

RAC Finance Limited
ABN 77 009 066 862

Annual Financial Report for the year ended 30 June 2008



FINANCE
RAC members are happier

RAC Finance Limited ABN 77 009 066 862
Annual Financial Report - 30 June 2008

Contents

	Page
Directors' report	1
Corporate governance statement	6
Financial report	9
Directors' declaration	62

Directors' report

Your directors present their report on the consolidated entity consisting of RAC Finance Limited ('company') and the entity it controlled for the year ended 30 June 2008.

Directors

The following persons were directors of the company during the whole of the year and up to the date of this report, unless otherwise stated:

DJ Banks Chairman
TT Agnew
RM Ahern
DL Gooding
CP O'Sullivan
AJ Halse
MP Stanford

All of the above persons were also directors at the year ended 30 June 2007.

Principal activities

The principal activity of the consolidated entity during the course of the financial year continued to be the provision of finance.

The company employed 29 (2007: 28) employees as at 30 June 2008.

Review and results of operations

The company's profit for the year after income tax was \$3,292,263 (2007: \$2,431,292). The consolidated entity's profit for the year, after income tax was \$3,444,735 (2007: \$2,526,609).

Profit has increased as a result of growth in loans and advances during the year.

Dividends - RAC Finance Limited

Dividend recommended on ordinary shares: Nil

No dividend was paid on ordinary shares in respect of the 2007 year.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity for the year ended 30 June 2008.

Matters subsequent to the end of the financial year

There have been no significant events subsequent to balance sheet date.

Likely developments and expected results of operations

There are no likely developments which will significantly impact the expected results of the operations of the economic entity.

Environmental regulation

The consolidated entity's operations are not subject to environmental regulation under either State or Commonwealth legislation.

Directors' and executives' emoluments

During or since the financial year no director of the company has received, or become entitled to receive, a benefit other than a benefit included in the accounts, by reason of a contract entered into by the company or by a body corporate that was related to the company with:

- a director, or
- a firm of which a director is a member, or
- a company in which a director has substantial financial interest.

Remuneration report (audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company and includes the 5 executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Parent and the Group.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also agreed to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2007 and is due for review in October 2008. Directors' fees are paid by the parent entity as part of a composite fee which includes the company. The company is not charged for these fees. Executive Directors do not receive directors' fees.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits
- performance incentives, and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non financial benefits at the executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Executives have access to discounted staff benefits including roadside assistance, general insurance, travel, and financial services.

Performance incentives

If the Group achieves pre determined targets set by the remuneration committee, an incentive pool is available to executives during the annual review. Targets are based on the Group achieving balanced scorecard objectives. This ensures variable reward is only available when value has been created and when financial and non financial returns are consistent with the business plan. The incentive benefit is leveraged for performance above the threshold to provide an incentive for executive out performance.

Each executive has a target depending on the accountabilities of the role and impact on the Group or business unit performance. The remuneration committee is responsible for assessing whether the key performance indicators are met.

Superannuation

Superannuation is paid in accordance with the Superannuation Guarantee Levy to the superannuation guarantee maximum contribution base.

Only BD Darling and GP Werrett are employed directly by the company. As such their remuneration is structured as follows:

Alignment to shareholder interests

- Financial performance of the company and achievement of its growth targets,
- Leadership of the employees of the Company, including attracting and retaining key staff,
- Achievements of a range of non value drivers which help contribute to the success of the Company.
- And, contribution to the RAC Group

Remuneration report (audited) (continued)

Alignment to program participant's interest

- Rewards capability and experience,
- Reflects competitive reward for contributing to growth in Shareholder wealth,
- Provides clear structure for earnings rewards, and
- Provides recognition for contribution

All other executives marked * are remunerated by other entities within the RAC Group. A component of their fixed salary has been allocated to the Company. These individuals participate in the Group incentive program which is the same as described above. However, there is no direct incentive for these individuals associated with the Company or its performance.

All executives have rolling contracts.

The RAC Group has a remuneration committee which provides advice on remuneration and incentive policy and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors.

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

(i) Directors

DJ Banks - Chairman
TT Agnew
RH Ahern
DL Gooding
CP O'Sullivan
AJ Halse
MP Stanford

(ii) Executives

BD Darling	Executive Manager Finance	RAC Finance Limited
AJ Pickworth	General Manager Operations & People	RAC Distribution Pty Ltd
GB Mather	General Manager Corporate Services	RACWA Holdings Pty Ltd
MK Heath	General Manager Membership & Retail	The Royal Automobile Club of W.A (Incorporated)
GP Werrett	Senior Manager Property	RAC Finance Limited

All of the above persons except for A Pickworth were also key management personnel during the year ended 30 June 2007.

Remuneration report (audited) (continued)
2008

Name	Short-term benefits		Post-employment benefits	Performance related %	Total \$
	Cash salary and fees \$	Cash bonus \$	Super-annuation \$		
<i>Directors</i>					
DJ Banks	9,954	-	896	-	10,850
RM Ahem	5,309	-	478	-	5,787
MP Stanford	5,309	-	478	-	5,787
CP O'Sullivan	5,309	-	478	-	5,787
AJ Halse	5,309	-	521	-	5,830
DL Gooding	5,008	-	563	-	5,572
<i>Key management personnel</i>					
TT Agnew *	14,109	4,036	328	21.8	18,473
AJ Pickworth *	39,405	11,762	1,894	22.2	53,061
GB Mather *	30,815	8,142	1,770	20.1	40,727
BD Darling	147,308	56,035	9,817	26.3	213,160
GP Werrett	136,866	23,813	13,587	14.3	174,266
Total	404,702	103,788	30,810	104.7	539,300

2007

Name	Short-term benefits		Post-employment benefits	Performance related %	Total \$
	Cash salary and fees \$	Cash bonus \$	Super-annuation \$		
<i>Directors</i>					
RM Evans	5,840	-	421	-	6,261
DJ Banks	5,606	-	505	-	6,110
RM Ahem	5,009	-	451	-	5,460
MP Stanford	1,489	-	134	-	1,623
CP O'Sullivan	5,009	-	451	-	5,459
AJ Halse	5,403	-	486	-	5,889
DL Gooding	5,008	-	451	-	5,459
<i>Key management personnel</i>					
MK Heath *	26,798	8,438	1,898	22.7	37,134
GB Mather *	10,819	3,075	703	21.1	14,597
BD Darling	109,970	47,400	7,599	28.7	164,969
GP Werrett	124,647	9,462	11,255	6.5	145,364
Total	305,597	68,375	24,353	79.0	398,325

Insurance of officers

During the financial year, the RAC Group paid premiums in respect of insurance against losses incurred as a result of any wrongful act committed, alleged or attempted by directors, councillors and executives in their individual or collective capacity as officers of the Group. The total amount of the insurance contract paid by the RAC Group on behalf of directors, councillors and executives was \$141,612.

Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of RAC Finance Limited support and adhere to generally accepted principles of good corporate governance. The company's corporate governance statement is contained in the Corporate Governance section of this annual report.

Auditors independence declaration

Ernst & Young our auditors, have provided a written independence declaration to the directors in relation to their audit of the Financial Report for the year ended 30 June 2008. This independence declaration can be found on page 63.

This report is made in accordance with a resolution of the directors.



D.J. Banks Chairman
Non-executive Director

Perth, W.A.

Date: 5 September 2008

Corporate governance statement

The RAC Finance Limited Board of Directors ("Board") is responsible for the consolidated entity's corporate governance. The Board guides and monitors the business and affairs of RAC Finance Limited on behalf of the shareholder by whom they are elected and to whom they are accountable.

The Board has established guidelines for the nomination and selection of directors and for its operation, which ensures the Board is well equipped to discharge its responsibilities.

Board composition

Board composition is determined in accordance with the following principles and guidelines:

- * The Board should comprise a maximum of seven directors;
- * The Board elects the Chairperson;
- * The Board may appoint a Deputy Chairperson;
- * The Board should comprise directors with an appropriate range of qualifications and expertise; and
- * The Board generally meets monthly and follows meeting guidelines set down to ensure all directors are made aware of, and have available, all necessary information to participate in an informed discussion of all agenda items.

The directors in office at the date of this statement are:

Name	Position	Term
DJ Banks	Non Executive Director, Chairman	11 years (as Chairman 2 years)
TT Agnew	Executive Director, Chief Executive Officer	10 years
RM Ahern	Non Executive Director	8 years
DL Gooding	Non Executive Director	8 years
CP O'Sullivan	Non Executive Director	8 years
AJ Halse	Non Executive Director	3 years
MP Stanford	Non Executive Director	1 year

Board responsibility

As the Board acts on behalf of and is accountable to its shareholder, the Board seeks to identify the expectations of the shareholder, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risks and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The Board delegates responsibility for the operation and administration of the consolidated entity to the Chief Executive Officer and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure that this is achieved, including the establishment of the committees detailed below and:

- * Board approval of a strategic plan, which encompasses the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk. The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- * Implementation of operating plans and budgets by management and Board monitoring of progress against budget. This includes the establishment and monitoring of key performance indicators, both financial and non financial for all significant business processes;
- * Establishment of committees to report on operational risks, environmental issues and concerns, and occupational health and safety; and
- * Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the company's expense.

Nomination committee

The Board acts as the nomination committee and meets at least annually to ensure that the Board continues to operate within the agreed guidelines, including, where necessary, evaluating the skills required by the Board.

One third of non executive directors retire from office each year.

The Chairperson is responsible for communicating Board composition requirements to the shareholder on an annual basis.

The shareholder is responsible for the appointment of directors to the Board.

Remuneration committee

The Board has appointed a remuneration committee, which meets at least annually, and is responsible for determining and reviewing the executive team's compensation arrangements.

The remuneration committee also reviews the compensation arrangements payable to directors. Shareholder approval is required for any change to director compensation arrangements.

The remuneration committee appoints external consultants as and when required, to assist with the review of compensation arrangements.

All the members of the remuneration committee are non-executive directors. The members of the remuneration committee during the year were:

DJ Banks	Non Executive Director, Chairman
CP O'Sullivan	Non Executive Director
DL Gooding	Non Executive Director

Audit and risk committee

The Board has established an audit and risk committee, which meets a minimum of four times a year and operates under a charter approved by the Board. The Board's responsibility is to ensure that an effective risk and internal control framework exists within the entity. This includes internal controls to deal with both effectiveness and efficiency of significant business processes. These significant business processes include the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non financial considerations such as benchmarking of operational key performance indicators.

The Board has delegated responsibility for the establishment and maintenance of the framework of internal control and ethical standards for the management of the consolidated entity to the audit and risk committee.

The audit and risk committee provides the Board with additional assurance regarding the integrity of financial reporting.

The committee and the Board meet with the internal and external auditors, in the absence of management, and as required, but at least annually.

The audit and risk committee is also responsible for:

- *Overseeing and monitoring the internal audit function and action taken by management to address findings;
- *Managing the engagement of the external auditor, including reviewing the adequacy of the scope and quality of the annual statutory audit; and
- *Assisting the Board with regards to oversight of the entity's risk management and compliance frameworks.

All members of the audit and risk committee are non executive directors. The members of the audit and risk committee during the year were:

CP O'Sullivan	Non Executive Director, Chairman
DJ Banks	Non Executive Director
AJ Halse	Non Executive Director

Due diligence committee

The due diligence committee is responsible for ensuring that issues associated with the issuing of a prospectus has been properly considered and that the content of the prospectus issued by the company is appropriate for debenture fund raising.

The members of the due diligence committee during the year were:

CP O'Sullivan	Non Executive Director, Chairman
DL Gooding	Non Executive Director
AJ Pickworth	General Manager
GB Mather	Company Secretary
BD Darling	Executive Manager Finance
RJ Tannock	Investment Manager
RM Taylor	Senior Accountant

Monitoring the Board's performance and communication to the shareholder

The Chairperson reviews the performance of all directors annually to ensure the Board continues to discharge its responsibilities in an appropriate manner. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that the shareholder, on behalf of which they act, is informed of all information necessary to assess the performance of the directors.

Information is communicated to the shareholder through:

- * Chairperson's monthly review;
- * Group monthly performance report;
- * Other information as required; and
- * The annual general meeting and other meetings called to obtain approval for Board action as appropriate.

