INVESTING WITH...

Fisher&Paykel Finance

PROSPECTUS NUMBER 40

16 September 2011

FISHER & PAYKEL FINANCE LIMITED – PROSPECTUS NUMBER 40, 16 SEPTEMBER 2011

This Prospectus dated 16 September 2011 is for an issue by Fisher & Paykel Finance Limited (variously referred to elsewhere in this Prospectus as "Fisher & Paykel Finance" or "the Company") of up to $300,000,000 of first ranking secured debenture stock. This Prospectus replaces the Prospectus Number 39 dated 3 September 2010 as amended by the Memorandum of Amendments dated 17 December 2010.

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STOCK EXCHANGE LISTING

The Company does not intend to list on any Stock Exchange any of the first ranking secured debenture stock offered in this Prospectus.

REGISTRATION

A copy of this Prospectus duly signed and having attached thereto the documents required by Section 41 of the Securities Act 1978 (being the Auditors' report) and the consents required by Regulation 18 of the Securities Regulations 2009 (being the consent of the Auditors to the inclusion of their report in this Prospectus) was delivered for registration to the Registrar of Companies at Auckland on 16 September 2011.

The Issue will remain open until fully subscribed or closed by the Directors.

Details of Issuer, Directorate, Management and Advisors

DETAILS OF INCORPORATION OF ISSUER

Fisher & Paykel Finance Limited was incorporated as a private company under the Companies Act 1955 on 29 August 1985 and reregistered under the Companies Act 1993 on 13 March 1997. The Company's registration number is 282039. The registered office of the Company is 31 Highbrook Drive, East Tamaki, Auckland.

This Prospectus, the Financial Statements and other documents are filed on a public register at the Companies Office. The Company's public file may be viewed on, and downloaded from, the Companies Office website at www.companies.govt.nz

DIRECTORATE AND DIRECTORS' STATEMENT

The Directors, after due enquiry by them, are of the opinion, that the trading and profitability of the Charging Group (as defined on page 6 of this Prospectus), the value of its assets and its ability to pay its liabilities due within the next twelve months have not materially and adversely changed during the period between the date of the latest financial statements set out in this Prospectus and the date of registration of this Prospectus. All the Directors or their authorised agents have duly signed this Prospectus.

John William Gilks MNZM, FCA (Chairman)
Wanaka

Alastair Armstrong Macfarlane BCom, CA
Managing Director
Fisher & Paykel Finance Limited
Auckland

Carlos Manuel da Silva BBS, CA, MinstD*
Hamilton

Gary Albert Paykel CNZM
Auckland

Stuart Bruce Broadhurst BCom
Managing Director & Chief Executive Officer
Fisher & Paykel Appliances Holdings Limited
Auckland

Heughan Bassett Rennie CBE, QC, BA, LLB*
Wellington

* Independent directors appointed in accordance with the requirements of the Reserve Bank of New Zealand Act 1989 and the Deposit Takers (Fisher & Paykel Finance Limited) Exemption Notice 2010.

The Directors can be contacted at the offices of Fisher & Paykel Finance Limited, 31 Highbrook Drive, East Tamaki, Auckland.

Management and Advisors

Managing Director
Alastair Macfarlane BCom, CA

General Counsel and Company Secretary
Sarah Carstens LLB (Hons), BSc

Treasurer
Benjamin Turner BBS, MAppFin

Chief Financial Officer
Ian McGregor BBS, CPA

Chief Risk Officer
Adrian Lichkus BCom, BCompt (Hons)

Auditors
PricewaterhouseCoopers,
PricewaterhouseCoopers Tower,
188 Quay Street,
Auckland.

Solicitors
Bell Gully,
48 Shortland Street,
Auckland.

Debenture Registrar
Computershare Investor Services Limited,
Level 2, 159 Hurstmere Road, Takapuna,
North Shore City, New Zealand.
Private Bag 92119, Auckland, New Zealand.
(In this Prospectus referred to as "Debenture Registrar")

Debenture Trustee
The New Zealand Guardian Trust Company Limited,
48 Shortland Street,
Auckland.
(In this Prospectus referred to as "Trustee")

Chairman's Letter

Fisher&Paykel Finance

Dear Investor

On behalf of my fellow Directors I am pleased to present to you the Company's 40th Prospectus and in so doing invite you to invest in first ranking secured debenture stock in one of New Zealand's preeminent consumer finance companies.

I would also like to take this opportunity to recap on the strong financial results of the Fisher & Paykel Finance Charging Group for the year ended 31st March 2011. Operating income of $67.3 million increased by $13.3 million driven by a $6.0 million increase in net interest income and a $7.3 million increase in non-interest income. Operating profit before tax rose 83% year on year to $22.5 million in the year ended 31st March 2011.

Fisher & Paykel Finance is managed by a team of skilled and experienced people who consistently demonstrate high standards of performance in all aspects of their management of the Company. Governance is provided by a Board of 6 Directors, inclusive of the Company's Managing Director. In December 2010 two independent Directors were appointed to the Board thereby further strengthening the governance and direction available to the Company.

