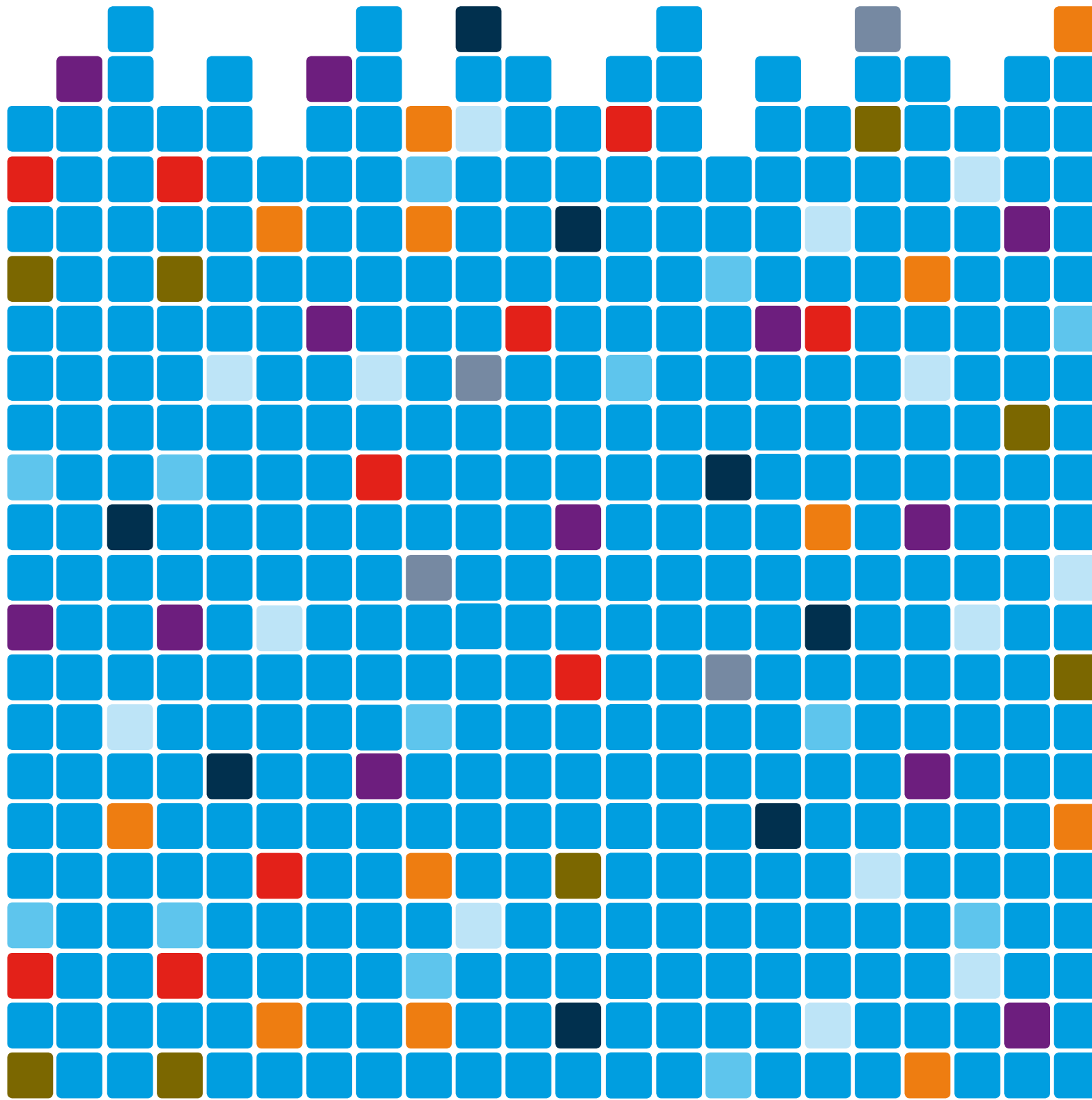


ANNUAL REPORT 2011

GUILD GROUP HOLDINGS LIMITED



In 2011, Guild Group implemented a number of significant and innovative changes to its corporate structure, strategy, technological systems and website. These enhancements helped to deliver cost efficiencies and increased revenue. The insurance business experienced unprecedented, catastrophic events which impacted the financial results. While the Group disappointingly recorded a loss for the year, driven in part by the extremity of weather, it remains in a strong capital position. Pleasingly the strong performance of the financial services and professional services businesses help to bolster the Group's results with a combined after-tax profit of \$3m.

CURRENT BOARD OF DIRECTORS

G. Venardos, Chairman (effective 1 July 2011)

H. Zafer, Chairman (until 30 June 2011)

S. Banks

J. Barrington

D. Sanghvi

S. Somogyi

A. Williams

CURRENT LEADERSHIP TEAM

Chief Executive Officer

M. Pirone

Solicitor Director – Meridian Lawyers

P. Baker

General Manager – Insurance

D. Brown

General Manager – Underwriting

P. Cassidy

General Manager – Guild Financial Services

T. Mills

Director Human Resources

E. Traicos

Chief Financial Officer

S. Horskins

Chief Information Officer

K. Symes

CHAIRMAN'S REPORT

Our dedicated and capable staff provide the bedrock of our success. The catastrophic events of 2011 saw staff demonstrating a capacity and ability to work under the most difficult of conditions in which some outstanding contributions were made and noted as exceptional. Our future strategy will continue to invest in and prize the significant talent of the company.



LEVERAGING RELATIONSHIPS

The Guild Group has seen a challenging year with continued turbulence in markets and the highest number of catastrophic events in 40 years.

Notwithstanding our challenges we continue to be a safe and robust company. In the insurance business we have maintained a strong underwriting performance, restructured into three strong lines of business and improved our premium pricing, underwriting disciplines and expense management. The financial and professional services businesses have been strong performers for the year, bolstering the underlying result of the Group.

We have put in place a strategy to reduce debt as we maintain our strong balance sheet and regulatory capital position.

This is the first stage in a two-stage strategy to position the company for a high growth future. The second stage will grow the business using the strength of our existing relationships and high service model to extend into new professional markets and associations to win new customers.

This next phase has a strong growth orientation, focusing on improving profitability across traditional business lines and developing the skills base of the organisation.

LEVERAGING LEADERSHIP

The Company now has an exciting and highly capable new leadership team who will underpin our growth focus.

I, and the Board and Management, are delighted to welcome George Venardos as the new Chairman of the Group as my tenure (of more than a decade) as Chairman comes to an end.

George has an enviable history of high achievement and is very much respected in both the financial and insurance professions; his shift to Chairman is at a time when the Guild Group is seeking significant growth, in both our insurance and superannuation sectors and his 25 year experience in these disciplines will be a valuable element in guiding Board decisions.

George will chair a highly competent and stable Board, that each year grows as a team and a value contributor to the company.

Our CEO, Mario Pirone, has completed his first year, demonstrating major leadership and strategic skills. He has enrolled his teams with his visionary communication, sought new staff where required, engaged people with strong work ethic, collegiate mentality and commercial appetite.

Mario led a number of important business shaping initiatives including IT, business processes and procedures which have contributed greatly to overall efficiencies of the insurance business, bringing Guild to the industry leading edge.

Mario has gained the complete respect of the incoming Chairman and the Board and together they will form an impressive leadership team for the organisation.

LEVERAGING GOVERNANCE

The Board continues to be active in developing their joint and individual capacities in a changing corporate governance landscape. The strong corporate governance systems were again confirmed by the annual board performance assessment. The Board will seek to continue this journey of governance excellence by increasing visibility in the organisation and to the shareholder. The reconfiguring of the board committee system is now providing effective forums for in-depth analysis of the business in this important change period.

LEVERAGING LEARNING

As I reflect on the ten times revenue growth of the business since the commencement of my chairmanship, I sincerely thank and pay tribute to previous Boards and the management teams that were instrumental in growing the business and building a strong and collegiate culture.

None of this would have been possible without the support, assistance, encouragement and patience of our shareholder, The Pharmacy Guild of Australia, and notably, the National President Kos Sclavos.

In particular, I mention Director, the late Ron Champion whose gentle and directive hand assisted in the many tough times we encountered; I recognise Deputy Chair, Si Banks, for his ability to lend wise counsel and his nous in the turbulent political events; I acknowledge Andrew Donovan for his contribution in challenging the Board to high performance.

I extend a particular appreciation of our current Board, all of its members who have displayed an exceptional level of skill and commitment to the Company in parallel, with a generosity of spirit that is boundless.

To the staff of the company, your dedication and loyalty have been a great comfort to myself and the Board and we trust you will be inspired by the journey ahead and the opportunities it presents for the company and yourself personally.

For my part, thank you to my Board members for the gift of chairmanship, the gift of leadership and the wealth of your friendship. We face exciting times with a strong Board and the opportunity to build a great company, delivering great value to the shareholder and our clients.



H. Zafer

Chairman (until 30 June 2011)

Melbourne, 6 September 2011

CHIEF EXECUTIVE OFFICER'S REPORT

In highly competitive environment with natural disasters and volatile markets, the Guild Group continued to grow its revenue across all businesses. Of noteworthy mention is the strong performance of the financial and professional services businesses which achieved a combined after-tax profit of \$3m.

YEAR UNDER REVIEW

During the year, the Group made significant progress in a number of key strategic areas but also experienced unprecedented catastrophic events which have impacted the financial results.

Across the business, progress was made to implement the right structure, talent and culture for a high growth future. This has seen a focus on consolidating and refining our existing high service model while enhancing our business development capabilities.

These changes form a solid foundation upon which the Group will build.

However, the year's headline story was of course the weather events that decimated parts of the country and left their mark on the financial report of Guild Insurance.

While the Group disappointingly recorded a loss for the year, driven in part by the extremity of weather, it remains in a strong capital position.

Pleasingly, the strong performance of the financial services and professional services businesses helped to bolster the Group's results with a combined after tax profit of \$3m.



Our vision remains to create an innovative working environment that attracts and retains high quality talent, who are driven to perform in accordance with our values. This vision promises to deliver positive returns to our customers and shareholders.

Insurance

Our insurance operation, which continues to account for the largest proportion of the Group's revenue made significant progress in preparing for future growth, with an expanded distribution strategy and implementation of the new Commercial Direct Vision.

Within a highly competitive environment, the company grew revenue by 5.3%, the customer retention rate remained steady at 90.3% and customer numbers grew slightly.

However the final year result was largely affected by the extreme weather events which led to the highest claims payouts in the 48 year history of the company.

New initiatives for the year include:

- A new vision was unveiled for the Commercial Direct channel – a vision to empower them to retain and win customers.
- Launch of dedicated Personal Lines distribution channel, including contact centre, automated rating engine, enhanced products and a more sophisticated pricing model.
- Launch of Intermediary channel, including experienced talent, dedicated products and expert underwriting support.
- Both new channels exceeded their revenue targets for the year.

- The Guild Insurance website was rebuilt to enhance its position as the cornerstone of our online strategy aimed at servicing and acquiring customers.

Financial Services

Guild Financial Services (GFS) delivered a strong after tax profit result of \$2.2m with increased revenue of 44% for the year.

This result has been driven by sales performance and prudent expense management, underpinned by refinements to the business model and realignment of resources to support growth.

Leadership and talent management have also been a focus as the business drives cultural change.

New initiatives during the period include:

- More innovative approach to volume business in both super and financial planning units.
- Leading edge marketing initiatives.
- Ensuring continuous operation of an integrated business model.
- Launching a direct life product offering to new and existing clients.
- Increasing optimisation of Management Information Systems.
- The 2011/2012 financial year will again focus on growth, innovation, leadership, talent, change management & Stronger Super reforms.

Legal

Meridian Lawyers had a very successful year with revenue growth in excess of 30% and the resulting profit exceeding budget. The year also saw Meridian further establish itself as a leading health and insurance firm in the legal market.

Guild Insurance continues to be the cornerstone client of Meridian Lawyers and will remain so for the foreseeable future. However, the firm is now the key legal advisor to more than twenty industry health profession and representative bodies and continues to grow both its insurance and commercial revenues.

Key accomplishments during the year include:

- Rebranding from Guild Lawyers to Meridian Lawyers to reflect the changing dynamic of the client base and help grow its insurance client base.
- The Meridian insurance team was appointed to a number of prominent insurance legal panels.
- Improved financial results for the commercial and employment teams through disciplined sourcing of profitable legal work and tighter expense controls.
- A number of operational improvements have improved the firm's ability to provide quicker turnaround times for written advices for our clients.

In the year ahead, Meridian Lawyers will continue to grow and attract key talent across the country to develop a true national presence.

OUTLOOK Customers

Our commitment to customers remains the cornerstone of our business model. Our goal is to continually improve the value we provide to existing clients while leveraging our enhanced business development capability and new distribution channels to win new customers.

People

We continue to develop a working environment of high performance, accountability and continuous positive change, with a sharp focus on retaining and attracting the right talent to underpin the Group's strategy.

In 2010/2011 the talent pool was developed further, and continues to be a pillar upon which the company will depend. This has already begun to yield results and bodes well for the coming year.

GUILD FINANCIAL SERVICES delivered a strong after tax profit of

\$2.2m

MERIDIAN LAWYERS REVENUE GROWTH

30%

Financial Performance

Meeting our profit and growth targets remains a priority in the year ahead as we build on our improved capital position.

I would like to thank our people for their efforts during the year, which was one of the most challenging for everyone involved in the insurance industry. We have made considerable progress, which has positioned us well for the coming year.

I would also like to extend my gratitude to the Board and in particular to our outgoing Chairman, Harry Zafer for his professionalism and the outstanding contribution he has made to the success of the company.



M. Pirone

Chief Executive Officer

Melbourne, 6 September 2011

REPORT OF DIRECTORS

Your Directors present their report on the consolidated Group consisting of Guild Group Holdings Limited and the entities it controlled at the end of the year ended 30 June 2011.

1. DIRECTORS

The names and details of the company's directors in office during the financial year and up to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

George Venardos
BCom, FCA, FCIS, FTIA, FAICD
(Non-Executive Director)

A Chartered Accountant with more than 30 years experience in Financial Services with senior executive roles in Finance, Tax, IT, Funds Management, Reinsurance and Corporate Services at Insurance Australia Group (IAG.ASX), Legal & General Group (Australia) and Price Waterhouse Coopers in Australia.

George is Non-Executive Director of IOOF Holdings Ltd (IFL.ASX), BluGlass Ltd (BLG.ASX), Territory Insurance Office, Miclyn Express Offshore Ltd (MIO.ASX) and Ardent Leisure Limited (AAD.ASX). George will be Chairman of the Guild Group from 1 July 2011.

Harry Zafer
MRPharms, FAICD, FAIPM
(Non-Executive Director)

Chairman of Guild Shield Chemists' Cooperative, Vice President Pharmacy Guild W.A. Branch. National Councillor of Pharmacy Guild of Australia and Chairman of Pharmacy Foundation W.A. Harry was Chairman of the Guild Group until 30 June 2011, and Deputy Chairman from 1 July 2011.

Silas Banks
Phc, FAICD (Non-Executive Director)

Practising Pharmacist for over 40 years, President of the NSW Branch, Chair of the Corporate and Governance Committee and National Councillor of the Pharmacy Guild of Australia. Silas was Deputy Chairman of the Guild Group until 30 June 2011.

John Barrington
LL.B.B.Com (Melb), FAICD
(Non-Executive Director)

Principal of Barrington Legal with over 30 years in practice specialising in insurance law, superannuation and banking and finance. Formerly Chief Executive of CUNA Mutual Limited and Mutual Community Limited. Chairman of Intrinsic Value Investments Limited and Albert Court Aged Care Edgecliff Sydney. Board member of the Private Health industry Advisory Council (PHIAC). A Commonwealth statutory body to oversee the compliance of the private health insurers.

