

RAC Finance Limited
ABN 77 009 066 862

Annual Financial Report for the year ended 30 June 2009



FINANCE
RAC members are happier

RAC Finance Limited ABN 77 009 066 862
Annual Financial Report - 30 June 2009

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Directors' report

Your directors present their report on the consolidated entity consisting of RAC Finance Limited ('company') and the entity it controlled ('Group') for the year ended 30 June 2009.

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 2008.

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 25 (2008: 29) employees as at 30 June 2009.

Review and results of operations

The company's profit for the year after income tax was \$2,714,928 (2008: \$3,292,263). The consolidated entity's profit for the year, after income tax was \$2,728,320 (2008: \$3,444,735).

Profit has decreased as a result of a reduction in receivables and an increase in bad debts during the year

Dividends - RAC Finance Limited

Dividend recommended on ordinary shares: Nil

No dividend was paid on ordinary shares in respect of the 2008 year.

Significant changes in the state of affairs

There have been two significant changes in the state of affairs of the consolidated entity for the year ended 30 June 2009. Firstly RAC Finance Limited is reducing its exposure to the property market and has limited its lending for new real estate and property development purposes. Secondly the company ceased using its dealer channels as a source of consumer finance business during the year. Instead RAC Finance Limited has focussed on direct business channels such as RAC Group call centres and member service centres as a source of consumer finance business.

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

Directors' and executives' emoluments (continued)

- 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 sought 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 2008 and is due for review in October 2009. Directors' fees are paid by the parent entity as part of a composite fee which includes the company. A component of the fee is allocated to the company for services rendered by the directors. 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 RACWA 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. The targets consist of a number of key performance indicators ("KPIs") covering both financial and non financial, and RACWA Group and individual measures of performance. Typically included are measures such as achievement of financial targets, member measures, people measures, leadership team contributions and progress of key strategies. 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.

On an annual basis, after consideration of performance against KPIs, the remuneration committee determines the amount, if any, of the performance incentive to be paid to each executive. This process usually occurs within three months after the reporting date.

Remuneration report (audited) (continued)

Performance incentive for 2008 and 2009 financial years

For the 2008 financial year 100% of the performance incentive as previously accrued in that period vested to executives and was paid in the 2009 financial year. The grant date for the performance incentives was September 2008. The remuneration committee will consider the performance incentives for the 2009 financial year in September 2009. The amount has been accrued on the basis that it is probable that all executives will meet their respective KPIs for the period. Any adjustments between the actual amounts to be paid in September 2009 as determined by the Remuneration committee and the amounts accrued will be adjusted in the 2010 financial year. The minimum amounts of performance incentives assuming that no executives meet their respective KPIs for the 2009 financial year is nil. The maximum performance incentive is directly linked to the RACWA Group performance incentive pool and therefore cannot be individually identified for RAC Finance.

Superannuation

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

As executives, 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 financial value drivers which help contribute to the success of the Company, and
- Contribution to the RAC Group

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

RAC Finance's performance is reflected in the profit after tax over time. The performance for the past five years, including the current period is shown below.

- 2005 - \$2,340,860
- 2006 - \$2,755,296
- 2007 - \$2,526,609
- 2008 - \$3,444,735
- 2009 - \$2,728,320

All other executives marked * are remunerated by other entities within the RAC Group. A component of their fixed salary and performance incentives 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.

Remuneration report (audited) (continued)

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 were also key management personnel during the year ended 30 June 2008.

Remuneration report (audited) (continued)
 2009

| Name | Short-term benefits | | Post-employment benefits | | Total \$ |
|---------------------------------|-------------------------|--------------------------|--------------------------|-----------------------|----------------|
| | Cash salary and fees \$ | Performance incentive \$ | Super-annuation \$ | Performance related % | |
| <i>Directors</i> | | | | | |
| DJ Banks | 10,552 | - | 950 | - | 11,502 |
| RM Ahern | 5,628 | - | 506 | - | 6,134 |
| MP Stanford | 5,628 | - | 506 | - | 6,134 |
| CP O'Sullivan | 5,628 | - | 506 | - | 6,134 |
| AJ Halse | 5,628 | - | 506 | - | 6,134 |
| DL Gooding | 5,628 | - | 506 | - | 6,134 |
| <i>Key management personnel</i> | | | | | |
| TT Agnew * | 16,251 | 3,876 | 344 | 18.9 | 20,471 |
| AJ Pickworth * | 40,129 | 12,145 | 1,766 | 22.5 | 54,040 |
| GB Mather * | 31,151 | 14,657 | 1,668 | 30.9 | 47,476 |
| BD Darling | 152,866 | 66,905 | 10,195 | 29.1 | 229,966 |
| GP Werrett | 146,701 | 26,574 | 14,023 | 14.2 | 187,298 |
| Totals | 425,790 | 124,157 | 31,476 | 21.35 | 581,423 |

2008

| Name | Short-term benefits | | Post-employment benefits | | Total \$ |
|---------------------------------|-------------------------|--------------------------|--------------------------|-----------------------|----------------|
| | Cash salary and fees \$ | Performance incentive \$ | Super-annuation \$ | Performance related % | |
| <i>Directors</i> | | | | | |
| DJ Banks | 9,954 | - | 896 | - | 10,850 |
| RM Ahern | 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 |
| Totals | 404,702 | 103,788 | 30,810 | 19.24 | 539,300 |

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 \$162,579 (2008: \$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 2009. This independence declaration can be found on page 62.

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



D.J. Banks Chairman
Non-executive Director

Perth, W.A.

Date: 3/9/09

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 Chairman;
- * The Board may appoint a Deputy Chairman;
- * 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 | 12 years (as Chairman 3 years) |
| TT Agnew | Executive Director, Chief Executive Officer | 11 years |
| RM Ahern | Non Executive Director | 9 years |
| DL Gooding | Non Executive Director | 9 years |
| CP O'Sullivan | Non Executive Director | 9 years |
| AJ Halse | Non Executive Director | 4 years |
| MP Stanford | Non Executive Director | 2 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.

The RACWA Holdings Pty Ltd board, as the sole shareholder, performs the nomination, remuneration and audit and risk committee functions.

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

Monitoring the Board's performance and communication to the shareholder

The Chairman 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:

- * Chairman's regular 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.

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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 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 1-5, which is not part of this financial report.

The financial report of RAC Finance Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 3 September 2009.

RAC Finance Limited
Income statement
For the year ended 30 June 2009

| | Notes | Consolidated | | Parent entity | |
|--|-------|---------------------|---------------------|---------------------|---------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| Revenue from continuing operations | | | | | |
| Interest revenue | 4 | 29,086,137 | 27,471,913 | 29,061,239 | 27,428,207 |
| Interest expense | 4 | <u>(18,055,832)</u> | <u>(16,261,767)</u> | <u>(18,055,832)</u> | <u>(16,261,767)</u> |
| Net interest income | | 11,030,305 | 11,210,146 | 11,005,407 | 11,166,440 |
| Other income | 5 | 1,557,449 | 2,246,690 | 1,557,449 | 2,066,282 |
| Expenses | | | | | |
| Impairment losses - loans and advances | | (456,106) | (297,640) | (456,106) | (297,640) |
| Management fees | | (1,026,433) | (994,985) | (1,026,433) | (994,985) |
| Employee benefits expense | 6 | (2,565,031) | (2,465,447) | (2,565,031) | (2,465,447) |
| Commissions and fees | | (1,094,155) | (1,895,710) | (1,094,155) | (1,895,710) |
| Depreciation and amortisation expense | 6 | (65,900) | (91,313) | (65,900) | (91,313) |
| Advertising and promotional expenses | | (372,248) | (671,534) | (372,248) | (671,534) |
| Bad debts expense | | (1,767,034) | (817,546) | (1,767,034) | (817,546) |
| Other operating expenses | | (1,156,729) | (1,127,741) | (1,150,963) | (1,121,444) |
| Borrowing costs | 6 | <u>(166,369)</u> | <u>(157,319)</u> | <u>(166,369)</u> | <u>(157,319)</u> |
| Profit before income tax from continuing operations | | 3,917,749 | 4,937,601 | 3,898,617 | 4,719,784 |
| Income tax expense | 7 | <u>(1,189,429)</u> | <u>(1,492,866)</u> | <u>(1,183,689)</u> | <u>(1,427,521)</u> |
| Profit from continuing operations | | <u>2,728,320</u> | <u>3,444,735</u> | <u>2,714,928</u> | <u>3,292,263</u> |
| Profit for the year | | <u>2,728,320</u> | <u>3,444,735</u> | <u>2,714,928</u> | <u>3,292,263</u> |