RAC Finance Limited ABN 77 009 066 862 **Annual Financial Report - 30 June 2008**

Contents

	Page
Financial report	
Income statements	10
Statements of financial position	11
Statement of changes in equity	12
Statements of cash flows	13
Notes to the financial statements	14
Directors' declaration	62

This financial report covers both RAC Finance Limited as an individual entity and the consolidated entity consisting of RAC Finance Limited and its subsidiary. The financial report is presented in the Australian currency.

RAC Finance Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

RAC Finance Limited
832 Wellington Street
West Perth W.A. 6005.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 1-2, which is not part of this financial report.

The financial report of RAC Finance Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 5 September 2008.

RAC Finance Limited
Income statement
For the year ended 30 June 2008

		Consolidated		Parent	
	Notes	2008	2007	2008	2007
		\$	\$	\$	\$
Revenue from continuing operations					
Interest revenue	5	27,471,913	20,237,536	27,428,207	20,199,691
Interest expense	5	<u>(16,261,767)</u>	<u>(11,165,830)</u>	<u>(16,261,767)</u>	<u>(11,165,830)</u>
Net interest income		11,210,146	9,071,706	11,166,440	9,033,861
Other income	6	2,246,690	1,788,968	2,066,282	1,690,075
Expenses					
Impairment losses - loans and advances		(297,640)	(129,095)	(297,640)	(129,095)
Management fees		(994,985)	(650,482)	(994,985)	(650,482)
Employee benefits expense		(2,465,447)	(2,122,719)	(2,465,447)	(2,122,719)
Commissions and fees		(1,895,710)	(1,463,343)	(1,895,710)	(1,463,343)
Depreciation and amortisation expense		(91,313)	(115,387)	(91,313)	(115,387)
Advertising and promotional expenses		(671,534)	(837,869)	(671,534)	(837,869)
Bad debts expense		(817,546)	(592,717)	(817,546)	(592,717)
Other operating expenses		(1,127,741)	(1,217,913)	(1,121,444)	(1,217,342)
Borrowing costs	7	<u>(157,319)</u>	<u>(98,511)</u>	<u>(157,319)</u>	<u>(98,511)</u>
Profit before income tax from continuing operations		4,937,601	3,632,638	4,719,784	3,496,471
Income tax expense	8	<u>(1,492,866)</u>	<u>(1,106,029)</u>	<u>(1,427,521)</u>	<u>(1,065,179)</u>
Profit from continuing operations		<u>3,444,735</u>	<u>2,526,609</u>	<u>3,292,263</u>	<u>2,431,292</u>
Profit for the year		<u>3,444,735</u>	<u>2,526,609</u>	<u>3,292,263</u>	<u>2,431,292</u>

The above income statements should be read in conjunction with the accompanying notes.

RAC Finance Limited
Balance sheet
As at 30 June 2008

	Notes	Consolidated		Parent	
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
Cash and cash equivalents	16	5,925,875	2,078,614	4,903,660	1,100,070
Trade and other receivables	11	761,527	740,725	1,865,715	2,348,799
Inventories	15	819,028	1,141,966	-	-
Loans and advances	17	279,523,278	237,218,765	279,523,278	237,218,765
Available-for-sale financial assets	10	2,640,000	565,000	1	1
Deferred tax assets	13	-	355,015	331,840	355,015
Plant and equipment	12	141,752	119,294	141,752	119,294
Intangible assets	14	26,274	63,471	26,274	63,471
Prepayments	18	31,903	25,984	31,459	25,984
Total assets		<u>289,869,637</u>	<u>242,308,834</u>	<u>286,823,979</u>	<u>241,231,399</u>
LIABILITIES					
Trade and other payables	19	6,798,696	5,943,612	6,477,050	5,694,557
Deposits and short term borrowings	23	39,000,000	10,000,000	39,000,000	10,000,000
Interest bearing loans and borrowings	20	211,854,396	199,324,858	211,854,396	199,324,858
Provisions	22	302,809	314,523	302,809	314,523
Deferred tax liabilities	21	290,660	-	-	-
Total liabilities		<u>258,246,561</u>	<u>215,582,993</u>	<u>257,634,255</u>	<u>215,333,938</u>
Net assets		<u>31,623,076</u>	<u>26,725,841</u>	<u>29,189,724</u>	<u>25,897,461</u>
EQUITY					
Contributed equity	24	5,000,000	5,000,000	5,000,000	5,000,000
Reserves	25(a)	1,452,500	-	-	-
Retained earnings	25(b)	25,170,576	21,725,841	24,189,724	20,897,461
Total equity		<u>31,623,076</u>	<u>26,725,841</u>	<u>29,189,724</u>	<u>25,897,461</u>

The above statements of financial position should be read in conjunction with the accompanying notes.

RAC Finance Limited
Statements of changes in equity
For the year ended 30 June 2008

Consolidated	Notes	Attributable to members of RAC Finance Limited			Total
		Contributed equity	Reserves	Retained earnings	
		\$	\$	\$	\$
Balance at 1 July 2006		5,000,000	-	19,199,232	24,199,232
Profit for year		<u>-</u>	<u>-</u>	<u>2,526,609</u>	<u>2,526,609</u>
Total recognised income and expense for the year		<u>-</u>	<u>-</u>	<u>2,526,609</u>	<u>2,526,609</u>
Balance at 30 June 2007		<u>5,000,000</u>	<u>-</u>	<u>21,725,841</u>	<u>26,725,841</u>
Balance at 1 July 2007		5,000,000	-	21,725,841	26,725,841
Profit for year		<u>-</u>	<u>-</u>	<u>3,444,735</u>	<u>3,444,735</u>
Total recognised income and expense for the year		<u>-</u>	<u>-</u>	<u>3,444,735</u>	<u>3,444,735</u>
Revaluation net of tax	25	<u>-</u>	<u>1,452,500</u>	<u>-</u>	<u>1,452,500</u>
Balance at 30 June 2008		<u>5,000,000</u>	<u>1,452,500</u>	<u>25,170,576</u>	<u>31,623,076</u>
Parent	Notes	Contributed equity	Reserves	Retained earnings	Total
		\$	\$	\$	\$
Balance at 1 July 2006		5,000,000	-	18,466,169	23,466,169
Profit for year		<u>-</u>	<u>-</u>	<u>2,431,292</u>	<u>2,431,292</u>
Total recognised income and expense for the year		<u>-</u>	<u>-</u>	<u>2,431,292</u>	<u>2,431,292</u>
Balance at 30 June 2007		<u>5,000,000</u>	<u>-</u>	<u>20,897,461</u>	<u>25,897,461</u>
Balance at 1 July 2007		5,000,000	-	20,897,461	25,897,461
Profit for year		<u>-</u>	<u>-</u>	<u>3,292,263</u>	<u>3,292,263</u>
Total interest recognised and expense for the year		<u>-</u>	<u>-</u>	<u>3,292,263</u>	<u>3,292,263</u>
Balance at 30 June 2008		<u>5,000,000</u>	<u>-</u>	<u>24,189,724</u>	<u>29,189,724</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

RAC Finance Limited
Cash flow statements
For the year ended 30 June 2008

	Notes	Consolidated		Parent	
		2008 \$	2007 \$	2008 \$	2007 \$
Cash flows from operating activities					
Interest and other operating income from customers		29,203,004	21,654,287	29,203,004	21,555,393
Interest received from deposits		280,812	249,313	237,106	211,468
Interest payments		(15,059,140)	(10,403,631)	(15,059,140)	(10,403,631)
Recoveries on loans previously written off		24,280	105,142	24,280	105,142
Cash payments to employees and suppliers		<u>(7,019,286)</u>	<u>(4,150,494)</u>	<u>(7,657,975)</u>	<u>(4,095,433)</u>
		7,429,670	7,454,617	6,747,275	7,372,939
(Increase) / decrease in operating assets:					
Customer loans advanced		(231,468,757)	(222,454,405)	(231,468,757)	(222,454,405)
Customer loan repayments received		187,577,810	170,586,572	187,577,810	170,586,572
Increase / (decrease) in operating liabilities:					
Proceeds from borrowings		118,274,599	99,179,864	118,274,599	99,179,864
Repayment of borrowings		(76,745,061)	(54,216,686)	(76,745,061)	(54,216,686)
Income taxes paid		<u>(1,064,242)</u>	<u>(1,374,838)</u>	<u>(1,006,741)</u>	<u>(1,101,927)</u>
Net cash inflow / (outflow) from operating activities	35	<u>4,004,019</u>	<u>(824,876)</u>	<u>3,379,125</u>	<u>(633,643)</u>
Cash flows from investing activities					
Payments for plant and equipment		(97,695)	(38,625)	(97,695)	(38,625)
Payments for intangibles		(8,216)	(160,334)	(8,216)	(160,334)
Net receipts / (payments) made for Joint Venture transactions		503,346	(954,831)	-	-
Receipts from / (advances) to subsidiaries		-	-	503,346	(848,430)
Proceeds from sale of property, plant and equipment		27,030	10,439	27,030	10,439
Proceeds from sale of intangibles		-	146,221	-	146,221
Net cash / (outflow) inflow from investing activities		<u>424,465</u>	<u>(997,130)</u>	<u>424,465</u>	<u>(890,729)</u>
Cash flows from financing activities					
(Repayment) of / receipts from borrowings		<u>(581,223)</u>	<u>1,263,422</u>	-	-
Net cash (outflow) / inflow from financing activities		<u>(581,223)</u>	<u>1,263,422</u>	-	-
Net increase / (decrease) in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year		2,078,614	2,637,198	1,100,070	2,624,442
Cash and cash equivalents at end of year	16	<u>5,925,875</u>	<u>2,078,614</u>	<u>4,903,660</u>	<u>1,100,070</u>

The above cash flow statements should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

		Page
1	Summary of significant accounting policies	15
2	Financial risk management objectives and policies	27
3	Critical accounting estimates and judgements	32
4	Segment information	32
5	Net interest income	33
6	Other income	34
7	Expenses	34
8	Income tax expense	35
9	Fair values and interest rate risk	36
10	Assets - Available-for-sale financial assets	37
11	Assets - Trade and other receivables	38
12	Assets - Plant and equipment	39
13	Assets - Deferred tax assets	43
14	Assets - Intangible assets	44
15	Assets - Inventories	45
16	Assets - Cash and cash equivalents	46
17	Assets - Loans and advances	46
18	Assets - Prepayments	48
19	Liabilities - Trade and other payables	48
20	Liabilities - Interest bearing loans and borrowings	49
21	Non-current liabilities - Deferred tax liabilities	51
22	Liabilities - Provisions	52
23	Liabilities - Deposits and short term borrowings	52
24	Contributed equity	53
25	Reserves and retained earnings	54
26	Dividends	54
27	Key management personnel disclosures	55
28	Remuneration of auditors	56
29	Contingencies	57
30	Commitments	57
31	Related party transactions	57
32	Subsidiaries	59
33	Interests in joint ventures	60
34	Events occurring after the balance sheet date	60
35	Reconciliation of profit after income tax to net cash inflow from operating activities	60
36	Non-cash investing and financing activities	61

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for RAC Finance Limited as an individual entity and the consolidated entity consisting of RAC Finance Limited and its subsidiary.

(a) General Information

RAC Finance Limited and its controlled entity provides financial services to members of The Royal Automobile Club of W.A. (Incorporated) and the public through a distribution network in Australia. RACWA Holdings Pty Ltd is the immediate parent of RAC Finance Limited.

The Royal Automobile Club of W.A. (Incorporated) is an association incorporated in Australia under the Western Australian Associations Incorporations Act 1987. The Club was formed in 1905 and incorporated on 24 September 1917 and is the ultimate parent of the Group.

The registered office of RAC Finance Limited is located at:

832 Wellington Street,
West Perth, W.A. 6005

(b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (IFRSs), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of RAC Finance Limited ("company" or "parent company") as at 30 June 2008 and the results of its subsidiary for the year then ended. RAC Finance Limited and its subsidiary together are referred to in this financial report as the Group or the consolidated entity.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred, in which case an impairment loss is recognised. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of RAC Finance Limited.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Fees and commission income

Fee and commission income is brought to account on an accruals basis. Non-refundable front end fees are recognised as income when the loan is disbursed. If material, front end fees which are risk or yield related are deferred and amortised to interest income over the life of the loan using the effective interest method. Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest over the life of the loan using the effective interest rate method. Fees received for commitments which are not expected to result in a loan are included in fees and commissions and amortised on a straight line basis over the commitment period. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to income on an accruals basis.