Alice Williams
B. Comm, FCPA, FAICD, CFA, ISFA
(Non-Executive Director)

Over 25 years of senior management and Board level experience in investment banking, corporate and government sectors. A Director of Djerriwarrh Investments, Equity Trustees and Defence Health. Former Director of Airservices Australia, V/Line Passenger Pty Limited, Telstra Sale Corporation, State Trustees, Victorian Funds Management Corporation and Western Health, former Commissioner to the Victorian Competition & Efficiency Commission and Council Member of Cancer Council of Victoria.

Dipak Sanghvi
B.Sc. Pharmacy (UK) FACPPM,
FAICD (Non-Executive Director)

A Pharmacist with over 30 years experience, Council Member of ACCI, Member of National Small Business Forum and Small Business Coalition, President Pharmacy Guild Vic. Branch, National Councillor of Pharmacy Guild of Australia and National Vice President of Pharmacy Guild of Australia. Also, Chairman of Return of Unwanted Medicines (RUM) Project and Chairman of Gold Cross Products & Services Pty Ltd.

Stephen Somogyi
MSc (Melb), SM(MIT), FIAA, FAICD FFin
(Non-Executive Director)

Chief Operating Officer and Vice President Resources at RMIT University. Extensive experience in the financial services and health care industries, including 27 years with National Mutual and as Executive Member of the Australian Prudential Regulation Authority for 3 years to June 2006.

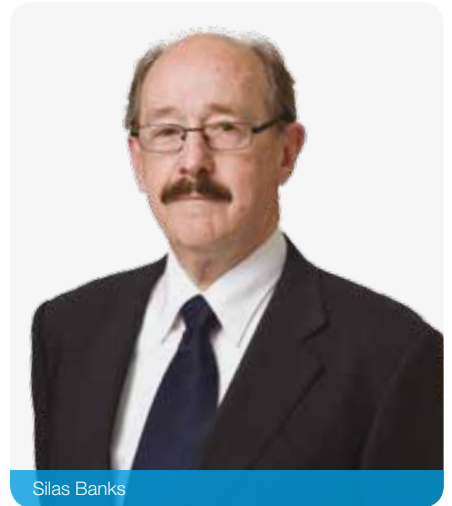
Steve holds a Master of Science in Physics from the University of Melbourne and a Master of Science in Management from the Massachusetts Institution of Technology. He is a Fellow of the Institute of Actuaries in Australia. Steve is a Commissioner of the Safety, Rehabilitation and Compensation Commission, Director of One Path Australia, VERNet and RMIT Foundation.



George Venardos



Harry Zafer



Silas Banks



John Barrington



Alice Williams



Dipak Sanghvi



Stephen Somogyi

REPORT OF DIRECTORS cont.

LEADERSHIP TEAM

The following people have left the Guild Group during the financial year; Peter Simpson (31 August 2010), Paul Harding (3 December 2010) and Kingsley Bibby (29 October 2010).

Company Secretary of Guild Group Holdings Limited is Laura Dhana.

Mario Pirone **B.Bus, Grad.Dip. Bus, FCPA** **(Chief Executive Officer)**

Mario Pirone has over 20 years experience as a senior executive and director in large and complex organisations in the areas of general insurance, funds management and financial services. Mr Pirone was formerly the CEO of CGU and Executive with Insurance Australia Group (1999-2008). He has held a number of non-executive directorships over the past 10 years. Mr. Pirone was Managing Director of the Guild Group until 19 October 2010 and is currently Chief Executive Officer.

Samuel Horskins **B. Comm, FCA (Chief Financial Officer)**

A qualified accountant with extensive experience in the insurance and financial services industry. Previously held senior management roles with OAMPS and Ernst & Young.

Erica Traicos **BBSc (Psychology), Grad Dip Business** **(Director Human Resources)**

An executive leader with over 20 years in both human resources and generalist roles in financial services, consulting, public policy and mining industries. Specialises in changing organisations to lift value and results. Recently held senior management roles at ANZ Banking Group and BHP Billiton, and joined the Guild Group in February 2011.

Karen Symes **M. App. Sc. (Chief Information Officer)**

An Information Technology professional of twenty-five years within the financial services industry. Most recent senior management roles held at Equity Trustees and ANZ Banking Group. Mrs. Symes joined the Guild Group on 26 July 2010.

David Brown **ANZIIF (Snr Assoc), CIP, MBA** **(General Manager – Insurance)**

General Manager of Guild Insurance Limited since 1996. Certified insurance professional with extensive general insurance experience

spanning some 34 years, incorporating a variety of senior management roles. Current Vice President of the Australian Insurance Association and an active member on various Insurance Council of Australia (ICA) committees and working groups.

Paul Cassidy **BSc, FIAA** **(General Manager – Underwriting)**

Paul has over 20 years financial services experience predominantly with large general insurance organisations. Paul's experience has been split between consulting and senior management roles spanning underwriting, financial management and strategy. Recently held senior management roles at CGU and Avant Insurance and joined the Guild Group in June 2011.

Paul Baker **LLB (Solicitor Director – Meridian Lawyers)**

Practising lawyer of more than 20 years experience in the areas of insurance, commercial and administrative law. A former senior litigation partner of Ebsworth & Ebsworth lawyers and former legal member of Consumer Medicines Information Commonwealth Task Force and the South Eastern Sydney Area Health Ethics Committee.

Theresa Mills **DFP, Adv.Dip Fin Plan, CFP** **(General Manager – Guild Financial Services)**

Theresa brings over 20 years of financial services experience to her position at the Guild Group. Her professional background includes roles encompassing executive business management, strategy, growth and distribution. She has held roles within banking, merchant banking, financial planning, stockbroking, AFSL licensee, funds management and superannuation. Theresa has been a Certified Financial Planner for twelve years and is a member of the Financial Planning Association.



Mario Pirone



Samuel Horskins



Erica Traicos



Karen Symes



David Brown



Paul Cassidy



Paul Baker



Theresa Mills

REPORT OF DIRECTORS cont.

2. PRINCIPAL ACTIVITIES

The principal activities during the year within the consolidated Group were:

- general insurance underwriting;
- providing personal financial planning advice and superannuation;
- providing legal services;
- providing accounting and tax services;
- management of investments.

3. CONSOLIDATED RESULTS

| | 2011 \$'000 |
|------------------------------|----------------|
| Loss attributable to members | 3,085 |

4. DIVIDENDS

Dividends recommended and paid in the 2011 financial year:

| | |
|----------------------|-------|
| – on ordinary shares | 5,000 |
|----------------------|-------|

5. REVIEW OF OPERATIONS

During the year, the Group made significant progress in a number of key strategic areas but also experienced unprecedented catastrophic events which have impacted the financial results.

Across the business, progress was made to implement the right structure, talent and culture for a high growth future. This has seen a focus on consolidating and refining our existing high service model while enhancing our business development capabilities.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- In July 2010 Guild Group Holdings was authorised by APRA as a Non-Operating Holding Company of a general insurer.
- On 30 July 2010 Guild Group Investments Limited signed a contract of sale for the investment property held at 1721 Malvern Road, Glen Iris. Settlement of \$6,450,000 was made on 1 September.
- A dividend of \$5,000,000 was declared by the Directors at the Board meeting held on 6 September 2010, payable 4 October 2010.

- On 7 February 2011 National Pharmacy Building Pty Ltd signed a contract of sale for Pharmacy House an investment property held at 15 National Circuit, Canberra. Settlement of \$25,060,000 was made on 31 March 2011.
- On 13 April 2011 Guild Group Holdings Limited reduced the bank loan with the Commonwealth Bank Australia from \$30,000,000 down to \$5,500,000.

7. SIGNIFICANT EVENTS AFTER BALANCE DATE

At the date of this financial report and, other than as disclosed in this financial report, no other matter or circumstance has arisen that has affected, or may significantly affect, the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

- On 3 August 2011, Guild Group Holding acquired the remaining 330,000 ordinary shares and 250 C Class shares in Guild Accountants. Following the transaction Guild Group Holdings had 100% of the shares in Guild Accountants.
- Global Market Volatility – Subsequent to 30 June 2011 there has been significant volatility in global equity and debt markets following the downgrade of the credit rating of US long term sovereign debt by Standard & Poor's and continued market uncertainty in relation to European sovereign debt. A detailed sensitivity analysis of asset and liability valuations to market risk, credit risk and liquidity risk is provided in note 3 to the Financial Report. The Group actively manages levels of capital, gearing and liquidity of the investment assets held to support the Group's obligations, which is subject to prudential regulation. As at 6 September 2011, the Group held significant capital in excess of its prudential regulatory requirements.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

We are very positive about the prospects for the Group and our focus for the year ahead will be centered on three key objectives:

Customers

Our commitment to customers remains the cornerstone of our business model. Our goal is to continually improve the value we provide to existing clients while leveraging our enhanced business development capability and new distribution channels to win new customers.

People

We continue to develop a working environment of high performance, accountability and continuous positive change, with a sharp focus on retaining and attracting the right talent to underpin the Group's strategy. In 2010/2011 the talent pool was developed further, and continues to be a pillar upon which the company will depend. This has already begun to yield results and bodes well for the coming year.

Financial Performance

Meeting our profit and growth targets remains a priority in the year ahead as we build on our improved capital position.

9. OUTSTANDING CLAIMS PROVISION IN CONTROLLED GROUP (GUILD INSURANCE LIMITED)

The provision for outstanding claims for a controlled Group (Guild Insurance Limited) is determined after consultation with an actuary. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. The directors consider that adequate risk margins are required in addition to actuarial central estimates to cover uncertainties such as changes in interest rates and superimposed inflation. APRA issued new prudential standards for all Insurance Companies effective 1 July 2002.

These standards provide that outstanding claims must be set at a level that provides a probability of at least 75% that the provision for outstanding claims will be adequate to settle claims as they become payable in the future. The directors have satisfied themselves that the Group's outstanding claims provision exceed this requirement.

10. CAPITAL ADEQUACY OF CONTROLLED GROUP (GUILD INSURANCE LIMITED)

| | 2011 | 2010 |
|-----------------------------------|---------|---------|
| | \$'000s | \$'000s |
| Capital Base | 94,899 | 100,103 |
| Minimum Capital Requirement (MCR) | 55,370 | 56,411 |
| Capital Adequacy Ratio | 171.4% | 177.5% |

11. ENVIRONMENTAL REGULATIONS

The operations of the controlled Group are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

The Directors are not aware of any breaches of significant environmental regulations during the period covered by this report that are likely to result in a material impact on the Group or the environment.

12. MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Group's directors (including meetings of committees of directors) held during the year ended 30 June 2011, and the number of meetings attended by each director.

| | Full Meeting of Directors (GGHL & GFSL) | Meetings of Investment Committee (GGHL & GFSL) | Meetings of Remuneration & Nominations Committee (GGHL) | Meetings of Audit & Compliance Committee (GGHL & GFSL) | Meetings of Audit & Compliance Committee (GIL) | Meetings of Audit & Compliance Committee (GTS) | Meetings of Reinsurance Committee (GIL) |
|---------------------------------|---|---|---|--|--|--|--|
| Number of Meetings Held | 7 | 5 | 1 | 5 | 5 | 5 | 2 |
| Number of Meetings attended by: | | | | | | | |
| H. Zafer | 7 | | 1 | 5 | 5 | 5 | 2 |
| S. Banks | 7 | 5 | 1 | | | | 2 |
| J. Barrington | 7 | 5 | 1 | | | | 2 |
| M. Pirone** | | 4 | | | | | 1 |
| D. Sanghvi | 6 | 3 | | | | | |
| S. Somogyi | 6 | | 1 | 5 | 5 | 5 | |
| G. Venardos | 7 | | | 5 | 5 | 5 | 2 |
| A. Williams* | 3 | 0 | 1 | 1 | 1 | 1 | |

* Leave of absence during the year due to ill health.

** This Director was not a member of the above committees for the full year, due to being appointed as a Director, resigning from a committee or resigning as a Director during the year.

13. DIRECTORS' BENEFITS

No Director of the Group has received or become entitled to receive a benefit because of a contract made by the Group or a related body corporate with the Director or a firm of which they are a member, or with a Group in which they have a substantial financial interest.

REPORT OF DIRECTORS cont.

14. COMMITTEE MEMBERSHIP

As at the date of this report, the Group had an Investment, Remuneration & Nominations, an Audit & Compliance and a Reinsurance Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

| Investment | Remuneration & Nominations | Audit & Compliance (GGHL) | Audit & Compliance (GIL) | Audit & Compliance (GTS) | Reinsurance |
|-----------------|----------------------------|---------------------------|--------------------------|--------------------------|-----------------|
| A. Williams (C) | G. Venardos (C) | S. Somogyi (C) | S. Somogyi (C) | S. Somogyi (C) | G. Venardos (C) |
| S. Banks | J. Barrington | G. Venardos | G. Venardos | G. Venardos | S. Banks |
| J. Barrington | H. Zafer | A. Williams | A. Williams | A. Williams | J. Barrington |
| M. Pirone | S. Banks | H. Zafer | H. Zafer | H. Zafer | H. Zafer |
| D. Sanghvi | A. Williams | | | | M. Pirone |

(C) Chair

15. INSURANCE OF OFFICERS

During the financial year, Guild Group Holdings Limited paid a premium in respect of a contract insuring the directors, company secretary and officers of the Group against a liability incurred as a director, secretary or officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify a director, a company secretary, an officer or auditor of the company or any related body corporate against a liability incurred as such a director, company secretary, officer or auditor.

16. NUMBER OF EMPLOYEES

The workforce of the Group stands at 328 equivalent full time employees at 30 June 2011 (332 as at 30 June 2010). The consolidated Group is expecting a modest increase in staff numbers over the next twelve months to ensure that there are adequate staffing resources to manage the anticipated revenue growth.

17. ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Group is a company to which the Class Order applies.

18. DECLARATION FROM AUDITORS

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page [\[15\]](#).



G. Venardos
Chairman
Melbourne
6 September 2011



H. Zafer
Deputy Chairman
Melbourne
6 September 2011

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUILD GROUP HOLDINGS LIMITED

We have audited the accompanying financial report of Guild Group Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 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 2, 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.

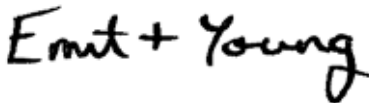
Liability limited by a scheme approved under
Professional Standards Legislation

INDEPENDENT AUDITOR'S REPORT cont.

AUDITOR'S OPINION

In our opinion:

1. the financial report of Guild Group Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 30 June 2011 and of its 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.



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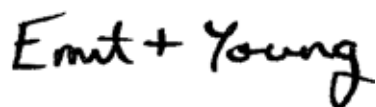


Brett Kallio
Partner
Melbourne
6 September 2011

AUDITOR'S INDEPENDENCE DECLARATION

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF GUILD GROUP HOLDINGS LIMITED

In relation to our audit of the financial report of Guild Group Holdings Limited for the financial year ended 30 June 2011, 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.