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

RAC Finance Limited
Balance sheets
As at 30 June 2009

| | Notes | Consolidated | | Parent entity | |
|---------------------------------------|-------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| ASSETS | | | | | |
| Cash and cash equivalents | 15 | 14,763,541 | 5,925,875 | 13,716,737 | 4,903,660 |
| Trade and other receivables | 10 | 351,054 | 761,527 | 636,754 | 1,865,715 |
| Inventories | 14 | - | 819,028 | - | - |
| Loans and advances | 16 | 240,097,796 | 279,523,278 | 240,097,796 | 279,523,278 |
| Available-for-sale financial assets | 9 | 1,967,510 | 2,640,000 | 1 | 1 |
| Deferred tax assets | 12 | 103,291 | - | 524,044 | 331,840 |
| Plant and equipment | 11 | 101,555 | 141,752 | 101,555 | 141,752 |
| Intangible assets | 13 | 45,224 | 26,274 | 45,224 | 26,274 |
| Prepayments | 17 | 39,830 | 31,903 | 39,280 | 31,459 |
| Total assets | | <u>257,469,801</u> | <u>289,869,637</u> | <u>255,161,391</u> | <u>286,823,979</u> |
| LIABILITIES | | | | | |
| Trade and other payables | 18 | 7,053,065 | 6,798,696 | 6,720,656 | 6,477,050 |
| Deposits and short term borrowings | 22 | - | 39,000,000 | - | 39,000,000 |
| Interest bearing loans and borrowings | 19 | 216,223,595 | 211,854,396 | 216,223,595 | 211,854,396 |
| Provisions | 21 | 312,488 | 302,809 | 312,488 | 302,809 |
| Deferred tax liabilities | 20 | - | 290,660 | - | - |
| Total liabilities | | <u>223,589,148</u> | <u>258,246,561</u> | <u>223,256,739</u> | <u>257,634,255</u> |
| Net assets | | <u>33,880,653</u> | <u>31,623,076</u> | <u>31,904,652</u> | <u>29,189,724</u> |
| EQUITY | | | | | |
| Contributed equity | 23 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Reserves | 24(a) | 981,757 | 1,452,500 | - | - |
| Retained earnings | 24(b) | 27,898,896 | 25,170,576 | 26,904,652 | 24,189,724 |
| Total equity | | <u>33,880,653</u> | <u>31,623,076</u> | <u>31,904,652</u> | <u>29,189,724</u> |

The above balance sheets should be read in conjunction with the accompanying notes.

RAC Finance Limited
Statements of changes in equity
For the year ended 30 June 2009

| Consolidated | Notes | <u>Attributable to members of RAC Finance Limited</u> | | | |
|--|-------|---|------------------|----------------------------|-------------------|
| | | Contributed equity \$ | Reserves \$ | Retained earnings \$ | Total \$ |
| Balance at 1 July 2007 | | 5,000,000 | - | 21,725,841 | 26,725,841 |
| Profit for year | 24 | <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 | 24 | <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> |
| Balance at 1 July 2008 | | 5,000,000 | 1,452,500 | 25,170,576 | 31,623,076 |
| Profit for year | 24 | <u>-</u> | <u>-</u> | <u>2,728,320</u> | <u>2,728,320</u> |
| Total recognised income and expense for the year | | <u>-</u> | <u>-</u> | <u>2,728,320</u> | <u>2,728,320</u> |
| Revaluation net of tax | 25 | <u>-</u> | <u>(470,743)</u> | <u>-</u> | <u>(470,743)</u> |
| Balance at 30 June 2009 | | <u>5,000,000</u> | <u>981,757</u> | <u>27,898,896</u> | <u>33,880,653</u> |
| | | | | | |
| Parent | Notes | Contributed equity \$ | Reserves \$ | Retained earnings \$ | Total \$ |
| Balance at 1 July 2007 | | 5,000,000 | - | 20,897,461 | 25,897,461 |
| Profit for year | 24 | <u>-</u> | <u>-</u> | <u>3,292,263</u> | <u>3,292,263</u> |
| Total recognised income 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> |
| Balance at 1 July 2008 | | 5,000,000 | - | 24,189,724 | 29,189,724 |
| Profit for year | 24 | <u>-</u> | <u>-</u> | <u>2,714,928</u> | <u>2,714,928</u> |
| Total recognised income and expense for the year | | <u>-</u> | <u>-</u> | <u>2,714,928</u> | <u>2,714,928</u> |
| Balance at 30 June 2009 | | <u>5,000,000</u> | <u>-</u> | <u>26,904,652</u> | <u>31,904,652</u> |

The above statements 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 2009

| | Notes | Consolidated | | Parent entity | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| Cash flows from operating activities | | | | | |
| Interest and other operating income from customers | | 30,360,831 | 29,203,004 | 30,360,831 | 29,203,004 |
| Interest received from deposits | | 213,542 | 280,812 | 188,644 | 237,106 |
| Interest payments | | (17,748,275) | (15,059,140) | (17,748,275) | (15,059,140) |
| Recoveries on loans previously written off | | 46,707 | 24,280 | 46,707 | 24,280 |
| Cash payments to employees and suppliers | | <u>(6,070,454)</u> | <u>(7,019,286)</u> | <u>(6,065,122)</u> | <u>(7,657,975)</u> |
| | | 6,802,351 | 7,429,670 | 6,782,785 | 6,747,275 |
| Customer loans advanced | | (135,913,723) | (231,468,757) | (135,913,723) | (231,468,757) |
| Customer loan repayments received | | 173,241,646 | 187,577,810 | 173,241,646 | 187,577,810 |
| Proceeds from borrowings | | 99,567,438 | 118,274,599 | 99,567,438 | 118,274,599 |
| Repayment of borrowings | | (134,198,239) | (76,745,061) | (134,198,239) | (76,745,061) |
| Income taxes paid | | <u>(1,439,721)</u> | <u>(1,064,242)</u> | <u>(1,407,665)</u> | <u>(1,006,741)</u> |
| Net cash inflow from operating activities | 34 | <u>8,059,752</u> | <u>4,004,019</u> | <u>8,072,242</u> | <u>3,379,125</u> |
| Cash flows from investing activities | | | | | |
| Payments for plant and equipment | | (5,465) | (97,695) | (5,465) | (97,695) |
| Payments for intangibles | | (51,201) | (8,216) | (51,201) | (8,216) |
| Net receipts / (payments) made for Joint Venture transactions | | 819,028 | 503,346 | - | - |
| Receipts from / (advances) to subsidiaries | | - | - | 819,028 | 503,346 |
| Proceeds from sale of property, plant and equipment | | 4,882 | 27,030 | 4,882 | 27,030 |
| Proceeds from sale of intangibles | | <u>5,771</u> | <u>-</u> | <u>5,771</u> | <u>-</u> |
| Net cash inflow from investing activities | | <u>773,015</u> | <u>424,465</u> | <u>773,015</u> | <u>424,465</u> |
| Cash flows from financing activities | | | | | |
| Receipts / (payments) from borrowings | | <u>4,899</u> | <u>(581,223)</u> | <u>(32,180)</u> | <u>-</u> |
| Net cash inflow / (outflow) from financing activities | | <u>4,899</u> | <u>(581,223)</u> | <u>(32,180)</u> | <u>-</u> |
| Net increase in cash and cash equivalents | | 8,837,666 | 3,847,261 | 8,813,077 | 3,803,590 |
| Cash and cash equivalents at the beginning of the financial year | | <u>5,925,875</u> | <u>2,078,614</u> | <u>4,903,660</u> | <u>1,100,070</u> |
| Cash and cash equivalents at end of year | 15 | <u>14,763,541</u> | <u>5,925,875</u> | <u>13,716,737</u> | <u>4,903,660</u> |

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

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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 ('company') as an individual entity and the consolidated entity ('Group') consisting of RAC Finance Limited and its subsidiary.

(a) General Information

RAC Finance Limited and its controlled entity provide 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*.

Compliance with IFRS

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.

Early adoption of standards

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2009:

(i) AASB 2008 3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127

The Group has early adopted AASB 2008 3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127. The amendments issued are as a consequence of revisions to AASB 3 and AASB 127. Refer to AASB 3 in (ii) and AASB 127 (iii) below.

(ii) AASB 3 Business combinations (March 2008) – "AASB 3R"

The Group has early adopted AASB 3 Business combinations (March 2008) – "AASB 3R" as at 30 June 2009. The standard gives two choices for recognition of goodwill, the fair value option in recognising goodwill relating to 100% of the business or recognition of goodwill relating to the percentage of interest acquired. The Group has chosen recognising goodwill relating to the percentage of interest acquired. RAC Finance Limited has no goodwill therefore there will be no impact on the financial statements.

(iii) AASB 127 (Revised) Consolidated and Separate Financial Statements – "AASB 127R"

The Group has early adopted AASB 127 (Revised) Consolidated and Separate Financial Statements – "AASB 127R". Under the revised standard, a change in 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 loss in the Group's income statement.

(iv) AASB 8 Operating Segments and AASB 2007 3 Amendments to Australian Accounting Standards arising from AASB 8

The Group has early adopted AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 as at 30 June 2009. Under the revised standards, the Group is no longer required to disclose segment information.

