incurred		(25,525)	(28,652)
Unexpired risk provision	*19*	(104)	2,287
Underwriting expenses		(545)	(496)
Net underwriting expenses		(26,174)	(26,861)
Underwriting result		**5,456**	**1,250**
Other income	*5*	57	694
Operating expenses	*6*	(1,227)	(277)
Investment income	*7*	4,642	4,638
Profit before income tax expense		8,928	6,305
Income tax expense	*8*	(2,482)	(2,036)
Profit after income tax expense		6,446	4,269
Other comprehensive income		-	-
Total Comprehensive income for the year		6,446	4,269
Profit attributable to:			
Equity holders of the parent		6,446	4,269
Profit for the year		6,446	4,269
Total Comprehensive income attributable to :			
Equity holders of the parent		6,446	4,269
Total Comprehensive income		6,446	4,269

The notes on pages 7 to 38 are an integral part of these financial statements.

South Pacific Warranty Services Limited

Statements of financial position

As at 30 June 2012

In thousands of AUD	***Note***	**2012**	**2011**
Current assets			
Cash and cash equivalents	*9*	57,742	59,359
Trade and other receivables	*10*	17,307	14,019
Deferred reinsurance expense	*11*	41,154	36,978
Investments	*13*	1,573	1,087
Reinsurance recoveries	*12*	5,226	5,956
Total current assets		123,002	117,399
Non-current assets			
Deferred reinsurance expense	*11*	70,861	75,667
Loan to Parent entity	*13*	-	1,006
Loan to ultimate holding company	*13*	22,799	22,815
Investments	*13*	-	400
Deferred tax assets	*14*	634	645
Total non-current assets		94,294	100,533
Total assets		217,296	217,932
Liabilities			
Trade and other payables	*15*	8,495	9,639
Income tax payable	*16*	895	341
Outstanding claims liability	*17*	1,264	1,354
Unearned premium liability	*18*	72,100	67,998
Unexpired risk reserve	*19*	832	789
Total current liabilities		83,586	80,121
Non-current liabilities			
Unearned premium liability	*18*	124,144	130,628
Unexpired risk reserve	*19*	1,432	1,516
Total non-current liabilities		125,576	132,144
Total liabilities		209,162	212,265
Net assets / (liabilities)		8,134	5,667
Equity			
Issued capital		3,973	3,973
Retained earnings		4,161	1,694
Total equity	*20*	8,134	5,667

The notes on pages 7 to 38 are an integral part of these financial statements.

South Pacific Warranty Services Ltd

Statement of changes in equity

For the year ended 30 June 2012

	Attributable to equity holders of the Company		
In thousands of AUD	**Share capital**	**Retained earnings**	**Total Equity**
2012			
Balance at 1 July 2011	**3,973**	**1,694**	**5,667**
Total comprehensive income for the period			
Profit for the year	-	6,446	**6,446**
Total Comprehensive income	**-**	**6,446**	**6,446**
Dividends	-	(3,979)	(3,979)
Total transactions with owners recorded directly in equity		**(3,979)**	**(3,979)**
Balance at 30 June 2012	**3,973**	**4,161**	**8,134**

	Attributable to equity holders of the Company		
In thousands of AUD	**Share capital**	**Retained earnings**	**Total Equity**
2011			
Balance at 1 July 2010	**3,973**	**(2,575)**	**1,398**
Total comprehensive income for the period			
Profit for the year	-	4,269	**4,269**
Total Comprehensive income	**-**	**4,269**	**4,269**
Transactions with owners recorded directly in equity	-	-	-
Balance at 30 June 2011	**3,973**	**1,694**	**5,667**

The notes on pages 7 to 38 are an integral part of these financial statements.

South Pacific Warranty Services Ltd

Statement of cash flows

For the year ended 30 June 2012

In thousands of AUD	***Note***	**Consolidated 2012**	**2011**
Cash flows from operating activities			
Cash receipts from customers		67,655	70,882
Cash paid to suppliers		(68,391)	(70,826)
Cash generated/(used in) operations		(736)	56
Income taxes (paid)/received		(1,917)	(373)
Net cash flows from operating activities	*9*	(2,653)	(317)
Cash flows from investing activities			
Increase in investments		(86)	(30)
Investment income received		4,642	4,638
Net cash flows from/(used in) investing activities		4,556	4,608
Cash flows from financing activities			
Payments received/(made) re loan to parent		1,006	(6)
Payments received/(made) re loan to ultimate parent		16	(21)
Dividends paid		(3,979)	-
Net cash flows from financing activities		(2,957)	(27)
Net increase cash and cash equivalents		(1,054)	4,264
Effect of exchange rate fluctuations on cash held		(563)	(955)
Cash and cash equivalents at beginning of year		59,359	56,050
Cash and cash equivalents at 30 June	*9*	57,742	59,359

The notes on pages 7 to 38 are an integral part of these financial statements

South Pacific Warranty Services Limited

Notes to the financial statements

For the year ended 30 June 2012

1. Significant accounting policies

South Pacific Warranty Services Limited ("the Company") is a company limited by shares, incorporated and domiciled in New Zealand and registered under the Companies Act 1993. THE Company is an issuer in terms of the Financial Reporting Act 1993.

The principal activity of the Company during the course of the reporting year was warranty underwriting services.