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Brett Kallio
Partner
Melbourne
6 September 2011

Liability limited by a scheme approved under
Professional Standards Legislation

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Guild Group Holdings Limited, I state that:

In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its 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*;
- b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.
- c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board



G. Venardos
Chairman
Melbourne
6 September 2011



H. Zafer
Deputy Chairman
Melbourne
6 September 2011

STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

| | Notes | 2011 \$'000 | 2010 \$'000 |
|---|-------|----------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | 9 | 6,719 | 9,771 |
| Trade and other receivables | 10 | 56,621 | 46,978 |
| Reinsurance and other recoveries receivable | 11 | 36,789 | 19,917 |
| Income tax receivable | | 4,410 | 2,277 |
| Financial assets | 12 | 216,104 | 205,409 |
| Prepayments and inventories | 13 | 6,840 | 6,902 |
| Deferred acquisition costs | 14 | 14,123 | 12,685 |
| Investment properties | 15 | – | 31,436 |
| Property, plant and equipment | 16 | 8,614 | 9,241 |
| Deferred tax assets | 7 | 6,737 | 7,490 |
| Intangible assets and goodwill | 17 | 11,837 | 13,207 |
| TOTAL ASSETS | | 368,794 | 365,313 |
| LIABILITIES | | | |
| Trade and other payables | 18 | 23,871 | 25,453 |
| Premium liabilities | 19 | 67,151 | 61,207 |
| Interest-bearing loans and borrowings | 20 | 22,340 | 53,840 |
| Provisions | 21 | 3,726 | 5,831 |
| Deferred tax liabilities | 7 | 1,979 | 3,401 |
| Claims liabilities | 22 | 175,284 | 132,723 |
| TOTAL LIABILITIES | | 294,351 | 282,455 |
| NET ASSETS | | 74,443 | 82,858 |
| EQUITY | | | |
| Contributed equity | 23 | 5,585 | 5,585 |
| Retained earnings | 23 | 69,208 | 77,246 |
| Non-controlling interest | 24 | (350) | 27 |
| TOTAL EQUITY | | 74,443 | 82,858 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

| | Notes | 2011 \$'000 | 2010 \$'000 |
|--|-------|-----------------|----------------|
| Premium revenue | 6 (a) | 151,042 | 146,993 |
| Outwards reinsurance premium expense | | (23,733) | (22,745) |
| Net premium revenue | | 127,309 | 124,248 |
| Claims expense | 6 (g) | (122,235) | (69,430) |
| Reinsurance and other recoveries revenue | 6 (b) | 38,224 | 11,708 |
| Net claims expense | | (84,011) | (57,722) |
| Other insurance income | 6 (c) | 2,806 | 3,924 |
| Acquisition costs | 6 (h) | (26,574) | (26,315) |
| Underwriting expenses | 6 (i) | (29,976) | (32,620) |
| Underwriting result | | (10,446) | 11,515 |
| Investment revenue on assets backing insurance liabilities | 6 (d) | 8,137 | 9,250 |
| Insurance trading result | | (2,309) | 20,765 |
| Investment revenue on equity holder's funds | 6 (e) | 9,783 | 12,416 |
| Fee and other income | 6 (f) | 27,357 | 25,613 |
| Other operating expenses | | (36,371) | (40,330) |
| Finance costs | 6 (j) | (3,279) | (3,395) |
| (LOSS)/PROFIT BEFORE INCOME TAX | | (4,819) | 15,069 |
| Income tax credit/(expense) | 7 | 1,734 | (5,416) |
| NET (LOSS)/PROFIT FOR THE PERIOD | | (3,085) | 9,653 |
| (Loss)/Profit for the period is attributable to: | | | |
| Owners of the parent | | (3,085) | 9,653 |
| Non-controlling interest | | 47 | 495 |
| | | (3,038) | 10,148 |
| Total comprehensive (losses)/income for the period is attributable to: | | | |
| Owners of the parent | | (3,085) | 9,653 |
| Non-controlling interest | | 47 | 495 |
| | | (3,038) | 10,148 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

| | Attributable to equity holders | | | | Total Equity \$'000 |
|---|--------------------------------|-------------------------------------|-----------------------------|-----------------------------|------------------------|
| | Ordinary Shares \$'000 | Preference Shares (Guild) \$'000 | Retained Earnings \$'000 | Minority Interest \$'000 | |
| 2011 | | | | | |
| At 1 July 2010 | 3,585 | 2,000 | 77,246 | 27 | 82,858 |
| Dividends provided or paid | – | – | (5,000) | – | (5,000) |
| Minority Interest | – | – | – | (330) | (330) |
| Net loss | – | – | (3,038) | (47) | (3,085) |
| Total comprehensive income and expense for the period | 3,585 | 2,000 | 69,208 | (350) | 74,443 |
| Preference shares converted to ordinary shares | 2,000 | (2,000) | – | – | – |
| At 30 June 2011 | 5,585 | – | 69,208 | (350) | 74,443 |
| Number of shares | 3,605,434 | – | | | 3,605,434 |

| | Attributable to equity holders | | | | Total Equity \$'000 |
|---|--------------------------------|-------------------------------------|-----------------------------|-----------------------------|------------------------|
| | Ordinary Shares \$'000 | Preference Shares (Guild) \$'000 | Retained Earnings \$'000 | Minority Interest \$'000 | |
| 2010 | | | | | |
| At 1 July 2009 | 3,585 | 2,000 | 68,248 | 522 | 74,355 |
| Dividends provided or paid | – | – | (1,150) | – | (1,150) |
| Changes in equity during the period | | | | | |
| Net profit | – | – | 10,148 | (495) | 9,653 |
| Total comprehensive income and expense for the period | 3,585 | 2,000 | 77,246 | 27 | 82,858 |
| Issue of share capital | – | – | – | – | – |
| At 30 June 2010 | 3,585 | 2,000 | 77,246 | 27 | 82,858 |
| Number of shares | 3,585,434 | 20,000 | | | 3,605,434 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

| | Notes | 2011 \$'000 | 2010 \$'000 |
|---|-------|-----------------|----------------|
| Cash flows from operating activities | | | |
| Premiums received | | 150,968 | 149,219 |
| Outwards reinsurance paid | | (24,323) | (22,779) |
| Claims paid | | (85,887) | (63,023) |
| Reinsurance and other recoveries received | | 20,240 | 12,829 |
| Acquisition costs paid | | (27,617) | (25,254) |
| Other underwriting expenses paid | | (64,069) | (58,262) |
| Reinsurance commission received | | 1,335 | 1,037 |
| Sundry income received | | 34,577 | 26,217 |
| Interest and other costs of finance paid | | (3,280) | (3,395) |
| Income tax paid | | (4,526) | (3,451) |
| Rentals received | | 2,076 | 3,355 |
| NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES | 9(a) | (506) | 16,493 |
| Cash flows from investing activities | | | |
| Dividends received | | 1,831 | 2,129 |
| Interest received | | 10,259 | 8,770 |
| Payments for property, plant and equipment | | (1,291) | (904) |
| Proceeds from sale of property, plant and equipment | | 31,510 | 4 |
| Payment for purchase of shares in subsidiary entities | | (329) | – |
| Payments for financial assets | | (31,751) | (49,193) |
| Proceeds from financial assets | | 24,517 | 30,812 |
| Payments for investment properties | | – | (31) |
| Payment for intangible assets | | (997) | (1,311) |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | 33,749 | (9,724) |
| Cash flows from financing activities | | | |
| Dividends paid | | (5,000) | (1,150) |
| Proceeds from borrowings | | 205 | 212 |
| Repayment of borrowings | | (31,500) | (5,700) |
| NET CASH FLOWS (USED IN) FINANCING ACTIVITIES | | (36,295) | (6,638) |
| Net (decrease)/increase in cash and cash equivalents | | (3,052) | 131 |
| Cash and cash equivalents at the beginning of the period | | 9,771 | 9,639 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 9(b) | 6,719 | 9,771 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

1. CORPORATE INFORMATION

The financial report for Guild Group Holdings Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 6 September 2011.

Guild Group Holdings Limited is a company limited by shares incorporated in Australia. The ultimate parent entity of Guild Group Holdings Limited is The Pharmacy Guild of Australia.

The nature of the operations and principal activities of the Group are general insurance underwriting, providing personal financial planning advice and superannuation, providing legal, accounting and tax services and management of investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001* including applicable Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for investments, property, plant and equipment and investment properties, measured at fair value amounts. The accounting policies adopted are consistent with those of previous years, except where noted below.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000), unless otherwise stated.

a) Compliance with IFRS

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

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

b) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The following standards and interpretations would have been applied for the first time for entity's with years ending 30 June 2011:

| Reference | Title | Application date of standard* | Application date for Group* |
|-------------------|---|-------------------------------|-----------------------------|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, AASB 8, AASB 101, AASB 107, AASB 117, AASB 118, AASB 136, AASB 139] | 1 January 2010 | 1 July 2010 |
| AASB 2009-8 | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] | 1 January 2010 | 1 July 2010 |
| AASB 2009-10 | Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] | 1 February 2010 | 1 July 2010 |
| AASB 2010-3 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] | 1 July 2010 | 1 July 2010 |
| Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 | 1 July 2010 |

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash – Settled Share-based Payment Transactions

The amendments clarify the scope of AASB 2 Share-based Payment by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. It did not have an impact on the financial position or performance of the Group.

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously “minority interests”), the accounting for transaction costs, the initial recognition and

subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

Annual Improvements Project

In May 2009 and June 2010 the AASB issued an omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing

inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations.
- AASB 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- AASB 107 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

- AASB 136 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- AASB Interpretation 17 Distribution of Non-cash Assets to Owners: This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 108 *Accounting Policies, Change in Accounting Estimates and Error*
- AASB 110 *Events after the Reporting Period*
- AASB 117 *Leases*
- AASB 118 *Revenue*
- AASB 119 *Employee Benefits*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2011, outlined in the table below:

| Reference | Title | Application date of standard* | Application date for Group* |
|--------------------|--|-------------------------------|-----------------------------|
| AASB 9 | Financial Instruments AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). | 1 January 2013 | 1 July 2013 |
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] | 1 January 2011 | 1 July 2011 |
| AASB 124 (Revised) | Related Party Disclosures (December 2009) | 1 January 2011 | 1 July 2011 |
| AASB 2009-12 | Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] | 1 January 2011 | 1 July 2011 |
| AASB 2009-14 | Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement | 1 January 2011 | 1 July 2011 |
| AASB 1053 | Application of Tiers of Australian Accounting Standards | 1 July 2013 | 1 July 2013 |
| AASB 1054 | Australian Additional Disclosures. (This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.) | 1 July 2011 | 1 July 2011 |
| AASB 2010-2 | Amendments to Australian Accounting Standards arising from reduced disclosure requirements. | 1 July 2013 | 1 July 2013 |
| AASB 2010-4 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] | 1 January 2011 | 1 July 2011 |
| AASB 2010-5 | Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] | 1 January 2011 | 1 July 2011 |
| AASB 2010-6 | Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]. | 1 July 2011 | 1 July 2011 |
| AASB 2010-7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127] | 1 January 2013 | 1 July 2013 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

| Reference | Title | Application date of standard* | Application date for Group* |
|-------------|--|-------------------------------|-----------------------------|
| AASB 2010-8 | Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] | 1 January 2012 | 1 July 2012 |
| AASB 2011-1 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113] | 1 July 2011 | 1 July 2011 |
| AASB 2011-2 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054] | 1 July 2013 | 1 July 2013 |
| N/A | Consolidated Financial Statements | 1 January 2013 | 1 July 2013 |
| N/A | Joint Arrangements | 1 January 2013 | 1 July 2013 |
| N/A | Disclosure of Interests in Other Entities | 1 January 2013 | 1 July 2013 |
| N/A | Fair Value Measurement | 1 January 2013 | 1 July 2013 |

* Designates the beginning of the applicable annual reporting period unless otherwise stated

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Guild Group Holdings Limited (the parent company) and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the Consolidated Financial Statements, all intercompany balances and transactions, income and expenses and profit or losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate Statement of Comprehensive Income of the parent entity, and do not impact the recorded cost of the investment.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the consolidated Statement of Financial Position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

d) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable 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:

Premium income

Direct premium comprises amounts charged to the policyholder or other insurers, including fire service levies, but excluding stamp duties and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue.

Premium is treated as earned from the date of attachment of risk. Where material, premiums on unclosed business are brought to account by reference to the previous year's premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the

pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written in the year, using the 365ths method based on date of attachment of risk. The portion not earned, as determined by the above method, is classified in the Statement of Financial Position as unearned premium.

Rendering of services

Revenue from legal and accounting services is recognised by reference to the stage of completion of the legal case file or accounting matter. Stage of completion is measured by the labour hours incurred valued at chargeable hourly rates, less allowance for any amounts expected not to be recovered, to date compared to that expected on completion.

Fee revenue

Fees earned and Commission income are recognised when the Group's right to receive the payment is established.

Dividends

Revenue is recognised when the Group's right to receive payment is established.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental revenue

Rental revenue from investment properties is accounted for on a straight line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

e) Management fee income and related expenses

Management fee income and related fees payable to contractors are recognised

by reference to the estimated percentage completion of the services involved, based on the relevant contracts entered into. When the percentage completion cannot be reliably estimated, revenue is only recognised to the extent of the expenses recognised that are recoverable.

f) Fire brigade and other charges

A liability for fire brigade and other charges is recognised on business written to the reporting date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

g) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of Guild Group Holdings Limited and its Australian subsidiaries is Australian dollars (\$). The New Zealand functional currency is New Zealand Dollars, which is translated to the presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group Companies' functional currency to presentation currency

The results of the New Zealand transactions are translated into Australian Dollars (presentation currency) using the weighted average exchange rate for the year. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the Statement of Comprehensive Income.

h) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Tax consolidation legislation

Guild Group Holdings Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2005.

The head entity, Guild Group Holdings Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Guild Group Holdings Limited also recognises the current liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under the tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 7.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

i) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise of cash at bank and in hand and short term deposits with an original maturity 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.

For purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

j) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less any allowance for impairment. Collectability of trade receivables is reviewed on an on-going basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts greater than trade terms are considered objective evidence of impairment.

k) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable in relation to "long-tail" classes are measured

as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates applied are included in note 11.

l) Outwards Reinsurance

The Group cedes insurance risk in the normal course of business. Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of premium written.

m) Inventories

Work in progress on amounts ultimately owed to Guild Group Holdings Limited are valued at the lower of cost and net realisable value, as fees are not rendered on matters until either the completion of a particular task or time period.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The following methodologies are used in determining the value of work completed.

Time Recording

For general and commercial accounting and law matters, time spent by a professional is recorded against the matter at an agreed hourly rate.

Estimated Fees Earned

Work in progress reflects the time recorded against each matter as at a particular date and is used as a guide in determining the professional and other fees that will ultimately be rendered to the relevant client, which is accrued and held as a provision on the Statement of Financial Position.

n) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through the profit or loss or held-to-maturity investments, as appropriate. The classification depends on the purpose

for which the investments were acquired. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories. When financial assets are initially recognised they are measured at fair value.

Recognition and De-recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of assets within the period established generally by regulation or convention in the market place.

Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit.

Gains or losses on financial assets held for trading are recognised in the profit or loss and the related assets are classified as current and non-current assets in the Statement of Financial Position.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held to maturity are measured at fair value.

The fair value of investments that are actively traded in organised financial markets are determined by reference to the quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques.

Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

o) Deferred acquisition costs

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

p) Property, plant and equipment

Cost and valuation

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Buildings are measured at fair value, based on periodic valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation

Depreciation is calculated on a straight-line or reducing balance basis so as to write off the net cost of each item of plant and equipment over its estimated useful life.

The estimated useful lives for plant and equipment are:

| | |
|------------------------|--------------------------------------|
| Leasehold improvements | over the terms of the various leases |
| Fixtures and fittings | 2-13 years |
| Buildings | 40 years |

The assets' residual values, useful lives, impairment and amortisation methods are reviewed and adjusted if appropriate, at each financial year end.

Revaluations of buildings

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

When an item of property, plant and equipment is re-valued, any accumulated depreciation at the date of the revaluation is able to be restated proportionately with the change in the gross carrying amount of the asset so that the net carrying amount of the asset after revaluation equals its re-valued amount.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when

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for the year ended 30 June 2011

no further future economic benefits are expected from its use or disposal.

q) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are measured at fair value, which is based on active market prices adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

r) Leases

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

Group as a lessee

Finance leases transfer to the Group substantially all risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining

balance of the liability. Finance charges are recognised as an expense in the Statement of Comprehensive Income.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

s) Intangible assets and goodwill

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8, and includes:

- Financial Services products;
- Superannuation fund;
- Guild Commercial Finance Pty Limited; and
- Guild Accountants Pty Limited.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. When the recoverable amount of the cash generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually either

individually or at the cash generating unit level. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and thus accounted for on a prospective basis.