1 Summary of significant accounting policies (continued)

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.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(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 2009 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.

(ii) Interest in jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 33.

(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

1 Summary of significant accounting policies (continued)

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.

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.

1 Summary of significant accounting policies (continued)

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

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets and operating leases under which the lessor effectively retains substantially all such risks and benefits. Operating lease payments are charged to the Income Statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

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 non financial 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.

(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 January 2009 and current market conditions. 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

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.

(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) *Defined contribution obligations*

The Group participates in a defined contribution fund. Employees can elect to adopt a fund of their choice. All employees who elect the superannuation fund that the Group participates in, are entitled to benefits on retirement, disability or death from this plan. 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) *Incentive plans*

The Group recognises a liability and an expense for incentives. 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 23).

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.

1 Summary of significant accounting policies (continued)

(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.

(w) Financial instrument transaction costs

Financial instrument transaction 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 2009 reporting periods. The Group and parent entity'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) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (effective from 1 January 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and when adopted will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group does already capitalise borrowing costs relating to qualifying assets.

(ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised 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.

(iii) AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 January 2009)

In July 2008, the AASB issued a number of improvements to existing Australian Accounting Standards. The Group has not assessed the impact of these amendments.

(iv) AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 July 2009)

The amendments to AASB 5 *Discontinued Operations* and AASB 1 *First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards* are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(v) AASB Interpretation 15 *Agreements for the Construction of Real Estate* (effective 1 January 2009)

Interpretation 15 clarifies whether AASB 118 *Revenue* or AASB 111 *Construction Contracts* should be applied to particular transactions. The Group has reviewed its current agreements for the sale of real estate in light of the new guidance and concluded that there would be no change to the accounting for these agreements if Interpretation 15 was adopted in the current financial year. Consequently, the Group does not expect to make any adjustment on the initial application of Interpretation 15.

1 Summary of significant accounting policies (continued)

(vi) AASB 2008-8 Amendment to IAS 39 *Amendment to Australian Accounting Standards - Eligible Hedged Items* (effective 1 July 2009)

AASB 2008-8 amends AASB 139 *Financial Instruments: Recognition and Measurement* and must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one sided hedged risk when designating options as hedges. It is not expected to have any impact on the Group's financial statements.

(vii) AASB Interpretation 17 *Distribution of Non-cash Assets to Owners* and AASB 2008-13 *Amendments to Australian Accounting Standards arising from AASB Interpretation 17* (effective 1 July 2009)

Interpretation 17 applies to situations where an entity pays dividends by distributing non cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carrying amount of the distributed assets in the income statements on distribution. This is not expected to have any impact on the Group's financial statements.

(ix) AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)

The main amendments to AASB 127 delete the "cost method" and require 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. The Group will apply the amendments prospectively from 1 July 2009.

(x) AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038] (effective 1 January 2009)

The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three level hierarchy: - quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); - and inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the IASB in March 2009.

The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7. The Group will apply the amendments prospectively from 1 July 2009.

(xi) AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (effective 1 July 2009)

The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.

The main amendment of is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity or entities within the group, as long as the designation, documentation and effectiveness requirements in AASB 139 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment.

These amendments arise from the issuance of the IASB's Improvements to IFRSs. The amendments pertaining to IFRS 5, 8, IAS 1, 7, 17, 36 and 39 have been issued in Australia as AASB 2009 5 (refer below). The Group will apply the amendments prospectively from 1 July 2009.

(xii) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (effective 1 January 2010)

1 Summary of significant accounting policies (continued)

The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.

The main amendment of relevance is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined.

These amendments arise from the issuance of the IASB's Improvements to IFRSs. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009 4 (refer above). The Group will apply the amendments prospectively from 1 July 2010.

(xiii) AASB 2009-7 Amendments to Australian Accounting Standards {AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17}(effective 1 July 2009)

These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements. The Group will apply the amendments prospectively from 1 July 2009.

(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:

- 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 33.

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 entity | |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash and cash equivalents | 14,763,541 | 5,925,875 | 13,716,737 | 4,903,660 |
| Trade and other receivables | 351,054 | 761,527 | 636,754 | 1,865,715 |
| Loans and advances | 240,097,796 | 279,523,278 | 240,097,796 | 279,523,278 |
| Available-for-sale financial assets | 1,967,510 | 2,640,000 | 1 | 1 |
| | <u>257,179,901</u> | <u>288,850,680</u> | <u>254,451,288</u> | <u>286,292,654</u> |
| Financial liabilities | | | | |
| Trade and other payables | 7,053,065 | 6,798,696 | 6,720,656 | 6,477,050 |
| Deposits and short term borrowings | - | 39,000,000 | - | 39,000,000 |
| Interest bearing loans and borrowings | 216,223,595 | 211,854,396 | 216,223,595 | 211,854,396 |
| | <u>223,276,660</u> | <u>257,653,092</u> | <u>222,944,251</u> | <u>257,331,446</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% (2008: 5%) with all other variables held constant. Equity at the end of the year would have increased/decreased by \$68,863 (2008: \$92,400) 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 repricing 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 -/+0.5% (2008: -1/+0.5%) for interest rate risk and -/+5% (2008: -/+5%) for price risk for the purpose of the sensitivity analysis, are based on historical trends during the preceding 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 2009, if the interest rates had changed by $\pm 0.5\%$ (2008: $\pm 0.5\%$) from the year-end rates with all other variables held constant, post-tax profit for the year would have been (\$269,503)/\$269,503 (2008: (\$499,503)/\$249,751) lower/higher. Equity would have also been (\$269,503)/\$269,503 (2008: (\$499,503)/\$249,751) lower/higher.

Parent entity sensitivity

At 30 June 2009, if the interest rates had changed by $\pm 0.5\%$ (2008: $\pm 0.5\%$) from the year-end rates with all other variables held constant, post-tax profit for the year would have been (\$265,788)/\$265,788 (2008: (\$492,099)/\$246,049) lower/higher. Equity would have also been (\$265,788)/\$265,788 (2008: (\$492,099)/\$246,049) 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% | -0.5% | +0.5% | | | | |
| 30 June 2009 | \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 14,763,541 | - | - | - | - | (52,403) | (52,403) | 52,403 | 52,403 |
| Loans and advances | 240,097,796 | - | - | - | - | (255,058) | (255,058) | 255,058 | 255,058 |
| Available-for-sale financial assets | 1,967,510 | - | (68,863) | - | 68,863 | - | - | - | - |
| Financial liabilities | | | | | | | | | |
| Short term borrowings | - | - | - | - | - | - | - | - | - |
| Interest bearing loans and borrowings | 216,223,595 | - | - | - | - | 37,958 | 37,958 | (37,958) | (37,958) |
| Total increase/ (decrease) | | | (68,863) | | 68,863 | (269,503) | (269,503) | 269,503 | 269,503 |

| Consolidated | Carrying amount | Price Risk | | | | Interest rate risk | | | |
|---------------------------------------|-----------------|------------|-----------------|-----------|-----------------|--------------------|------------------|----------------|----------------|
| | | -5% | +5% | -1% | +0.5% | | | | |
| 30 June 2008 | \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ |
| 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) | | | (92,400) | | (92,400) | (499,503) | (499,503) | 249,751 | 249,751 |

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: \$13,716,737) 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 2009 average historical default rates for Consumer and Real estate were 0.45% and 0.01% respectively.

Credit risk further arises in relation to financial guarantees given to certain parties. 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 | | \$ | |
|--------------------------|------------------------------|--------------|--------------------|--------------------|
| | 2009 % | 2008 % | 2009 \$ | 2008 \$ |
| Property construction | 45.6 | 50.0 | 110,066,172 | 140,336,093 |
| Primary production | - | - | - | - |
| Wages and salary earners | 54.4 | 49.9 | 131,292,412 | 139,949,699 |
| Other non concentrated | - | 0.1 | 82,950 | 130,553 |
| | <u>100.0</u> | <u>100.0</u> | <u>241,441,534</u> | <u>280,416,345</u> |

2 Financial risk management objectives and policies (continued)

Concentration of loans and borrowings

| | 2009 \$ | 2009 % | 2008 \$ | 2008 % |
|---------------------------|--------------------|--------------|--------------------|--------------|
| Loans and advances | | | | |
| Personal | | | | |
| - Consumer | 131,375,362 | 54.4 | 140,080,251 | 49.9 |
| Commercial | | | | |
| - Property | 110,066,172 | 45.6 | 140,336,094 | 50.1 |
| - Other | - | - | - | - |
| | <u>241,441,534</u> | <u>100.0</u> | <u>280,416,345</u> | <u>100.0</u> |