The financial statements of the Company are for the year ended 30 June 2012, and were authorised for issue by the Directors on 11th October 2012.

a) Statement of compliance

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 applicable Financial Reporting Standards as appropriate to profit-oriented entities. The Company is a profit-oriented entity. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements also comply with international financial reporting standards (IFRS).

b) Basis of preparation

The financial statements are presented in Australian dollars, and are prepared on the historical cost basis except for financial assets and outstanding claims liabilities. The functional currency is Australian Dollar and all values are rounded to the nearest thousand dollar unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

c) Use of estimates and judgements

The preparation of a financial report in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. See note 2 for further information.

1. Significant accounting policies (continued)

d) Foreign currency

Transactions in foreign currencies are translated to the functional currency of Australian dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and non-monetary liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

e) Classification of warranty contracts

Warranty contracts under which the Company accepts risk from another party by agreeing to indemnify the other party if a specified future event adversely affects the other party are considered to have certain similarities to an insurance contract and are therefore accounted for using insurance accounting principles. Insurance risk is risk other than financial risk.

f) Revenue

(i) Premium revenue

Premium revenue from warranty underwriting business includes amounts charged to the policyholders, excluding amounts collected on behalf of third parties.

Premium revenue is recognised in the Statement of comprehensive income when it has been earned, that is, from the attachment date over the period of the contract in accordance with the pattern of incidence of risk. The pattern of incidence of risk is based on an estimation process which is regularly reviewed for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

The proportion of premium received or receivable not earned in the Statement of comprehensive income at the reporting date is recognised in the Statement of financial position as an unearned premium liability.

(ii) Reinsurance and other recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not yet reported, risk margins and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

(iii) Investment income

Interest income is recognised in the Statement of comprehensive income when it accrues, using the effective interest method.

1. Significant accounting policies (continued)

g) Investments in debt and equity securities

Where the Company has the positive intent and ability to hold government bonds to maturity, they are stated at amortised cost less impairment losses.

Other financial instruments held by the Company are classified as fair value through profit or loss and are stated at fair value with any profit or loss recognised through the statement of comprehensive income. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the statement of comprehensive income.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the reporting of financial position date.

Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the Company on the date it commits to purchase/sell the investments. Securities held-to-maturity are recognised/ derecognised on the day they are transferred to/by the Company.

h) Assets backing underwriting liabilities

The assets backing warranty underwriting liabilities are those assets that, in the opinion of the directors would be required to cover the warranty underwriting liabilities plus an allowance for uncertainty.

Warranty underwriting liabilities are assessed by the directors utilising actuarial valuations and estimates to include liabilities for outstanding claims, unearned premium, the unexpired risk reserve plus a minimum capital base assessed by the directors (note 18 and 19).

Underwriting assets are detailed in the accounts and include:

- Cash on hand via banks with an AA credit rating
- Term deposits via banks with an AA credit rating
- New Zealand government bond
- Reinsurance assets through reinsurers with an AA credit rating
- Unlisted investment trust
- Loan to the ultimate parent entity secured by fixed and floating charges over the following fully owned subsidiaries of the ultimate parent entity:
    - ICF (Australia) Pty Ltd
    - IC Frith (NZ) Ltd

i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see note 10)

j) Cash assets

Cash and cash equivalents comprise cash balances and call deposits.

1. Significant accounting policies (continued)

k) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

i) Calculation of recoverable amount

The recoverable amount of the Company's receivables is carried at the present value of the future cash flows. Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1. Significant accounting policies (continued)

k) Impairment (continued)

ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

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.

iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired ;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of comprehensive income.

1. Significant accounting policies (continued)

l) Share capital

Ordinary shares are classified as equity. Any dividends are recognised as a liability in the financial period in which they are declared.

m) Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date.

Provision is made for unexpired risks arising from warranty underwriting business where the expected present value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date together with a risk margin exceeds the unearned premium liability in relation to such policies at the reporting date after the deduction of any deferred acquisition costs. The liability adequacy test is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio. Any deficiency arising from the test is recognised immediately in the Statement of comprehensive income firstly through the write down of any related intangible assets and then the related deferred acquisition costs, with any remaining balance being recognised on the statement of financial position as an unexpired risk liability.

n) Outstanding claims liability

The outstanding claims liability is the value of expected future payments relating to the claims incurred at the report date. Expected future payments include those in relation to claims reported but not yet paid or are yet paid in full, claims incurred but not reported ("IBNR").

The estimation of outstanding claims liability includes a number of key assumptions. The Company takes all reasonable steps to ensure it has appropriate information on which to base this estimate. However given the uncertainty involved it is likely that the final outcome will differ from the original claims liability established.

The gross claims expense in the Statement of comprehensive income comprises the claims paid and the change in the liability for outstanding claims, both reported and unreported.

1. Significant accounting policies (continued)

o) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims liabilities (notified and not yet notified) are recognised as income. Recoveries receivable on paid claims are presented as part of trade and other debtors net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims liabilities are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the statement of financial position.

p) Provisions

A provision is recognised in the Statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

q) Trade and other payables

Trade and other payables are stated at cost.

r) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of incidence of risk ceded. Accordingly a proportion of outwards reinsurance premium is treated as prepaid and disclosed as deferred reinsurance expense in the Statement of financial position.

s) Income tax

Income tax on the profit or loss for the financial period comprises current and deferred tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

1. Significant accounting policies (continued)

s) Income tax (continued)

The Company has opted for the liability method of valuation. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

t) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as a current asset or liability in the statement of financial position.

u) Subvention Payments

The Company is a subsidiary of a ICF Holdings (NZ) Ltd. In order to minimise tax obligations, profit making companies that form a part of this group, transfer profits to loss making companies via subvention payments. These payments are reported as either "other operating expense" or "other income".