Development costs

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected benefits from the related project on a straight line basis.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

t) Impairment of non-financial assets other than goodwill

The Group conducts an annual internal review of asset values which is used as a source of information to assess for any indication of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. The non-financial assets relate to computer software and internally generated development costs.

u) Outstanding claims liability

Claims expense represents payment for claims and the movement in outstanding claims liabilities and they are recognised in respect of direct business.

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claim payments and associated claim handling costs in respect of claims reported but not yet paid and claims incurred but not reported (IBNR).

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present values by applying risk free discount rates.

A risk margin at 95% level of sufficiency (2010 – 95%) is added to the net central estimate in determining the net outstanding claims liabilities. The risk margin increases the probability that the net outstanding claim liabilities ultimately prove to be adequate.

The liability for outstanding claims for "long-tail" classes is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and "superimposed" inflation. The expected future payments are discounted to present

value at the reporting date. The details of rates applied are included in note 22.

The liability for outstanding claims for "short-tail" classes is measured using the Incurred Development and Projected File Estimate Methods. The assumptions are that the future development of claim costs will be similar to that which has arisen in the past, and that claims inflation in the next one to two years will be similar to that over the past one to two years.

Claims expense excludes claims discount expense, being the portion of the increase in the liability for outstanding claims arising from the passage of time as the claim payments discounted in the prior year come closer to settlement.

v) Assets backing general insurance liabilities

As part of its investment strategy, the Group actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of property, plant and equipment, share investments, hire purchase and loans, the Group has determined that all Guild Insurance Limited assets are held to back general insurance liabilities and their accounting treatment is described below. As these assets are managed under the Group's Risk Management Strategy on a fair value basis and are reported to the Board on this basis, they have been valued at fair value through the profit or loss.

Financial assets

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit.

Gains or losses on financial assets held for trading are recognised in the Statement of Comprehensive Income and the related assets are classified in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held to maturity are measured at fair value.

The fair value of investments that are actively traded in organised financial markets are determined by reference to the quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques.

Trade and other receivables

Amounts due from policyholders and intermediaries are initially recognised at cost, being the amounts due.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment charge is recognised in the Statement of Comprehensive Income.

w) Unearned premium liability

Unearned premium liability is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term.

Liability adequacy testing is performed in order to recognise any deficiencies in the Statement of Comprehensive Income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

x) Trade and other payables

Trade payables and other payables are carried at amortised costs and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

y) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Make good provisions have been provided against the capitalised asset.

Employee leave benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave

expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised 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. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

z) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Group held no derivatives at 30 June 2011.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

aa) Contributed equity

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans, fixed interest securities, cash and short term deposits.

Risk Exposures and Responses

The Group manages its exposure to key financial risks, including interest rate risk and currency risk in accordance with the Group's risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, price risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate, price and foreign exchange risk and assessments of market forecasts for interest rates, price and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of risks rests with the Audit and Compliance Committee under the authority of the Board.

Interest rate risk

Financial instruments with floating rate interest expose the Group to cash flow interest rate risk, whereas fixed interest rate financial instruments expose the Group to fair value interest rate risk.

The Group's exposure to market interest rates relates primarily to the Group's debt obligations. The level of debt is disclosed in note 20.

At the reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk.

| | 2011 | 2010 |
|-----------------------------------|-----------------|---------------|
| | \$'000 | \$'000 |
| Financial Assets | | |
| Cash and cash equivalents | 6,719 | 9,771 |
| Fixed Deposits | 164,785 | 143,297 |
| Loans | 15,549 | 17,620 |
| | 187,053 | 170,688 |
| Financial Liabilities | | |
| Bank loans | (5,500) | (37,000) |
| Loans from ultimate parent entity | (16,840) | (16,840) |
| | (22,340) | (53,840) |
| Net exposure | 164,713 | 116,848 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

The Group's approach to minimise interest rate risk is by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk, which falls under the Group Investment Policy. The Group invests in high quality, liquid fixed interest securities and cash and actively manages the duration of the fixed interest portfolio and its interest rate exposure. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

| | Post Tax Profit/(Loss) | |
|--------------------------|------------------------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| + 2% (200 basis points) | 2,306 | 1,636 |
| - 0.5% (50 basis points) | (576) | (409) |

The effect of basis point movement would be consistent whether the movement in interest rates was up or down across all maturities, having the same positive or negative effect on profits, therefore varying movements have been shown. The movements in profit are due to higher/lower interest costs from variable rate debt and cash and fixed interest balances.

The movement in other comprehensive income is due to an increase/decrease in the fair value of derivative instruments designated as cash flows. The sensitivity is lower in 2011 than in 2010 because of a reduction in outstanding borrowings that has occurred due to the repayment of debt.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt in Australia, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next twelve months from reporting date.
- The effect on other comprehensive income is the effect on fair value movements.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and financial assets.

The Group's exposure to credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. Through monitoring of the Group Investment policy all exposures and breaches are reported to the Group Investment Committee.

The Group does not hold any credit derivatives to offset its credit exposure. The credit quality is assessed and monitored as follows:

| | Internally Rated | | | | | Total \$'000 |
|------------------------------|---------------------------|-------------------------|-------------------------|---------------------------------------|--------------------------------|-----------------|
| | A+ and Above \$'000 | BBB and below \$'000 | New Customers \$'000 | Closely Monitored Customers \$'000 | No default customers \$'000 | |
| | Cash and cash equivalents | 6,719 | – | – | – | |
| Interest bearing investments | 164,785 | – | 3,555 | – | 11,994 | 180,334 |
| Trade and other receivables | – | – | 7,532 | 853 | 46,234 | 54,619 |
| Net exposure | 171,504 | – | 11,087 | 853 | 58,228 | 241,672 |

| | Internally Rated | | | | | Total \$'000 |
|------------------------------|---------------------------|-------------------------|-------------------------|---------------------------------------|--------------------------------|-----------------|
| | A+ and Above \$'000 | BBB and below \$'000 | New Customers \$'000 | Closely Monitored Customers \$'000 | No default customers \$'000 | |
| | Cash and cash equivalents | 9,771 | – | – | – | |
| Interest bearing investments | 141,298 | 1,999 | 4,792 | 225 | 12,603 | 160,917 |
| Trade and other receivables | – | – | 4,435 | 547 | 40,133 | 45,115 |
| Net exposure | 151,069 | 1,999 | 9,227 | 772 | 52,736 | 215,803 |

The Group only trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant. The aging of Trade Debtors can be seen in note 10.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

Price risk

The Group is exposed to equity securities price risk via the Mercer Australian Equities Shares Trust. Equity securities price risk arises from investments in equity securities. To limit this risk the Group invests in a diversified Australian shares trust in accordance with limits set by the board. The majority of the equity investments within the trust are of a high quality and are publicly traded on the ASX 300 Index.

The following sensitivity is based on the price risk exposures in existence at the reporting date.

At 30 June 2011, had the unit price in the Shares trust moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| | 2011 \$'000 | 2010 \$'000 |
|------------------|----------------|----------------|
| Financial Assets | 35,743 | 44,380 |

Judgements of reasonably possible movements:

| | Post Tax Profit/(Loss) | |
|---------------------------|------------------------|----------------|
| | 2011 \$'000 | 2010 \$'000 |
| + 10% (1000 basis points) | 2,502 | 3,107 |
| - 5% (500 basis points) | (1,251) | (1,553) |

The effect of basis point movement would be consistent whether the movement in the ASX 200 Index was up or down, having the same positive or negative effect on profits, therefore varying movements have been shown. The price risk for the Mercer Australian Equities Share Trust is immaterial in terms of the possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

Foreign currency risk

As a result of operations in New Zealand the Group's Statement of Financial Position can be effected by movements in the NZ\$/A\$ exchange rates. The Group has transactional currency exposures. Such exposures arise from sales or purchases by an operating entity in currencies other than the functional currency. It is the Group's policy to use the weighted average exchange rate for transactions in the Statement of Comprehensive Income and the month end rate for all transactions in the Statement of Financial Position.

At 30 June 2011, the Group had the following exposure to NZ\$ foreign currency:

| | 2011 \$'000 | 2010 \$'000 |
|-------------------------------|----------------|----------------|
| Financial Assets | | |
| Cash and cash equivalents | 429 | 640 |
| Trade and other receivables | 2,710 | 111 |
| Property, plant and equipment | - | 20 |
| Deferred acquisition costs | 45 | 38 |
| Other | 104 | 122 |
| | 3,288 | 931 |
| Financial Liabilities | | |
| Claim Liabilities | 2,698 | 74 |
| Premium liabilities | 195 | 167 |
| Trade and other payables | 72 | 406 |
| Provisions | 78 | 81 |
| | 3,043 | 728 |
| Net exposure | 245 | 203 |

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date.

At 30 June 2011, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

| | Post tax profit | | Equity | |
|------------------------------------|-----------------|----------------|----------------|----------------|
| | 2011 \$'000 | 2010 \$'000 | 2011 \$'000 | 2010 \$'000 |
| AUD / NZD +10% (1000 basis points) | 16 | 13 | 25 | 26 |
| AUD / NZD -5% (500 basis points) | (9) | (7) | (14) | (15) |

The effect of basis point movement would be consistent whether the movement in foreign exchange rates was up or down, having the same positive or negative effect on profits, therefore varying movements have been shown.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years historical movements and economic forecaster's expectations.
- The reasonably possible movement was calculated by taking the NZD spot rate as at reporting date, moving this spot rate by the reasonably possible movements and then re-converting the NZD into AUD with the "new spot rate". This methodology reflects the translation methodology undertaken by the Group.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next twelve months from reporting date.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

Liquidity risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting daily operations of the financial conditions of the Group. Liquidity must be sufficient to meet both planned and unplanned cash requirements.

The Group is exposed to liquidity risk mainly through its obligations to make payments in relation to its insurance activities. Underwriting insurance contracts exposes the Group to liquidity risk through the obligation to make payments of unknown amounts on unknown dates.

In addition to cash held for working capital requirements, and in accordance with the Group's Investment Policy Statement, cash and investments are held in liquid, short term money market securities and government bonds to ensure that there are sufficient liquid funds available to meet insurance liability estimates at 95% confidence. These securities are restricted to investment grade. In addition, shareholder funds are invested in either an externally managed Australian shares fund or in liquid, short term money market securities and government bonds.

At 30 June 2011 the average duration of all cash and fixed income securities was 3.07 years (30 June 2010: 2.97 years). The majority of fixed income securities are highly liquid and can be settled within 3 days. The maturity profile of the Group's claim liabilities is noted in note 22(c).

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

Maturity analysis of financial assets and liabilities based on management's expectations

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (eg. inventories and trade receivables). These assets are considered in the Group's overall liquidity risk to monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks.

| Year ended 30 June 2011 | Consolidated | | | | Total \$'000 |
|---------------------------------------|-------------------------|----------------------------|--------------------------|------------------------|-----------------|
| | < 6 Months \$'000 | 6 – 12 Months \$'000 | 1 – 5 Years \$'000 | > 5 Years \$'000 | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 6,719 | – | – | – | 6,719 |
| Trade and other receivables | 56,621 | – | – | – | 56,621 |
| Financial assets | 26,134 | 16,679 | 116,890 | 56,401 | 216,104 |
| | 89,474 | 16,679 | 116,890 | 56,401 | 279,444 |
| Financial Liabilities | | | | | |
| Trade and other payables | 16,710 | 2,011 | 5,150 | – | 23,871 |
| Interest bearing loans and borrowings | 5,500 | – | – | 16,840 | 22,340 |
| | 22,210 | 2,011 | 5,150 | 16,840 | 46,211 |
| Net maturity | 67,264 | 14,668 | 111,740 | 39,561 | 233,233 |

| Year ended 30 June 2010 | Consolidated | | | | Total \$'000 |
|---------------------------------------|-------------------------|----------------------------|--------------------------|------------------------|-----------------|
| | < 6 Months \$'000 | 6 – 12 Months \$'000 | 1 – 5 Years \$'000 | > 5 Years \$'000 | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 9,771 | – | – | – | 9,771 |
| Trade and other receivables | 46,634 | 344 | – | – | 46,978 |
| Financial assets | 20,141 | 15,548 | 95,937 | 73,783 | 205,409 |
| | 76,546 | 15,892 | 95,937 | 73,783 | 262,158 |
| Financial Liabilities | | | | | |
| Trade and other payables | 17,820 | 6,179 | 1,454 | – | 25,453 |
| Interest bearing loans and borrowings | – | – | – | 53,840 | 53,840 |
| | 17,820 | 6,179 | 1,454 | 53,840 | 79,293 |
| Net maturity | 58,726 | 9,713 | 94,483 | 19,943 | 182,865 |

Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using 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 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

| | Quoted market price (Level 1) \$'000 | Valuation technique – market observable inputs (Level 2) \$'000 | Valuation technique – non market observable inputs (Level 3) \$'000 | Total \$'000 |
|--------------------------------------|--|---|---|-----------------|
| Year ended 30 June 2011 | | | | |
| Financial Assets | | | | |
| Share investments – fair value | – | 35,743 | – | 35,743 |
| Fixed interest deposits – fair value | – | 164,399 | 386 | 164,785 |
| Agricultural investment | – | – | 27 | 27 |
| Finance lease/ hire purchase | – | – | 8,374 | 8,374 |
| Other loans | – | – | 7,175 | 7,175 |
| | – | 200,142 | 15,962 | 216,104 |

| | Quoted market price (Level 1) \$'000 | Valuation technique – market observable inputs (Level 2) \$'000 | Valuation technique – non market observable inputs (Level 3) \$'000 | Total \$'000 |
|--------------------------------------|--|---|---|-----------------|
| Year ended 30 June 2010 | | | | |
| Financial Assets | | | | |
| Share investments – fair value | 44,380 | – | – | 44,380 |
| Fixed interest deposits – fair value | – | 142,891 | 406 | 143,297 |
| Agricultural investment | – | – | 112 | 112 |
| Finance lease/ hire purchase | – | – | 9,952 | 9,952 |
| Other loans | – | – | 7,668 | 7,668 |
| | 44,380 | 142,891 | 18,138 | 205,409 |

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

The fair value of unlisted debt and equity securities, as well as other investments that do not have an active market, are based on valuation techniques using market data that is not observable.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

Reconciliation of Level 3 fair value movements

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Opening Balance | 18,137 | 20,604 |
| Total gains and losses | (105) | (1,224) |
| New business / purchases | 4,444 | 6,075 |
| Exiting business / sales | (6,514) | (7,318) |
| Closing Balance | 15,962 | 18,137 |
| Total gains or losses stated in the table above for assets held at the end of the period | (105) | (1,224) |

Objectives in managing risks arising from insurance contracts and policies for mitigating those risks.

The Group has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards GPS 220 *Risk Management for General Insurers* and GPS 230 *Reinsurance Arrangements for General Insurers* issued by the Australian Prudential Regulation Authority (APRA), the Group and GIL Board and senior management have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The Group RMS and REMS identify the Group and GIL's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group. Annually, the Group and GIL Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group and GIL has systems in place to ensure compliance with legislative and prudential requirements and that the Group and GIL Board has satisfied itself as to the compliance with the RMS and REMS.