Deposits and borrowings

| | | | | |
|-----------------------|--------------------|--------------|--------------------|--------------|
| Short term borrowings | | | | |
| - Related parties | - | - | 39,000,000 | 15.5 |
| Debentures | | | | |
| - Other | 201,143,595 | 93.0 | 196,774,396 | 78.5 |
| Unsecured notes | | | | |
| - Related parties | <u>15,080,000</u> | <u>7.0</u> | <u>15,080,000</u> | <u>6.0</u> |
| | <u>216,223,595</u> | <u>100.0</u> | <u>250,854,396</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 won't be drawn and through the use of a \$20m borrowing facility with RACWA Holdings Pty Ltd. The liquidity position is monitored daily 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 2009 | Less than 3 months \$ | 3 - 12 months \$ | Between 1 and 5 years \$ | Total \$ |
|---|-----------------------------|---------------------|--------------------------------|--------------------|
| On balance sheet | | | | |
| Debentures | 76,862,165 | 90,752,878 | 33,528,552 | 201,143,595 |
| Unsecured notes and bill facility | 580,000 | - | 14,500,000 | 15,080,000 |
| Intercompany loans | 2,065,412 | - | - | 2,065,412 |
| Trade and other payables | 4,987,653 | - | - | 4,987,653 |
| Total on balance sheet | <u>84,495,230</u> | <u>90,752,878</u> | <u>48,028,552</u> | <u>223,276,660</u> |
| Off balance sheet | | | | |
| Interest on debentures | 4,281,247 | 5,182,848 | 2,823,099 | 12,287,194 |
| Interest on unsecured notes and bill facility | 290,556 | 873,239 | 576,375 | 1,740,170 |
| Total off balance sheet | <u>4,571,803</u> | <u>6,056,087</u> | <u>3,399,474</u> | <u>14,027,364</u> |
| Consolidated - At 30 June 2008 | | | | |
| | Less than 3 months \$ | 3 - 12 months \$ | Between 1 and 5 years \$ | Total \$ |
| On balance sheet | | | | |
| Debentures | 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 debentures | 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> |
| Parent - At 30 June 2009 | | | | |
| | Less than 3 months \$ | 3 - 12 months \$ | Between 1 and 5 years \$ | Total \$ |
| On balance sheet | | | | |
| Debentures | 76,862,165 | 90,752,878 | 33,528,552 | 201,143,595 |
| Unsecured notes and bill facility | 580,000 | - | 14,500,000 | 15,080,000 |
| Intercompany loans | 1,733,003 | - | - | 1,733,003 |
| Trade and other payables | 4,987,653 | - | - | 4,987,653 |
| Total on balance sheet | <u>84,162,821</u> | <u>90,752,878</u> | <u>48,028,552</u> | <u>222,944,251</u> |
| Off balance sheet | | | | |
| Interest on debentures | 4,281,247 | 5,182,848 | 2,823,099 | 12,287,194 |
| Interest on unsecured notes and bill facility | 290,556 | 873,239 | 576,375 | 1,740,170 |
| Total off balance sheet | <u>4,571,803</u> | <u>6,056,087</u> | <u>3,399,474</u> | <u>14,027,364</u> |

2 Financial risk management objectives and policies (continued)

| Parent - At 30 June 2008 | Less than 3 months \$ | 3 - 12 months \$ | Between 1 and 5 years \$ | Total \$ |
|---|-----------------------------|---------------------|--------------------------------|--------------------|
| On balance sheet | | | | |
| Debentures | 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 | <u>4,680,095</u> | <u>-</u> | <u>-</u> | <u>4,680,095</u> |
| 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 debentures | 3,379,903 | 6,732,777 | 2,317,578 | 12,430,258 |
| Interest on unsecured notes and bill facility | <u>595,034</u> | <u>748,176</u> | <u>577,767</u> | <u>1,920,977</u> |
| Total off balance sheet | <u>3,974,937</u> | <u>7,480,953</u> | <u>2,895,345</u> | <u>14,351,235</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 Net interest income

| | Consolidated | | Parent entity | |
|-----------------------|---------------------|---------------------|---------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Loans and advances | 29,086,137 | 27,471,913 | 29,061,239 | 27,428,207 |
| Short term borrowings | (762,562) | (1,781,411) | (762,562) | (1,781,411) |
| Notes and debentures | <u>(17,293,270)</u> | <u>(14,480,356)</u> | <u>(17,293,270)</u> | <u>(14,480,356)</u> |
| | <u>11,030,305</u> | <u>11,210,146</u> | <u>11,005,407</u> | <u>11,166,440</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 2009</i> | | | |
| Deposits with other financial institutions | 4,512,252 | 213,542 | 4.73 % |
| Loans and advances | <u>268,275,202</u> | <u>28,872,595</u> | <u>10.76 %</u> |
| | <u>272,787,454</u> | <u>29,086,137</u> | <u>10.66 %</u> |
| <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>27,191,101</u> | <u>10.37 %</u> |
| | <u>266,202,017</u> | <u>27,471,913</u> | <u>10.33 %</u> |
| <i>Interest expense to June 2009</i> | | | |
| Short term borrowings | 10,250,000 | 762,562 | 7.44 % |
| Notes and debentures | <u>223,496,162</u> | <u>17,293,270</u> | <u>7.74 %</u> |
| | <u>233,746,162</u> | <u>18,055,832</u> | <u>7.72 %</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> |

5 Other income

| | Consolidated | | Parent entity | |
|--|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Profit distribution from sale of jointly controlled assets | - | 180,408 | - | - |
| Fees and commissions | 1,510,742 | 2,042,002 | 1,510,742 | 2,042,002 |
| Bad debts recovered | 46,707 | 24,280 | 46,707 | 24,280 |
| | <u>1,557,449</u> | <u>2,246,690</u> | <u>1,557,449</u> | <u>2,066,282</u> |

6 Expenses

| | Consolidated | | Parent entity | |
|---|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Profit before income tax includes the following specific expenses: | | | | |
| <i>Depreciation</i> | | | | |
| Motor vehicles | 23,062 | 23,261 | 23,062 | 23,261 |
| Office machines and equipment | 2,682 | 2,827 | 2,682 | 2,827 |
| Fixtures and fittings | 838 | 875 | 838 | 875 |
| Computer equipment | 8,217 | 11,736 | 8,217 | 11,736 |
| Low value pool | (1,150) | 7,201 | (1,150) | 7,201 |
| Total depreciation | <u>33,649</u> | <u>45,900</u> | <u>33,649</u> | <u>45,900</u> |
| <i>Amortisation</i> | | | | |
| Computer software | 32,251 | 45,413 | 32,251 | 45,413 |
| Total amortisation | <u>32,251</u> | <u>45,413</u> | <u>32,251</u> | <u>45,413</u> |
| <i>Finance costs</i> | | | | |
| Borrowing and finance charges paid / payable | 166,369 | 157,319 | 166,369 | 157,319 |
| | <u>166,369</u> | <u>157,319</u> | <u>166,369</u> | <u>157,319</u> |
| <i>Employee benefits expense</i> | | | | |
| Wages and salaries | 2,230,393 | 2,084,811 | 2,230,393 | 2,084,811 |
| Workers' compensation costs | 13,263 | 15,971 | 13,263 | 15,971 |
| Defined contribution superannuation expense | 171,822 | 238,866 | 171,822 | 238,866 |
| Payroll tax | 139,874 | 137,514 | 139,874 | 137,514 |
| Annual leave provision | 18,418 | (23,622) | 18,418 | (23,622) |
| Long service leave provision | (11,728) | 1,684 | (11,728) | 1,684 |
| Sick leave provision | 2,989 | 10,224 | 2,989 | 10,224 |
| | <u>2,565,031</u> | <u>2,465,447</u> | <u>2,565,031</u> | <u>2,465,447</u> |

7 Income tax expense

| | Consolidated | | Parent entity | |
|---|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| (a) Income tax expense | | | | |
| Current tax | 1,381,633 | 1,477,252 | 1,375,893 | 1,404,346 |
| Deferred tax | (188,885) | 15,614 | (188,885) | 23,175 |
| Adjustments in respect of current income tax of previous years | <u>(3,319)</u> | <u>-</u> | <u>(3,319)</u> | <u>-</u> |
| | <u>1,189,429</u> | <u>1,492,866</u> | <u>1,183,689</u> | <u>1,427,521</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>3,917,749</u> | <u>4,937,601</u> | <u>3,898,617</u> | <u>4,719,784</u> |
| Tax at the Australian tax rate of 30% (2008 - 30%) | 1,175,325 | 1,481,280 | 1,169,585 | 1,415,935 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Expenditure not allowable for income tax purposes | 17,423 | 11,586 | 17,423 | 11,586 |
| Adjustments in respect of current income tax of previous years | <u>(3,319)</u> | <u>-</u> | <u>(3,319)</u> | <u>-</u> |
| Total income tax expense | <u>1,189,429</u> | <u>1,492,866</u> | <u>1,183,689</u> | <u>1,427,521</u> |

(c) Tax consolidation legislation

The Royal Automobile Club of WA (Inc.) and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. The Royal Automobile Club of WA (Inc.) is the head entity of the tax consolidated group. RAC Insurance Pty Limited became part of the Tax Consolidated Group of the Royal Automobile Club of WA (Inc.) on 1 August 2008. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that 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 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.