2. Accounting estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(ii) Unearned premium liability and unexpired risk reserve

In accordance with the recognition of premium revenue (see accounting policy 1 f(i)) the consequent unearned premium liability at the end of the year is based upon the expected future pattern of incidence of risk in relation to warranty contracts. This pattern is based on an estimation process which is regularly reviewed for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

In calculating the estimated pattern of incidence of risk the Company uses a variety of estimation techniques, generally based upon statistical analyses of the Company and industry experience that assumes that the development pattern of current claims will be consistent with past experience as appropriate.

In undertaking the liability adequacy test to assess the carrying amount of the unearned premium liability allowance is made through the application of a risk margin for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of future claims to increase or reduce when compared with the cost of previously settled claims.

Analysis of the unearned premium liability is provided in note 18 together with the application of the Liability Adequacy Test including the unexpired risk reserve.

The level of uncertainty around the eventual cost of claims relating to the unexpired portion of policies is significant given both the extended time period over which the claims may be reported (up to 7 years from the date of purchase of the underlying service plan/extended warranty arrangement) and the potential change in the underlying assumptions as set out in note 18.

(iii) Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also determined using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

An analysis of reinsurance recoveries is provided in note 12.

3. Actuarial assumptions and methods

Actuarial assumptions are used in the determination of unearned premiums and the liability adequacy testing in relation to these contracts. (See note 18).

The effective date of the actuarial valuation on the outstanding claims liability was 30th April 2011. The liability valuation was prepared by the appointed actuary, Mr Andrew Scott FIAA, FNZSA. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of NZ IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard Number 4: "General Insurance Business".

The Company writes extended and manufacturer's warranty contracts.

4. Revenue

In thousands of AUD	2012	2011
Gross written premium	67,017	70,172
Movement in unearned premium	2,062	(13,818)
Net premium revenue	69,079	56,354
Reinsurance recoveries income	26,011	23,882
Underwriting revenue	95,090	80,236

5. Other income

In thousands of AUD	2012	2011
Subvention income	-	694
Foreign exchange gain	57	-
	57	694

6. Operating expenses

In thousands of AUD	2012	2011
Operating expenses		
Audit fees	71	71
Other professional and consulting fees	101	55
Subventions	1,055	-
Foreign exchange losses	-	151
	1,227	277

7. Investment income

In thousands of AUD	2012	2011
Finance income		
Investment income – loan to holding company	1,661	1,688
Investment income – other investments	2,981	2,950
Investment income	**4,642**	**4,638**

8. Income tax expense

Recognised in the statement of comprehensive income

In thousands of AUD	2012	2011
Current tax expense/(benefit)		
Current year	2,475	1,210
Adjustments for prior years	(14)	110
	2,461	1,320
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	21	716
Adjustments for prior years	-	-
	21	716
Total income tax expense in statement of comprehensive income	2,482	2,036

8. Income Tax expense (continued)

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	**2012**	**2011**
Profit before tax	8,928	6,305
Income tax using the domestic corporation tax rate of 28%	2,500	
Income tax using the domestic corporation tax rate of 30%	-	1,892
Increase in income tax expense due to :		
Foreign Currency	(18)	(12)
Prior year permanent impact	-	110
Deferred impact of reducing corporate tax rate from 30% to 28%	-	46
	2,482	2,036

Imputation credit account

In thousands of AUD	**2012**	**2011**
Imputation credits at 1 July	678	139
New Zealand tax payments, net of refunds	931	539
Imputation credits as 30 June	1,609	678

9. Cash and cash equivalents

In thousands of AUD	**2012**	**2011**
Bank balances	13,197	11,147
Term deposits	44,545	48,212
	57,742	59,359

9. Cash and cash equivalents (continued)

Reconciliation of cash flows from operating activities

		Consolidated	
In thousands of AUD	***Note***	**2012**	**2011**
Cash flows from operating activities			
Profit for the period		6,446	4,269
Adjustments for:			
Investment income	*7*	(4,642)	(4,638)
Income tax expense/(benefit)	*8*	2,482	2,036
Operating profit before changes in working capital and provisions		4,286	1,667
(Increase)/decrease in reinsurance recoveries	*12*	730	(171)
(Increase)/decrease in trade and other receivables	*10*	(3,288)	1,251
(Increase)/decrease in deferred reinsurance expenses	*11*	630	(11,756)
Foreign exchange impact on working capital		563	955
(Decrease)/increase in trade and other payables		(1,144)	(2,149)
(Decrease)/Increase in underwriting liabilities		(2,513)	10,259
		(736)	56
Income taxes (paid)/received		(1,917)	(373)
Net cash from operating activities		(2,653)	(317)

10. Trade and other receivables

	Note	**2012**	**2011**
In thousands of AUD			
Current			
Trade receivables due from related parties	*25*	7,764	6,926
Claim payment advances due from related parties	*25*	114	124
Other trade receivables and prepayments		9,429	6,969
		17,307	14,019