The RMS and REMS have been approved by both the Group and GIL Board and APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Natural disasters such as bushfires are more challenging to manage. We monitor exposure to such risks through special modeling techniques involving the collation of data on weather patterns which support decisions on limiting exposure.
- Reinsurance is used to limit GIL's exposure to large single claims and catastrophes. When selecting a reinsurer we only consider those companies that provide high security. In order to assess this we use rating information from the public domain or gathered through internal investigations.
- In order to limit concentrations of credit risk, in purchasing reinsurance the entity has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers.
- The mix of assets in which we invest is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over two classes of insurance, three geographical segments and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

Concentration of insurance risk

GIL's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two classes of business across three territories. Specific processes for monitoring identified key concentrations are set out below.

| Risk | Source of concentration | Risk management measures |
|----------------------|--|--|
| Natural Catastrophes | Properties concentrated in regions that are subject to: <ul style="list-style-type: none">– Earthquakes– Bushfires– Cyclones– Hail storms | <p>GIL's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas.</p> <p>GIL has modeled aggregated risk by postcode using commercially available catastrophe models. The Company's exposure data across the Australian portfolio encompasses all fire risks.</p> <p>Based on the probable maximum loss per the models, the Company purchases catastrophe reinsurance cover to limit exposure to any single event.</p> |

Development of claims

There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The tables in note 22 show our estimates of total claims outstanding for each underwriting year at successive year ends.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management base its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Operating lease commitments

– Group as a lessor

The Group entered into commercial property leases on its investment property portfolio. The Group has determined that it retains substantially all the significant risks and rewards of ownership of these properties primarily as the lease does not transfer ownership of the asset to the lessee at the end of the lease term. Thus the Group has classified the leases as operating leases. The group divested its investment property portfolio during the current year.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technology expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

Management do not consider that the triggers for impairment testing have been significant enough and as such these assets have not been tested for impairment in this financial period.

Capitalised development costs

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use.

Classification of assets and liabilities as held for sale

The Group classifies assets and liabilities as held for sale when the carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and the Group must be committed to selling the asset either through entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised.

In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

Significant accounting estimates and assumptions

Valuation of investments

The Group has decided to classify investments in listed, unlisted securities and unlisted investment unit trusts as 'held for trading' investments and movements in fair value are recognised in profit or loss. The fair value of listed shares has been determined by reference to published price quotations in an active market. The fair values of unlisted securities not traded in an active market are determined by an appropriately qualified independent valuer. The fair value of the unlisted investment trust has been determined by reference to daily unit prices calculated by the Investment Manager.

The ultimate liability arising from claims made under insurance contracts

Provision is made at year end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events, giving rise to the claims has happened.

The liability class of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. For the Fire & Industrial Special Risks (ISR) class, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the

development and/or recording of paid or incurred claims, compared with the statistics from previous periods

- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks
- medical and technological developments.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstance as reported, any information available from loss adjusters, and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 5.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.

Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives, including sensitivity analysis, are discussed in note 17.

An impairment loss of \$1,092,487 (2010: \$2,973,071) was recognised in respect of goodwill.

Long service leave provision

As discussed in note 2(y), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Make good provision

A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling, closure and permanent storage of historical residues.

These future cost estimates are discounted to their present value. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the Statement of Financial Position by adjusting both the expense or the asset (if applicable) and provision. The related carrying amounts are disclosed in note 21.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for some furniture and fittings) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 16.

If the useful lives of assets were shortened by 20% for each asset, the financial effect on consolidated depreciation expense for the current financial year and the next two years would be:

| | \$000 |
|------|-------|
| 2011 | 410 |
| 2012 | 389 |
| 2013 | 370 |

Allowance for impairment loss on trade receivables

Where receivables are outstanding beyond the normal terms, the likelihood of the recovery of these receivables is assessed by management. Due to the large number of debtors, this assessment is based on supportable past collection history and historical write-offs of bad debts. The impairment loss is outlined in note 10.

Inventory valuation

Work in progress on amounts ultimately owed to Guild Group Holdings Limited is carried at cost as fees are not rendered on matters until either the completion of a particular task or time period. Cost includes both variable and fixed costs directly related to projects and those that

can be attributed to project activity and that can be allocated to specific projects on a reasonable basis.

- **Time Recording**

For general and commercial legal, accounting and tax matters, time spent by a professional is recorded against the matter at an agreed hourly rate.

- **Estimated Fees Earned**

Work in progress reflects the time recorded against each matter as at a particular date and is used as a guide in determining the professional and other fees that will ultimately be rendered to the relevant client, which is accrued and held as a provision on the Statement of Financial Position.

5. ACTUARIAL ASSUMPTIONS AND METHODS

The subsidiary, Guild Insurance writes most Australian Prudential Regulatory Authority (APRA) classes of business: professional indemnity (PI), public liability (PL), workers compensation (WC), fire and industrial special risks (ISR), householders/homeowners (HH), motor (MOT), marine (MAR) and other miscellaneous cover (OTHER). ISR, HH, MOT, MAR and OTHER insurance are short tail classes with most claims notified and settled within 12 months of the incident. Analysis of these classes indicates that case estimates are reasonable predictors of the ultimate liability. A small allowance is made for some late reporting of claims.

Claims estimates for the long tail classes are derived from analysis of the results of several different actuarial models. Parameters for each model are based on analysis of Guild Insurance's past experience with adjustments to reflect any systemic changes. In general, equal weighting is given to the methods that reflect the nature of each class of business.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

The following statistics summarise the main assumptions made in determining the outstanding claims liability.

| | 2011 | 2010 |
|---|------------------------------|-----------|
| Average weighted term to settlement (gross discounted) | 2.5 years | 3.0 years |
| Weighted average claim size (settlement values) | 3,506 | 3,273 |
| Expense rate (gross claims cost) | 5.00% | 5.00% |
| Inflation assumption | 3.50% | 3.50% |
| Discount rate | 4.75% | 4.75% |
| Superimposed inflation: | | |
| | 2.0% to | 2.0% to |
| | <i>Long Tailed Business</i> | 4.0% |
| | <i>Short Tailed Business</i> | 0.0% |
| Number of IBNR claims | 1,603 | 1,519 |
| Risk Margin (95% probability of adequacy, net diversified): | | |
| | <i>Long Tailed Business</i> | 21.68% |
| | <i>Short Tailed Business</i> | 27.23% |

Process used to determine assumptions

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

Average weighted term to settlement

The average weighted term to settlement is calculated as the time weighted average of projected aggregate cash flows for all classes of business (gross of reinsurance and other recoveries and discounted to the balance date).

Weighted average claim size

The claim size is calculated as the total gross incurred cost of claims averaged over the projected ultimate number of claims for all classes of business and all years.

Expense rate

A rate for claims handling expenses was calculated by reference to past experience of estimated claims handling costs as a percentage of past payments.

Inflation assumption

Economic inflation assumptions are set by reference to current economic indicators.

Discount rate

An average discount rate derived from market yields on Commonwealth Government securities as at the balance date has been adopted.

Superimposed inflation

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. An allowance for superimposed inflation was made for each underlying model, where appropriate, based on expected cost pressures to re-emerge.

IBNR claims

The projected ultimate number of claims is derived from a standard actuarial projection technique with parameters based on recent experience on the occurrence, reporting and raising of claim files.

Risk Margin

Net of reinsurance and other recoveries provisions for the discounted outstanding claims liability are assessed at the 95% level of sufficiency. The percentage loadings for each class are based on statistical modelling of Guild Insurance's claim's data.

Sensitivity analysis

Guild Insurance conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. A movement in most variables will impact performance and equity. The tables below describe how a change in each key assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions both gross and net of reinsurance and other recoveries.

Impact of changes in key variables

| Variable | Movement | Gross of Recoveries \$'000 | Net of Recoveries \$'000 | Equity \$'000 |
|--|------------------|-------------------------------|-----------------------------|------------------|
| Recognised amounts per the financial statements | | | | |
| Wage Inflation | +50 basis points | 1,973 | 1,687 | (1,181) |
| Discount Rate | +50 basis points | (2,174) | (1,876) | 1,313 |
| Claims Handling Expense | +50 basis points | 834 | 831 | (582) |
| Risk Margin | +50 basis points | 709 | 565 | (395) |

6. REVENUE AND EXPENSES

| | 2011 | 2010 |
|---|----------------|---------|
| | \$'000 | \$'000 |
| REVENUE | | |
| (a) Premium revenue | 151,042 | 146,993 |
| (b) Reinsurance and other recoveries revenue | | |
| Reinsurance recoveries | 33,515 | 7,958 |
| Other recoveries | 4,709 | 3,750 |
| | 38,224 | 11,708 |
| (c) Other insurance income | | |
| Instalment billing | 2,806 | 3,924 |
| (d) Investment revenue on assets backing insurance liabilities | | |
| Interest | 8,137 | 9,250 |
| (e) Investment revenue on equity holder's funds | | |
| Interest | 1,524 | 1,602 |
| Rental | 2,141 | 3,405 |
| Realised gains on financial assets | 5,098 | 3,846 |
| Fair value revaluation of investment properties | – | 9 |
| Net (losses)/gains on financial assets at fair value | (405) | 1,349 |
| Dividends | 1,425 | 2,205 |
| | 9,783 | 12,416 |
| (f) Fee and other income | | |
| Management fees | – | 164 |
| Commission, fees and brokerage | 14,864 | 14,378 |
| Reinsurance commission | 1,330 | 1,341 |
| Professional services revenue | 6,876 | 6,098 |
| Other revenue | 4,287 | 3,632 |
| | 27,357 | 25,613 |
| Total revenue | 237,348 | 209,904 |
| EXPENSES | | |
| (g) Claims Expense | 122,235 | 69,430 |
| (h) Acquisition costs | | |
| Referral fees | 11,368 | 10,694 |
| Other acquisition costs | 15,206 | 15,621 |
| | 26,574 | 26,315 |
| (i) Underwriting expenses | | |
| Other underwriting expenses | 21,615 | 24,631 |
| Fire service levy expense | 8,361 | 7,989 |
| | 29,976 | 32,620 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| (j) Finance costs | | |
| – interest expenses – parent entity | 1,480 | 1,236 |
| – interest expenses – other corporations | 1,799 | 2,159 |
| | 3,279 | 3,395 |
| (k) Other expenses | | |
| Loss on sale of property, plant and equipment | 67 | 125 |
| Depreciation – property, plant and equipment | 1,868 | 1,698 |
| Depreciation – investment properties | 48 | 68 |
| Amortisation of intangible assets | 1,244 | 973 |
| Impairment of intangible assets | 1,092 | 2,973 |
| | 4,319 | 5,837 |
| (l) Provisions: | | |
| Doubtful debts – trade debtors and other receivables | 104 | 22 |
| Doubtful debts – loans and receivables | – | (15) |
| Make good provisions | 289 | 175 |
| Employee entitlements | 2,351 | 917 |
| Total provisions | 2,744 | 1,099 |
| 7. INCOME TAX | | |
| The major components of income tax (credit)/expense are: | | |
| Income statement | | |
| Current income tax | | |
| Current income tax charge | (986) | 3,059 |
| Adjustments in respect of current income tax of previous years | (79) | 303 |
| Tax credits and adjustments | – | – |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | (434) | 2,396 |
| Movement in booked losses | (91) | – |
| Adjustments in respect of current income tax of previous years | (144) | (342) |
| Income tax (credit)/expense reported in the statement of comprehensive income | (1,734) | 5,416 |
| A reconciliation between tax (credit) / expense and the product of accounting (loss) / profit before income tax multiplied by the company's applicable income tax rate is as follows: | | |
| Accounting (loss)/profit before tax from continuing operations | (4,819) | 15,069 |
| At the company's statutory income tax rate @ 30% (2010:30%) | (1,446) | 4,521 |
| Adjustments in respect of current income tax of previous year | (223) | 32 |
| Rebateable dividends | (1,102) | (607) |
| Movement in booked losses | (91) | – |
| Expenditure not allowable for income tax purposes | 419 | 839 |
| Other | 709 | 631 |
| Income tax (credit) expense reported in the statement of comprehensive income | (1,734) | 5,416 |

7. INCOME TAX cont.

| | Balance Sheet | | Income Statement | |
|--|----------------|----------------|------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Deferred income tax | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| Deferred tax liabilities | | | | |
| Revaluations of investment properties to fair value | (631) | (631) | – | 37 |
| Revaluations of land and buildings to fair value | – | (1,260) | (1,260) | 1,159 |
| Revaluations of available-for-sale investments to fair value | (281) | (596) | (315) | 105 |
| Receivables | (575) | (542) | 33 | 12 |
| Prepayments | (99) | (97) | 2 | 3 |
| Other | (393) | (275) | 118 | (11) |
| | (1,979) | (3,401) | | |
| Deferred tax assets | | | | |
| Provisions | 3,009 | 3,834 | 825 | (48) |
| Revaluations of land and buildings to fair value | – | 212 | 212 | 209 |
| Revaluations of available-for-sale investments to fair value | 855 | 887 | 32 | 767 |
| Claims handling costs | 1,989 | 1,545 | (444) | 17 |
| Other | 884 | 1,012 | 128 | (196) |
| | 6,737 | 7,490 | | |
| Deferred income tax (credit)/expense | | | (669) | 2,054 |

The deferred tax asset is \$87,436 (2010 – 185,645) for the consolidated entity relating to tax losses brought to account. This benefit for tax losses will only be obtained if:

- the subsidiary entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- the subsidiary entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- no changes in tax legislation adversely affect the subsidiary entity in realising the benefit from the deductions for the losses.

Unrecognised temporary differences

At 30 June 2011, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries, as the Group has no liability for additional taxation should unremitted earnings be remitted (2010 – \$nil).

Tax consolidation

Members of the tax consolidated group and the tax sharing arrangement: Guild Group Holdings Limited and its 100% owned Australian subsidiaries formed a tax consolidated group with effect from 1 July 2003. Guild Group Holdings Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for all 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 defaults is remote at reporting date. Guild Group Holdings Limited formally notified the Australian Taxation Office of its adoption of the tax consolidation regime when lodging its 30 June 2004 consolidated return.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

Tax effect accounting by members of a tax consolidated group

Measurement method adopted under AASB Interpretation 1052 *Tax Consolidation Accounting*: The head entity and the controlled entities in the tax consolidation Group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises 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.

Nature of the tax funding agreement: Members of the tax consolidation group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the Group is based on accounting profit, which is not an acceptable method of allocation under AASB Interpretation 1052. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable/(payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments.

8. DIVIDENDS PAID AND PROPOSED

The Board declared a fully paid Interim Dividend on its Ordinary Shares out of its 2009/10 profits in the sum of \$5 million, payable to PGA, with payment made on 4th October 2010.

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Declared and paid during the year | | |
| Dividends on ordinary shares: | 5,000 | 1,150 |
| Franking credit balance | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| – franking account balance as at the end of the financial year at 30% (2010: 30%) | 44,071 | 44,019 |
| – franking credits that will arise from the payment of income tax payable as at the end of the financial year | – | – |
| – franking debits that will arise from the receipt of income tax receivable as at the end of the financial year | (4,312) | (2,276) |
| | 39,759 | 41,743 |

The tax rate at which paid dividends have been franked is 30% (2010: 30%)

9. CASH AND CASH EQUIVALENTS

| | 2011 | 2010 |
|--|----------|---------|
| | \$'000 | \$'000 |
| (a) Reconciliation of the net (loss) / profit after tax to the net cash flows from operations | | |
| Net (loss)/profit | (3,085) | 9,653 |
| Adjustments for: | | |
| Depreciation and amortisation | 3,160 | 2,739 |
| Provisions for doubtful debts & impairment losses | 1,197 | 2,980 |
| Changes in fair value of financial assets | (3,657) | (7,192) |
| Movement in interest/interest receivable | (10,260) | (8,771) |
| Movement in dividend/dividends receivable | (1,831) | (2,105) |
| Loss on sale of property, plant and equipment | 67 | 125 |
| Movement in intangible assets | 16 | 873 |
| Changes in assets and liabilities | | |
| (Increase)/Decrease in inventories | (329) | 45 |
| (Increase) in premiums receivable | (8,053) | (2,301) |
| (Increase)/Decrease in reinsurance and other recoveries receivable | (16,872) | 829 |
| (Increase)/Decrease in deferred acquisition costs | (1,438) | 1,343 |
| Increase in outstanding claims | 42,561 | 11,117 |
| Increase in unearned premiums | 5,632 | 3,140 |
| Increase in amounts payable to reinsurers | 328 | 1,415 |
| (Decrease)/Increase in trade and other payables | (882) | 11 |
| (Decrease)/Increase in provisions | (2,917) | 1,091 |
| (Decrease)/Increase in current tax liabilities | (2,135) | 597 |
| (Decrease)/Increase in deferred tax liabilities | (1,422) | 1,304 |
| Decrease in deferred tax assets | 753 | 749 |
| (Decrease)/Increase in amount payable to ultimate parent entity | (37) | 75 |
| (Increase) in trade and other receivables | (1,649) | (205) |
| (Increase)/Decrease in prepayments | 392 | (836) |
| (Increase) in investment receivables | (45) | (183) |
| Net cash (outflow)/inflow from operating activities | (506) | 16,493 |
| (b) Reconciliation of cash | | |
| Cash balance comprises: | | |
| Cash at bank and on hand | 6,719 | 9,771 |
| (c) Financing facilities available | | |
| At reporting date, the following financing facilities had been negotiated and were available: | | |
| Total facilities | | |
| – Bank loans | 5,500 | 45,000 |
| – Leasing/hire purchase/credit cards | 3,200 | 3,200 |
| – Bank guarantees | 3,500 | 3,500 |
| | 12,200 | 51,700 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Facilities used at reporting date | | |
| – Bank loans | 5,500 | 37,000 |
| – Leasing/hire purchase/credit cards | 8 | 8 |
| – Bank guarantees | 2,522 | 3,040 |
| | 8,030 | 40,048 |
| Facilities unused at reporting date | | |
| – Bank loans | – | 8,000 |
| – Leasing/hire purchase/credit cards | 3,192 | 3,192 |
| – Bank guarantees | 978 | 460 |
| | 4,170 | 11,652 |
| 10. TRADE AND OTHER RECEIVABLES | | |
| (a) Trade debtors | | |
| Trade receivables | 54,619 | 45,115 |
| Allowance for impairment loss | (244) | (140) |
| | 54,375 | 44,975 |
| (b) Other debtors | | |
| Other amounts receivable | 2,246 | 2,003 |
| | 56,621 | 46,978 |

(c) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$244,000 (2010: \$140,000) has been recognised by the Group. No individual amount within the impairment allowance is material.