8 Fair values and interest rate risk

(a) Fair values

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

| | 2009 | | 2008 | |
|-------------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | Carrying amount \$ | Fair value \$ | Carrying amount \$ | Fair value \$ |
| Cash | 14,763,541 | 14,763,541 | 5,925,875 | 5,925,875 |
| Loans to related parties | 54,456 | 54,456 | 64,578 | 64,578 |
| Other receivables | 296,575 | 296,575 | 692,997 | 692,997 |
| GST receivable | 23 | 23 | 3,952 | 3,952 |
| Loans and advances - Real estate | 109,854,172 | 109,605,783 | 140,336,094 | 139,746,047 |
| Loans and advances - Consumer | 130,842,967 | 129,942,463 | 139,676,581 | 135,856,292 |
| Available-for-sale financial assets | <u>1,967,510</u> | <u>1,967,510</u> | <u>2,640,000</u> | <u>2,640,000</u> |
| | <u>257,779,244</u> | <u>256,630,351</u> | <u>289,340,077</u> | <u>284,929,741</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 \$13,716,737 (2008: \$4,903,660) that relates to the parent entity. The carrying amount approximates its fair value and attracts a floating interest rate of 4.73% (2008: 6.91%).

Included in trade and other receivables is \$636,754 (2008: \$1,865,715) 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 2009 | 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 | 4.73 | 14,763,541 | - | - | - | - | 14,763,541 |
| Trade and other receivables | - | - | - | - | - | 351,054 | 351,054 |
| Investments | - | - | - | - | - | 1,967,510 | 1,967,510 |
| Loans and advances - Real estate | 9.79 | - | 88,503,590 | 21,350,582 | - | - | 109,854,172 |
| Loans and advances - Consumer | 11.30 | - | 33,279,462 | 97,563,505 | - | - | 130,842,967 |
| | | <u>14,763,541</u> | <u>121,783,052</u> | <u>118,914,087</u> | <u>-</u> | <u>2,318,564</u> | <u>257,779,244</u> |
| 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> |

8 Fair values and interest rate risk (continued)

| Parent entity 2009 | 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 | 4.73 | 13,716,737 | - | - | - | - | 13,716,737 |
| Trade and other receivables | - | - | - | - | - | 636,754 | 636,754 |
| Investments | - | - | - | - | - | 1 | 1 |
| Loans and advances - Real estate | 9.79 | - | 88,503,590 | 21,350,582 | - | - | 109,854,172 |
| Loans and advances - Consumer | 11.30 | - | 33,279,462 | 97,563,505 | - | - | 130,842,967 |
| | | <u>13,716,737</u> | <u>121,783,052</u> | <u>118,914,087</u> | <u>-</u> | <u>636,755</u> | <u>255,050,631</u> |

| Parent entity 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 | 10.73 | - | 33,887,538 | 105,789,043 | - | - | 139,676,581 |
| | | <u>4,903,660</u> | <u>143,005,118</u> | <u>137,007,557</u> | <u>-</u> | <u>1,865,716</u> | <u>286,782,051</u> |

9 Assets - Available-for-sale financial assets

| | Consolidated | | Parent entity | |
|------------------------|------------------|------------------|---------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| At beginning of year | 2,640,000 | 565,000 | 1 | 1 |
| Revaluation adjustment | (672,490) | 2,075,000 | - | - |
| At end of year | <u>1,967,510</u> | <u>2,640,000</u> | <u>1</u> | <u>1</u> |

| | Consolidated | | Parent entity | |
|---------------------|------------------|------------------|---------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Unlisted securities | | | | |
| Equity securities | <u>1,967,510</u> | <u>2,640,000</u> | <u>1</u> | <u>1</u> |
| | <u>1,967,510</u> | <u>2,640,000</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. RAC Finance Property Development Pty Ltd holds a 17% (2008 - 17%) ownership interest in Watermark Enterprises Pty Ltd.

On 30 June 2009 the investment was revalued to \$1,967,510 (2008 - \$2,640,000) 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 January 2009 and current market conditions. 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.

9 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.

10 Assets - Trade and other receivables

| | Consolidated | | Parent entity | |
|---|----------------|----------------|----------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Net trade receivables | 296,575 | 692,997 | 296,575 | 692,997 |
| Net related party receivables | 54,456 | 64,578 | 340,156 | 1,169,306 |
| Net goods and services tax (GST) receivable | 23 | 3,952 | 23 | 3,412 |
| | <u>351,054</u> | <u>761,527</u> | <u>636,754</u> | <u>1,865,715</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 relating to receivables is set out in note 9.

(c) Credit risk

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

11 Assets - Plant and equipment

| Consolidated | Fixtures and fittings \$ | Motor vehicles \$ | Low value pool \$ | Office machines & equipment \$ | Computer equipment \$ | Total \$ |
|--------------------------------|--------------------------|-------------------|-------------------|--------------------------------|-----------------------|----------------|
| 2008 | | | | | | |
| 1 July 2007 | | | | | | |
| Cost | 8,820 | 106,860 | 39,469 | 48,433 | 110,726 | 314,308 |
| Accumulated depreciation | (7,881) | (35,739) | (25,843) | (41,554) | (83,997) | (195,014) |
| 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> |
| 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 | (8,757) | (29,127) | (25,471) | (13,388) | (75,118) | (151,861) |
| 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> |

11 Assets - Plant and equipment (continued)

| Consolidated | Fixtures and fittings \$ | Motor vehicles \$ | Low value pool \$ | Office machines & equipment \$ | Computer equipment \$ | Total \$ |
|--------------------------------|-----------------------------|----------------------|----------------------|-----------------------------------|--------------------------|----------------|
| 2009 | | | | | | |
| Year ended 30 June 2009 | | | | | | |
| Opening net book amount | 5,796 | 99,112 | 8,589 | 9,675 | 18,580 | 141,752 |
| Additions | - | - | 3,271 | - | 2,195 | 5,466 |
| Disposals | - | (12,014) | - | - | - | (12,014) |
| Depreciation charge | (838) | (23,062) | 1,150 | (2,682) | (8,217) | (33,649) |
| Closing net book amount | <u>4,958</u> | <u>64,036</u> | <u>13,010</u> | <u>6,993</u> | <u>12,558</u> | <u>101,555</u> |
| At 30 June 2009 | | | | | | |
| Cost | 14,553 | 103,123 | 37,331 | 23,063 | 95,893 | 273,963 |
| Accumulated depreciation | (9,595) | (39,087) | (24,321) | (16,070) | (83,335) | (172,408) |
| Net book amount | <u>4,958</u> | <u>64,036</u> | <u>13,010</u> | <u>6,993</u> | <u>12,558</u> | <u>101,555</u> |

11 Assets - Plant and equipment (continued)

| Parent | Fixtures and fittings \$ | Motor vehicles \$ | Low value pool \$ | Office machines & equipment \$ | Computer equipment \$ | Total \$ |
|--------------------------------|--------------------------|-------------------|-------------------|--------------------------------|-----------------------|----------------|
| 2008 | | | | | | |
| At 1 July 2007 | | | | | | |
| Cost | 8,820 | 106,860 | 39,469 | 48,433 | 110,726 | 314,308 |
| Accumulated depreciation | (7,881) | (35,739) | (25,843) | (41,554) | (83,997) | (195,014) |
| 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> |
| 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 | (8,757) | (29,127) | (25,471) | (13,388) | (75,118) | (151,861) |
| 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> |

11 Assets - Plant and equipment (continued)

| Parent | Fixtures and fittings \$ | Motor vehicles \$ | Low value pool \$ | Office machines & equipment \$ | Computer equipment \$ | Total \$ |
|--------------------------|--------------------------|-------------------|-------------------|--------------------------------|-----------------------|------------------|
| 2009 | | | | | | |
| Year 30 June 2009 | | | | | | |
| Opening net book amount | 5,796 | 99,112 | 8,589 | 9,675 | 18,580 | 141,752 |
| Additions | - | - | 3,271 | - | 2,195 | 5,466 |
| Disposals | - | (12,014) | - | - | - | (12,014) |
| Depreciation charge | (838) | (23,062) | 1,150 | (2,682) | (8,217) | (33,649) |
| Closing net book amount | <u>4,958</u> | <u>64,036</u> | <u>13,010</u> | <u>6,993</u> | <u>12,558</u> | <u>101,555</u> |
| At 30 June 2009 | | | | | | |
| Cost | 14,553 | 103,123 | 37,331 | 23,063 | 95,893 | 273,963 |
| Accumulated depreciation | <u>(9,595)</u> | <u>(39,087)</u> | <u>(24,321)</u> | <u>(16,070)</u> | <u>(83,335)</u> | <u>(172,408)</u> |
| Net book amount | <u>4,958</u> | <u>64,036</u> | <u>13,010</u> | <u>6,993</u> | <u>12,558</u> | <u>101,555</u> |

(a) Assets pledged as security

Refer to note 19 for information on assets pledged as security by the parent entity.