(ii) Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset. Any yield adjusting fee income is recognised within loans and advances and is earned in the income statement as interest income over the expected term of the loan, using the effective interest method.

Loan origination fees and costs are amortised over the expected life of the loan. The Group has adopted a loan pool basis of amortisation with an expected life of loan rather than an effective interest rate approach applied individually to each loan.

(iii) Dividend income

Dividend income on Available-for-sale financial assets is recognised when the right to receive payment is established.

(iv) Revenue from joint ventures

Revenue from joint ventures is recognised upon completion of the project. All debt and equity must be repaid before profit is distributed between joint venture partners.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of goodwill or of assets and liabilities. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

1 Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are offset, when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

The Royal Automobile Club of W.A. (Incorporated) and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, The Royal Automobile Club of W.A. (Incorporated), and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax expense / benefit and deferred tax assets and liabilities relating to temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a modified stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, The Royal Automobile Club of W.A. (Incorporated), the ultimate parent entity, also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in (note 8).

Any difference between the amounts assumed and the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

(g) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash generating units). Non financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

1 Summary of significant accounting policies (continued)

(i) Trade and other receivables

Trade receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The financial difficulties of the debtor or default payments of debts more than 30 days overdue are considered objective evidence of impairment. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised in the income statement.

Related party receivables

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accruals basis for the intercompany cash settlement account.

(j) Loans and advances

All loans and advances are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the loans and advances.

Loans and advances represent loans made to members of The Royal Automobile Club of W.A. (Incorporated) and to the public.

Loans and advances are subsequently measured at amortised cost using the effective interest rate method.

Non accrual loans are loans and advances where the debt has been written down to recoverable value. The Board is of the view that the recovery of the principal only will occur on these loans. Once classified as a non accrual loan, interest payments on the loan receivable are not brought to account as income.

Impairment of loans and advances

(i) Specific provisions

Specific provisions are raised when there is objective evidence that an impairment loss on loans and advances has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows using the original effective interest rate.

(ii) Collective provision

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. The appropriate collective provision is raised, based on historical loss data and current available information for assets with similar risk characteristics. From analysis undertaken this benchmark has been consistent with the historical level of bad debts experienced in these portfolios.

(k) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

1 Summary of significant accounting policies (continued)

(iii) Available-for-sale financial assets

Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. They are included in assets in the balance sheet.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement with other income or expenses in the period in which they arise.

Changes in the fair value of other monetary and non monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

(iv) Impairment of financial assets

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial assets and liabilities is calculated by discounting the expected cash flows by the current interest rate for asset/liabilities with similar risk profiles.

The valuation of equity securities relating to an investment in the Watermark Enterprises Pty Ltd has been assessed after taking into account the valuation report issued by Egan National Valuers in June 2008 for the land held by Watermark Enterprises Pty Ltd. The valuation technique used by Egan National Valuers was a combination of a direct comparison with En Globo sales evidence and a discounted cash flow analysis.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(m) Inventories

Inventory work in progress comprising land and housing, is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition and development.

1 Summary of significant accounting policies (continued)

(n) Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using the diminishing value method to allocate their cost or revalued amounts to their residual values, over their estimated useful lives, as follows:

- Motor vehicles	8 years
- Fixtures and fittings	13.33 years
- Plant and equipment	5 - 7.5 years
- Computer equipment	2.5 - 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a diminishing value basis over their estimated useful lives (2.5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 5 years).

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

1 Summary of significant accounting policies (continued)

(r) Borrowing costs

Borrowing costs are transaction costs and other expenses associated with the raising of finance but which are not directly attributable to any individual debenture issues.

Interest expense on notes and debentures is recognised as it accrues, using the effective interest method.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

All employees of the Group are entitled to benefits on retirement, disability or death from the Group's superannuation plan. The Group has a defined contribution fund. The defined contribution fund receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(u) Contributed equity

Ordinary shares are classified as equity (note 24).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

1 Summary of significant accounting policies (continued)

(w) Financial instrument transaction costs

Such costs are included in the carrying initial amounts of financial assets carried at amortised cost and are amortised using the effective interest method.

(x) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below. The Group plans to adopt these standards and interpretations from the date on which the standard/interpretation became effective.

(i) *AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations*

AASB 2008-1 is applicable to annual reporting periods beginning on or after 1 January 2009. The amendment relates to share-based payment arrangements. The Group does not make any share based payments and the amendment will therefore have no impact on the Group's financial statements.

(ii) *AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation*

AASB 2008-2 is applicable to annual reporting periods beginning on or after 1 January 2009. The amendment provides a limited exception to the definition of a liability where certain features allows it to be classified as equity rather than a financial liability. These amendments are not expected to have any impact on the Group's financial statements as the Group does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.

(iii) *AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*

AASB 2008-3 is applicable to annual reporting periods beginning on or after 1 July 2009. The amendments issued are a consequence of revisions to AASB 3 and AASB 127. Refer to AASB 3 in (v) and AASB 127 in (ix) below.

(iv) *AASB 2007-9 Amendments to Australian Accounting Standards arising from the review of AASs 27, 29 and 31 (AASB 3, AASB 5, AASB 8, AASB 101, AASB 114, AASB 116, AASB 127 & AASB 137)*

AASB 2007-9 is applicable to annual reporting periods beginning on or after 1 July 2008. This pronouncement was issued as a result of the review of AASs 27, 29 and 31, which largely relocates the industry based standards to topic-based standards. These amendments are only applicable to the public sector and as such are not expected to have any impact on the Group's financial statements.

(v) *AASB 3 (Revised) Business Combinations*

1 Summary of significant accounting policies (continued)

AASB 3 (Revised) is applicable to annual reporting periods beginning on or after 1 July 2009. The standard gives two choices for recognition of goodwill, the fair value option resulting in recognising goodwill relating to 100% of the business or recognition of goodwill relating to the percentage of interest acquired. The changes apply prospectively. The Group has decided not to early adopt the standard and has not decided which accounting policy to adopt.

(vi) AASB 8 and AASB 2007-3 Operating Segments and consequential amendments to other Australian Accounting Standards

AASB 8 is applicable to annual reporting periods beginning on or after 1 January 2009. This is a new standard that replaces AASB 114 Segment Reporting and adopts a management approach to segment reporting. The Group has not adopted the standard early. Application of the standard will not affect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to Segment Reporting.

(vii) AASB 101 (Revised) and AASB 2007-8 Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards

AASB 101 revised is applicable to annual reporting periods beginning on or after 1 January 2009. These amendments are only expected to affect the presentation of the Group's financial statements and will not affect the measurement and recognition of amounts disclosed in the financial statements. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.

(viii) AASB 123 (Revised) and AASB 2007-06 Borrowing costs and consequential amendments to other Australian Accounting Standards

AASB 123 (Revised) is applicable to annual reporting periods beginning on or after 1 January 2009. The revised standard requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of qualifying assets. The Group is not currently constructing or producing any qualifying assets which are financed by borrowings and will therefore have no impact on the Group's financial statements.

(ix) AASB 127 (Revised) Consolidated and Separate Financial Statements

AASB 127 (Revised) is applicable to annual reporting periods beginning on or after 1 July 2009. Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction. If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.

(x) AASB 1004 (Revised) Contributions

AASB 1004 (Revised) is applicable to annual reporting periods beginning on or after 1 July 2008. This standard contains the original requirements on contributions from AASB 1004 as issued in Jul 2004, as well as the requirements on contributions from AASs 27, 29 and 31 substantively unamended (with some exceptions). These amendments are only applicable to the public sector and as such are not expected to have any impact on the Group's financial statements.

(xi) AASB 1049 Whole of Government and General Government Sector Financial Reporting

AASB 1049 is applicable to annual reporting periods beginning on or after 1 July 2008. This is a new standard that addresses the differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS). This standard is only applicable to the public sector and as such are not expected to have any impact on the Group's financial statements.

(xii) AASB 1050 Administered Items

1 Summary of significant accounting policies (continued)

AASB 1050 is applicable to annual reporting periods beginning on or after 1 July 2008. This standard contains the requirements for the disclosure of administered items from AAS 29, substantively unamended (with some exceptions). This standard is only applicable to the public sector and as such are not expected to have any impact on the Group's financial statements.

(xiii) *AASB 1051 Land Under Roads*

AASB 1051 is applicable to annual reporting periods beginning on or after 1 July 2008. This standard contains the specific transitional requirements relating to land under roads. It applies to general purpose financial reports of local governments, government departments and whole of governments and financial statements of GGSs. This standard is only applicable to the public sector and as such are not expected to have any impact on the Group's financial statements.

(xiv) *AASB 1052 Disaggregated Disclosures*

AASB 1052 is applicable to annual reporting periods beginning on or after 1 July 2008. This standard contains the requirements for the reporting or disaggregated information by local governments from AASs 27 and 19, substantively unamended (with some exceptions). This standard is only applicable to the public sector and as such are not expected to have any impact on the Group's financial statements.

(xv) *AASB Interpretation 4 (revised) Determining whether an arrangement contains a Lease*

AASB Interpretation 4 revised is applicable to annual reporting periods beginning on or after 1 January 2008. The revised interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12. Interpretation 12 relates to the accounting for Service Concession Arrangements. The Group does not have any service concession arrangements or public-private partnerships. The amendment to AASB Interpretation 12 will therefore have no impact on the Group's financial statements.

(xvi) *AASB Interpretation 12 and AASB 2007-2 Service Concession Arrangements and consequential amendments to other Australian Accounting Standards*

AASB Interpretation 12 is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation relates the accounting for Service Concession Arrangements. The Group does not have any service concession arrangements or public-private partnerships. The amendment to AASB Interpretation 12 will therefore have no impact on the Group's financial statements.

(xvii) *AASB Interpretation 13 Customer Loyalty Programmes*

AASB Interpretation 13 is applicable to annual reporting periods beginning on or after 1 July 2008. The interpretation deals with accounting for customer loyalty programmes. The Group does not have any customer loyalty programmes. The Interpretation will therefore have no impact on the Group's financial statements.

(xviii) *AASB Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (AASB 119)*

AASB Interpretation 14 is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation deals with accounting for defined benefit pension plan. The Group does not have any defined benefit pension plans. The Interpretation will therefore have no impact on the Group's financial statements.

(xix) *AASB Interpretation 129 Service Concession Arrangements: Disclosure*

AASB Interpretation 129 is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or a concession operator. The Group does not have any service concession arrangements or public-private partnerships. The Interpretation will therefore have no impact on the Group's financial statements.

1 Summary of significant accounting policies (continued)

(xx) AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities

AASB Interpretation 1038 is applicable to annual reporting periods beginning on or after 1 July 2008. These amendments are only applicable to the public sector and as such are not expected to have any impact on the Group's financial Statements.

(xxi) IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 is applicable to annual reporting periods beginning on or after 1 January 2009. The interpretation proposes that when the real estate developer is providing construction services to the buyer's specifications, revenue can be recorded only as construction progresses. Otherwise, revenue should be recognised on completion of the relevant real estate unit. The Group does not enter into agreements to provide construction services to the buyer's specifications and as such this interpretation is not expected to have any impact on the Group's financial statements.

(xxii) IFRIC 16 Hedges of a Net investment in a Foreign Operation

IFRIC 16 is applicable to annual reporting periods beginning on or after 1 January 2009. This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches. The Group does not have any foreign operations and is thus not expected to have any impact on the Group's financial statements.

(xxiii) Amendments to International Financial Reporting Standards – Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments are applicable to annual reporting periods beginning on or after 1 January 2009. The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.

Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments.

In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.

(xxiv) Amendments to International Financial Reporting Standards – Improvements to IFRSs

The amendment is applicable to annual reporting periods beginning on or after 1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009. The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part I deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. The Group has not yet determined the extent of the impact of the amendments, if any.

(z) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

1 Summary of significant accounting policies (continued)

- the right to receive cash flows from the asset have expired;
- the Group 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 under a "pass through" arrangement; or
- the Group 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 risk and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to pay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another with 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, and the difference in the respective carrying amounts is recognised in profit or loss.