It is attributes such as those outlined above that have underpinned the Company's success particularly in times when global financial markets are volatile and unpredictable.

Earlier this year the Board decided that the Company would cease offering Crown Guaranteed Securities from 27th June 2011. This date was six months ahead of the date on which the Crown Guarantee scheme officially ceases. This decision was taken against the background of the Company's consistently strong financial performance and financial position which stems from adherence to three core objectives, Viz.

- focusing on point of sale consumer finance business which has been the Company's predominant business activity since 1985.
- maintaining strong liquidity.
- Maintaining sound policies around credit and risk management.

In these challenging economic times our continuing commitment to these key objectives should provide investors with confidence they are investing in a long established well run business with a proud and successful history.

Yours Sincerely,

John Gilks
Chairman of the Board

31 Highbrook Drive, East Tamaki. Private Bag 94 013, South Auckland Mail Centre | Tel (09) 525 8550 | Fax (09) 525 8588

INTRODUCTION

The Company and its guaranteeing subsidiaries (the "Charging Group") are part of the wider Fisher & Paykel Finance group of companies wholly-owned by the listed company Fisher & Paykel Appliances Holdings Limited ("FPAHL"). The business of the Charging Group is focused on providing competitive and flexible financial products and services to enable consumer and business customers to acquire a broad range of household and commercial products from merchants and commercial dealers. The Company assists customers to buy the things they want through continuous process improvement, by employing people with the appropriate skills, and by delivering appropriate and affordable financial solutions to its customers. These services have, since 1985, been delivered to a significant number of New Zealand households and commercial customers.

PRINCIPAL ACTIVITIES

The funds raised by the Company from the issue of first ranking secured debenture stock under this Prospectus will be used to finance the Company's ongoing lending activities, maintain its diversity of funding sources, generally maintain its funding profile and provide liquidity.

The ongoing lending and other activities undertaken by the Company and the Charging Group are:

- Since 1985, point-of-sale instalment finance has been provided to consumers through retailers selling a broad range of household durables.
- In 2003 the company launched Q Card, a lifestyle card that is a credit card with fixed instalment and revolving credit purchase options, all on the one card. Q Card allows consumers to choose from a range of payment options with preapproved credit limits. As at 31 March 2011, consumer receivables represented 71% of net finance receivables as set out in the Financial Statements.
- Since 1985 rental and secured term loans have been provided to businesses for office automation products (including faxes, photocopiers, telephone systems and other technology products) and for machinery, plant and equipment. As at 31 March 2011, rental and secured term loan receivables represented 10% of net finance receivables as set out in the Financial Statements.
- Since 1990 a bulk funding facility has been provided to Smithcorp Finance Limited to finance consumer credit sales written by Smiths City (Southern) Limited. The Company takes security over the underlying finance receivables. As at 31 March 2011, drawings against such facilities represented 19% of net finance receivables as set out in the Financial Statements.

RESERVE BANK PRUDENTIAL SUPERVISION

The Company is a Non-Bank Deposit Taker for the purposes of Part 5 of the Reserve Bank of New Zealand Act 1989 and accordingly it is subject to prudential supervision by the Reserve Bank.

BOARD AND MANAGEMENT

Directors

John Gilks, MNZM (Non-Executive Chairman)

Mr Gilks was a director of Fisher & Paykel Appliances Holdings Limited until 25 August 2011 and was a director of Fisher & Paykel Industries Limited (currently known as Fisher & Paykel Healthcare Corporation Limited) from May 1986 to November 2001. Between 1970 and 1993 Mr Gilks was also a practicing Chartered Accountant and during that time he founded Motor Trade Finances Limited and was its Managing Director until 1997. Mr Gilks is a Fellow of the New Zealand Institute of Chartered Accountants and a Distinguished Fellow of the Institute of Directors in New Zealand. Mr Gilks is a Member of the New Zealand Order of Merit (MNZM).

Gary Paykel, CNZM

Mr Paykel was Chairman of FPAHL from April 2004 until November 2009 and remains a director of FPAHL today. Mr Paykel was a director of Fisher & Paykel Industries Limited from August 1979, its Managing Director from April 1987, and its Chief Executive Officer from December 1989. He was appointed Chairman of Fisher & Paykel Healthcare Corporation Limited (previously known as Fisher & Paykel Industries Limited) in November 2001. Mr Paykel joined Fisher & Paykel Industries Limited in 1960 and prior to his appointment to the position of Sales Director in 1985, held a variety of positions in the manufacturing, engineering, purchasing and sales departments. Mr Paykel is a Companion of the New Zealand Order of Merit.