(d) Maturity

| | Total \$'000 | 0-30 \$'000 | 30-60 \$'000 | 60-90 \$'000 | 91+ PDNI* \$'000 | 91 CI* \$'000 |
|------|-----------------|----------------|-----------------|-----------------|---------------------|------------------|
| 2011 | 54,619 | 48,891 | 3,205 | 643 | 1,636 | 244 |
| 2010 | 45,115 | 42,410 | 1,584 | 457 | 524 | 140 |

*Past due not impaired ('PDNI'). *Considered impaired ('CI')

Other debtor balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(e) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the entity's policy to transfer (on-sell) receivables to special purpose entities.

11. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

| | Notes | 2011 \$'000 | 2010 \$'000 |
|--|-------|----------------|----------------|
| (a) On outstanding claims | | | |
| Expected future recoveries (undiscounted) | | 40,624 | 23,273 |
| Discount to present value | | (3,835) | (3,356) |
| Reinsurance and other recoveries receivable | | 36,789 | 19,917 |
| (b) Maturity | | | |
| Expected to be realised within 12 months | | 24,702 | 9,827 |
| Expected to be realised after 12 months | | 12,087 | 10,090 |
| | | 36,789 | 19,917 |
| (c) The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of recoveries | | | |
| For the succeeding and subsequent years | | | |
| Inflation rate | | 3.50% | 3.50% |
| Superimposed inflation rate – liability | | 2.00% | 2.00% |
| Superimposed inflation rate – workers compensation | | 3.10% | 3.10% |
| Discount rate | | 4.75% | 4.75% |
| (d) The weighted average expected term to settlement of the recoveries from the balance date is estimated to be 2.5 years (2010 – 3.0 years). | | | |

12. FINANCIAL ASSETS

| | | | |
|--|----|---------|---------|
| (a) Fixed interest deposits – fair value | | | |
| | | 164,785 | 143,297 |
| (b) Investments listed on prescribed stock exchanges | | | |
| Share investments – fair value | | – | 44,380 |
| (c) Investments in unlisted unit trust | | | |
| Investments – fair value | | 35,743 | – |
| (d) Agricultural investments | | | |
| | | 27 | 112 |
| (e) Amounts receivable (at amortised cost) in respect of: | | | |
| Finance lease and hire purchase arrangements | 25 | 8,374 | 9,952 |
| Investment loans | 25 | 7,175 | 7,668 |
| | | 15,549 | 17,620 |
| | | 216,104 | 205,409 |

(f) Listed shares

The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

(g) Unlisted Unit trust

The fair value of the investment in the unlisted unit trust has been determined by reference to the unit price quoted by the Investment Manager.

(h) Agricultural Managed Investment

A Directors valuation has been used to value the agricultural managed investment held in South Australia at 30 June 2011. An impairment loss of \$84,248 for the agricultural managed investment held in South Australia was taken up.

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| (i) Maturity | | |
| Expected to be realised within 12 months | 42,813 | 35,484 |
| Expected to be realised after 12 months | 173,291 | 169,925 |
| | 216,104 | 205,409 |
| 13. PREPAYMENTS AND INVENTORIES | | |
| Inventories – work in progress | 671 | 340 |
| Allowance for impairment loss | (27) | (26) |
| Prepayments | 6,196 | 6,588 |
| | 6,840 | 6,902 |
| 14. DEFERRED ACQUISITION COSTS | | |
| Carrying amount at the beginning of the period | 12,685 | 14,027 |
| Deferral of expenses in the period | 14,123 | 12,685 |
| Expensed in the period | (12,685) | (14,027) |
| Carrying amount at the end of the period | 14,123 | 12,685 |
| 15. INVESTMENT PROPERTIES | | |
| (a) Land and Buildings – Revalued | | |
| | – | 31,436 |
| (b) Reconciliation | | |
| Carrying amount at the beginning of the period | 31,436 | 31,160 |
| Additions | – | 31 |
| Disposals | (30,881) | (728) |
| Net (loss) from sale/gain from fair value adjustment | (484) | 1,237 |
| Less costs to sell | (71) | (264) |
| Carrying amount at the end of the period | – | 31,436 |
| Maturity: | | |
| Expected to be realised within 12 months | – | 31,436 |
| Expected to be realised after 12 months | – | – |

The National Pharmacy Building was made available for sale on 25 May 2010, with Colliers International. A contract of sale for this property was signed on 7 February 2011, and was settled on 31 March 2011 in the settlement amount of \$25,060,000.

The investment property at 1721 Malvern Road, Glen Iris was made available for sale on 19 January 2010, with Colliers International. A contract of sale for this property was signed on 30 July 2010, and was settled on 1 September 2010 in the settlement amount of \$6,450,000.

(c) Fair value

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation. In determining fair value, the expected net cash flows applicable to each property have been discounted to their present value using a market determined, risk-adjusted, discount rate applicable to the respective asset.

(d) Valuation – National Pharmacy Building, Canberra

Investment properties were carried at fair value, which had been determined based on valuations performed by Phillip Harding – Knight Frank as at 30 June, 2010.

(e) Valuation – 1721 Malvern Road, Glen Iris

Investment properties were carried at fair value, which has been determined based on valuations performed by Leigh Morris – Knight Frank as at 30 June, 2010.

(f) Leasing arrangements

Refer to note 25 for disclosure of leasing arrangements on investment properties.

(g) Charges over investment properties

Guild Group Holdings Limited had given a first registered mortgage on the National Pharmacy Building in Canberra and 1721 Malvern Road, Glen Iris to secure financing arrangements prior to their sale. Refer to note 20.

16. PROPERTY, PLANT AND EQUIPMENT

| | \$'000 | \$'000 | \$'000 |
|--|---------------------------|------------------------|---------|
| | Leasehold Improvements | Fixtures & Fittings | Total |
| Reconciliation 2011 | | | |
| Carrying amount at the beginning of the period | 573 | 8,668 | 9,241 |
| Additions | 354 | 937 | 1,291 |
| Inter-Group Transfers | 20 | – | 20 |
| Disposals | – | (70) | (70) |
| Depreciation charge for the year | (332) | (1,536) | (1,868) |
| Carrying amount at the end of the period | 615 | 7,999 | 8,614 |

| | Leasehold Improvements | Fixtures & Fittings | Total |
|--|---------------------------|------------------------|---------|
| Reconciliation 2010 | | | |
| Carrying amount at the beginning of the period | 568 | 9,597 | 10,165 |
| Additions | 177 | 727 | 904 |
| Inter-Group Transfers | – | – | – |
| Disposals | (3) | (127) | (130) |
| Depreciation charge for the year | (169) | (1,529) | (1,698) |
| Carrying amount at the end of the period | 573 | 8,668 | 9,241 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

17. INTANGIBLE ASSETS AND GOODWILL

| | 2011 \$'000 | 2010 \$'000 |
|---------------------------------------|----------------|----------------|
| a) Goodwill | | |
| Goodwill at the beginning of the year | 10,590 | 13,655 |
| Business combinations | – | (92) |
| Impairment | (1,092) | (2,973) |
| Balance at end of year | 9,497 | 10,590 |

The goodwill is attributable to the Financial Services Products and Superannuation cash generating units within the subsidiary entities and also the business combination of Guild Accountants Pty Limited (30 June 2011 at 90% ownership) and Guild Commercial Finance Pty Limited.

Key assumptions used in the fair value less costs to sell and value in use calculations

The calculations of fair value less costs to sell and value in use, respectively, are most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period

Gross margins – gross margins are based on the assumed margins in the strategic plan, which were determined using an industry standard gross margin.

Discount rates – discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Growth rate estimates – growth rate estimates are based on previous trends, conservative market forecasts within the industry and the business plan focus on increasing market share.

aa) Financial Services Products

The goodwill is attributable to the Financial Services Products cash generating units within the Group. It relates to the acquisition of future revenue streams held by financial planning practices.

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Sensitivity to changes in assumptions

Growth rate assumptions – management recognises that variation in growth rates may have a significant impact on growth rate assumptions. Variation may occur in the market investment returns on funds and in the entity's market share within each unit.

A reduction of 15.2% in investment returns or an increase in client exits of 15.4% may give a value in use equal to the carrying amount of the Financial Services Product unit.

Discount rate assumptions – management recognises that actual time value of money may vary to what they have estimated. Management notes that the discount rate would have to:

- increase 5.1% for the recoverable amount of the Financial Services product unit to fall below its carrying amount.

ab) Superannuation

The goodwill is attributable to the Superannuation cash generating units within the entity. It relates to the acquisition of a superannuation fund.

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Sensitivity to changes in assumptions

Growth rate assumptions – management recognises that variation in growth rates may have a significant impact on growth rate assumptions. Variation may occur in the market investment returns on funds and in the entity's market share within each unit.

A reduction of 84% in investment returns or an increase in client exits of 76% may give a value in use equal to the carrying amount of the Superannuation unit.

Discount rate assumptions – management recognises that actual time value of money may vary:

- increase 46% for the recoverable amount of the Superannuation unit to fall below its carrying amount.

ac) Guild Commercial Finance Pty Limited

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

The goodwill relating to the business combination of Guild Commercial Finance Pty Limited was impaired at 30 June 2010. An impairment charge of \$646,862 was recognised through the profit and loss. The impairment had arisen due to reduced revenues in the entity occurring as a result of the current economic environment. There has been no subsequent impairment in the year to 30 June 2011.

Sensitivity to changes in assumptions

Discount rate assumptions – discount rates reflect management's estimate of the time value of money and the risks specific to the cash generating unit that are not already reflected in the cash flows. This is the benchmark used by management to assess operational performance and to evaluate future investment proposals. An increase of 5% in discount rates will generate a negative impact on the carrying amount.

Growth rate assumptions – management recognises that the ability to gain new clients and competition in pricing can have a significant impact on the growth rate assumptions. A reduction of 10% in annual fee growth rates will generate a negative impact on the carrying amount.

ad) Guild Accountants Pty Limited (30 June 2011 at 90% ownership)

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

The goodwill relating to the business combination of Guild Accountants Pty Limited has been impaired at 30 June 2011. An impairment charge of \$1,092,487 (2010: \$2,326,209) was recognised through the profit and loss. The impairment had arisen due to the market value of the business declining in 2011.

Sensitivity to changes in assumptions

Gross margin assumptions – gross margins are based on the expected achievement over the forward planning period which were based on past performance, allowing for increase anticipated efficiency improvements. The margin assumption is between 47% and 48% over the next five years.

Discount rate assumptions – discount rates reflect management's estimate of the time value of money and the risks specific to the cash generating unit that are not already reflected in the cash flows. This is the benchmark used by management to assess operational performance and to evaluate future investment proposals. An increase of 10% in discount rates still maintains a positive carrying value, however the carrying value will be reduced by 6%.

Growth rate assumptions – management recognises that the ability to gain new clients and competition in pricing can have a significant impact on the growth rate assumptions. A reduction of 10% in annual fee growth rates still maintains a positive carrying value, however the carrying value will be reduced by 13%.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| b) Capitalised Development & Computer software – at cost | | |
| Capitalised Development | 3,665 | 3,113 |
| Computer software – at cost | 1,588 | 1,173 |
| Less: Accumulated amortisation | (2,913) | (1,669) |
| | 2,340 | 2,617 |
| Reconciliation | | |
| Carrying amount at the beginning of the period | 2,617 | 3,068 |
| Additions | 415 | 259 |
| Capitalised development additions | 552 | 972 |
| Impairment of product development | – | (709) |
| Amortisation charge for the year | (1,244) | (973) |
| Carrying amount at the end of the period | 2,340 | 2,617 |
| <p>The amortisation charge of \$1,244,000 in 2011 (\$973,000 – 2010), represents the amortisation of intangibles assets, relating to computer software and has been recognised in the statement of comprehensive income.</p> <p>Development costs are carried at cost less accumulated amortisation and any applicable accumulated impairment losses. The intangible assets have been assessed as having a finite life and will be amortised on a straight line basis over a 2.5 to 4 year period. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.</p> | | |
| Total net intangible assets | 11,837 | 13,207 |
| 18. TRADE AND OTHER PAYABLES | | |
| (a) Trade and other payables | | |
| Amounts payable to reinsurers | 12,041 | 11,513 |
| Amounts payable to ultimate parent entity | 3,115 | 2,787 |
| Employee entitlements | 1,137 | 1,174 |
| | 7,578 | 9,979 |
| | 23,871 | 25,453 |
| (b) Maturity | | |
| Expected to be realised within 12 months | 18,721 | 23,999 |
| Expected to be realised after 12 months | 5,150 | 1,454 |
| | 23,871 | 25,453 |

(c) Fair Value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

19. PREMIUM LIABILITIES

| | 2011 | 2010 |
|---|---------------|----------|
| | \$'000 | \$'000 |
| (a) Unearned premium | 66,155 | 60,523 |
| Unearned commission | 996 | 684 |
| | 67,151 | 61,207 |
| (b) Carrying amount at the beginning of the period | 61,207 | 58,141 |
| Deferral of premiums on contracts written in the period | 67,151 | 61,207 |
| Earning of premiums written in previous periods | (61,207) | (58,141) |
| Carrying amount at the end of the period | 67,151 | 61,207 |

(c) Maturity

Premium liabilities are expected to be received within 12 months of the financial year end.

(d) Liability adequacy test

The probability of adequacy applied in the liability adequacy test differs from the probability of adequacy adopted in determining the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of net premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the Group.

AASB 1023 requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the claims provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of premium liabilities. The Group has adopted a risk margin for the purposes of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2011 and 2010.