11. Deferred reinsurance expense

In thousands of AUD	2012	2011
Non-current	70,861	75,667
Current	41,154	36,978
	112,015	112,645
Opening balance	112,645	100,889
Reinsurance premiums paid in the year	36,819	39,999
Reinsurance premiums expensed in the year	(37,449)	(28,243)
	112,015	112,645

12. Reinsurance recoveries

In thousands of AUD	2012	2011
Current		
Expected future recoveries undiscounted on outstanding claims	5,226	5,956

13. Investments

In thousands of AUD	*Note*	2012	2011
Current Investments			
Unlisted investment unit trust		1,174	1,087
New Zealand Government Bond		399	-
		1,573	1,087
Non-current investments			
Loan to parent entity	*25*	-	1,006
Loan to ultimate holding company	*25*	22,799	22,815
New Zealand Government Bond		-	400
		22,799	24,221
Total Investments		24,372	25,308

13. Investments (continued)

The New Zealand Government bond is deposited with the Public Trust Office, Wellington, in accordance with registration compliance under the New Zealand Insurance Companies Deposit Act 1953.

The loan to the ultimate holding company is managed as part of the Company's investment portfolio. The loan is formally secured by way of agreements with fellow subsidiaries, whereby the Company has a fixed and floating charge over the assets of those companies. The loan is denominated in Australian dollars and accordingly interest terms are set at the prevailing average term deposit rates available to the Company in Australia plus one percent. The loan remains repayable on terms agreeable to both parties from time to time and repayment can be called upon with 18 months notice. Repayment of the loan is subject to the future cash generating ability of the other entities within the group.

The loan to the parent entity is interest bearing with repayment due within 4 years. The loan is denominated in Australian Dollar and accordingly interest terms are set at the prevailing average term deposit rates available to the Company in Australia plus one percent.

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2012		
In thousands of AUD	**Assets**	**Liabilities**	**Net**
Unexpired risk reserve	634	-	634
Net tax assets	634	-	634

	2011		
In thousands of AUD	**Assets**	**Liabilities**	**Net**
Unexpired risk reserve	645	-	645
Net tax assets	645	-	645

14. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the period

	2012			
In thousands of AUD	**Opening Balance**	**Foreign Exchange**	**Recognised in income**	**Closing Balance**
Unexpired risk reserve	645	10	(21)	634
	645	10	(21)	634

	2011			
In thousands of AUD	**Opening Balance**	**Foreign Exchange**	**Recognised in income**	**Closing Balance**
Unexpired risk reserve	1,456	(95)	(716)	645
	1,456	(95)	(716)	645

The directors are of the opinion that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised

15. Trade and other payables

In thousands of AUD	**2012**	**2011**
Other trade payables including reinsurance premiums payable	8,495	9,639
	8,495	9,639

16. Current income tax assets and liabilities

In thousands of AUD	**2012**	**2011**
Income tax payable	(895)	(341)

The current tax liability for the Company represents the shortfall of tax payments versus the estimated balance payable to the Inland Revenue Department.

17. Outstanding claims liability

In thousands of AUD	2012	2011
Current	1,264	1,354
Reconciliation of movement in claims liability:		
Balance at the beginning of the year	1,354	1,183
Claims incurred in the current year	51,536	52,534
Reinsurance and other recoveries in the current year	(26,011)	(23,882)
Claims costs paid (net of reinsurance)	(25,615)	(28,481)
	1,264	1,354
Outstanding claims liability at the end of the year	1,264	1,354
Reinsurance and other recoveries receivable	(5,226)	(5,956)
Net outstanding claims liability at the end of the year	(3,962)	(4,602)

No claims development table has been reported as all claims are expected to be settled within 12 months of being incurred.

Whilst periods of indemnity range from 1 to 5 years, claims settlement periods are typically less than six months after being reported. Consequently, the determination of the outstanding claims liability is less complex, and of less relative importance than consideration of the adequacy of the unearned premium liability, when considering the liability adequacy test. For this reason no risk margin is adopted in the determination of the outstanding claims liability.

18. Unearned premium liability

In thousands of AUD	2012	2011
Current	72,100	67,998
Non-current	124,144	130,628
	196,244	198,626
Reconciliation of movement in unearned premium liability		
Opening balance	198,626	185,989
Written premium in the period	67,017	70,172
Premium earned during the year	(69,079)	(56,354)
Movement in foreign currency exchange rates	(320)	(1,181)
	196,244	198,626

18. Unearned premium (continued)

Liability Adequacy Test: Process

The adequacy of the Unearned Premium Liability (UPL) is assessed by determining the central estimate of expected future cash flows in respect of claims associated with unexpired risks together with a risk margin to reflect the inherent uncertainty in the estimate and then comparing this amount to the unearned premium liability.

The assumptions used within these accounts were derived as at 30th June 2011. These assumptions were reviewed again at 30th June 2012 and it was resolved that no further adjustment was required, with inflation savings offsetting reductions to the discount rate.

A number of actuarial methods have been applied to project future claim payments in order to establish the central estimates and risk margin. These methods assist in providing a greater understanding of the trends inherent in past data. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the warranty category and the availability of historic loss development data.

The principal method adopted uses a combination of claim severity (average claims size) and claim frequency (the expected number of claims per underlying risk exposure) to determine the expected future costs.