Directors continued

Stuart Broadhurst

Mr Broadhurst is the Managing Director and Chief Executive Officer of FPAHL. Mr Broadhurst has over 23 years of industry experience with the Fisher & Paykel group of companies. Since 1988 he has held a number of senior management positions within New Zealand and Australia and has held key leadership roles in the Fisher & Paykel group of companies in the USA, the United Kingdom and Europe, where he project managed, established and developed major business units. Mr Broadhurst received a Bachelor of Commerce degree from the University of Auckland.

Alastair Macfarlane (Managing Director)

Mr Macfarlane joined Fisher & Paykel Finance in 1988 in his current role and has been extensively involved in the development of the Fisher & Paykel Finance business. Mr Macfarlane has been widely involved in the evolution of Fisher & Paykel Finance from a small strategic investment into the current operation offering retail point of sale finance to customers through a diversified range of retail merchants and commercial dealers. Prior to joining Fisher & Paykel Finance, Alastair was with Citibank in New Zealand and KPMG in London, San Francisco and Auckland in accountancy roles. Alastair has a Bachelor of Commerce degree from the University of Auckland and is a member of the New Zealand Institute of Chartered Accountants.

Independent Directors

Hugh Rennie, QC

Mr Rennie is a barrister and Queen's Counsel with his main practice in commercial and insolvency law and special interests in aviation, media, medical and trust law. Mr Rennie has been chair or director of a number of companies in the manufacturing, banking and media sectors. He also has broad experience in a number of educational, cultural, communication and social trusts, and medical-related foundations. For 13 years until 2010 he was a director of the Bank of New Zealand, and he is currently an independent director on the board of the New Zealand Institute of Chartered Accountants.

Carlos da Silva

Mr da Silva is a Chartered Accountant, professional director and business advisor. Previously Carlos was the Executive Chairman of Greenlea Group Limited and prior that a senior partner at Deloitte in the Accounting & Advisory division. Mr da Silva has a number of board and trustee roles in industries including farming, tourism, property, advertising, IT and the fashion industry. Mr da Silva is a member of the Institute of Directors and a member of the New Zealand Institute of Chartered Accountants.

Management & Executive Team

Ian McGregor, Chief Financial Officer

Mr McGregor joined Fisher & Paykel Finance in 2010 in his current role. Mr McGregor has extensive experience in top tier investment banks in New Zealand and overseas. Prior to undertaking his current role, Mr McGregor was Head of Market Risk for the Bank of New Zealand and also undertook a secondment to Tokyo with the National Australia Bank. Ian moved into the corporate sector 10 years ago. While in the United Kingdom he established a market risk treasury consulting team for SunGard, a global financial software firm. On returning to New Zealand Mr McGregor joined Fonterra as a Manager in Group Treasury. Mr McGregor has a Bachelor of Business Studies degree from Massey University and is a registered Certified Practicing Accountant.

Sarah Carstens, General Counsel and Company Secretary

Ms Carstens joined Fisher & Paykel Finance in December 2009. Prior to that, Ms Carstens was a lawyer for ANZ National Bank Limited and was responsible for the legal affairs for its subsidiary company, UDC Finance Limited. Ms Carstens has also acquired legal experience in her previous roles with law firms Buddle Findlay and Minter Ellison Rudd Watts in New Zealand, and Linklaters in London. Ms Carstens has an Honours degree in Law and a Bachelor of Science from Canterbury University and is admitted to practise as a barrister and solicitor of the High Court of New Zealand.

Management & Executive Team continued

Adrian Lichkus, Chief Risk Officer

Mr Lichkus joined Fisher & Paykel Finance in 2006 as Chief Credit Risk Officer. Prior to that, Adrian was head of the Internal Audit function of the Auckland District Health Board. Adrian has chaired the Auckland Branch of the Institute of Internal Auditors of New Zealand and represented Auckland on the National Board of the Institute. Mr Lichkus has over 15 years experience in credit risk management decision roles, both consumer and commercial, in the banking sector. Mr Lichkus was with Deloitte for three years, completing his professional development training. Mr Lichkus has a Bachelor of Commerce from Natal University and an Honours Bachelor of Accounting Science from the University of South Africa.

Sarah O'Connor, Chief Human Resources Officer

Ms O'Connor was appointed to her current role in 2010. Ms O'Connor was Customer Service Manager for Retail Financial Services before she moved to Fisher & Paykel Finance, following the purchase of the Farmers Finance business. Ms O'Connor has been involved in process improvement, procurement and human resources. Ms O'Connor has also held operational management roles with the ANZ National Bank Limited, culminating in a role managing the Mortgage Operations Team at their Lending Support Centre.

Gregory Shepherd, Chief Operating Officer

Mr Shepherd was appointed to his current role in May 2006 and prior to that was the Fisher & Paykel Finance Group General Manager, Lending & Business Development. Mr Shepherd has extensive financial services experience with Westpac Banking Corporation and Bank of New Zealand and in securities trading (both debt & equity instruments). Mr Shepherd has held a number of senior management roles in regional banking, marketing, operations and business development. Mr Shepherd was a member of strategic leadership and project management programmes for Westpac and the Bank of New Zealand on trans-Tasman initiatives. Mr Shepherd has a Bachelor of Commerce from The University of Otago and a New Zealand Stock Exchange diploma.