20. INTEREST BEARING LOANS AND BORROWINGS

Guild Group Holdings Limited, as the consolidated and parent entity, has a two year banking facility agreement with Commonwealth Bank Australia (CBA), which was signed on 24 June 2009. The Group loan facility was transferred from ANZ to CBA on 30 September 2009. On 8 April 2011 the facility was reduced to \$5.5m. The facility renewal date is on 24 September 2011. It is managements intent to renew the facility for a further two years.

| | 2011 | 2010 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| (a) Bank Loan | 5,500 | 37,000 |
| Loan payable to ultimate parent entity | 16,840 | 16,840 |
| | 22,340 | 53,840 |

(b) Unused facility

At the balance date the Guild Group used 100% of the loan facility, with the Commonwealth Bank of Australia.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| (c) Assets pledged as security | | |
| The carrying amount of assets pledged as security for non-current interest bearing liabilities; | | |
| Fixed and floating company charge on assets | | |
| Guild Group Holdings Limited | 53,005 | 80,847 |
| Guild Financial Services Limited | 11,548 | 11,723 |
| Guild Group Investments Limited | 1,200 | 2,832 |
| National Pharmacy Building Pty Limited | 91 | 264 |
| Meridian Lawyers Limited | 4,569 | 3,589 |
| Guild Capital Asset Management Limited | 933 | 783 |
| Guild Accountants Pty Limited (at 90%) | 2,663 | 3,394 |
| Saccasan Bailey Financial Services Pty Limited | 1 | 1 |
| Guild Commercial Finance Pty Limited | 179 | 212 |
| | 74,189 | 103,645 |
| Fixed Charge | | |
| Shares in Guild Insurance Limited | 16,415 | 16,415 |
| Shares in Guild Trustee Services Pty Limited | 50 | 50 |
| | 16,465 | 16,465 |
| First Registered Mortgage | | |
| Investment Property in Guild Group Investments Limited | - | 6,102 |
| Investment Property in National Pharmacy Building Pty Limited | - | 25,334 |
| | - | 31,436 |
| Total Gross Assets pledged as security | 90,654 | 151,546 |

A fixed and floating charge, in favour of the bank, applies against all the guarantees supported by a Registered Equitable Mortgage.

Fair values

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

21. PROVISIONS

| | Long Term Incentive | Make Good Provisions | Restructuring | Total |
|--------------------------|---------------------|----------------------|---------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2010 | 4,273 | 1,074 | 484 | 5,831 |
| Arising during the year | 660 | 289 | 55 | 1,004 |
| Utilised | (2,123) | – | (483) | (2,606) |
| Unused amounts Reversed | (220) | – | – | (220) |
| Discount rate adjustment | (283) | – | – | (283) |
| As at 30 June 2011 | 2,307 | 1,363 | 56 | 3,726 |
| Current 2011 | 701 | 208 | 56 | 965 |
| Non-current 2011 | 1,606 | 1,155 | – | 2,761 |
| | 2,307 | 1,363 | 56 | 3,726 |
| Current 2010 | 2,275 | 140 | 484 | 2,899 |
| Non-current 2010 | 1,998 | 934 | – | 2,932 |
| | 4,273 | 1,074 | 484 | 5,831 |

Long Term Incentive (LTI)

Current LTI (1 July 2010 onwards)

LTI rewards behaviour and results that add value to the Group's business. The LTI is based on the success of each individual's short term incentive. The rules for the payment of the incentive schemes must, and have been developed to meet the APRA prudential requirements in respect to remuneration arrangements. Participation in the Group LTI scheme commencing 1 July 2010 is only available to the following eligible employees: Executive Team, Extended Leadership Team (ELT)/Technical Talent and Investment Fixed Income Team. Incentive achievement targets for the Group or business units will be set annually by the Chief Executive Officer and the Board. The LTI bonus earned (if any) will be paid at the end of year 3 on a rolling year (1 July – 30 June) basis at 100%.

Previous LTI (up to 30 June 2010)

The LTI is based on the success of each individual's short term incentive, built on an average over three years. The LTI is calculated as a percentage of the current Total Employment Cost (TEC) using an excess percentage variable against an entitlement table used for the TEC percentage calculation. Only one third of the LTI entitlement can be taken each year, the balance is deferred to a bonus bank. The calculation of the provision is based on an assumption of the achievement of the average group targets over the three years, average personal targets over the three years, an assumption for leavers prior to the qualifying period and also discounting on future cashflows, based on actuarial assumptions. LTI rewards behaviour and results that add value to the Group's business. The previous long term incentive scheme ceased at 30 June 2010, with all remaining balances expected to be paid by the end of 2014.

Make Good Provisions

Under AASB 116: *Property, plant and equipment* the entity is required to include as part of the cost of its leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease term where such an obligation exists to the lessor. The corresponding liability is recognised above as a make good provision.

Restructuring

The restructuring provision represents costs associated with significant changes to the Group's structure. The estimated costs are based on a restructuring plan, which was drawn up by management, and communicated to all those individuals and teams affected prior to 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

22. CLAIM LIABILITIES

| | 2011 | 2010 |
|---|----------------|----------|
| | \$'000 | \$'000 |
| (a) Expected future claims payments (undiscounted) | 156,917 | 121,924 |
| Discount to present value | (21,960) | (18,926) |
| | 134,957 | 102,998 |
| Claims handling costs | 6,748 | 5,150 |
| | 141,705 | 108,148 |
| Risk Margin | 33,579 | 24,575 |
| Liability for outstanding claims | 175,284 | 132,723 |
| Expected to be realised within 12 months | 79,540 | 50,879 |
| Expected to be realised after 12 months | 95,744 | 81,844 |
| | 175,284 | 132,723 |

(b) Process for determining risk margin

The overall risk margin was determined allowing for diversification between different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims. For the products liability class, recent tort law reform has improved the stability of the class of insurance across the industry, and has resulted in a reduction to the estimate of uncertainty.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision which is intended to have a 95% probability of adequacy.

| | 2011 | 2010 |
|------------------------------|---------------|--------|
| Risk margins applied: | | |
| Long Tailed Business | 21.76% | 21.68% |
| Short Tailed Business | 27.02% | 27.23% |

(c) The following average normal inflation rates and discount rates were used in the measurement of outstanding claims.

For the succeeding and subsequent years

| | 2011 | 2010 |
|---|--------------|-------|
| Inflation rate | 3.50% | 3.50% |
| Superimposed inflation rate – liability | 2.00% | 2.00% |
| Superimposed inflation rate – workers' compensation | 3.10% | 3.10% |
| Discount rate | 4.75% | 4.75% |

(d) The weighted average expected term to settlement of the claims liabilities from the balance date is estimated to be 2.5 years (2010 – 3.0 years).

22. CLAIM LIABILITIES cont.

| | 2011 | 2010 |
|---|---------|---------|
| | \$'000 | \$'000 |
| (e) NSW workers compensation claims outstanding | | |
| The provision for outstanding claims includes the actuarial valuation of the New South Wales workers compensation liability as at 30 June 2011. | | |
| Gross outstanding | 26,011 | 24,531 |
| Reinsurance and other recoveries receivable | (7,035) | (7,029) |
| Net outstanding liability | 18,976 | 17,502 |

(f) Reconciliation of movement in discounted outstanding claims liability

| | 2011 | | | 2010 | | |
|---|----------------|---------------|----------------|----------------|---------------|----------------|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Brought forward | 132,723 | 19,917 | 112,806 | 121,606 | 20,746 | 100,860 |
| Effect of prior year claims being one year closer to settlement | 6,160 | 801 | 5,358 | 5,472 | 934 | 4,539 |
| Actual claims paid/recovered during the year (run-off) | (32,929) | (3,279) | (29,650) | (28,980) | (5,359) | (23,621) |
| Difference between actual and expected run-off payments | (5,410) | (1,303) | (4,107) | (10,535) | (2,433) | (8,102) |
| Release of margins/claims handling expense/interest | (13,284) | (1,444) | (11,840) | (8,145) | (1,261) | (6,885) |
| Impact of changes to actuarial modelling assumptions | - | - | - | (110) | (7) | (103) |
| Impact of changes to minimum loss ratios | - | - | - | 616 | 206 | 410 |
| Effect of change in superimposed inflation assumption | - | - | - | (595) | (106) | (489) |
| Effect of change in inflation assumption | - | - | - | 7,224 | 932 | 6,292 |
| Effect of change in discount rate | (6,930) | (500) | (6,430) | (5,881) | (2,256) | (3,626) |
| Effect of change in risk margins | 4,529 | 872 | 3,657 | 367 | 275 | 91 |
| Effect of changes in other assumptions | 6,719 | 1,018 | 5,700 | 85 | - | 85 |
| Outstanding claims for current year | 82,934 | 10,740 | 72,195 | 48,556 | 4,088 | 44,468 |
| Impact of reinsurance assumptions | - | 1,028 | (1,028) | - | (209) | 209 |
| Third party recoveries | 771 | 771 | - | 3,044 | 3,044 | - |
| Cat recovery | - | 8,167 | (8,167) | - | 1,323 | (1,323) |
| Movement in discounted outstanding claims provision | 42,561 | 16,872 | 25,689 | 11,117 | (829) | 11,946 |
| Carried forward | 175,284 | 36,789 | 138,495 | 132,723 | 19,917 | 112,806 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

(g) Claims development tables – Product liability business

The following tables show the development of gross and net undiscounted central estimates (excluding claims handling expenses) of the outstanding claims liability relative to the ultimate expected claims for the expected claims for the ten most recent accident years.

| Gross | 2002 (and prior) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---------------------|--------|--------|---------|--------|---------|---------|---------|---------|----------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Estimate of Ultimate claims cost | | | | | | | | | | | |
| At end of accident year | na | na | 54,114 | 59,477 | 67,305 | 68,918 | 73,106 | 72,195 | 74,698 | 120,694 | 0 |
| One year later | na | 43,300 | 48,148 | 54,814 | 59,305 | 61,576 | 67,722 | 72,822 | 78,485 | | 0 |
| Two years later | 91,139 | 41,246 | 44,049 | 50,279 | 52,757 | 60,390 | 65,889 | 70,464 | | | 188,553 |
| Three years later | 129,320 | 39,086 | 43,162 | 49,216 | 49,043 | 61,571 | 66,916 | | | | 278,190 |
| Four years later | 169,125 | 38,741 | 42,189 | 47,797 | 49,843 | 58,109 | | | | | 374,379 |
| Five years later | 234,661 | 38,064 | 41,240 | 46,738 | 49,043 | | | | | | 495,067 |
| Six years later | 240,644 | 38,502 | 42,751 | 48,204 | | | | | | | 557,551 |
| Seven years later | 242,421 | 40,202 | 42,593 | | | | | | | | 619,310 |
| Eight years later | 265,861 | 40,778 | | | | | | | | | 720,375 |
| Nine years later | 264,804 | | | | | | | | | | 840,090 |
| Current estimate of cumulative claims cost | 264,804 | 40,778 | 42,593 | 48,204 | 49,043 | 58,109 | 66,916 | 70,464 | 78,485 | 120,694 | 840,090 |
| Cumulative payments | 255,776 | 38,497 | 40,131 | 42,420 | 44,722 | 52,608 | 54,383 | 53,150 | 52,375 | 49,111 | 683,172 |
| Outstanding claims – undiscounted | 9,028 | 2,281 | 2,461 | 5,784 | 4,321 | 5,501 | 12,533 | 17,314 | 26,110 | 71,583 | 156,917 |
| Discount | (1,951) | (529) | (682) | (1,061) | (873) | (1,066) | (2,094) | (2,610) | (4,068) | (7,025) | (21,960) |
| Outstanding claims | 7,077 | 1,752 | 1,779 | 4,723 | 3,448 | 4,435 | 10,439 | 14,704 | 22,042 | 64,558 | 134,957 |
| Claims handling expenses | | | | | | | | | | | 6,748 |
| Risk margin | | | | | | | | | | | 33,579 |
| ITC's on Claims | | | | | | | | | | | – |
| Total gross outstanding claims per the balance sheet | | | | | | | | | | | 175,284 |

22. CLAIM LIABILITIES cont.

(h) Claims development tables – Product liability business cont.

| Net | 2002 (and prior) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---------------------|------------|------------|--------------|--------------|--------------|--------------|---------------|---------------|----------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Estimate of Ultimate claims cost | | | | | | | | | | | |
| At end of accident year | na | na | 34,193 | 44,167 | 51,724 | 57,883 | 67,916 | 65,968 | 65,089 | 96,520 | 0 |
| One year later | na | 23,807 | 30,664 | 38,259 | 46,123 | 53,836 | 62,826 | 63,975 | 69,420 | | 0 |
| Two years later | 53,015 | 22,582 | 27,709 | 35,278 | 41,549 | 54,095 | 58,059 | 61,414 | | | 111,016 |
| Three years later | 76,508 | 21,247 | 26,892 | 34,428 | 38,767 | 52,268 | 59,184 | | | | 173,920 |
| Four years later | 102,101 | 21,303 | 26,320 | 33,415 | 37,340 | 48,937 | | | | | 241,040 |
| Five years later | 145,122 | 20,978 | 25,741 | 31,980 | 36,642 | | | | | | 332,600 |
| Six years later | 148,485 | 21,059 | 25,389 | 32,198 | | | | | | | 393,511 |
| Seven years later | 149,944 | 21,081 | 25,201 | | | | | | | | 451,815 |
| Eight years later | 156,468 | 21,348 | | | | | | | | | 511,650 |
| Nine years later | 156,060 | | | | | | | | | | 606,923 |
| Current estimate of cumulative claims cost | 156,060 | 21,348 | 25,201 | 32,198 | 36,642 | 48,937 | 59,184 | 61,414 | 69,420 | 96,520 | 606,923 |
| Cumulative payments | 152,965 | 20,264 | 24,112 | 29,637 | 33,351 | 44,070 | 47,236 | 44,390 | 44,684 | 41,217 | 481,926 |
| Outstanding claims – undiscounted | 3,095 | 1,083 | 1,089 | 2,562 | 3,291 | 4,867 | 11,947 | 17,024 | 24,736 | 55,303 | 124,997 |
| Discount | (730) | (248) | (299) | (695) | (679) | (1,007) | (2,017) | (2,549) | (3,970) | (6,626) | (18,819) |
| Outstanding claims | 2,365 | 835 | 790 | 1,866 | 2,612 | 3,861 | 9,930 | 14,475 | 20,766 | 48,676 | 106,178 |
| Claims handling expenses | | | | | | | | | | | 6,748 |
| Risk margin | | | | | | | | | | | 25,569 |
| ITC's on Claims | | | | | | | | | | | – |
| Total net outstanding claims per the balance sheet | | | | | | | | | | | 138,495 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

23. CONTRIBUTED EQUITY

(a) Movements in shares on issue

| Consolidated and Parent entity | 2011 | |
|--|------------------|---------|
| | Number of Shares | \$'000 |
| (i) Ordinary shares | | |
| Beginning of financial year | 3,585,434 | 3,585 |
| Issued/converted during the year | 20,000 | 2,000 |
| End of financial year | 3,605,434 | 5,585 |
| (ii) Non-cumulative participating redeemable (Guild) preference shares | | |
| Beginning of financial year | 20,000 | 2,000 |
| Converted during the year | (20,000) | (2,000) |
| End of financial year | – | – |
| | 3,605,434 | 5,585 |

| Consolidated and Parent entity | 2010 | |
|--|------------------|--------|
| | Number of Shares | \$'000 |
| (i) Ordinary shares | | |
| Beginning of financial year | 3,585,434 | 3,585 |
| Issued during the year | – | – |
| End of financial year | 3,585,434 | 3,585 |
| (ii) Non-cumulative participating redeemable (Guild) preference shares | | |
| Beginning of financial year | 20,000 | 2,000 |
| Issued during the year | – | – |
| End of financial year | 20,000 | 2,000 |
| | 3,605,434 | 5,585 |

(b) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared.

(c) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. During 2011, the company paid dividends of \$5,000,000 (2010: \$1,150,000).

| | 2011 | 2010 |
|---|---------|---------|
| | \$'000 | \$'000 |
| (d) Retained earnings | | |
| Balance at the beginning of the year | 77,246 | 68,248 |
| Net (loss) / profit attributable to members of Guild Group Holdings Ltd | (3,038) | 10,148 |
| Total available for appropriation | 74,208 | 78,396 |
| Dividends paid or provided | (5,000) | (1,150) |
| Balance at end of year | 69,208 | 77,246 |

24. NON-CONTROLLING INTEREST

| | 2011 | 2010 |
|-----------------------------|--------|--------|
| | \$'000 | \$'000 |
| (a) Interest in: | | |
| 'A' class ordinary shares | 330 | 660 |
| 'C' class ordinary shares * | - | - |
| Retained earnings | (680) | (633) |
| | (350) | 27 |

*\$250 of 'C' Class shares were held by the minority interest holder of Guild Accountants Pty Limited.