The following assumptions have been made in assessing adequacy of the unearned premium liability and unexpired risk reserve:

(i) Assumptions

	30 June 2012	30 June 2011
Weighted average term to recognition (years)	1.57	1.71
Discounted mean term (years)	1.52	1.58
Indirect expense ratio	1.0%	1.0%
Risk margin	7.4%	6.9%
Claims inflation	2.0% to 3.0%	4.0% to 4.5%
Average claim size (Australia)	$295	$300
Claim frequency (Australia)	9.4%	10.1%
Discount rate (Australia)	2.62%	4.96%

18. Unearned premium (continued)

Liability Adequacy Test: Process (continued)

(ii) Processes used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

Assumption	Processes used to determine assumption
Average claim size	Average claim size is determined by reference to recently observed historical data, and is calculated across all claims settled. It reflects the existing mix of risk exposure to underlying products.
Claim frequency	Claim frequency is determined by applying frequency curves derived from historical loss frequency data. The assumed curve was tested on the most recent year of reported losses across all durations.
Claims inflation	The claims inflation is based on recently observed trends, adjusted to take account of short-term fluctuations and with reference to Bank forecasts and relevant ABS benchmarks.
Weighted average term to settlement	Calculated separately by warranty category based on historic settlement patterns
Indirect expense ratio	The future claims handling expense ratios were calculated with reference to projected internal management costs to be met by the Company as a percentage of unearned premium liabilities.
Risk margin	The risk margin was based on a statistical analysis undertaken by the internal actuary. The result reflects the volatility of past claims experience.
Discount rate	The discount rate for all liabilities has been determined based on the yield curve on Sovereign Government Bonds in each respective currency of origin.

18. Unearned premium (continued)

Liability Adequacy Test: Process (continued)

(iii) Sensitivity analysis and estimation uncertainty

The underwriting business conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying assumptions. The deviation of any variable from the assumptions will impact the financial performance and equity (net assets or liabilities) of the Company. Sensitivity analysis is conducted on certain key variables, whilst holding all other variables constant. It should be noted that the ranges used for the sensitivity analysis that follows do not necessarily represent the final outcome that may eventuate. The following tables and the analysis describe how a change in each assumption will affect the insurance liabilities.

Because of the nature of the Company underwriting business, increases and decreases in assumptions have a significant impact on the pattern and incidence of risk, which influences the amount of recognised premium revenue, and adequacy of the unearned premium liability and/or unexpired risk reserve.

Variable	Impact of movement in variable
Claim Severity	An increase in the average claim size would increase the future expected claim costs resulting in an increase in the required unexpired risk reserve.
Claim Frequency	An increase in the underlying claim frequency would increase the future expected claim costs resulting in an increase in the required unexpired risk reserve.
Weighted average term to settlement	A decrease in the average term to settlement would imply that claims are being paid sooner than expected. Expected payment patterns are used in determining the unearned premium liability and unexpired risk reserve. An increase or decrease in the weighted average term would have a corresponding decrease or increase on claims expense and premium revenue recognition patterns.
Economic and superimposed inflation (Loss trend)	Expected future payments for all significant classes are explicitly inflated. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense and premium revenue recognition patterns.
Discount rate	The unearned premium liability is calculated with reference to the timing of expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will decrease or increase (i.e. an opposite) impact on the overall premium liabilities.

18. Unearned premium (continued)

Liability Adequacy Test: Process (continued)

(iii) Sensitivity analysis and estimation uncertainty (continued)

Variable	Impact of movement in variable
Indirect expense ratio	An increase or decrease in the indirect expense rate assumption would have a corresponding impact on indirect expenses and premium revenue recognition patterns.
Risk margin	The premium liability includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost as the basis of "fair value" accounting. An increase or decrease in the percentage risk margin will have a corresponding increase or decrease in the overall premium liability and unexpired risk reserve.

(iii) Sensitivity analysis and estimation uncertainty (continued)

The table below summarises the sensitivity of the premium liabilities calculation for the purpose of the Liability Adequacy Test.

	Movement in variable		Net premium liabilities (central estimate) increase/(decrease) $000's (Note A)	
	2012	2011	2012	2011
Unearned premium liabilities (net of deferred reinsurance expense)			87,286	88,073
Claim Severity	+Aud$20	+Aud$20	5,708	5,822
	-Aus$20	-Aus$20	(5,708)	(5,822)
Claim Frequency	0.5%	0.5%	4,629	4,299
	-0.5%	-0.5%	(4,629)	(4,299)
Inflation rate	+1%	+1%	1,659	1,407
	-1%	-1%	(1,634)	(1,386)
Discount rate	+1%	+1%	(1,347)	(1,451)
	-1%	-1%	1,392	1,502
Indirect expense ratio	+1%	+1%	803	805
	-1%	-1%	(803)	(805)
Risk margin	+1%	+1%	803	805
	-1%	-1%	(803)	(805)

Note A: This change would have an equivalent effect on net profit/loss before tax and shareholders' equity (net of tax effect)

18. Unearned premium liability (continued)

Liability Adequacy Test: Process (continued)

Significant Uncertainty

There is significant uncertainty over the eventual settlement costs of claims related to the unexpired risks (unearned premium liabilities) at the reporting date. This arises from the extended period of cover provided (up to 5 years), the change in mix of products covered and the associated failure/repair costs, and changes in the cost of replacing/repairing such products. A significant increase in either of the underlying assumptions over claim severity and frequency could result in an understatement of the unexpired risk reserve.