Colin Smith, Chief Information Officer

Mr Smith joined Fisher & Paykel Finance in 2010. Prior to that Mr Smith was Chief Information Officer of Manukau City Council. His other experience includes responsibility for group and business management functions at 3i plc Group. This included the areas of business intelligence, financial systems, operations, customer service and IT. Mr Smith has a Bachelor of Science (Hons) degree from the University of East Anglia and a Masters of Business Administration degree from Aston University.

Ben Turner, Treasurer

Mr Turner joined Fisher & Paykel Finance in August 2011. Mr Turner has extensive treasury, trading and financial risk management experience which he has gained over the last 10 years working in New Zealand banks, including financial markets roles with ANZ National Bank Limited and Kiwibank Limited. Mr Turner holds a Bachelor of Business Studies (Finance) from Massey University and a Masters in Applied Finance from Victoria University of Wellington.

Details of Issue

PURPOSE AND AMOUNT OF THE ISSUE

The issue by the Company is for a maximum of up to $300,000,000 first ranking secured debenture stock (the "Issue") (excluding any amount that may result from the replacement of debenture stock redeemed after the date this Prospectus is delivered for registration under Section 42 of the Securities Act 1978). Stock will be issued at par. The proceeds of the Issue will be used for the ongoing maintenance and expansion of the activities of the Charging Group.

CROWN RETAIL DEPOSIT GUARANTEE SCHEME

The Company has a guarantee under the Crown retail deposit guarantee scheme, being a guarantee that expires on 31 December 2011 ("Crown Guarantee"). From 27 June 2011, the Company ceased offering new guaranteed term and call debentures, other than the call debentures described on page 10 of this Prospectus under the heading "Reinvestment/Repayment on Maturity".

Securities offered by the Company under this Prospectus (other than the call debentures described on page 10 of this Prospectus under the heading "Reinvestment/Repayment on Maturity") are not covered by the guarantee given under the Crown retail deposit guarantee scheme. Refer pages 14-15 for more information regarding the Crown Guarantee.

Secured debenture stock subscribed for prior to 27 June 2011 with the benefit of the Crown Guarantee will continue to have the benefit of the Crown Guarantee until the Crown Guarantee expires on 31 December 2011.

Further information about the Crown Guarantee, including the Crown's most recent audited statement of financial position, is available, free of charge, on the Treasury website at www.treasury.govt.nz

APPLICATIONS

Applications for first ranking secured debenture stock ("Applications") must be made on the form supplied with the investment statement. The minimum amounts and periods of investment applicable to specified interest rates offered are set out in the rate card accompanying the application form. Applications may be made jointly, but must be signed by all applicants.

Applications, together with payment in full by cheque (made payable to "Fisher & Paykel Finance Limited") or direct credit (to the bank account of Fisher & Paykel Finance Limited) should be forwarded to or lodged with the Debenture Registrar, c/- Computershare Investor Services Limited, Private Bag 92119, Auckland, New Zealand.

The Company reserves the right to refuse any application in whole or in part only. No interest will be paid on money refunded in the event an application is refused in whole or in part.

DEBENTURE STOCK STATEMENTS

Debenture stock statements will be issued following acceptance of Applications. Thereafter, debenture stock statements will be issued no less frequently than six monthly for term investments. For call deposits see page 10 of this Prospectus. The Company does not issue debenture stock certificates to retail debenture holders.

ALLOTMENT

Allotment is not valid until clearance of the applicant's payment through the New Zealand banking system (and direct credits not being reversed), and any debenture stock statement is issued accordingly. Payments must be received by 3.00 p.m. (on business days) to be credited to the applicant that day, otherwise they will be credited to the applicant on the next business day.

MATURITY DATE

The maturity date for term investments will be calculated from the date of allotment or a specific maturity date may be agreed between the Company and the applicant. If a specific maturity date is agreed, interest for the specified term may be interpolated (between the nearest whole term rates) at the Company's discretion.

REINVESTMENT/REPAYMENT ON MATURITY

The Debenture Registrar will notify you by mail before any term investment matures, advising the details of your maturing investment and options for its reinvestment and/or repayment.

At the expiry of the initial term and each subsequent reinvestment term, your investment will be reinvested for the same term (at no less than the relevant interest rate specified in the rate card accompanying the maturity advice and subject to the terms of the current Prospectus and Investment Statement) and interest payments will continue on the same basis unless, following receipt of any maturity advice and prior to maturity date, you provide alternate reinvestment and/or repayment instructions.