(aa) Interest in jointly controlled assets

The Group's proportional interests in the assets, liabilities, and expenses of a joint venture have been incorporated in the financial statements of the Group under the appropriate headings. Details of the joint venture are set out in note 32.

2 Financial risk management objectives and policies

The Group's principal financial instruments, comprise loans and advances, debentures, unsecured notes, short term borrowings, cash and short term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group's activities expose it to a variety of financial risk; market risk (price risk and including fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group manages its risk through a comprehensive set of policies, procedures and limits approved by the Board. Management of all instruments is integrated into the Group's risk management practices and speculative transactions are not permitted.

Details of the significant accounting policies and methods adopted, including the recognition criteria, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent	
	2008	2007	2008	2007
Financial assets				
Cash and cash equivalents	5,925,875	2,078,614	4,903,660	1,100,070
Trade and other receivables	761,527	740,725	1,865,715	2,348,799
Loans and advances	279,523,278	237,218,765	279,523,278	237,218,765
Available-for-sale financial assets	2,640,000	565,000	1	1
	<u>288,850,680</u>	<u>240,603,104</u>	<u>286,292,654</u>	<u>240,667,635</u>
Financial liabilities				
Trade and other payable	6,813,818	5,943,612	6,477,050	5,694,557
Deposits and short term borrowings	39,000,000	10,000,000	39,000,000	10,000,000
Interest bearing loans and borrowings	211,854,396	199,324,858	211,854,396	199,324,858
	<u>257,668,214</u>	<u>215,268,470</u>	<u>257,331,446</u>	<u>215,019,415</u>

(a) Market risk

(i) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as available-for-sale. The Group is not exposed to commodity price risk.

The table on page 28 summarises the impact of a movement in the equity prices on the Group's post tax profit for the year. The analysis is based on the assumption that the equity securities price has increased/decreased by 5% (2007: 10%) with all other variables held constant. Equity at the end of the year would have increased/decreased by \$92,400 (2007: \$39,550) as a result of gains/losses on equity securities classified as available-for-sale.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from changes in the shape and direction of interest rates (yield curve risk) as well as mismatches in the re pricing term of assets and liabilities. Interest rate risk is monitored by the Group under guidelines and limits defined by the board in relation to acceptable levels of predefined margins between lending and borrowing rates.

The assumption for using -1/+0.5% (2007: -0.5/1.5%) for interest rate risk and -/+5% (2007: -/+10%) for price risk for the purpose of the sensitivity analysis, are based on historical trends during the preceeding year and what is considered a realistic movement in these financial assets and liabilities within the next 12 months.

2 Financial risk management objectives and policies (continued)

Consolidated sensitivity analysis

The Group analyses the interest rate exposure by taking into consideration refinancing and renewal of existing positions. Based on these considerations, the Group calculates the impact on profit and loss of a defined interest rate shift. At 30 June 2008, if the interest rates had changed by -1/+0.5% (2007: -0.5/1.5%) from the year-end rates with all other variables held constant, post-tax profit for the year would have been (\$499,503)/\$249,751 (2007: (\$213,610)/\$640,829) lower/higher. Equity would have also been (\$499,503)/\$249,751 (2007: (\$213,610)/\$640,829) lower/higher.

Parent entity sensitivity

At 30 June 2008, if the interest rates had changed by -1/+0.5% (2007: -0.5/1.5%) from the year-end rates with all other variables held constant, post-tax profit for the year would have been (\$492,099)/\$246,049 (2007: (\$210,070)/\$630,210) lower/higher. Equity would have also been (\$492,099)/\$246,049 (2007: (\$210,070)/\$630,210) lower/higher.

(iii) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and price risk, if the interest rate and price risk moved with all other variables held constant.

Consolidated	Carrying amount \$	Price Risk				Interest rate risk			
		-5%		+5%		-1%		+0.5%	
		Profit \$	Equity \$	Profit \$	Equity \$	Profit \$	Equity \$	Profit \$	Equity \$
30 June 2008									
Financial assets									
Cash and cash equivalents	5,925,875	-	-	-	-	(42,917)	(42,917)	21,459	21,459
Loans and advances	279,523,278	-	-	-	-	(618,899)	(618,899)	309,449	309,449
Available-for-sale financial assets	2,640,000	-	(92,400)	-	92,400	-	-	-	-
Financial liabilities									
Short term borrowings	39,000,000	-	-	-	-	86,397	86,397	(43,199)	(43,199)
Interest bearing loans and borrowings	211,854,396	-	-	-	-	75,916	75,916	(37,958)	(37,958)
Total increase/ (decrease)			<u>(92,400)</u>		<u>92,400</u>	<u>(499,503)</u>	<u>(499,503)</u>	<u>249,751</u>	<u>249,751</u>
Consolidated									
30 June 2007									
Financial assets									
Cash and cash equivalents	2,078,614	-	-	-	-	(7,519)	(7,519)	22,558	22,558
Loans and advances	237,218,765	-	-	-	-	(249,994)	(249,994)	749,982	749,982
Available-for-sale financial assets	565,000	-	(39,550)	-	39,550	-	-	-	-
Financial liabilities									
Short term borrowings	10,000,000	-	-	-	-	5,945	5,945	(17,836)	(17,836)
Interest bearing loans and borrowings	199,324,858	-	-	-	-	37,958	37,958	(113,875)	(113,875)
Total increase/ (decrease)			<u>(39,550)</u>		<u>39,550</u>	<u>(213,610)</u>	<u>(213,610)</u>	<u>640,829</u>	<u>640,829</u>

Movement in profits are due to higher or lower interest costs from variable rate debt and cash balances. Movements in equity are due to fair value movement.

The difference between the sensitivity analysis for the consolidated and parent entities relate to cash and cash equivalents (Parent: \$4,903,660) and available-for-sale financial assets (Parent: \$1).

(b) Credit risk

Credit risk is the potential risk of financial loss from the failure of a client to meet their obligations to the Group on time and in full, as contracted. To address this risk, the Group has implemented a robust credit risk management framework which has been approved by the Board. The consolidated entity's maximum exposures to credit risk at balance sheet date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the Balance Sheet.

2 Financial risk management objectives and policies (continued)

All new customers are assessed for credit worthiness when an application for loan/credit is received. The credit quality of a customer is assessed by taking into account their financial position, previous credit history and duration at their current place of employment and residence. Customers that do not satisfy the credit test are denied credit. Larger transactions over a specific threshold are referred to the Board for assessment and approval. At 30 June 2008 average historical default rates for Consumer and Real estate were 0.41% and 0.01% respectively.

Credit risk further arises in relation to financial guarantees given to certain parties (see Note 28). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

All assets that are neither past due or impaired are not rated by an external agency and are considered to be of a good rating.

Concentration of credit risk

The company minimises concentration of credit risk in relation to finance receivables by undertaking transactions with a large number of customers within specified industries. The customers are concentrated in Western Australia.

Concentration of credit risk on finance receivables at balance date arise in the following industries:

Industry	% of total trade receivables		2008 \$	2007 \$
	2008 %	2007 %		
Property construction	50.0	51.8	140,336,093	123,179,096
Primary production	-	-	-	13,419
Wages and salary earners	49.9	47.7	139,949,699	113,480,071
Other non concentrated	0.1	0.5	130,553	1,165,829
	<u>100.0</u>	<u>100.0</u>	<u>280,416,345</u>	<u>237,838,415</u>

2 Financial risk management objectives and policies (continued)

Concentration of loans and borrowings

	2008 \$	2008 %	2007 \$	2007 %
Loans and advances				
Residential				
- Owner occupied staff mortgages	-	-	546	-
Personal				
- Consumer	140,080,251	49.9	113,767,526	47.8
Commercial				
- Property	140,336,094	50.1	124,056,925	52.2
- Other	-	-	13,418	-
	<u>280,416,345</u>	<u>100.0</u>	<u>237,838,415</u>	<u>100.0</u>
Deposits and borrowings				
Short term borrowings				
- Related parties	39,000,000	15.5	10,000,000	4.8
Debentures				
- Other	196,774,396	78.5	184,244,858	88.0
Unsecured notes				
- Related parties	15,080,000	6.0	15,080,000	7.2
	<u>250,854,396</u>	<u>100.0</u>	<u>209,324,858</u>	<u>100.0</u>

(c) Liquidity risk

The Group's liquidity policy is designed to ensure it has sufficient funds to meet its obligations as they fall due. There are two aspects of this risk. First, the Group must ensure it has sufficient funds to meet day-to-day requirements arising from its normal activities. Second, the Group must be able to cope with unforeseen outflows. The volume of liquid assets varies over time, in line with market conditions and is maintained in accordance with board approved limits.

The Group manages the liquidity risk inherent in the maturity analysis of financial liabilities by expecting some of its undrawn loan commitments wont be drawn and through the use of a \$50m borrowing facility with RACWA Holdings Pty Ltd. The liquidity position is monitored daily with and a monthly cash forecast is prepared to determine the level of debt that will be required.

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2 Financial risk management objectives and policies (continued)

Consolidated - At 30 June 2008	Less than 3 months	3 - 12 months	Between 1 and 5 years	Total
	\$	\$	\$	\$
On balance sheet				
Debtentures	70,547,565	104,204,087	22,022,744	196,774,396
Unsecured notes and bill facility	39,580,000	-	14,500,000	54,080,000
Intercompany loans	2,118,601	-	-	2,118,601
Trade and other payables	4,680,095	-	-	4,680,095
Total on balance sheet	<u>116,926,261</u>	<u>104,204,087</u>	<u>36,522,744</u>	<u>257,653,092</u>
Off balance sheet				
Interest on debtentures	3,379,903	6,732,777	2,317,578	12,430,258
Interest on unsecured notes and bill facility	595,034	748,176	577,767	1,920,977
Total off balance sheet	<u>3,974,937</u>	<u>7,480,953</u>	<u>2,895,345</u>	<u>14,351,235</u>
Consolidated - At 30 June 2007				
	Less than 3 months	3 - 12 months	Between 1 and 5 years	Total
	\$	\$	\$	\$
On balance sheet				
Debtentures	59,471,020	99,712,659	25,061,179	184,244,858
Unsecured notes and bill facility	10,580,000	-	14,500,000	25,080,000
Intercompany loans	2,294,375	-	-	2,294,375
Trade and other payables	3,649,237	-	-	3,649,237
Total on balance sheet	<u>75,994,632</u>	<u>99,712,659</u>	<u>39,561,179</u>	<u>215,268,470</u>
Off balance sheet				
Interest on debtentures	2,609,239	5,460,121	1,994,931	10,064,291
Interest on unsecured notes and bill facility	279,630	675,240	453,126	1,407,996
Total off balance sheet	<u>2,888,869</u>	<u>6,135,361</u>	<u>2,448,057</u>	<u>11,472,287</u>
Parent - At 30 June 2008				
	Less than 3 months	3 - 12 months	Between 1 and 5 years	Total
	\$	\$	\$	\$
On balance sheet				
Debtentures	70,547,565	104,204,087	22,022,744	196,774,396
Unsecured notes and bill facility	39,580,000	-	14,500,000	54,080,000
Intercompany loans	1,796,955	-	-	1,796,955
Trade and other payables	4,680,095	-	-	4,680,095
Total on balance sheet	<u>116,604,615</u>	<u>104,204,087</u>	<u>36,522,744</u>	<u>257,331,446</u>
Off balance sheet				
Interest on debtentures	3,379,903	6,732,777	2,317,578	12,430,258
Interest on unsecured notes and bill facility	595,034	748,176	577,767	1,920,977
Total off balance sheet	<u>3,974,937</u>	<u>7,480,953</u>	<u>2,895,345</u>	<u>14,351,235</u>

2 Financial risk management objectives and policies (continued)

Parent - At 30 June 2007	Less than 3 months	3 - 12 months	Between 1 and 5 years	Total
	\$	\$	\$	\$
On balance sheet				
Debentures	59,471,020	99,712,659	25,061,179	184,244,858
Unsecured notes and bill facility	10,580,000	-	14,500,000	25,080,000
Intercompany loans	2,045,320	-	-	2,045,320
Trade and other payables	3,649,237	-	-	3,649,237
Total on balance sheet	<u>75,745,577</u>	<u>99,712,659</u>	<u>39,561,179</u>	<u>215,019,415</u>
Off balance sheet				
Interest on debentures	2,609,239	5,460,121	1,994,931	10,064,291
Interest on unsecured notes and bill facility	279,630	675,240	453,126	1,407,996
Total off balance sheet	<u>2,888,869</u>	<u>6,135,361</u>	<u>2,448,057</u>	<u>11,472,287</u>

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. With the exception of estimates made by the company in respect of specific and collective provisions for impairment as described in notes 1(j) and 17, the company has not made any estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Segment information

(a) Description of segments

The Group operates in one business segment, being the provision of finance.