(b) Non-controlling interest relates to Guild Accountants Pty Limited, at 90% ownership (2010: 80%).

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

25. COMMITMENTS

Economic dependency

Currently Guild Group Investments Ltd is reliant on financial support from its parent entity, Guild Group Holdings Ltd. The Directors of Guild Group Investments Ltd have obtained a letter of financial support from the Directors of Guild Group Holdings Ltd, such that Guild Group Holdings Ltd will provide financial support to Guild Group Investments Ltd in order to pay debts as and when they fall due in order for Guild Group Investments Ltd to continue as a going concern.

Operating lease commitments – Group as a lessee

The entity has entered into commercial leases on certain motor vehicles, business equipment and office premises. These leases have an average life of between 1 and 10 years.

| | 2011 | 2010 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Future minimum rentals payable under operating leases as at 30 June are as follows: | | |
| Within one year | 4,198 | 4,147 |
| After one year but not more than five years | 9,913 | 9,792 |
| More than five years | 2,905 | 2,438 |
| | 17,016 | 16,377 |

Operating lease commitments – Parent entity as a lessee

The entity has entered into commercial leases on certain motor vehicles, business equipment and office premises. These leases have an average life of between one and 10 years.

| | | |
|---|--------------|--------------|
| Future minimum rentals payable under operating leases as at 30 June are as follows: | | |
| Within one year | 473 | 527 |
| After one year but not more than five years | 1,271 | 1,265 |
| More than five years | 363 | 305 |
| | 2,107 | 2,097 |

Operating lease commitments – Group as a lessor

The Group has entered into commercial leases on certain office premises. These leases have an average life of between one and ten years.

| | 2011 | 2010 |
|---|--------|---------------|
| | \$'000 | \$'000 |
| Future minimum rentals payable under operating leases as at 30 June are as follows: | | |
| Within one year | – | 2,704 |
| After one year but not more than five years | – | 5,704 |
| More than five years | – | 3,339 |
| | – | 11,747 |

Finance lease and hire purchase commitments – Group as a lessor

The Group has entered into commercial hire purchase agreement on certain motor vehicles and business equipment. These hire purchase agreements have an average life of between 2 and 4 years.

Future minimum rentals payable under operating leases as at 30 June are as follows:

| | Note | 2011 \$'000 | 2010 \$'000 |
|---|------|----------------|----------------|
| Within one year | | 3,742 | 4,367 |
| After one year but not more than five years | | 5,935 | 7,195 |
| Total minimum hire purchase payments | | 9,677 | 11,562 |
| Less amounts representing unearned finance income | | (1,178) | (1,445) |
| Less provision for doubtful debts | | (125) | (165) |
| Present value of minimum hire purchase payments | | 8,374 | 9,952 |
| Expected to be realised within 12 months | | 3,036 | 3,501 |
| Expected to be realised after 12 months | | 5,338 | 6,451 |
| | 12 | 8,374 | 9,952 |

Investment loans

The entity has entered into investment loans with certain clients. These loans have an average life of between 2 and 6 years.

Future minimum payments payable under investment loans to clients as at 30 June are as follows:

| | | | |
|---|----|---------|---------|
| Within one year | | 3,284 | 2,662 |
| After one year but not more than five years | | 5,088 | 6,273 |
| More than five years | | 165 | 123 |
| Total minimal loan payments | | 8,537 | 9,058 |
| Less amounts representing unearned interest | | (1,262) | (1,330) |
| Less provision for doubtful debts | | (100) | (60) |
| Present value of minimum loan payments | | 7,175 | 7,668 |
| Expected to be realised within 12 months | | 2,617 | 2,035 |
| Expected to be realised after 12 months | | 4,558 | 5,633 |
| | 12 | 7,175 | 7,668 |

Fair value

The maximum exposure to credit risk is the fair value of receivables. The carrying value (amortised cost) not materially different to the fair value.

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

26. RELATED PARTIES

| (Amounts are in whole dollars) | 2011 \$ | 2010 \$ |
|---|------------|------------|
| Transactions of Directors | | |
| During 1998 Guild Insurance Limited made loans to Director, Mr. D.R. Sanghvi, (a Director of the parent entity), on normal terms and conditions no more favorable than those available on similar transactions to other customers. | | |
| Repayments received during the year in relation to the loans | 7,279 | 7,279 |
| Aggregate amount of loans outstanding at year end | 19,790 | 25,577 |
| Interest revenue from directors | 1,492 | 1,855 |
| Value of units held by Directors in GCAEF at the balance date | – | 709,814 |
| Transactions of Parent | | |
| During 2006 and 2008 Guild Insurance Limited made loans and hire purchase arrangements with Pharmacy Guild of Australia (SA Branch) on normal terms and conditions no more favorable than those available on similar transactions to other customers. | | |
| Amounts receivable in respect of loan/hire purchase at balance date from: | | |
| Ultimate parent entity | 1,000,000 | 1,061,270 |
| Lease/Hire purchase repayments from: | | |
| Ultimate parent entity | 122,237 | 117,815 |
| Interest revenue from: | | |
| Ultimate parent entity | 60,966 | 54,947 |
| Interest paid/payable to The Pharmacy Guild of Australia | 1,480,406 | 1,236,306 |
| Value of units held by The Pharmacy Guild of Australia in GCAEF at the balance date | – | 2,569,653 |
| Guild Insurance Limited has paid commission on policies written to The Pharmacy Guild of Australia. The rates are based on normal commercial terms and conditions. | 4,142,216 | 4,011,268 |
| Rent received/receivable on premises by subsidiary entities from The Pharmacy Guild of Australia. | 643,042 | 740,286 |
| Rent paid/payable on premises by subsidiary entities to The Pharmacy Guild of Australia. | 238,925 | 262,089 |
| Sponsorship Fees paid/payable by the parent and subsidiary entities to The Pharmacy Guild of Australia. | 269,690 | 271,800 |
| Insurance Premiums received/receivable by subsidiary entities from The Pharmacy Guild of Australia. | 487,310 | 458,272 |
| Legal fees received/receivable by subsidiary entities from The Pharmacy Guild of Australia. | 208,352 | 204,494 |
| Accounting fees received/receivable by subsidiary entities from The Pharmacy Guild of Australia. | 5,500 | 12,850 |

Subsidiaries of Guild Group Holdings Limited sold insurance policies and financial products to key management personnel or their related entities during the year within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees in line with the company's policy on staff discounts.

| | 2011 | 2010 |
|--|----------------|------------|
| (Amounts are in whole dollars) | \$ | \$ |
| Transactions of Other Related Parties: | | |
| Value of units held by Other Key Management Personnel in GCAEF at the balance date | – | 239,846 |
| Value of units held by Guild Group Investments in GCAEF at the balance date | – | 523,018 |
| Value of units held by Guild Retirement Fund in GCAEF at the balance date | – | 25,595,997 |
| Value of units held by Australian Childcare Superannuation Fund in GCAEF at the balance date | – | 5,102,743 |
| Legal fees received/paid from other related parties | 208,352 | 65,661 |
| Insurance premiums received/paid from other related parties | 115,034 | 1,494 |

Parent entity:

The parent entity (and ultimate parent entity) is The Pharmacy Guild of Australia.

27. EVENTS AFTER THE BALANCE SHEET DATE

On 3 August 2011, Guild Group Holdings acquired the remaining 330,000 ordinary shares and 250 C Class shares in Guild Accountants. Following the transaction Guild Group Holdings held 100% of the shares in Guild Accountants.

Global Market Volatility – Subsequent to 30 June 2011 there has been significant volatility in global equity and debt markets following the downgrade of the credit rating of US long term sovereign debt by Standard & Poor's and continued market uncertainty in relation to European sovereign debt. A detailed sensitivity analysis of asset and liability valuations to market risk, credit risk and liquidity risk is provided in Note 3 to the Financial Report. The Group actively manages levels of capital, gearing and liquidity of the investment assets held to support the Group's obligations, which is subject to prudential regulation. As at 6 September 2011, the Group held significant capital in excess of its prudential regulatory requirements.

28. REMUNERATION OF AUDITORS

| | 2011 | 2010 |
|---|----------------|---------|
| (Amounts are in whole dollars) | \$ | \$ |
| Amounts received, or due and receivable, by Ernst & Young for: | | |
| – an audit or review of the financial report of the entity and any other entity in the consolidated Group | 452,631 | 537,528 |
| – other services in relation to the entity and any other entity in the consolidated Group | 203,224 | 184,844 |
| | 655,855 | 722,372 |

NOTES TO THE FINANCIAL STATEMENTS cont.

for the year ended 30 June 2011

29. KEY MANAGEMENT PERSONNEL

Directors' remuneration

The following Directors held office during the year:

Mr. H.D. Zafer, Mr. S.B. Banks, Mr. J.M. Barrington, Mr. D.R. Sanghvi, Mr. S. Somogyi, Mr. G. Venardos, Ms. A.J. Williams, M.J. Pirone.

Income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of the consolidated entity, directly or indirectly, from the entity or any related party:

| | 2011 | 2010 |
|--------------------------------|------------------|------------------|
| (Amounts are in whole dollars) | \$ | \$ |
| Short term | 926,375 | 1,312,801 |
| Post employment | 97,053 | 107,152 |
| Termination benefits* | – | 1,054,233 |
| Total compensation | 1,023,428 | 2,474,186 |

*Termination benefits relate to retiring directors.

Other Key Management Personnel

Remuneration received or due and receivable by executive officers (including directors) of the consolidated Group whose remuneration is \$100,000 or more, from the entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated Group, whether as an executive officer or otherwise is:

| | 2011 | 2010 |
|--------------------------------|------------------|------------------|
| (Amounts are in whole dollars) | \$ | \$ |
| Short term | 2,721,067 | 3,755,827 |
| Post employment | 159,530 | 263,786 |
| Other long term benefits | 696,833 | 603,855 |
| Termination benefits | 783,647 | 1,054,233 |
| Total compensation | 4,361,077 | 5,677,702 |

The remuneration of all Leadership Team members includes a base remuneration component, a short-term incentive payment and a pro-rata long-term incentive payment.

The remuneration detailed above only includes amounts that were either paid or payable at 30 June 2011.

If certain performance conditions are met and employment continues an additional amount may be payable in accordance with the long-term incentive scheme at a future date.

The names of the other key management personnel of Guild Group Holdings Limited are:

M.J. Pirone, B.Bus, Grad.Dip. Bus, FCPA – Chief Executive Officer

P.R. Baker, LLB, – Meridian Lawyers, Solicitor Director

D.K. Brown, ANZIIIF (Snr Assoc), CIP, MBA – General Manager – Guild Insurance Limited

E.D. Traicos, BBSoc (Psychology), Grad Dip Business – Director Human Resources

S.M. Horskins, B. Comm, ICAA – Chief Financial Officer

K. Symes, M. App. Sc. – Chief Information Officer

T.P. Mills – General Manager, Guild Financial Services

K.J. Bibby, CFA – Chief Investment Officer (ceased employment on 5 October 2010)

P.M. Harding, BA (HRM), AAHRI – Acting Group Human Resources Manager (ceased employment on 3 December 2010)

The names of the other key management personnel of Guild Insurance Limited that were included in 2009/2010 were: P.J. Simpson (General Manager – Financial Services).

Subsidiaries of Guild Group Holdings Limited sold insurance policies and financial products to key management personnel or their related entities during the year within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees in line with the company's policy on staff discounts.

Details of loans to key management personnel are as follows:

| | Balance at beginning of period | Interest charged | Balance at end of period | Number in group |
|------|--------------------------------|------------------|--------------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | No. |
| 2011 | 179 | 9 | 94 | 2 |
| 2010 | 199 | 15 | 179 | 5 |

30. INVESTMENT IN SUBSIDIARY ENTITIES

| Name of entity | Parent Entity's | Book Value of Investment | Equity Holding | | Class of shares |
|--|-----------------|--------------------------|----------------|------|-----------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | % | % | |
| Parent entity | | | | | |
| Guild Group Holdings Limited | | | | | |
| Controlled Entities | | | | | |
| Guild Insurance Limited | 23,938 | 23,938 | 100 | 100 | Ordinary |
| Guild Financial Services Limited | 9,862 | 9,862 | 100 | 100 | Ordinary |
| National Pharmacy Building Pty Ltd * | – | – | 100 | 100 | Ordinary |
| Guild Group Investments Limited | 100 | 100 | 100 | 100 | Ordinary |
| Guild Capital Asset Management Limited | 750 | 750 | 100 | 100 | Ordinary |
| Guild Legal Limited | 1,500 | 1,500 | 100 | 100 | Ordinary |
| Guild Accountants Pty Limited | 3,226 | 2,896 | 90 | 80 | Ordinary |
| Guild Commercial Finance Pty Limited | 350 | 250 | 100 | 100 | Ordinary |
| | 39,726 | 39,296 | | | |

*Guild Group Holdings Limited has one share in National Pharmacy Building Pty Ltd.

All controlled entities are incorporated in Australia.

On 6 September 2010 Guild Commercial Finance Pty Limited issued 100,000 ordinary shares at a cost of \$1 per share to its parent entity, Guild Group Holdings Limited.

On 10 September 2010 Guild Group Holdings acquired a further 330,000 shares in Guild Accountants at a cost of \$1 per share. This brought Guild Group Holding Limited equity holding up to 90%. Subsequent to year end Guild Group acquired the remaining shares in Guild Accountants.

31. CONTINGENCIES

The group and parent entity have no material contingent liabilities or assets as at 30 June 2011.

STATEMENT OF FINANCIAL POSITION

32. PARENT ENTITY FINANCIAL STATEMENTS

| | 2011 | 2010 |
|---------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| ASSETS | | |
| Cash and cash equivalents | 345 | 96 |
| Trade and other receivables | 65 | 28,230 |
| Income tax receivable | 4,410 | 2,276 |
| Prepayments and inventories | 363 | 946 |
| Property, plant and equipment | 5,655 | 6,764 |
| Deferred tax assets | 1,222 | 2,211 |
| Financial assets | 40,227 | 39,797 |
| Intangible assets and goodwill | 718 | 527 |
| TOTAL ASSETS | 53,005 | 80,847 |
| LIABILITIES | | |
| Trade and other payables | 10,831 | 5,312 |
| Interest-bearing loans and borrowings | 22,340 | 53,840 |
| Provisions | 2,498 | 4,831 |
| Deferred tax liabilities | 21 | 19 |
| TOTAL LIABILITIES | 35,690 | 64,002 |
| NET ASSETS | 17,315 | 16,845 |
| EQUITY | | |
| Contributed equity | 5,585 | 5,585 |
| Retained earnings | 11,730 | 11,260 |
| TOTAL EQUITY | 17,315 | 16,845 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

| | 2011 | 2010 |
|---|--------------|----------------|
| | \$'000 | \$'000 |
| Other revenue | 24,561 | 25,900 |
| Administration expenses | (4,796) | (4,923) |
| Marketing expenses | (144) | (606) |
| Occupancy expenses | (1,140) | (1,063) |
| Salary related expenses | (10,596) | (19,940) |
| Finance Costs | (3,280) | (3,395) |
| Profit/(Loss) before Income Tax Expense | 4,605 | (4,027) |
| Income tax credit | 864 | 1,745 |
| Net Profit/(Loss) for the Period | 5,469 | (2,282) |
| Profit/(Loss) for the period is attributable to: | | |
| Owners of the parent | 5,469 | (2,282) |
| Other comprehensive income for the period is attributable to: | | |
| Owners of the parent | 5,469 | (2,282) |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

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