As noted on pages 14-15 of this Prospectus under the heading "Crown Retail Deposit Guarantee Scheme", securities offered by the Company under this Prospectus are not covered by the guarantee given under the Crown retail deposit guarantee scheme except in one situation. If you have an investment that was invested prior to 27 June 2011 which has the benefit of the Crown Guarantee, and we do not hold or receive any reinvestment or repayment instructions from you before the maturity date, you agree that your funds will, at the Company's absolute discretion, either be paid to your nominated bank account on the maturity date or placed on a call deposit with the benefit of the Crown Guarantee at the prevailing guaranteed call rate and subject to the terms of the current Prospectus and Investment Statement for up to 14 days (the call period) from the applicable maturity date or until we receive reinvestment or repayment instructions from you (whichever occurs first). If your funds are placed on call deposit and the call period runs beyond 31 December 2011, the funds will be held on a non-guaranteed call deposit for the period from 31 December 2011. If, after the call period has expired, no instructions have been received from you the matured funds will be paid to your nominated bank account or, if those details are not known by the Company, will be paid to you by cheque.

If you anticipate being away prior to the maturity date, you may contact the Debenture Registrar beforehand to advise of your reinvestment and/or repayment instructions.

Any repayment will be made by direct credit to a New Zealand dollar bank account in New Zealand nominated by you in writing. If no such bank account has been nominated, payments will be withheld until account details have been provided. No interest will be paid on any amounts withheld.

CALL DEPOSITS

First ranking secured debenture stock which is issued on the basis that it is repayable upon demand may be repaid by the Company at any time. The minimum amount that may be invested or withdrawn is $500.

If at any time you require repayment of all or part of your on call investment, you may telephone the Debenture Registrar during business hours, quote your investor number and your funds will be transferred to the New Zealand dollar bank account in New Zealand nominated by you in writing. If no such bank account has been nominated, payments will be withheld until account details have been provided. No interest will be paid on any amounts withheld. If you telephone the Debenture Registrar before 3.00 pm, your funds can be transferred the same day; otherwise, subject to your instructions, your funds won't be transferred until the next business day. No repayment of any payments into the call deposit account will be made until clearance of the deposit through the banking system (and direct credits not being reversed). Requests may also be made in writing or by facsimile providing they include an investor number and authorised holder signature.

The Company will issue you with a monthly statement detailing the opening and closing balances of your investment and any deposits or withdrawals made during the month (but this will not be a debenture stock certificate). Monthly statements will not be issued where there has been no account activity during the month.

CURRENCY

All payments by the Company will be made in New Zealand dollars.

Details of Issue continued

INTEREST PAYMENT OPTIONS

The interest payment options applicable to particular interest rates offered by the Company from time to time are set out in the rate card published by the Company. Interest will be paid or compounded to principal by the Company in accordance with the investor's instructions when applying for first ranking secured debenture stock. For all payment options interest will be earned from the date of receipt by the Debenture Registrar of the completed application form together with payment in full (subject always to clearance of the applicant's payment through the New Zealand banking system and direct credits not being reversed).

Interest will be paid by direct credit to a New Zealand dollar bank account in New Zealand nominated by you in writing. If no such bank account has been nominated, payments will be withheld until bank account details have been provided. No interest will be paid on any amounts withheld. Where you hold more than one term investment, interest payments will be made to one bank account only.

If your term investment is allotted five business days or less prior to an interest payment date or interest compounding date, the payment or compounding of the net interest accrued as at that date will not be made but will be carried forward until the following interest payment date or interest compounding date.

INTEREST RATES

Interest rates offered by the Company from time to time can be found in the rate card accompanying the investment statement, on the Company's website at www.fpf.co.nz, or by contacting the Debenture Registrar by telephone on 0800 65 10 10, or in writing at Debenture Registrar, c/- Computershare Investor Services Limited, Private Bag 92119, Auckland, New Zealand. For investments of amounts greater than those set out in the rate card, interest rate quotes can be obtained by contacting the Company. Rates other than those detailed in the rate card may be paid at the Company's discretion in certain limited circumstances.

VARIATION OF INTEREST RATES

The Company reserves the right to vary the rates of interest of this Issue at any time. Any variation in interest rates will not affect a term investment that has been accepted by the Debenture Registrar. The interest rate payable on an investment will be the interest rate prevailing at the time the application for that investment is accepted by the Debenture Registrar. This will be determined by reference to the rate card current at that time, as published by the Company.

If the Company should reduce its interest rates on term investments, applications for term investments from applicants made prior to, but received after, the date of reduction in those rates, may, at the discretion of the Company be accepted at the rate applying at the time of application.

Where the Debenture Registrar has provided to an applicant or investor a dated rate card specified to be valid for a specified fixed period, that rate card will be valid for that specified fixed period from that date for new term investments (or for a maturing existing term investment, until the date stipulated in the pre-maturity advice).

In any other situation where an application for a term investment is made for an interest rate higher than the rates current at the time of receipt of the application, applicants will be promptly notified and unless such applicants confirm acceptance at the reduced interest rates within 10 business days of notification, the application monies will be refunded without interest.