12 Assets - Deferred tax assets

| | Consolidated | | Parent entity | |
|---|------------------|------|-----------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| The balance comprises temporary differences attributable to: | | | | |
| Prepaid tax deductible expenditure | (5,233) | - | (5,233) | (4,383) |
| Employee benefits | 93,746 | - | 93,746 | 90,843 |
| Revaluation of available-for-sale investments to fair value | (420,753) | - | - | - |
| Provision for future expenses | 491,690 | - | 491,690 | 342,448 |
| Taxed future revenue for accounting purposes | <u>(56,159)</u> | - | <u>(56,159)</u> | <u>(97,068)</u> |
| Net deferred tax assets | <u>103,291</u> | - | <u>524,044</u> | <u>331,840</u> |
| Movements: | | | | |
| Opening balance | (290,660) | - | 331,840 | 355,015 |
| Charged to income | 188,885 | - | 188,885 | (23,175) |
| Charged to equity | 201,747 | - | - | - |
| Adjustments to opening balances | <u>3,319</u> | - | <u>3,319</u> | - |
| Closing balance at 30 June | <u>103,291</u> | - | <u>524,044</u> | <u>331,840</u> |
| Amounts recognised in the balance sheet | | | | |
| Deferred tax asset | 529,277 | - | 529,277 | 336,223 |
| Deferred tax liability | <u>(425,986)</u> | - | <u>(5,233)</u> | <u>(4,383)</u> |
| | <u>103,291</u> | - | <u>524,044</u> | <u>331,840</u> |

13 Assets - Intangible assets

| Consolidated | Computer software \$ | Total \$ |
|---|----------------------------|------------------|
| 2008 | | |
| At 1 July 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> |
| Year ended 30 June 2008 | | |
| Opening net book amount | 63,471 | 63,471 |
| Additions | 8,215 | 8,215 |
| Amortisation charge | <u>(45,412)</u> | <u>(45,412)</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> |
| | | |
| Consolidated | Computer software \$ | Total \$ |
| 2009 | | |
| Year ended 30 June 2009 | | |
| Opening net book amount | 26,274 | 26,274 |
| Additions | 51,201 | 51,201 |
| Amortisation charge | <u>(33,251)</u> | <u>(33,251)</u> |
| Closing net book amount | <u>44,224</u> | <u>44,224</u> |
| At 30 June 2009 | | |
| Cost | 594,396 | 594,396 |
| Accumulated amortisation and impairment | <u>(549,172)</u> | <u>(549,172)</u> |
| Net book amount | <u>45,224</u> | <u>45,224</u> |

13 Assets - Intangible assets (continued)

| Parent entity | Computer software \$ | Total \$ |
|---|----------------------------|------------------|
| 2008 | | |
| At 1 July 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> |
| Year ended 30 June 2008 | | |
| Opening net book amount | 63,471 | 63,471 |
| Additions | 8,215 | 8,215 |
| Amortisation charge ** | <u>(45,412)</u> | <u>(45,412)</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> |
| Parent entity | | |
| | Computer software \$ | Total \$ |
| 2009 | | |
| Year ended 30 June 2009 | | |
| Opening net book amount | 26,274 | 26,274 |
| Additions | 51,201 | 51,201 |
| Amortisation charge | <u>(32,251)</u> | <u>(32,251)</u> |
| Closing net book amount | <u>45,224</u> | <u>45,224</u> |
| At 30 June 2009 | | |
| Cost | 594,396 | 594,396 |
| Accumulated amortisation and impairment | <u>(549,172)</u> | <u>(549,172)</u> |
| Net book amount | <u>45,224</u> | <u>45,224</u> |

14 Assets - Inventories

| | Consolidated | | Parent entity | |
|---------------------------------------|--------------|------------|---------------|------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Construction in progress | | | | |
| Contract costs incurred | - | 819,028 | - | - |
| For further details refer to note 33. | | | | |

15 Assets - Cash and cash equivalents

| | Consolidated | | Parent entity | |
|------------------------------------|-------------------|------------------|-------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Cash at bank and in hand | <u>14,763,541</u> | <u>5,925,875</u> | <u>13,716,737</u> | <u>4,903,660</u> |
| Balance as per cash flow statement | <u>14,763,541</u> | <u>5,925,875</u> | <u>13,716,737</u> | <u>4,903,660</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.

16 Assets - Loans and advances

| | Consolidated | | Parent entity | |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Term loans | 241,868,634 | 280,454,323 | 241,868,634 | 280,454,323 |
| Unearned income and stamp duty | (427,100) | (37,978) | (427,100) | (37,978) |
| Specific provision for impairment | (744,395) | (403,670) | (744,395) | (403,670) |
| Collective provision for impairment | <u>(599,343)</u> | <u>(489,397)</u> | <u>(599,343)</u> | <u>(489,397)</u> |
| Net loans and advances | <u>240,097,796</u> | <u>279,523,278</u> | <u>240,097,796</u> | <u>279,523,278</u> |

(a) Maturity analysis

| | Consolidated | | Parent entity | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Maturity analysis | | | | |
| At call | 4,999,725 | 6,626 | 4,999,725 | 6,626 |
| Not longer than 3 months | 23,146,221 | 36,229,821 | 23,146,221 | 36,229,821 |
| Longer than 3 and not longer than 12 months | 93,637,106 | 106,768,671 | 93,637,106 | 106,768,671 |
| Longer than 1 and not longer than 5 years | 118,914,087 | 137,007,557 | 118,914,087 | 137,007,557 |
| Collective provision for impairment | <u>(599,343)</u> | <u>(489,397)</u> | <u>(599,343)</u> | <u>(489,397)</u> |
| | <u>240,097,796</u> | <u>279,523,278</u> | <u>240,097,796</u> | <u>279,523,278</u> |

16 Assets - Loans and advances (continued)

(b) Impairment of loans and advances

As at 30 June 2009, receivables of the RAC Finance Limited with a nominal value of \$1,861,261 (2008: \$935,953) were impaired. The amount of the provision was \$744,395 (2008: \$403,670) and it is expected that a portion will be recovered.

| | Consolidated | |
|-------------------|----------------|----------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Less than 90 days | 670,530 | 223,015 |
| 90 to 180 days | 73,865 | 155,655 |
| Over 180 days | - | 25,000 |
| | <u>744,395</u> | <u>403,670</u> |

At 30 June 2009, receivables of \$3,340,317 (2008: \$2,494,706) 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 | |
|-------------------|------------------|------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Less than 30 days | 2,228,036 | 1,996,526 |
| 30 to 60 days | 1,084,072 | 498,180 |
| 60 to 90 days | 28,209 | - |
| | <u>3,340,317</u> | <u>2,494,706</u> |

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2009 if their terms were not renegotiated was \$2,125,378 (2008: \$1,354,775). 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 2009 was \$3,580,998 (2008: \$2,497,000). In addition assets that had been repossessed and were in possession at 30 June 2009 were estimated to have a fair value of \$201,400 (2008: \$123,600).

| | Consolidated | | Parent entity | |
|--|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Specific provisions for impairment | | | | |
| Opening balance | 403,670 | 258,446 | 403,670 | 258,446 |
| Doubtful debts expense | 717,895 | 342,605 | 717,895 | 342,605 |
| Non-accrual loans written off | <u>(377,170)</u> | <u>(197,381)</u> | <u>(377,170)</u> | <u>(197,381)</u> |
| | <u>744,395</u> | <u>403,670</u> | <u>744,395</u> | <u>403,670</u> |
| Collective provision for impairment | | | | |
| Opening balance | 489,397 | 361,204 | 489,397 | 361,204 |
| Doubtful debts expense | <u>109,946</u> | <u>128,193</u> | <u>109,946</u> | <u>128,193</u> |
| | <u>599,343</u> | <u>489,397</u> | <u>599,343</u> | <u>489,397</u> |
| Bad and doubtful debts expense | | | | |
| Specific provisions for impairment | 717,895 | 342,605 | 717,895 | 342,605 |
| Doubtful debts expense | 109,946 | 128,193 | 109,946 | 128,193 |
| Bad debts written off directly | <u>1,389,864</u> | <u>620,165</u> | <u>1,389,864</u> | <u>620,165</u> |
| | <u>2,217,705</u> | <u>1,090,963</u> | <u>2,217,705</u> | <u>1,090,963</u> |

16 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 entity | |
|--|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| <i>Non-accrual loans</i> | | | | |
| Without provisions | 5,062,264 | 132,195 | 67,336 | 132,195 |
| With provisions | 1,861,261 | 935,953 | 1,214,639 | 935,953 |
| Specific provision for impairment | <u>(744,395)</u> | <u>(403,670)</u> | <u>(744,395)</u> | <u>(403,670)</u> |
| | <u>6,179,130</u> | <u>664,478</u> | <u>537,580</u> | <u>664,478</u> |
| | | | | |
| Interest foregone on non-accrual loans | <u>18,615</u> | <u>29,850</u> | <u>18,615</u> | <u>29,850</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.