Geographically, the Group operates in Australia only.

5 Net interest income

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loans and advances	27,471,913	20,237,536	27,428,207	20,199,691
Short term borrowings	(1,781,411)	(759,401)	(1,781,411)	(759,401)
Notes and debentures	(14,480,356)	(10,406,429)	(14,480,356)	(10,406,429)
	<u>11,210,146</u>	<u>9,071,706</u>	<u>11,166,440</u>	<u>9,033,861</u>

(a) Interest revenue and interest expense

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are daily averages. Weekly or month-end averages are also used provided they are representative of the entity's operations during the year.

	Average balance \$	Interest \$	Average rate p.a. %
<i>Interest revenue to June 2008</i>			
Deposits with other financial institutions	4,064,341	280,812	6.91 %
Loans and advances	<u>262,137,676</u>	<u>27,191,102</u>	<u>10.37 %</u>
	<u>266,202,017</u>	<u>27,471,914</u>	<u>10.33 %</u>
<i>Interest revenue to June 2007</i>			
Deposits with other financial institutions	3,491,005	249,313	6.06 %
Loans and advances	<u>205,702,252</u>	<u>19,988,223</u>	<u>9.72 %</u>
	<u>209,193,257</u>	<u>20,237,536</u>	<u>9.66 %</u>
<i>Interest expense to June 2008</i>			
Short term borrowings	23,166,667	1,781,411	7.69 %
Notes and debentures	<u>207,678,491</u>	<u>14,480,356</u>	<u>6.97 %</u>
	<u>230,845,158</u>	<u>16,261,767</u>	<u>7.04 %</u>
<i>Interest expense to June 2007</i>			
Short term borrowings	10,833,333	759,401	7.01 %
Notes and debentures	<u>168,502,352</u>	<u>10,406,429</u>	<u>6.18 %</u>
	<u>179,335,685</u>	<u>11,165,830</u>	<u>6.23 %</u>

6 Other income

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Profit distribution from sale of joint controlled assets	180,408	98,893	-	-
Fees and commissions	2,042,002	1,584,933	2,042,002	1,584,933
Bad debts recovered	24,280	105,142	24,280	105,142
	<u>2,246,690</u>	<u>1,788,968</u>	<u>2,066,282</u>	<u>1,690,075</u>

7 Expenses

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Profit before income tax includes the following specific expenses:				
<i>Depreciation</i>				
Motor vehicles	23,261	11,271	23,261	11,271
Office machines and equipment	2,827	2,009	2,827	2,009
Fixtures and fittings	875	(325)	875	(325)
Computer equipment	11,736	17,070	11,736	17,070
Low value pool	7,201	5,707	7,201	5,707
Total depreciation	<u>45,900</u>	<u>35,732</u>	<u>45,900</u>	<u>35,732</u>
<i>Amortisation</i>				
Computer software	45,413	79,656	45,413	79,656
Total amortisation	<u>45,413</u>	<u>79,656</u>	<u>45,413</u>	<u>79,656</u>
<i>Finance costs</i>				
Borrowing and finance charges paid / payable	157,319	98,511	157,319	98,511
	<u>157,319</u>	<u>98,511</u>	<u>157,319</u>	<u>98,511</u>
<i>Employee benefits expense</i>				
Wages and salaries	2,061,189	1,824,107	2,061,189	1,824,107
Workers' compensation costs	15,971	8,694	15,971	8,694
Defined contribution superannuation expense	238,866	152,670	238,866	152,670
Payroll tax	137,514	108,826	137,514	108,826
Sick leave provision	10,224	10,676	10,224	10,676
Long service leave provision	1,684	17,746	1,684	17,746
	<u>2,465,447</u>	<u>2,122,719</u>	<u>2,465,447</u>	<u>2,122,719</u>

8 Income tax expense

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Income tax expense				
Current tax	1,477,252	1,047,591	1,404,346	1,006,741
Deferred tax	15,614	18,530	23,175	18,530
Adjustments in respect of current income tax of previous years	-	39,908	-	39,908
	<u>1,492,866</u>	<u>1,106,029</u>	<u>1,427,521</u>	<u>1,065,179</u>

(b) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable tax rate is as follows:

Profit from continuing operations before income tax expense	<u>4,937,601</u>	<u>3,632,638</u>	<u>4,719,784</u>	<u>3,496,471</u>
Tax at the Australian tax rate of 30% (2006 - 30%)	1,481,280	1,089,791	1,415,935	1,048,941
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenditure not allowable for income tax purposes	11,586	16,238	11,586	16,238
Adjustments in respect of current income tax of previous years	-	-	-	-
Total income tax expense	<u>1,492,866</u>	<u>1,106,029</u>	<u>1,427,521</u>	<u>1,065,179</u>

(c) Tax consolidation legislation

The Royal Automobile Club of W.A. (Incorporated) and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2003. RAC Finance Limited is one of its subsidiaries. The Royal Automobile Club of W.A. (Incorporated) is the head entity of the tax consolidated group. All members of the group have entered into a tax funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a modified stand alone basis. In addition there is a tax sharing agreement which provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date the possibility of default is remote.

Tax effect accounting by members of the tax consolidation group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their taxable income for the period on a stand alone taxpayer approach for each entity, as if they would have continued to be a taxable entity in their own right. Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 Income Taxes. Allocations under the tax funding agreement are made at the end of each financial year.

The allocation of taxes under the tax funding arrangement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, The Royal Automobile Club of W.A. (Incorporated).

(d) Deferred income tax

Refer to note 13 for details of deferred tax assets.

9 Fair values and interest rate risk

(a) Fair values

The fair values and carrying values of financial assets of the Group are as follows:

	2008		2007	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	5,925,875	5,925,875	2,078,614	2,078,614
Loans to related parties	64,578	64,578	192,010	192,010
Other receivables	692,997	692,997	539,354	539,354
GST receivable	3,952	3,952	9,361	9,361
Loans and advances - Real estate	140,336,094	139,746,047	124,057,471	123,799,161
Loans and advances - Consumer	139,676,581	135,856,292	113,522,499	112,319,617
Available-for-sale financial assets.	<u>2,640,000</u>	<u>2,640,000</u>	<u>565,000</u>	<u>565,000</u>
	<u>289,340,077</u>	<u>284,929,741</u>	<u>240,964,309</u>	<u>239,503,117</u>

The fair values of other receivables are estimated using discounted cashflow analysis, based on current lending rates for similar types of lending arrangements.

Included in cash is \$4,903,660 (2007: \$1,100,070) that relates to the parent entity. The carrying amount approximates its fair value and attracts a floating interest rate of 6.91% (2007: 6.05%).

Included in trade and other receivables is \$1,865,715 (2007: \$2,348,799) that relates to the parent entity. The carrying amount approximates its fair value and is non-interest bearing.

Loans and advances are held by the parent.

(b) Effective interest rate risk

The following table sets out the carrying amount, by maturity or repricing, which ever is earlier, of the financial assets of the Group exposed to interest rate risk.

Consolidated 2008	Weighted average effective interest rate %	Floating interest rate \$	1 year or less	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total \$
			\$	\$	\$	\$	
Cash	6.91	5,925,875	-	-	-	-	5,925,875
Trade and other receivables	-	-	-	-	-	761,527	761,527
Investments	-	-	-	-	-	2,640,000	2,640,000
Loans and advances - Real estate	10.92	-	109,117,580	31,218,514	-	-	140,336,094
Loans and advances - Consumer	10.73	-	33,887,538	105,789,043	-	-	139,676,581
		<u>5,925,875</u>	<u>143,005,118</u>	<u>137,007,557</u>	<u>-</u>	<u>3,401,527</u>	<u>289,340,077</u>
Consolidated 2007	Weighted average effective interest rate %	Floating interest rate \$	1 year or less	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total \$
			\$	\$	\$	\$	
Cash	6.05	2,078,614	-	-	-	-	2,078,614
Trade and other receivables	-	-	-	-	-	740,725	740,725
Investments	-	-	-	-	-	565,000	565,000
Loans and advances - Real estate	9.84	-	105,533,749	18,523,722	-	-	124,057,471
Loans and advances - Consumer	10.02	-	27,599,664	85,922,835	-	-	113,522,499
		<u>2,078,614</u>	<u>133,133,413</u>	<u>104,446,557</u>	<u>-</u>	<u>1,305,725</u>	<u>240,964,309</u>

9 Fair values and interest rate risk (continued)

Parent 2008	Weighted average effective interest rate	Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	\$	\$	\$	\$	\$	\$
Cash	6.91	4,903,660	-	-	-	-	4,903,660
Trade and other receivables	-	-	-	-	-	1,865,715	1,865,715
Investments	-	-	-	-	-	1	1
Loans and advances - Real estate	10.92	-	109,117,580	31,218,514	-	-	140,336,094
Loans and advances - Consumer	<u>10.73</u>	-	<u>33,887,538</u>	<u>105,789,043</u>	-	-	<u>139,676,581</u>
		<u>4,903,660</u>	<u>143,005,118</u>	<u>137,007,557</u>	-	<u>1,865,716</u>	<u>286,782,051</u>

Parent 2007	Weighted average effective interest rate	Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	\$	\$	\$	\$	\$	\$
Cash	6.05	1,100,070	-	-	-	-	1,100,070
Trade and other receivables	-	-	-	-	-	2,348,799	2,348,799
Investments	-	-	-	-	-	1	1
Loans and advances - Real estate	9.84	-	105,533,749	18,523,722	-	-	124,057,471
Loans and advances - Consumer	<u>10.02</u>	-	<u>27,599,664</u>	<u>85,922,835</u>	-	-	<u>113,522,499</u>
		<u>1,100,070</u>	<u>133,133,413</u>	<u>104,446,557</u>	-	<u>2,348,800</u>	<u>241,028,840</u>

10 Assets - Available-for-sale financial assets

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
At beginning of year	565,000	565,000	1	1
Revaluation adjustment	<u>2,075,000</u>	-	<u>-</u>	-
At end of year	<u>2,640,000</u>	<u>565,000</u>	<u>1</u>	<u>1</u>

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Unlisted securities				
Equity securities	<u>2,640,000</u>	<u>565,000</u>	<u>1</u>	<u>1</u>
	<u>2,640,000</u>	<u>565,000</u>	<u>1</u>	<u>1</u>

(a) Unlisted securities

Included in unlisted securities in the consolidated financial statements are equity securities relating to an investment in Watermark Enterprises Pty Ltd. Watermark Enterprises Pty Ltd develops land and sells property in the Western Australian property market. R.A.C. Finance Property Development Pty Ltd holds a 17% (2007 - 17%) ownership interest in Watermark Enterprises Pty Ltd.

On 31 December 2007 the investment was revalued to \$2,640,000 (2007 - \$565,000) being the current fair value. The valuation of equity securities relating to an investment in the Watermark Enterprises Pty Ltd has been assessed after taking into account the valuation report issued by Egan National Valuers in June 2008 for the land held by Watermark Enterprises Pty Ltd. The valuation technique used by Egan National Valuers was a combination of a direct comparison with En Globo sales evidence and a discounted cash flow analysis.

10 Assets - Available-for-sale financial assets (continued)

(b) Impairment and risk exposure

None of the available-for-sale financial assets are either past due or impaired. For an analysis of the sensitivity of available-for-sale financial assets to price and interest rate risk refer to note 2.