In the case of call deposits, current interest rates can be found on the Company's website at www.fpf.co.nz

Notification of a variation in the rates of interest will be published immediately on the Company's website and will be provided in the monthly statements issued by the Company following any such variation.

WITHDRAWAL BEFORE MATURITY

It is not the Company's policy to repay term investments before maturity. A term investment may however be repaid early in the following circumstances:

(a) Upon receiving a request from an investor, the Company may, at its sole discretion, repay the principal amount of the term investment together with interest that is either unpaid or that has not been compounded to principal calculated at the rate which is the lesser of:

- 1% less than the rate applying to that term investment, as specified in the debenture stock statement for that term investment; or
- 1% less than the rate applying to a term investment for the shortened term, as offered at the time the term investment was made; and

(b) Upon the death of a sole investor, the Company will pay to the executors or administrators the whole or any part of the investment, subject to compliance with normal legal requirements and in such cases the interest rate will not be reduced.

All requests must be in writing and signed by the registered holder(s) or, where applicable, the registered holder's executors or administrators.

ALTERATION OF INVESTMENT

You cannot alter the investment without the consent of the Company. However the Company may, by prior arrangement with you, alter any of the terms of the investment.

REDEMPTION OF INVESTMENT

The Company can redeem any secured debenture stock at the then current market price thereof.

CLOSING THE REGISTER

The Company has the right to close the register for any period or periods not exceeding thirty days in any one year.

TRANSFERS

Unless otherwise agreed by the Company, first ranking secured debenture stock of not less than $500 may be transferred by means of a securities transfer that complies with the Securities Transfer Act 1991.

The Debenture Registrar is not obliged to register a transfer in the period five business days or less prior to any interest payment date, but where any such transfers are registered in that period, the transferor(s) will receive the full amount of interest payable at the next interest payment date. There are no fees or charges payable by you for the registration of any such transfer.

BROKERAGE

The Company may pay brokerage to its authorised agents on the nominal amount of all applications and reinvestments accepted by the Debenture Registrar bearing the stamp of such agents. The brokerage payable will not exceed a rate of 0.75% p.a. for any investment term. Brokerage is not payable by investors.

RESIDENT AND NON-RESIDENT WITHHOLDING TAX

In accordance with the Income Tax Act 2007, the Company is not required to deduct resident withholding tax ("RWT") from interest paid to any investor who holds a valid RWT exemption certificate ("EC"). Investors who hold a current EC are required to forward a copy to the Debenture Registrar and to notify the Debenture Registrar if the EC is withdrawn.

If you are a New Zealand tax resident, or a non-resident who carries on a business in New Zealand through a fixed establishment (such as a branch) then unless you hold a current EC, RWT will be deducted from interest paid at the rate prescribed by law.

Interest paid to non-New Zealand tax residents who do not carry on a business in New Zealand through a fixed establishment is subject to deduction of non-resident withholding tax ("NRWT") or payment of an approved issuer levy ("AIL"). Unless otherwise instructed in writing by an investor, the Company, as an approved issuer, will pay the AIL out of the interest earned by the investor. At the date of this Prospectus, the AIL is 2% of the interest earned.

In April of each year the Company will advise investors the amount of interest paid or credited and RWT or NRWT deducted during the year ended 31 March.

NEW ZEALAND INVESTORS

This offer of secured debenture stock is being made to members of the public in New Zealand. No person may offer, or deliver any secured debenture stock or distribute any documents (including this Prospectus) to any person outside New Zealand, except in accordance with all of the legal requirements of the relevant jurisdiction.

Unless otherwise agreed with the Company, any person or entity applying for secured debenture stock will, by virtue of their application, be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of the offer or an invitation of the kind contained in this Prospectus and is not acting for the account or benefit of a person within such a jurisdiction. Neither the Company nor any of its directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the offer.

Crown Retail Deposit Guarantee Scheme

Although the Company has the benefit of a guarantee ("Crown Guarantee") under the Crown retail deposit guarantee scheme until its expiry on 31 December 2011, the Company is no longer offering guaranteed debentures other than in the limited circumstances set out on page 10 of this Prospectus under the heading "Reinvestment / Repayment on Maturity".

This section applies only to existing investors in relation to:

- existing debentures subscribed for prior to 27 June 2011 covered by the Crown Guarantee; and
- new call investments covered by the Crown Guarantee in the circumstances described on page 10 of this Prospectus under the heading "Reinvestment/Repayment on Maturity".

The Company has a guarantee under the Crown retail deposit guarantee scheme, being a guarantee that commenced at 12.01 am on 12 October 2010 and expires at 11.59 pm on 31 December 2011, pursuant to the Crown Deed of Guarantee (Non Bank Deposit Taker) between the Company and the Crown dated 17 May 2010 (the "Extended Deed"), which relates to investments in first ranking secured debenture stock which have the benefit of the guarantee.