The Directors believe that based on the pricing enhancements implemented in April 2007 and again in December 2009 and the outcome of a tender for computer notebook repairs in June 2010, this potential uncertainty has been adequately provided for within these accounts.

(iv) Liability adequacy test

The conduct of the liability adequacy test identified a deficit as at 30th June 2012. For the purposes of the test, the present value of expected future cash flows for future claims, net of reinsurance recoveries, including the risk margin for the Company is $87,286,000 (2011 $88,073,000), comprising the central estimate of $81,369,000 (2011 $82,212,000) and a risk margin of $5,917,000 (2011 $5,861,000). This is intended to achieve probability of adequacy of 75% New Zealand risks and 60% for all others (2011: 60% throughout). The Risk Margin was determined from a statistical analysis of the historic loss experience as undertaken by the actuarial officer employed by the Company.

(v) Concentration of insurance risk

The underwriting business writes warranty contracts predominantly covering retail electrical products. The portfolio is spread across a diversified range of manufacturers and products in Australia, New Zealand, Ireland and other countries.

Regular reviews are undertaken to monitor the accumulation exposure to any particular product and/or manufacturer. Quota share reinsurance has been purchased to share the accumulated exposure in accordance with commercially available terms.

The underwriting business seeks to consistently re-insure its risk. From 1st April 2007 until 31st March 2009, 50% of risks were reinsured (previously 30%). From 1st April 2009, this level was uplifted to 60% except for New Zealand risks being 50% from 1st April 2012.

19. Unexpired risk reserve

In thousands of AUD	2012	2011
Current	832	789
Non-current	1,432	1,516
	2,264	2,305
Reconciliation of movement in unexpired risk reserve		
Opening balance	2,305	4,854
Total recognised income and expense	104	(2,287)
Movement due to foreign exchange	(145)	(262)
	2,264	2,305

20. Capital and reserves

Reconciliation of movement in capital and reserves

In thousands of AUD	Share capital	Retained earnings	Total equity
Balance at 1 July 2010	3,973	(2,575)	1,398
Total comprehensive income	-	4,269	4,269
Balance at 30 June 2011	3,973	1,694	5,667
Balance at 1 July 2011	3,973	1,694	5,667
Dividends paid	-	(3,979)	(3,979)
Total comprehensive income	-	6,446	6,446
Balance at 30 June 2012	3,973	4,161	8,134

At 30 June 2012, share capital comprised 4,631,160 ordinary shares (30 June 2011: 4,631,160).

The Company, in relation to its capital adequacy, seeks to satisfy all New Zealand regulatory requirements.

20. Capital and reserves (continued)

Capital Management

The capital management strategy of the Company is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the entity's ability to continue as a going concern. The Company's capital policy is to hold all surplus capital in bank deposits with bank credit ratings of a minimum of AA.

The Company's capital includes contributed equity on the statement of financial position of $3,973,296 (2011: $3,973,296).

The Company is required to hold a government bond of $NZ500,000 as part of its New Zealand regulatory capital requirements (refer note 13).

The Reserve Bank of New Zealand (RBNZ) has established new regulations that relate to the capital requirements of insurers providing cover on New Zealand domiciled risks. The Company's parent entity has established a new company (Product Care (NZ) Ltd) which has applied to the RBNZ for a license to operate as an insurer of New Zealand domiciled risks. Once this license has been granted, the NZ domiciled risks will be transferred from the Company to Product Care (NZ) Ltd.

Apart from our plans to divest of New Zealand domiciled risks, there were no changes in the Company's approach to capital management during the year.

21 Financial instruments

Fair values

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

		Carrying amount		**Fair value**	
In thousands of AUD	***Note***	**2012**	**2011**	**2012**	**2011**
Cash and cash equivalents	*9*	57,742	59,359	57,742	59,359
Trade and other receivables	*10*	17,307	14,019	17,307	14,019
Investments	*13*	1,573	1,487	1,581	1,495
Deferred reinsurance	*11*	112,015	112,645	112,015	112,645
Reinsurance recoveries	*12*	5,226	5,956	5,226	5,956
Loan to parent entity	*13*	-	1,006	-	1,006
Loan to ultimate holding company	*13*	22,799	22,815	22,799	22,815
Unearned premium liability	*18*	(196,244)	(198,626)	(196,244)	(198,626)
Unexpired risk reserve	*19*	(2,264)	(2,305)	(2,264)	(2,305)
Outstanding claims liability	*17*	(1,264)	(1,354)	(1,264)	(1,354)
Trade and other payables	*15*	(8,495)	(9,639)	(8,495)	(9,639)
		8,395	5,363	8,403	5,371

21. Financial instruments (continued)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Securities

Fair value is based on quoted market prices at reporting date without any deduction for transaction costs.

Loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousands of AUD	**Level 1**	**Level 2**	**Level 3**	**Total**
2012				
Unlisted investment unit trust	-	1,174	-	1,174
Government bond	-	399	-	399
Total	-	1,573	-	1,573

In thousands of AUD	**Level 1**	**Level 2**	**Level 3**	**Total**
2011				
Unlisted investment unit trust	-	1,087	-	1,087
Government bond	-	400	-	400
Total	-	1,487	-	1,487

There have been no transfers from level 2 to level 1 during the year.