11 Assets - Trade and other receivables

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net trade receivables (note 1(i))	692,997	539,354	692,997	539,354
Net related party receivables (note 30(f))	64,578	192,010	1,169,306	1,800,084
Net goods and services tax (GST) receivable	3,952	9,361	3,412	9,361
	<u>761,527</u>	<u>740,725</u>	<u>1,865,715</u>	<u>2,348,799</u>

(a) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

(b) Effective interest rate risk

Information concerning the effective interest rate and credit risk receivables is set out in the receivables note 9.

(c) Credit risk

Refer to note 2 for more information on the risk management policy of the Group.

12 Assets - Plant and equipment

Consolidated	Fixtures and fittings \$	Motor vehicles \$	Low value pool \$	Office machines & equipment \$	Computer equipment \$	Total \$
2007						
1 July 2006						
Cost	8,820	119,422	36,575	44,923	107,565	317,305
Accumulated depreciation	<u>(8,206)</u>	<u>(51,026)</u>	<u>(20,259)</u>	<u>(39,545)</u>	<u>(66,926)</u>	<u>(185,962)</u>
Net book amount	<u>614</u>	<u>68,396</u>	<u>16,316</u>	<u>5,378</u>	<u>40,639</u>	<u>131,343</u>
Year ended 30 June 2007						
Opening net book amount	614	68,396	16,316	5,378	40,639	131,343
Additions	-	25,328	6,627	3,510	3,160	38,625
Disposals	-	(11,332)	(3,610)	-	-	(14,942)
Depreciation charge	<u>325</u>	<u>(11,271)</u>	<u>(5,707)</u>	<u>(2,009)</u>	<u>(17,070)</u>	<u>(35,732)</u>
Closing net book amount	<u>939</u>	<u>71,121</u>	<u>13,626</u>	<u>6,879</u>	<u>26,729</u>	<u>119,294</u>
At 30 June 2007						
Cost	8,820	106,860	39,469	48,433	110,726	314,308
Accumulated depreciation	<u>(7,881)</u>	<u>(35,739)</u>	<u>(25,843)</u>	<u>(41,554)</u>	<u>(83,997)</u>	<u>(195,014)</u>
Net book amount	<u>939</u>	<u>71,121</u>	<u>13,626</u>	<u>6,879</u>	<u>26,729</u>	<u>119,294</u>

12 Assets - Plant and equipment (continued)

Consolidated	Fixtures and fittings \$	Motor vehicles \$	Low value pool \$	Office machines & equipment \$	Computer equipment \$	Total \$
2008						
Year ended 30 June 2008						
Opening net book amount	939	71,121	13,626	6,879	26,729	119,294
Additions	5,732	77,794	3,068	7,290	3,809	97,693
Disposals	-	(26,542)	(904)	(1,667)	(222)	(29,335)
Depreciation charge	(875)	(23,261)	(7,201)	(2,827)	(11,736)	(45,900)
Closing net book amount	<u>5,796</u>	<u>99,112</u>	<u>8,589</u>	<u>9,675</u>	<u>18,580</u>	<u>141,752</u>
At 30 June 2008						
Cost	14,553	128,239	34,060	23,063	93,698	293,613
Accumulated depreciation	<u>(8,757)</u>	<u>(29,127)</u>	<u>(25,471)</u>	<u>(13,388)</u>	<u>(75,118)</u>	<u>(151,861)</u>
Net book amount	<u>5,796</u>	<u>99,112</u>	<u>8,589</u>	<u>9,675</u>	<u>18,580</u>	<u>141,752</u>

12 Assets - Plant and equipment (continued)

Parent	Fixtures and fittings \$	Motor vehicles \$	Low value voov \$	Office machines & equipment \$	Computer equipment \$	Total \$
2007						
At 1 July 2006						
Cost	8,820	119,422	36,575	44,923	107,565	317,305
Accumulated depreciation	<u>(8,206)</u>	<u>(51,026)</u>	<u>(20,259)</u>	<u>(39,545)</u>	<u>(66,926)</u>	<u>(185,962)</u>
Net book amount	<u>614</u>	<u>68,396</u>	<u>16,316</u>	<u>5,378</u>	<u>40,639</u>	<u>131,343</u>
Year ended 30 June 2007						
Opening net book amount	614	68,396	16,316	5,378	40,639	131,343
Additions	-	25,328	6,627	3,510	3,160	38,625
Disposals	-	(11,332)	(3,610)	-	-	(14,942)
Depreciation charge	<u>325</u>	<u>(11,271)</u>	<u>(5,707)</u>	<u>(2,009)</u>	<u>(17,070)</u>	<u>(35,732)</u>
Closing net book amount	<u>939</u>	<u>71,121</u>	<u>13,626</u>	<u>6,879</u>	<u>26,729</u>	<u>119,294</u>
At 30 June 2007						
Cost	8,820	106,860	39,469	48,433	110,726	314,308
Accumulated depreciation	<u>(7,881)</u>	<u>(35,739)</u>	<u>(25,843)</u>	<u>(41,554)</u>	<u>(83,997)</u>	<u>(195,014)</u>
Net book amount	<u>939</u>	<u>71,121</u>	<u>13,626</u>	<u>6,879</u>	<u>26,729</u>	<u>119,294</u>

12 Assets - Plant and equipment (continued)

Parent	Fixtures and fittings \$	Motor vehicles \$	Low value pool \$	Office machines & equipment \$	Computer equipment \$	Total \$
2008						
Year 30 June 2008						
Opening net book amount	939	71,121	13,626	6,879	26,729	119,294
Additions	5,732	77,794	3,068	7,290	3,809	97,693
Disposals	-	(26,542)	(904)	(1,667)	(222)	(29,335)
Depreciation charge	(875)	(23,261)	(7,201)	(2,827)	(11,736)	(45,900)
Closing net book amount	<u>5,796</u>	<u>99,112</u>	<u>8,589</u>	<u>9,675</u>	<u>18,580</u>	<u>141,752</u>
At 30 June 2008						
Cost	14,553	128,239	34,060	23,063	93,698	293,613
Accumulated depreciation	<u>(8,757)</u>	<u>(29,127)</u>	<u>(25,471)</u>	<u>(13,388)</u>	<u>(75,118)</u>	<u>(151,861)</u>
Net book amount	<u>5,796</u>	<u>99,112</u>	<u>8,589</u>	<u>9,675</u>	<u>18,580</u>	<u>141,752</u>

(a) Assets pledged as security

Refer to note 20 for information on assets pledged as security by the parent entity.

13 Assets - Deferred tax assets

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
The balance comprises temporary differences attributable to:				
Prepaid tax deductible expenditure	-	(3,552)	(4,383)	(3,552)
Employee benefits	-	94,357	90,843	94,357
Provision for future expenses	-	253,255	342,448	253,255
Taxed future revenue for accounting purposes	-	10,955	(97,067)	10,955
Net deferred tax assets	<u>-</u>	<u>355,015</u>	<u>331,840</u>	<u>355,015</u>
Movements:				
Opening balance	-	(373,545)	(355,015)	(373,545)
Charged to income	-	18,530	23,175	18,530
Charged to equity	-	-	-	-
Adjustments to opening balances	-	-	-	-
Closing balance	<u>-</u>	<u>(355,015)</u>	<u>(331,840)</u>	<u>(355,015)</u>
Amounts recognised in the balance sheet:				
Deferred tax asset	-	358,567	336,223	358,567
Deferred tax liability	<u>-</u>	<u>(3,552)</u>	<u>(4,383)</u>	<u>(3,552)</u>
	<u>-</u>	<u>355,015</u>	<u>331,840</u>	<u>355,015</u>

14 Assets - Intangible assets

Consolidated	Computer software \$	Total \$
2007		
At 1 July 2006		
Cost	524,066	524,066
Accumulated amortisation and impairment	<u>(395,052)</u>	<u>(395,052)</u>
Net book amount	<u>129,014</u>	<u>129,014</u>
Year ended 30 June 2007		
Opening net book amount	129,014	129,014
Additions	159,562	159,562
Transfers to assets held for sale	(145,449)	(145,449)
Amortisation charge	<u>(79,656)</u>	<u>(79,656)</u>
Closing net book amount	<u>63,471</u>	<u>63,471</u>
At 30 June 2007		
Cost	534,980	534,980
Accumulated amortisation and impairment	<u>(471,509)</u>	<u>(471,509)</u>
Net book amount	<u>63,471</u>	<u>63,471</u>
2008		
Year ended 30 June 2008		
Opening net book amount	63,471	63,471
Additions	8,216	8,216
Disposals	-	-
Amortisation charge	<u>(45,413)</u>	<u>(45,413)</u>
Closing net book amount	<u>26,274</u>	<u>26,274</u>
At 30 June 2008		
Cost	543,195	543,195
Accumulated amortisation and impairment	<u>(516,921)</u>	<u>(516,921)</u>
Net book amount	<u>26,274</u>	<u>26,274</u>

14 Assets - Intangible assets (continued)

Parent	Computer software \$	Total \$
2007		
At 1 July 2006		
Cost	524,066	524,066
Accumulated amortisation and impairment	<u>(395,052)</u>	<u>(395,052)</u>
Net book amount	<u>129,014</u>	<u>129,014</u>
Year ended 30 June 2007		
Opening net book amount	129,014	129,014
Additions	159,562	159,562
Transfers to assets held for sale	(145,449)	(145,449)
Amortisation charge	<u>(79,656)</u>	<u>(79,656)</u>
Closing net book amount	<u>63,471</u>	<u>63,471</u>
At 30 June 2007		
Cost	534,980	534,980
Accumulated amortisation and impairment	<u>(471,509)</u>	<u>(471,509)</u>
Net book amount	<u>63,471</u>	<u>63,471</u>
2008		
Year ended 30 June 2008		
Opening net book amount	63,471	63,471
Additions	8,216	8,216
Disposals	-	-
Amortisation charge	<u>(45,413)</u>	<u>(45,413)</u>
Closing net book amount	<u>26,274</u>	<u>26,274</u>
At 30 June 2008		
Cost	543,195	543,195
Accumulated amortisation and impairment	<u>(516,921)</u>	<u>(516,921)</u>
Net book amount	<u>26,274</u>	<u>26,274</u>

15 Assets - Inventories

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Construction in progress				
Contract costs incurred	<u>819,028</u>	<u>1,141,966</u>	<u>-</u>	<u>-</u>
For further details refer to note 33.				

16 Assets - Cash and cash equivalents

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank and in hand	<u>5,925,875</u>	<u>2,078,614</u>	<u>4,903,660</u>	<u>1,100,070</u>
Balance as per cash flow statement	<u>5,925,875</u>	<u>2,078,614</u>	<u>4,903,660</u>	<u>1,100,070</u>

(a) Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates its fair value. Cash at bank earns interest at floating rates and on daily bank deposit rates.

17 Assets - Loans and advances

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Term loans	280,454,323	237,868,903	280,454,323	237,868,903
Unearned income and stamp duty	(37,978)	(30,488)	(37,978)	(30,488)
Specific provision for impairment	(403,670)	(258,446)	(403,670)	(258,446)
Collective provision for impairment	(489,397)	(361,204)	(489,397)	(361,204)
Net loans and advances	<u>279,523,278</u>	<u>237,218,765</u>	<u>279,523,278</u>	<u>237,218,765</u>

(a) Maturity analysis

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Maturity analysis				
At call	6,626	11,170	6,626	11,170
Not longer than 3 months	36,229,821	39,301,135	36,229,821	39,301,135
Longer than 3 and not longer than 12 months	106,768,671	93,821,107	106,768,671	93,821,107
Longer than 1 and not longer than 5 years	137,007,557	104,446,557	137,007,557	104,446,557
Longer than 5 years	-	-	-	-
Collective provision for impairment	(489,397)	(361,204)	(489,397)	(361,204)
	<u>279,523,278</u>	<u>237,218,765</u>	<u>279,523,278</u>	<u>237,218,765</u>

17 Assets - Loans and advances (continued)

(b) Impairment of loans and advances

As at 30 June 2008, receivables of the RAC Finance Limited with a nominal value of \$935,953 (2007: \$453,848) were impaired. The amount of the provision was \$403,670 (2007: \$258,446) and it is expected that a portion will be recovered.