This section applies only to existing investors in relation to:

- existing debentures subscribed for prior to 27 June 2011 covered by the Crown Guarantee; and
- new call investments covered by the Crown Guarantee in the circumstances described on page 10 of this Prospectus under the heading "Reinvestment/Repayment on Maturity".

All other investments offered by the Company under this Prospectus do not have the benefit of the Crown retail deposit guarantee scheme.

The Crown Guarantee is subject to certain limitations. By way of summary, the principal limitations are that:

- the Crown Guarantee does not apply to those investors who are (i) related parties of the Company (defined to include directors and senior office holders of the Company, and in each case, their relatives, and related companies and subsidiaries of the Company); (ii) financial institutions; (iii) persons who are neither New Zealand citizens nor New Zealand residents; or (iv) nominees or trustees for any of those foregoing excluded persons;
- the Crown guarantee only applies to any obligation of the Company to pay money (whether present or future) to a qualifying investor ("Qualifying Creditor") pursuant to first ranking secured debenture stock issued by the Company with the benefit of the Crown guarantee ("Indebtedness"):
  - which becomes due and payable during the period of 12.01am on 12 October 2010 to 11.59pm on 31 December 2011; or
  - that exists on the date a default event (as described below) occurs or the date the Crown Guarantee is withdrawn, whether or not the Indebtedness is due and payable, and all interest accruing thereon; and
- the maximum liability of the Crown to each Qualifying Creditor is limited to $250,000. This liability cap applies to all Indebtedness and all interest accruing thereon due to a Qualifying Creditor. The Extended Deed will not cover any interest accrued following a Default Event (as defined below).

A default event will occur in the event the Company fails to make payment to a Qualifying Creditor in respect of the Indebtedness when due; it otherwise becomes insolvent or unable to pay its debts as they become due; it seeks or becomes subject to insolvency or bankruptcy proceedings; it seeks or becomes subject to the appointment of a voluntary administrator, liquidator or receiver; a secured party takes possession of all or substantially all of its assets or a court order is sought or enforced against those assets; it makes a general assignment, arrangement or compromise with or for the benefit of, all or a material number of its creditors (including a moratorium); or any action is taken to put the Company into statutory management ("Default Event").

If a Default Event occurs in respect of the Company, the Crown will, subject to receiving a notice of claim form from a Qualifying Creditor for their Indebtedness and upon satisfying itself as to the amount of that Indebtedness, make payment to the Qualifying Creditor in the amount of the Indebtedness up to maximum liability amount. Claims are required to be made by each individual Qualifying Creditor. The Trustee is not involved in this process. Under the Extended Deed a Qualifying Creditor must lodge a claim in respect of Indebtedness within 180 days following the date on which the Indebtedness becomes due and payable.

Crown Retail Deposit Guarantee Scheme continued

Under the terms of the Crown Guarantee, the Crown has the power to withdraw its guarantee. There are additional circumstances under which the Crown may withdraw the Crown Guarantee under the Extended Deed. These include a change in control, or likely change in control of the Company without the Crown's prior written consent, and where the Crown considers that there has been a material reduction in the net tangible assets of the Company and the Crown's net liability under the Crown Guarantee will or may be materially greater as a result of that reduction. The guarantee under the Crown Guarantee can also be withdrawn by agreement between the Company and the Crown. The Crown's obligations under the Crown Guarantee will continue to apply to Indebtedness existing on the date the Crown Guarantee is withdrawn.

At the time of its application to be a recipient of the guarantee under the Crown Guarantee, the Company was required to have a long-term issuer credit rating of BB or higher. A subsequent downgrade in the credit rating of the Company will not in and of itself affect the Company's eligibility to continue to participate in the extended Crown Guarantee.

During the term of the Crown Guarantee, the Company will need to comply with the restrictions imposed under the Extended Deed. The Crown has the ability to obtain information about the Company, including information about investors of first ranking secured debenture stock.

Where another guarantee covers Indebtedness to an investor, the Company must use all reasonable endeavours to ensure that an investor makes a claim under that guarantee before making a claim under the Crown Guarantee.

The above is a brief summary of the Crown Guarantee as at the date of this Prospectus. Further information about the Crown Guarantee including a copy of the Crown Guarantee and the Crown's most recent audited statement of financial position are available free of charge at all reasonable times on the Treasury website at www.treasury.govt.nz

Credit Rating

On 30 March 2011 Standard & Poor's Ratings Services ("S&P") reaffirmed that the Company's local currency (New Zealand dollar) long-term issuer credit rating is:

BB (Outlook Stable)

This rating was first assigned to the Company on 17 February 2010 by S&P, which is a rating agency approved under section 157J of the Reserve Bank of New Zealand Act 1989.