22. Financial instruments (continued)

Financial Risk Management

The activities of the Company expose it to the following financial risks:
- Credit risk
- Liquidity risk
- Operational risk
- Market risk (include currency risk, cash flow and fair value interest rate risk)

The Company has developed, implemented and maintains Investment and Capital Management Strategies to minimise potential adverse impacts upon the financial performance of the Company arising from financial market volatility.

The key objective of the Company's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including its settlement of insurance liabilities.

Credit Risk
Credit risk relates to the possibility of default by transactional counterparties as well as the loss of value of assets due to the deterioration in credit quality. The Company's credit risk arises predominantly from policyholder premium debtors and reinsurance recoveries.

Trade and other receivables
The credit risk exposure of the Company is non-repayment of the carrying amounts of the financial assets. There is no significant concentration of credit risk as the Company transacts with a large number of individual debtors without any single one being material.

Reinsurance Recoveries
The credit risk exposure on reinsurance recoveries is reduced by only dealing with AA- rated reinsurers as rated by Standard & Poor's or Moody's.

Investments and cash
The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least AA from Standard & Poor's or Moody's equivalent. The majority of the investments are rated AA- to AA. There is no significant concentration of credit risk given these high credit ratings and management does not expect any counterparty to fail to meet its obligations.

Trade and other receivable Ageing

In thousands of AUD	**0 to 30 Days**	**31-60 Days**	**61-90 Days**	**91+ Days**	**Total**
2012					
Total trade receivables	17,305	-	-	-	17,305

Based on the aging shown above and allowing for cash received after reporting date, no impairment was required against trade and other receivable balances.

2011					
Total trade receivables	14,019	-	-	-	14,019

22. Financial instruments (continued)

Credit Exposures

The table below provides information regarding the credit risk exposure of the Company by classifying investments according to Standard and Poor's credit ratings of the counterparties. Trade and other receivables are not rated because of their short term nature and the lack of any singularly material debtors. AAA is the highest possible rating. As at 30 June 2012 the Company did not hold any rated financial assets with a Standard and Poor's credit rating below AA-.

2012	**AA- to AAA rated**	**Not rated**	**Total**
In thousands of AUD			
Financial Assets			
Cash and cash equivalents	57,742	-	57,742
Investments	399	1,174	1,573
Deferred reinsurance	112,015	-	112,015
Reinsurance recoveries	5,226	-	5,226
Loan ultimate holding company	-	22,799	22,799
Trade and other receivables	-	17,307	17,307
	175,382	41,280	216,662

2011	**AA- to AAA rated**	**Not rated**	**Total**
In thousands of AUD			
Financial Assets			
Cash and cash equivalents	59,359	-	59,359
Investments	400	1,087	1,487
Deferred reinsurance	112,645	-	112,645
Reinsurance recoveries	5,956	-	5,956
Loan ultimate holding company	-	22,815	22,815
Loan to parent entity	-	1,006	1,006
Trade and other receivables	-	14,019	14,019
	178,360	38,927	217,287

22. Financial instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities consist predominantly of cash deposits. The assets are managed so as to principally match the maturity profile of the assets with the expected pattern of claims payments or liability settlements. The cash deposits are restricted to banking institutions with a credit rating of at least AA.

Maturity Profiles

The table in below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for insurance contracts, when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Maturity Periods In Years				
In thousands of AUD	**0 to 1**	**1 to 3**	**3 to 5**	**5 to 10**	**Total**
2012					
Financial Assets					
Cash and cash equivalents	57,742	-	-	-	57,742
Investments	1,573	-	-	-	1,573
Deferred reinsurance	41,154	57,766	12,277	818	112,015
Reinsurance recoveries	5,226	-	-	-	5,226
Loan to parent entity	-	-	-	-	-
Loan ultimate holding company	-	22,799	-	-	22,799
Trade and other receivables	17,307	-	-	-	17,307
	123,002	80,565	12,277	818	216,662
Financial Liabilities					
Trade and other payables	(8,495)	-	-	-	(8,495)
Unearned premium liability	(72,100)	(101,203)	(21,508)	(1,433)	(196,244)
Unexpired risk reserve	(832)	(1,168)	(248)	(16)	(2,264)
Outstanding claims liability	(1,264)	-	-	-	(1,264)
	(82,691)	(102,371)	(21,756)	(1,449)	(208,267)

22. Financial instruments (continued)

	Maturity Periods In Years				
In thousands of AUD	**0 to 1**	**1 to 3**	**3 to 5**	**5 to 10**	**Total**
2011					
Financial Assets					
Cash and cash equivalents	59,359	-	-	-	59,359
Investments	1,087	400	-	-	1,487
Deferred reinsurance	36,978	56,573	17,483	1,611	112,645
Reinsurance recoveries	5,956	-	-	-	5,956
Loan to parent entity	-	1,006	-	-	1,006
Loan ultimate holding company	-	22,815	-	-	22,815
Trade and other receivables	14,019	-	-	-	14,019
	117,399	80,794	17,483	1,611	217,287
Financial Liabilities					
Trade and other payables	(9,639)	-	-	-	(9,639)
Unearned premium liability	(67,998)	(96,961)	(30,827)	(2,840)	(198,626)
Unexpired risk reserve	(789)	(1,125)	(358)	(33)	(2,305)
Outstanding claims liability	(1,354)	-	-	-	(1,354)
	(79,780)	(98,086)	(31,185)	(2,873)	(211,924)

Market Risk
Market risk is the risk that changes in security market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The Company has no exposure to market revaluation of financial instruments.