	Consolidated	
	2008	2007
	\$	\$
Less than 90 days	223,015	173,765
90 to 180 days	155,655	72,069
Over 180 days	25,000	12,612
	<u>403,670</u>	<u>258,446</u>

At 30 June 2008, receivables of \$2,494,706 (2007: \$1,045,724) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these receivables are as follows:

	Consolidated	
	2008	2007
	\$	\$
Less than 30 days	1,996,526	781,821
30 to 60 days	498,180	263,903
	<u>2,494,706</u>	<u>1,045,724</u>

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2008 if their terms were not renegotiated was \$103,200 (2007: \$317,853). Collateral held as security for receivables past due or impaired were in the form of motor vehicles, motorcycles, boats and caravans. The estimated fair value of the security for these receivables at 30 June 2008 was \$2,497,000 (2007: \$860,000). In addition assets that had been repossessed and were in possession at 30 June 2008 were estimated to have a fair value of \$123,600 (2007: \$68,000).

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Specific provisions for impairment				
Opening balance	258,446	226,763	258,446	226,763
Doubtful debts expense	342,605	192,603	342,605	192,603
Non-accrual loans written off	(197,381)	(160,920)	(197,381)	(160,920)
	<u>403,670</u>	<u>258,446</u>	<u>403,670</u>	<u>258,446</u>
<i>Collective provision for impairment</i>				
Opening balance	361,204	263,792	361,204	263,792
Doubtful debts expense	128,193	97,412	128,193	97,412
	<u>489,397</u>	<u>361,204</u>	<u>489,397</u>	<u>361,204</u>
<i>Bad and doubtful debts expense</i>				
Specific provisions for impairment	342,605	192,603	342,605	192,603
Doubtful debts expense	128,193	97,412	128,193	97,412
Bad debts written off directly	620,165	431,797	620,165	431,797
	<u>1,090,963</u>	<u>721,812</u>	<u>1,090,963</u>	<u>721,812</u>

17 Assets - Loans and advances (continued)

(b) Impairment of loans and advances (continued)

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Non-accrual loans</i>				
Without provisions	132,195	61,093	132,195	61,093
With provisions	935,953	453,848	935,953	453,848
Specific provision for impairment	<u>(403,670)</u>	<u>(258,446)</u>	<u>(403,670)</u>	<u>(258,446)</u>
	<u>664,478</u>	<u>256,495</u>	<u>664,478</u>	<u>256,495</u>
Interest foregone on non-accrual loans	<u>29,850</u>	<u>13,025</u>	<u>29,850</u>	<u>13,025</u>

"Non-accrual loans" are loans and advances where the debt has been written down to recoverable value. The Board is of the view that recovery of the principal only will occur on these loans. Once classified as a non-accrual loan, interest accruing on the loan is not brought to account as income.

18 Assets - Prepayments

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Prepayments	<u>31,903</u>	<u>25,984</u>	<u>31,459</u>	<u>25,984</u>

19 Liabilities - Trade and other payables

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables (note 1(o))	74,459	206,227	74,459	206,227
Accrued interest	4,122,912	2,920,285	4,122,912	2,920,285
Accrued expenses	482,724	522,725	482,724	522,725
Payable to controlling entity under Tax Funding Agreement *	1,436,402	1,030,953	1,404,346	1,006,741
Amounts due to related parties *	<u>682,199</u>	<u>1,263,422</u>	<u>392,609</u>	<u>1,038,579</u>
	<u>6,798,696</u>	<u>5,943,612</u>	<u>6,477,050</u>	<u>5,694,557</u>

The carrying amount of trade and other payables approximates its fair value and is non-interest bearing. Repayment is expected to occur within 30 days, except for amounts due to related parties which is at call, and payable to the controlling entity under the tax funding agreement which is 12 months.

Accrued interest

Payment of interest is in accordance with each type of borrowing. All interest is remitted within 12 months from the accrual.

* Further information relating to loans from related parties is set out in note 31.

19 Liabilities - Trade and other payables (continued)

Accrued expenses

These amounts represent liabilities for salary and wages and commissions prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of all the other amounts approximate to their fair value and are non-interest bearing.

20 Liabilities - Interest bearing loans and borrowings

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Secured				
Debentures	<u>196,774,396</u>	184,244,858	<u>196,774,396</u>	184,244,858
Total secured borrowings	<u>196,774,396</u>	<u>184,244,858</u>	<u>196,774,396</u>	<u>184,244,858</u>
Unsecured				
Unsecured notes	<u>15,080,000</u>	15,080,000	<u>15,080,000</u>	15,080,000
Total borrowings	<u>211,854,396</u>	<u>199,324,858</u>	<u>211,854,396</u>	<u>199,324,858</u>

(a) Assets pledged as security

The debentures issued by the parent entity are secured by way of a first ranking floating charge over the total assets of RAC Finance Limited (parent entity) carried at \$286,823,979. All debentures that are secured by the first ranking floating charge rank equally with all other issued debenture stock. The terms and conditions of the pledge are specified in the Trust Deed ("Deed") which is an agreement between RAC Finance Limited and Perpetual Trustees W.A. Ltd. The provisions of the deed are binding on RAC Finance Limited for the protection of investors. The deed limits the amount RAC Finance Limited may borrow by requiring the sum of Total Secured Liabilities and Issued Stock to not exceed the lesser of 15 times Shareholder Funds and 90% of Total Tangible Assets. The Deed further limits the amount RAC Finance Limited may borrow by requiring Total External Liabilities to not exceed the lesser of 15 times Shareholders Funds and 95% of Total Tangible Assets.

(b) Maturity analysis

Refer to note 20(f) for maturity analysis.

(c) Debentures

Debentures held at balance date have an effective interest rate of 7.70% (2007: 6.59%) paid quarterly or annually in arrears with average maturity of February 2009. Debentures have terms ranging from 1 to 4 years. Interest is paid in accordance with the investors instructions which may be quarterly or annually or compounded annually.

(d) Unsecured notes

Unsecured notes have a term of up to 3 years. Interest is paid quarterly in arrears at the nominal interest rate.

20 Liabilities - Interest bearing loans and borrowings (continued)

(e) Financing arrangements

Unrestricted access was available at balance date to the following line of credit:

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Credit standby arrangements				
Total facilities				
Unsecured bill acceptance facility	<u>50,000,000</u>	<u>20,000,000</u>	<u>50,000,000</u>	<u>20,000,000</u>
	<u>50,000,000</u>	<u>20,000,000</u>	<u>50,000,000</u>	<u>20,000,000</u>
Used at balance date				
Unsecured bill acceptance facility	<u>39,000,000</u>	<u>10,000,000</u>	<u>39,000,000</u>	<u>10,000,000</u>
	<u>39,000,000</u>	<u>10,000,000</u>	<u>39,000,000</u>	<u>10,000,000</u>
Unused at balance date				
Unsecured bill acceptance facility	<u>11,000,000</u>	<u>10,000,000</u>	<u>11,000,000</u>	<u>10,000,000</u>
	<u>11,000,000</u>	<u>10,000,000</u>	<u>11,000,000</u>	<u>10,000,000</u>

(f) Interest rate risk exposures

The following table sets out the carrying amount, by maturity or repricing, which ever is earlier, of the financial liabilities of the Group exposed to interest rate risk.

Consolidated and Parent 2008	Weighted average effective interest rate %	1 year or less	Over 1 to 5 years	Total
		\$	\$	\$
Short term borrowings	8.25	39,000,000	-	39,000,000
Unsecured notes	6.65	580,000	14,500,000	15,080,000
Debentures	<u>7.70</u>	<u>174,751,652</u>	<u>22,022,744</u>	<u>196,774,396</u>
		<u>214,331,652</u>	<u>36,522,744</u>	<u>250,854,396</u>

Consolidated and Parent 2007	Weighted average effective interest rate %	1 year or less	Over 1 to 5 years	Total
		\$	\$	\$
Short term borrowings	7.25	10,000,000	-	10,000,000
Unsecured notes	6.01	580,000	14,500,000	15,080,000
Debentures	<u>6.59</u>	<u>159,183,679</u>	<u>25,061,179</u>	<u>184,244,858</u>
		<u>169,763,679</u>	<u>39,561,179</u>	<u>209,324,858</u>

20 Liabilities - Interest bearing loans and borrowings (continued)

(g) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	2008		2007	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Short term borrowings	39,000,000	39,000,000	10,000,000	10,000,000
Unsecured notes	15,080,000	15,080,000	15,080,000	15,080,000
Debentures	<u>196,774,396</u>	<u>194,690,267</u>	<u>184,244,858</u>	<u>183,434,307</u>
	<u>250,854,396</u>	<u>248,770,267</u>	<u>209,324,858</u>	<u>208,514,307</u>

None of the classes are readily traded on organised markets in standardised form.

21 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
The balance comprises temporary differences attributable to:				
Prepaid tax deductible expenditure	4,383	-	-	-
Revaluation of available-for-sale investments to fair value	622,500	-	-	-
Employee benefits	(90,843)	-	-	-
Provision for future expenses	(342,447)	-	-	-
Taxed future revenue for accounting purposes	97,067	-	-	-
Net deferred tax liabilities	<u>290,660</u>	-	-	-
Movements:				
Opening balance	(355,015)	-	-	-
Charged to income	23,175	-	-	-
Charged to equity	622,500	-	-	-
Adjustments to opening balances	-	-	-	-
Closing balance	<u>290,660</u>	-	-	-
Amounts recognised in the balance sheet:				
Deferred tax asset	336,223	-	-	-
Deferred tax liability	<u>(626,883)</u>	-	-	-
	<u>(290,660)</u>	-	-	-

22 Liabilities - Provisions

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Employee benefits	<u>302,809</u>	<u>314,523</u>	<u>302,809</u>	<u>314,523</u>
	<u>302,809</u>	<u>314,523</u>	<u>302,809</u>	<u>314,523</u>

23 Liabilities - Deposits and short term borrowings

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Deposits and short term borrowings	<u>39,000,000</u>	<u>10,000,000</u>	<u>39,000,000</u>	<u>10,000,000</u>

(a) Maturity Analysis

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Not longer than 3 months	<u>39,000,000</u>	<u>10,000,000</u>	<u>39,000,000</u>	<u>10,000,000</u>
	<u>39,000,000</u>	<u>10,000,000</u>	<u>39,000,000</u>	<u>10,000,000</u>

(b) Effective interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate is 8.25% (2006: 7.25%). Refer to note 20(f).

(c) Fair values

The carrying amount of deposits and short term borrowings approximates its fair value. Refer to note 20(g).

24 Contributed equity

	Parent entity		Parent entity	
	2008	2007	2008	2007
	Shares	Shares	\$	\$
(a) Share capital				
Ordinary shares				
Issued and paid up capital	<u>10,000,000</u>	<u>10,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>

(b) Ordinary shares

All shares issued are ordinary shares and there are no rights, preferences or restrictions attached to the share including restrictions on the distribution of dividends and the repayment of capital.

Effective 1 July 1998, the Corporations legislation in place abolished the concept of authorised capital and par value shares. Accordingly, the company does not have authorised capital nor par value in respect of its issued shares.

(c) Capital risk management

The Group's and the entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Group may pay a dividend to shareholders, return capital to shareholders or issue new shares.

Consistently with others in the industry, the Group and the parent entity monitor capital on the basis of an equity ratio. The ratio is calculated as total equity divided by total debt plus total equity. Total debt is calculated as 'liabilities' as on the balance sheet and total equity is calculated as 'equity' as shown on the balance sheet.

ASIC Benchmark 1 - Equity Capital requires issuers to maintain a minimum equity ratio of 20% where more than 10% of its activities is lending funds directly or indirectly for property development and 8% in all other cases. While the Group currently has an equity ratio of 11% which doesn't meet the requirement of 20%, it considers that its level of equity is appropriate in light of its history of low credit losses, credit rating and the business parameters described in the prospectus. The ASIC Benchmarks are for unlisted debenture issuers to assist investors to understand the risk and rewards being offered prior to making an investment decision. The Benchmarks are not mandatory and if a debenture issuer does not comply with one of the benchmarks they must state why not.

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Total debt	257,668,214	215,268,470	257,331,446	215,019,415
Total equity	<u>31,623,076</u>	<u>26,725,841</u>	<u>29,189,724</u>	<u>25,897,461</u>
Total debt and equity	289,291,290	241,994,311	286,521,170	240,916,876
Total equity	<u>31,623,076</u>	<u>26,725,841</u>	<u>29,189,724</u>	<u>25,897,461</u>
Equity ratio	10.9 %	11.0 %	10.2 %	10.7 %

The decrease in the equity ratio during 2008 resulted primarily from an increase in the cost of debt during the year.