17 Assets - Prepayments

| | Consolidated | | Parent entity | |
|-------------|---------------|---------------|---------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Prepayments | <u>39,830</u> | <u>31,903</u> | <u>39,280</u> | <u>31,459</u> |

18 Liabilities - Trade and other payables

| | Consolidated | | Parent entity | |
|---|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Trade payables | 194,347 | 74,459 | 194,347 | 74,459 |
| Accrued interest | 4,430,469 | 4,122,912 | 4,430,469 | 4,122,912 |
| Accrued expenses | 362,837 | 482,724 | 362,837 | 482,724 |
| Payable to controlling entity under Tax Funding Agreement * | 1,378,314 | 1,436,402 | 1,372,574 | 1,404,346 |
| Amounts due to related parties * | <u>687,098</u> | <u>682,199</u> | <u>360,429</u> | <u>392,609</u> |
| | <u>7,053,065</u> | <u>6,798,696</u> | <u>6,720,656</u> | <u>6,477,050</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 30.

18 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.

19 Liabilities - Interest bearing loans and borrowings

| | Consolidated | | Parent entity | |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Secured | | | | |
| Debentures | <u>201,143,595</u> | <u>196,774,396</u> | <u>201,143,595</u> | <u>196,774,396</u> |
| Total secured borrowings | <u>201,143,595</u> | <u>196,774,396</u> | <u>201,143,595</u> | <u>196,774,396</u> |
| Unsecured | | | | |
| Unsecured notes | <u>15,080,000</u> | <u>15,080,000</u> | <u>15,080,000</u> | <u>15,080,000</u> |
| Total borrowings | <u>216,223,595</u> | <u>211,854,396</u> | <u>216,223,595</u> | <u>211,854,396</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 \$255,161,391 (2008: \$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 6.65% (2008: 7.70%) paid quarterly or annually in arrears with average maturity of March 2010. 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.

19 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 entity | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Credit standby arrangements | | | | |
| Total facilities | | | | |
| Unsecured bill acceptance facility | <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> | <u>50,000,000</u> |
| Used at balance date | | | | |
| Unsecured bill acceptance facility | - | <u>39,000,000</u> | - | <u>39,000,000</u> |
| | - | <u>39,000,000</u> | - | <u>39,000,000</u> |
| Unused at balance date | | | | |
| Unsecured bill acceptance facility | <u>20,000,000</u> | <u>11,000,000</u> | <u>20,000,000</u> | <u>11,000,000</u> |
| | <u>20,000,000</u> | <u>11,000,000</u> | <u>20,000,000</u> | <u>11,000,000</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 2009 | Weighted average effective interest rate % | 1 year or less | Over 1 to 5 years | Total |
|------------------------------|--|--------------------|-------------------|--------------------|
| | | \$ | \$ | \$ |
| Short term borrowings | 4.00 | - | - | - |
| Unsecured notes | 7.76 | 580,000 | 14,500,000 | 15,080,000 |
| Debentures | <u>6.65</u> | <u>167,615,042</u> | <u>33,528,553</u> | <u>201,143,595</u> |
| | | <u>168,195,042</u> | <u>48,028,553</u> | <u>216,223,595</u> |

| 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> |

19 Liabilities - Interest bearing loans and borrowings (continued)

(g) Fair value

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

| | 2009 | | 2008 | |
|-----------------------|-----------------------|--------------------|-----------------------|--------------------|
| | Carrying amount \$ | Fair value \$ | Carrying amount \$ | Fair value \$ |
| Short term borrowings | - | - | 39,000,000 | 39,000,000 |
| Unsecured notes | 15,080,000 | 15,080,000 | 15,080,000 | 15,080,000 |
| Debentures | <u>201,143,595</u> | <u>205,286,243</u> | <u>196,774,396</u> | <u>194,690,267</u> |
| | <u>216,223,595</u> | <u>220,366,243</u> | <u>250,854,396</u> | <u>248,770,267</u> |

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

20 Non-current liabilities - Deferred tax liabilities

| | Consolidated | | Parent entity | |
|---|--------------|----------------|---------------|------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| 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>-</u> | <u>290,660</u> | <u>-</u> | <u>-</u> |
| Movements: | | | | |
| Opening balance | - | (355,015) | - | - |
| Charged to income | - | 23,175 | - | - |
| Charged to equity | - | 622,500 | - | - |
| Adjustments to opening balances | - | - | - | - |
| Closing balance at 30 June | <u>-</u> | <u>290,660</u> | <u>-</u> | <u>-</u> |
| Amounts recognised in the balance sheet | | | | |
| Deferred tax asset | - | (336,223) | - | - |
| Deferred tax liability | <u>-</u> | <u>626,883</u> | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>290,660</u> | <u>-</u> | <u>-</u> |

21 Liabilities - Provisions

| | Consolidated | | Parent entity | |
|-------------------|----------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Employee benefits | <u>312,488</u> | <u>302,809</u> | <u>312,488</u> | <u>302,809</u> |
| | <u>312,488</u> | <u>302,809</u> | <u>312,488</u> | <u>302,809</u> |

22 Liabilities - Deposits and short term borrowings

| | Consolidated | | Parent entity | |
|------------------------------------|--------------|-------------------|---------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Deposits and short term borrowings | <u>-</u> | <u>39,000,000</u> | <u>-</u> | <u>39,000,000</u> |

(a) Maturity Analysis

| | Consolidated | | Parent entity | |
|--------------------------|--------------|-------------------|---------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Not longer than 3 months | <u>-</u> | <u>39,000,000</u> | <u>-</u> | <u>39,000,000</u> |
| | <u>-</u> | <u>39,000,000</u> | <u>-</u> | <u>39,000,000</u> |

(b) Effective interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate is 4.00% (2008: 8.25%). 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).

23 Contributed equity

| | Parent entity | | Parent entity | |
|----------------------------|-------------------|-------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | 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 13% 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 entity | |
|--------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Total debt | 223,276,660 | 257,668,214 | 222,944,251 | 257,331,446 |
| Total equity | <u>33,880,653</u> | <u>31,623,076</u> | <u>31,904,652</u> | <u>29,189,724</u> |
| Net debt | 257,157,313 | 289,291,290 | 254,848,903 | 286,521,170 |
| Total equity | <u>33,880,653</u> | <u>31,623,076</u> | <u>31,904,652</u> | <u>29,189,724</u> |
| Equity ratio | 13.2 % | 10.9 % | 12.5 % | 10.2 % |

The increase in the equity ratio during 2009 resulted primarily from a decrease in borrowings during the year.

24 Reserves and retained earnings

| | Consolidated | | Parent entity | |
|----------------------------|----------------|------------------|---------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| (a) Reserves | | | | |
| Available-for-sale reserve | <u>981,757</u> | <u>1,452,500</u> | - | - |
| | <u>981,757</u> | <u>1,452,500</u> | - | - |

| | Consolidated | | Parent entity | |
|--------------------------|------------------|------------------|---------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Movements: | | | | |
| Balance 1 July | 1,452,500 | - | - | - |
| Revaluation - net of tax | <u>(470,743)</u> | <u>1,452,500</u> | - | - |
| Balance 30 June | <u>981,757</u> | <u>1,452,500</u> | - | - |

(b) Retained earnings

Movements in retained earnings were as follows:

| | Consolidated | | Parent entity | |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Balance 1 July | 25,170,576 | 21,725,841 | 24,189,724 | 20,897,461 |
| Net profit for the year | <u>2,728,320</u> | <u>3,444,735</u> | <u>2,714,928</u> | <u>3,292,263</u> |
| Balance 30 June | <u>27,898,896</u> | <u>25,170,576</u> | <u>26,904,652</u> | <u>24,189,724</u> |

(c) Nature and purpose of reserves

(i) 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(k). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

25 Dividends

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

26 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 were also key management personnel during the year ended 30 June 2008.

(b) Key management personnel compensation

| | Consolidated | | Parent entity | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Cash salary and fees | 425,789 | 404,702 | 400,912 | 377,641 |
| Cash incentive | 124,158 | 103,788 | 115,265 | 95,660 |
| Superannuation | 31,476 | 30,810 | 29,620 | 28,806 |
| | <u>581,423</u> | <u>539,300</u> | <u>545,797</u> | <u>502,107</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 (2008: 0)

| 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 |
|-------------|--|--|----------------------------|--------------------------------------|--|
| 2009 | - | - | - | - | - |
| 2008 | 547 | - | - | - | - |

(d) Other transactions with key management personnel

During the 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.