Currency Risk
Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates. The Company is exposed to foreign currency risk on revenues and expenses that are denominated in a currency other than Australian dollars. The currencies giving rise to this risk are primarily New Zealand Dollars, Euros, Great Britain Pounds and Australian Dollars.

The Company has no hedging mechanism in place against monetary assets and liabilities held in currencies other than Australian dollars. The Directors do not assess this as a significant risk.

Net exposure to foreign currency risk on assets backing underwriting liabilities is kept to a level acceptable to the Board by substantially aligning the currency of assets with underwriting liabilities. The only material exposure is on New Zealand dollars, where the Company holds assets in excess of liabilities of $NZ 9,708,855 (2011: surplus liability $NZ 9,232,093) and Euros where assets exceed liabilities by 826,901 Euros (2011 : 832,822 Euros).

22. Financial instruments (continued)

Currency risk (continued)

The estimated impact of a 0.02 exchange rate movement between New Zealand and Australian dollars would be as follows, given that the exchange rate at 30 June 2012 was 1.2763 (2011: 1.2952)

		Movement in $A/$NZ exchange rate	
In thousands of AUD		**Minus 0.02**	**Plus 0.02**
Pre tax impact on profit	2012	126	(126)
Pre tax impact on profit	2011	120	(120)

Cash flow and fair value interest rate risk

The Company had no exposure to interest rate risk derivative products during the year.

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The impact of a 1% uplift or reduction in market interest rates would impact pre tax profit as follows:

		Movement in market interest rates	
In thousands of AUD		**Minus 1.0%**	**Plus 1.0%**
Pre tax impact on profit	2012	(2,168)	2,168
Pre tax impact on profit	2011	(2,298)	2,298

23. Operating leases

As at 30 June 2012 there were no operating lease commitments.

24. Capital and other commitments

As at 30 June 2012 there were no material capital expenditure commitments.

25. Contingencies

As at 30 June 2012 there were no contingencies.

26. Related parties

The Company receives all of its written premiums of $67,017,000 (2011: $70,172,000) via fellow subsidiaries, who place the underwriting business for the Company. Market related terms of payment exist and, at the Statement of financial position date, the Company was owed $7,764,000 (2011: $6,926,000) by fellow subsidiaries in this regard (note 10).

The Company paid a fellow subsidiary of its Ultimate Parent entity (ICF (Australia) Pty Ltd) $185,940 for finance and administration services during the year ending 30th June 2012 (2011 : $161,245)

The Company paid a fellow subsidiary of its Parent entity (IC Frith (NZ) Ltd) $NZ48,000 for management services during the year ending 30th June 2012 (2011 : $NZ24,000)

The Company has advanced $99,000 (2011: $108,000) to Frith Service Contracts Ltd to fund the payment of claims prior to reimbursement by the Company.

The Company has advanced $15,000 (2011: $16,000) to IC Frith Europe d.o.o. to fund the payment of claims prior to reimbursement by the Company.

The ultimate parent entity, ICF Holdings Pty Limited has borrowed $22,798,714 (2011: $22,814,757) from the company (note 13). The loan is denominated in Australian Dollar and accordingly interest terms are set at the prevailing average term deposit rates available to the Company in Australia plus one percent. The loan remains repayable on terms agreeable to both parties from time to time and repayment can be called upon with 18 months notice. Interest received during the year ending June 2012 totalled $1,608,055 (2011 : $1,616,347).

During the year a loan advanced to the parent entity ICF Holdings (NZ) Ltd was repaid (balance June 2011: $1,006,000). Interest received during the year ending June 2012 totalled $53,104 (2011 : $71,100).

27. Auditors' remuneration

In AUD		**2012**	**2011**
Audit services			
Auditors of the Company : KPMG Australia			
Audit and review of financial reports		71,000	71,000
	6	71,000	71,000

28. Economic dependency

Harvey Norman Holdings and its related companies constitute approximately 99% (2011 : 99%) of the Company's revenue. The absence of a formal agreement with Harvey Norman means that there is no certainty of the Company receiving premium receipts in the future. However, estimates of future liabilities are fully provided for and the Directors believe that the Company could continue to fulfil claim obligations, irrespective of whether future Harvey Norman premiums are received (refer to note 18 for details of the uncertainty associated with this assumption). The Company has no responsibility for the administration of claims with individual warranty policy holders, with these services currently being provided by ICF (Australia) Pty Ltd (a related party) and other subsidiaries in the group under a separate agreement with Harvey Norman.

29. Subsequent events

There are no significant subsequent events to declare.

Independent Auditor's Report

To the Shareholders of South Pacific Warranty Services Limited

Report on the Financial Statements

We have audited the accompanying financial statements of South Pacific Warranty Services Limited ("the company") on pages 3 to 38. The financial statements comprise the statement of financial position as at 30 June 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The 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 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 Responsibility

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 (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 company's preparation of the 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 company's internal control. 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 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 auditors we have no relationship with, or interests in, the company.

KPMG

Opinion

In our opinion the financial statements of South Pacific Warranty Services Limited on pages 3 to 38:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company as at 30 June 2012 and of its financial performance and cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

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

KPMG

KPMG

Sydney

11 October 2012