25 Reserves and retained earnings

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Reserves				
Available-for-sale reserve	<u>1,452,500</u>	-	-	-
	<u>1,452,500</u>	-	-	-

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Movements:				
Balance 1 July	-	-	-	-
Revaluation - net of tax	<u>1,452,500</u>	-	-	-
Balance 30 June	<u>1,452,500</u>	-	-	-

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance 1 July	21,725,841	19,199,232	20,897,461	18,466,169
Net profit for the year	<u>3,444,735</u>	<u>2,526,609</u>	<u>3,292,263</u>	<u>2,431,292</u>
Balance 30 June	<u>25,170,576</u>	<u>21,725,841</u>	<u>24,189,724</u>	<u>20,897,461</u>

(c) Nature and purpose of reserves

Available-for-sale investments revaluation reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

26 Dividends

The franking account has been transferred to The Royal Automobile Club of W.A. (Incorporated) as part of the tax consolidation regime.

27 Key management personnel disclosures

(a) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

BD Darling	Executive Manager Finance	RAC Finance Limited
AJ Pickworth	General Manger Operations & People	RAC Distribution Pty Ltd
GB Mather	General Manager Corporate Services	RACWA Holdings Pty Ltd
MK Heath	General Manager Membership & Retail	The Royal Automobile Club of W.A. (Incorporated)
GP Werrett	Senior Manager Property	RAC Finance Limited

All of the above persons except for AJ Pickworth were also key management personnel during the year ended 30 June 2007.

(b) Key management personnel compensation

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash salary and fees	404,702	305,597	377,641	298,672
Cash bonus	103,788	68,375	95,660	67,850
Superannuation	30,810	24,353	28,806	23,727
	<u>539,300</u>	<u>398,325</u>	<u>502,107</u>	<u>390,249</u>

RAC Finance Limited has disclosed details of the key management personnel remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 in the Remuneration Report section of the Directors' report. These disclosures have been audited.

(c) Loans to key management personnel

Details of loans made to directors of RAC Finance Limited and the key management personnel of the Group, including their personally related parties, are set out below.

Aggregates for key management personnel

The aggregate number of persons included in the loan balance below is 0 (2007: 1)

Group	Balance at the start of the year \$	Interest paid and payable for the year \$	Interest not charged \$	Balance at the end of the year \$	Number in Group at the end of the year
2008	547	-	-	-	-
2007	60,767	3,715	-	547	1

(d) Other transactions with key management personnel

During the year and prior year staff training services were provided to RAC Group entities by The Australian Institute of Management under normal terms and conditions. Mr T Agnew a director of all the RAC subsidiary entities is a director of this company.

27 Key management personnel disclosures (continued)

During the year and prior year, corporate membership services were provided to RAC Finance Limited under normal terms and conditions by Indian Pacific Limited trading as West Coast Eagles, a company in which Mr D Gooding, a director of RACWA Holdings Pty Ltd and RAC Finance Limited was the chairman. Mr T Agnew, a director of all the RAC subsidiary entities, is a director of Indian Pacific Limited.

Aggregate amounts of each of the above types of other transactions with key management personnel of RAC Finance Limited:

	2008	2007
	\$	\$
Amounts recognised as an expense		
Corporate membership services	<u>62,787</u>	<u>63,184</u>
Amounts recognised as available-for-sale financial assets		
Ordinary shares, 565,000 shares in Watermark Enterprises Pty Ltd	<u>2,640,000</u>	<u>565,000</u>

D Gooding, a chairman of RACWA Holdings Pty Ltd and a director of RAC Finance Limited is also a director in Watermark Enterprises Pty Ltd.

28 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Assurance services				
<i>Audit services</i>				
Ernst & Young Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	<u>106,655</u>	<u>90,700</u>	<u>106,655</u>	<u>90,700</u>
Total remuneration for audit services	<u>106,655</u>	<u>90,700</u>	<u>106,655</u>	<u>90,700</u>
(b) Taxation services				
Ernst & Young Australian firm				
Tax compliance services, including review of company income tax returns	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total remuneration for taxation services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>106,655</u>	<u>90,700</u>	<u>106,655</u>	<u>90,700</u>

It is the Group's policy to employ Ernst & Young on assignments additional to their statutory audit duties where Ernst & Youngs' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where Ernst & Young is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major advisory projects.

29 Contingencies

Contingent liabilities

Bank guarantee:

RACWA Holdings Pty Ltd provided a guarantee to Westpac Banking Corporation for \$3.5 million (2006 - \$3.5 million) in support of Letters of Credit issued by the bank for RAC Finance Limited and its customers.

These guarantees may give rise to liabilities in RACWA Holdings Pty Ltd if RAC Finance Limited does not meet its obligations under the terms of the letters of credit subject to the guarantees.

No material losses are anticipated in respect of any of the above contingent liabilities.

30 Commitments

Credit related commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitments amounts do not represent future cash requirements.

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Undrawn facilities	40,623,429	43,472,007	40,623,429	43,472,007

All of the above undrawn commitments are expected to be advanced within 12 months from the reporting date.

31 Related party transactions

(a) Parent entities

The parent entity within the Group is RACWA Holdings Pty Ltd. The ultimate parent entity is The Royal Automobile Club of W.A. (Incorporated) which at 30 June 2008 owns 100% (2007 - 100%) of the issued ordinary shares of RACWA Holdings Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 32.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

31 Related party transactions (continued)

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Sales of goods and services</i>				
Interest free services	-	313	-	313
Marketing management fees	40,750	49,745	40,750	49,745
Group services management fee	994,985	650,482	994,985	650,482
Interest expense	2,615,561	1,661,354	2,613,075	1,661,354
Travel services	-	647	-	647
Rent	259,619	279,775	259,619	279,775
Fleet management charge	2,585	1,929	2,585	1,929
<i>Other transactions</i>				
Motor vehicle insurance	2,208	635	2,208	635

(e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Current receivables</i>				
Wholly owned group entities	64,578	192,011	1,104,727	1,608,073
<i>Current payables</i>				
Wholly owned group entities	-	-	(125,106)	(125,106)
<i>Current payables</i>				
RACWA Holdings Pty Ltd	(682,200)	(1,263,422)	(267,503)	(913,473)
<i>Payables (Commercial bills and Unsecured notes)</i>				
RACWA Holdings Pty Ltd	(54,080,000)	(25,080,000)	(54,080,000)	(25,080,000)
<i>Current payables (tax funding agreement)</i>				
Wholly-owned tax consolidated entities	(1,436,402)	(1,030,953)	(1,404,346)	(1,006,741)

No allowance for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

31 Related party transactions (continued)

(f) Loans to/from related parties

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Loans to subsidiaries</i>				
Beginning of the year	192,011	1,424,421	1,608,073	2,184,064
Loans advanced	64,578	192,011	987,899	368,891
Loan repayments received	<u>(192,011)</u>	<u>(1,424,421)</u>	<u>(1,491,245)</u>	<u>(944,882)</u>
End of year	<u>64,578</u>	<u>192,011</u>	<u>1,104,727</u>	<u>1,608,073</u>
<i>Loans from subsidiaries</i>				
Beginning of the year	-	-	(125,106)	(125,106)
Loans advanced	-	-	-	-
Loan repayments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>-</u>	<u>-</u>	<u>(125,106)</u>	<u>(125,106)</u>
<i>Loans from The Royal Automobile Club of W.A. (Incorporated) (ultimate Australian parent entity) / RACWA Holdings Pty Ltd</i>				
Beginning of the year	(27,374,375)	(28,398,292)	(27,000,214)	(29,086,901)
Loans advanced	(300,268,652)	(162,811,013)	(300,171,849)	(162,420,214)
Loan repayments	<u>271,444,426</u>	<u>163,834,930</u>	<u>271,420,214</u>	<u>164,506,901</u>
End of year	<u>(56,198,601)</u>	<u>(27,374,375)</u>	<u>(55,751,849)</u>	<u>(27,000,214)</u>

(g) Terms and conditions of transactions with related parties other than key management personnel or entities related to them.

The terms and conditions of the tax funding agreement are set out in note 8(c).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. No interest is charged on the loans.

Outstanding balances are unsecured and are repayable in cash.

32 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

RAC Finance Property Developments Pty Ltd	Australia	Ordinary	100	100
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33 Interests in joint ventures

Jointly controlled assets

RAC Finance Property Developments Pty Ltd has also entered into a joint venture with The Royal Automobile Club of W.A. (Incorporated) called the Mandurah Joint Venture to develop properties for residential housing. RAC Finance Property Developments has a 50% participating interest in this joint venture and is entitled to 100% of the profit while The Royal Automobile Club of W.A. (Incorporated) will receive \$240,000 being the market value of the land initially contributed. The company's interests in the asset employed in the joint venture are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1 (c).

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current assets				
Inventory - Construction work in progress	<u>819,028</u>	<u>1,141,966</u>	<u>-</u>	<u>-</u>

34 Events occurring after the balance sheet date

There have been no significant events subsequent to balance date.

35 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Profit for the year after tax	3,444,735	2,526,609	3,292,263	2,431,292
Depreciation and amortisation	91,313	115,387	91,313	115,387
Employee entitlements	(11,714)	23,910	(11,714)	23,910
Doubtful debts	297,640	129,095	297,640	129,095
Bad debts written off	817,546	592,717	817,546	592,717
Net loss on sale of non-current assets	2,307	4,505	2,307	4,505
Change in operating assets and liabilities	-	-	-	-
(Increase) / decrease in other assets	(501,932)	(68,898)	(500,949)	17,003
Accrued interest payable	1,202,627	762,199	1,202,627	762,199
(Decrease) / increase in trade and other payables	(224,746)	1,621,099	(690,307)	1,589,688
Amount payable to head entity under Tax Funding Agreement	(217,051)	(287,339)	397,605	(55,278)
(Increase) / decrease in customer loans advanced	(43,071,919)	(51,225,868)	(43,071,919)	(51,225,868)
Increase / (decrease) in borrowings	41,529,538	44,963,178	41,529,538	44,963,177
Decrease / (increase) in deferred tax asset	355,015	18,530	23,175	18,530
Increase / (decrease) in deferred tax liability	290,660	-	-	-
Net cash (outflow) inflow from operating activities	<u>4,004,019</u>	<u>(824,876)</u>	<u>3,379,125</u>	<u>(633,643)</u>

36 Non-cash investing and financing activities

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
The company has access to the following financial arrangement				
RACWA Holdings Pty Ltd short term bill facility	<u>50,000,000</u>	<u>20,000,000</u>	<u>50,000,000</u>	<u>20,000,000</u>
The amount of credit unused at balance date totalled	<u>11,000,000</u>	<u>10,000,000</u>	<u>11,000,000</u>	<u>10,000,000</u>

RACWA Holdings Pty Ltd has provided a guarantee to RAC Finance Limited and Perpetual Trustees W.A. Ltd for the value of debenture stock on issue as security that were in existence as at 7 November 2004. Debentures issued effective 8 November 2004 with the issue of Prospectus 20, are no longer guaranteed by RACWA Holdings Pty Ltd.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 61 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of RAC Finance Limited and the consolidated entity's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

This declaration is made in accordance with a resolution of the directors.



DJ Banks
Director

Chairman

Perth, W.A.
Date: 5 September 2008

Independent auditor's report to the members of R.A.C. Finance Ltd

Report on the Financial Report

We have audited the accompanying financial report of R.A.C. Finance Ltd, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

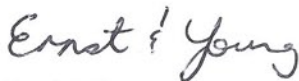
1. the financial report of R.A.C. Finance Ltd is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of R.A.C. Finance Ltd and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 2 to 4 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of R.A.C. Finance Ltd for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



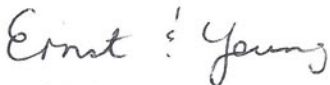
Ernst & Young



F Drummond
Perth
5 September 2008

Auditor's Independence Declaration to the Directors of R.A.C. Finance Ltd

In relation to our audit of the financial report of RAC Finance Ltd for the year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Fiona Drummond
Partner
Perth
5 September 2008