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 also a director in the prior year. Mr T Agnew, a director of all the RAC subsidiary entities, is a director of Indian Pacific Limited.

26 Key management personnel disclosures (continued)

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

| | 2009 \$ | 2008 \$ |
|--|------------------|------------------|
| Amounts recognised as an expense | | |
| Corporate membership services | <u>70,194</u> | <u>62,787</u> |
| Amounts recognised as available-for-sale financial assets | | |
| Ordinary shares, 565,000 shares in Watermark Enterprises Pty Ltd | <u>1,967,510</u> | <u>2,640,000</u> |

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

27 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 entity | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| (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>120,300</u> | <u>106,655</u> | <u>120,300</u> | <u>106,655</u> |
| Total remuneration for audit services | <u>120,300</u> | <u>106,655</u> | <u>120,300</u> | <u>106,655</u> |

It is the Group's policy to employ Ernst & Young on assignments additional to their statutory audit duties where Ernst & Young's 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.

28 Contingencies

Contingent liabilities

RAC Finance Limited had no contingent liabilities at 30 June 2009.

29 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 entity | |
|--------------------|--------------|------------|---------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Undrawn facilities | 27,387,259 | 40,623,429 | 27,387,259 | 40,623,429 |

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

30 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 2009 owns 100% (2008 - 100%) of the issued ordinary shares of RACWA Holdings Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 31.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

30 Related party transactions (continued)

(d) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | | Parent entity | |
|------------------------------------|--------------|-----------|---------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| <i>Sales of goods and services</i> | | | | |
| Marketing management fees | 25,860 | 40,750 | 25,860 | 40,750 |
| Group services management fee | 1,026,433 | 994,985 | 1,026,433 | 994,985 |
| Interest expense | 2,225,894 | 2,615,561 | 2,225,894 | 2,613,075 |
| Travel services | 368 | - | 368 | - |
| Rent | 316,670 | 259,619 | 316,670 | 259,619 |
| Fleet management charge | 2,594 | 2,585 | 2,594 | 2,585 |
| Labour services | 89,812 | 104,701 | 89,812 | 104,701 |
| <i>Other transactions</i> | | | | |
| Motor vehicle insurance | 4,861 | 2,208 | 4,861 | 2,208 |

(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 entity | |
|--|--------------|--------------|---------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| <i>Current receivables (sales of goods and services)</i> | | | | |
| Wholly owned group entities | 54,456 | 64,578 | 285,699 | 1,104,727 |
| <i>Non-current receivables (loans)</i> | | | | |
| Wholly owned group entities | - | - | (125,106) | (125,106) |
| <i>Current payables (purchases of goods)</i> | | | | |
| RACWA Holdings Pty Ltd | (687,097) | (682,200) | (235,323) | (267,503) |
| <i>Non-current payables (loans)</i> | | | | |
| RACWA Holdings Pty Ltd | (15,080,000) | (54,080,000) | (15,080,000) | (54,080,000) |
| <i>Current payables (tax funding agreement)</i> | | | | |
| Wholly-owned tax consolidated entities | (1,378,313) | (1,436,402) | (1,372,574) | (1,404,346) |

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.

30 Related party transactions (continued)

(f) Loans to/from related parties

| | Consolidated | | Parent entity | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| <i>Loans to subsidiaries</i> | | | | |
| Beginning of the year | 64,578 | 192,011 | 1,104,727 | 1,608,073 |
| Loans advanced | 54,456 | 64,578 | 194,578 | 987,899 |
| Loan repayments received | <u>(64,578)</u> | <u>(192,011)</u> | <u>(1,013,606)</u> | <u>(1,491,245)</u> |
| End of year | <u>54,456</u> | <u>64,578</u> | <u>285,699</u> | <u>1,104,727</u> |
| <i>Loans from subsidiaries</i> | | | | |
| Beginning of the year | - | - | (125,106) | (125,106) |
| Loans advanced | - | - | - | - |
| Loan repayments | - | - | - | - |
| 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 | (56,198,601) | (27,374,375) | (55,751,849) | (27,000,214) |
| Loans advanced | (114,150,714) | (300,268,652) | (114,107,896) | (300,171,849) |
| Loan repayments | <u>153,203,905</u> | <u>271,444,426</u> | <u>153,171,849</u> | <u>271,420,214</u> |
| End of year | <u>(17,145,410)</u> | <u>(56,198,601)</u> | <u>(16,687,896)</u> | <u>(55,751,849)</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 7(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.

31 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):

| Name of entity | Country of incorporation | Class of shares | Equity holding | |
|---|--------------------------|-----------------|----------------|------|
| | | | 2009 | 2008 |
| | | | % | % |
| RAC Finance Property Developments Pty Ltd | Australia | Ordinary | 100 | 100 |

32 Interests in joint ventures

Jointly controlled assets

RAC Finance Property Developments Pty Ltd 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 had a 50% participating interest in this joint venture and was entitled to 100% of the profit while The Royal Automobile Club of W.A. (Incorporated) would receive \$240,000 being the market value of the land initially contributed. The joint venture was completed during the year and proceeds were distributed in line with the joint venture agreement.

| | Consolidated | | Parent entity | |
|---|--------------|---------|---------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Current assets | | | | |
| Inventory - Construction work in progress | - | 819,028 | - | - |

33 Events occurring after the balance sheet date

There have been no significant events subsequent to balance date.

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

| | Consolidated | | Parent entity | |
|--|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Profit for the year after tax | 2,728,320 | 3,444,735 | 2,714,928 | 3,292,263 |
| Depreciation and amortisation | 65,900 | 91,313 | 65,900 | 91,313 |
| Employee entitlements | 9,679 | (11,714) | 9,679 | (11,714) |
| Doubtful debts | 456,106 | 297,640 | 456,106 | 297,640 |
| Bad debts written off | 1,767,034 | 817,546 | 1,767,034 | 817,546 |
| Net loss on sale of non-current assets | 1,360 | 2,307 | 1,360 | 2,307 |
| Decrease / (increase) in other assets | 199,793 | (501,932) | 199,359 | (500,949) |
| Accrued interest payable | 307,557 | 1,202,627 | 307,557 | 1,202,627 |
| Increase / (decrease) in trade and other payables | 10,123 | (224,746) | 10,123 | (690,307) |
| increase / (decrease) in amount payable to head entity under Tax Funding Agreement | 143,659 | (217,051) | (31,772) | 397,605 |
| Decrease / (increase) in customer loans advanced | 37,394,973 | (43,071,919) | 37,394,973 | (43,071,919) |
| (Decrease) / increase in borrowings | (34,630,801) | 41,529,538 | (34,630,801) | 41,529,538 |
| (Increase) / decrease in deferred tax asset | (103,291) | 355,015 | (192,204) | 23,175 |
| (Decrease) / increase in deferred tax liability | (290,660) | 290,660 | - | - |
| Net cash (outflow) inflow from operating activities | <u>8,059,752</u> | <u>4,004,019</u> | <u>8,072,242</u> | <u>3,379,125</u> |

35 Non-cash investing and financing activities

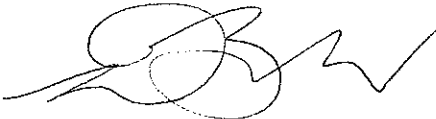
| | Consolidated | | Parent entity | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| The company has access to the following financial arrangement | | | | |
| RACWA Holdings Pty Ltd short term bill facility | <u>20,000,000</u> | <u>50,000,000</u> | <u>20,000,000</u> | <u>50,000,000</u> |
| The amount of credit unused at balance date totalled | <u>20,000,000</u> | <u>11,000,000</u> | <u>20,000,000</u> | <u>11,000,000</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 10 to 60 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 2009 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

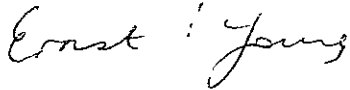
Chairman

Perth, W.A.

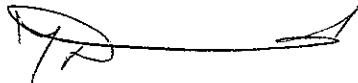
Date: 3/9/09

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 2009, 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



F Drummond
Partner
Perth
3 September 2009

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 sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements 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 and International Standards on Auditing. 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

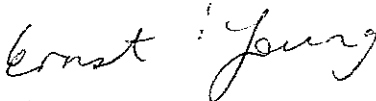
1. the financial report of R.A.C. Finance Ltd is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of R.A.C. Finance Ltd and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
 - ii 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

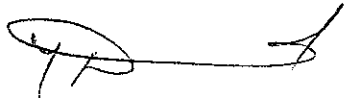
We have audited the Remuneration Report included in pages 2 to 4 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility 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 2009, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



F Drummond
Partner
Perth
3 September 2009