A local currency long-term issuer credit rating is a rating agency's opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations in New Zealand dollars in the long term. Under a long-term issuer credit rating, an obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments. See www.standardandpoors.com

The rating Outlook assigned by S&P assesses the potential direction of a long-term issuer credit rating over the intermediate term (typically six months to two years). A Stable Outlook means that a rating is not likely to change, and reflects S&P's expectation that the Company's financial characteristics will remain stable in the medium term.

There have been no other ratings assigned to the Company in the last two years.

The ratings assigned to the Company are statements of opinion issued by S&P. They are not statements of fact, an endorsement of the Company, or a recommendation to buy, hold or sell securities.

S&P'S LONG-TERM ISSUER CREDIT RATINGS CATEGORIES

AAA An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

AA An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments.

B An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC An obligor rated 'CCC' is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

CC An obligor rated 'CC' is currently highly vulnerable.

Plus (+) or minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

TRUST DEED

First ranking secured debenture stock offered by this Prospectus is issued in accordance with and secured in terms of a supplemental and amending trust deed dated 30 September 1985, as amended by certain amending deeds dated 31 July 1997, 5 December 2002, 20 June 2003, 19 February 2004, 23 February 2007, 23 July 2008 and 29 November 2010 (the said trust deed, as amended, being referred to in this Prospectus as the "Trust Deed") entered into between the Company (under its former name of Consumer Finance Corporation Limited), the Charging Group Members and The New Zealand Guardian Trust Company Limited as Trustee for investors.

The Trustee does not guarantee the repayment of the stock or the payment of interest thereon.

All existing debenture stock secured by the Trust Deed and issued by the Company and other members of the Charging Group, whether under any former names or not, ranks equally with any first ranking debenture stock to be issued under this Prospectus.

An indication of some of the principal covenants of the Trust Deed is given below and on pages 19-20. For full details, reference should be made to the Trust Deed, which is available for inspection at the registered office of the Company, 31 Highbrook Drive, East Tamaki, Auckland. A copy is also available on the Companies Office website at www.companies.govt.nz

Terms with special meanings defined in the Trust Deed have capital letters.

CHARGING GROUP

The Charging Group Members comprise the Company and the following Charging Subsidiaries (together, "the Charging Group"):

- Consumer Finance Limited; and
- Equipment Finance Limited.

These companies have entered into 'intra-group guarantees' in respect of their joint obligation to pay interest and repay the debenture stock and have granted general security interests over their respective assets in favour of the Trustee to secure its liability in respect of all secured borrowings, comprising both secured debenture stock and secured bank overdrafts and bank borrowings.

Every wholly owned subsidiary of the Company is required to become a Charging Subsidiary unless two Directors certify that there are sound commercial reasons why a wholly-owned subsidiary should not become a Charging Subsidiary. Currently all the subsidiaries of the Company except Consumer Insurance Services Limited ("CISL") are Charging Subsidiaries.

In order to preserve its insurance rating, in 2004 CISL was released and discharged from its guarantee and other obligations under the Trust Deed and ceased to be a Charging Group Member. In consideration of CISL being released and discharged:

(a) the Company agreed not to permit or allow the shares in CISL to be sold or transferred (except to another Charging Group Member) without the prior written consent of the Trustee;

(b) CISL agreed (amongst other things):
    - to provide certain information to the Trustee from time to time;
    - to carry on its business in the normal manner;
    - to comply with certain provisions of the Trust Deed as if it remained a Charging Group Member;
    - not to sell its business or assets (other than to a Charging Group Member) without the prior written consent of the Trustee;
    - not to charge its assets without the prior written consent of the Trustee; and
    - to return not less than ninety percent (90%) of its after-tax profit to its shareholder by way of dividend.

The Charging Group does not include the Farmers Finance business acquired by Fisher & Paykel Financial Services Limited ("FPFSL"), which is another subsidiary of Fisher & Paykel Finance Holdings Limited ("FPFHL") (see page 31).

RELATED PARTY TRANSACTIONS

The Trustee has consented to the Charging Group providing services to and accepting services from Fisher & Paykel Appliances Limited ("FPA"), FPFSL, FPFHL and Retail Financial Services Limited (all of which are Non-Charging Related Companies) and CISL (which is a Non-Charging Subsidiary).

The consent has been provided for services incurred in the ordinary course of business, for proper value and on reasonable commercial terms relating to cost centre and direct overhead recharges, and insurance commissions received from and taxation payments made on behalf of these companies, on the condition that:

- the month-end outstanding balance of the related party transactions (excluding the outstanding balance in respect of financial accommodation owing to FPA and any subvention payment and corresponding loss offset with FPA) does not exceed $5.0 million in any month, without the prior written consent of the Trustee;
- expense, overhead and service recharges, interest due to FPA in respect of financial accommodation and insurance premiums collected on behalf of CISL are settled on a monthly basis;
- a schedule of related party transactions is included in the monthly management reports provided to the Trustee, detailing the outstanding balance of the related party transactions;
- the transactions are on terms no worse than arms length terms, are not materially different to previously disclosed transactions and are consistent with the Trust Deed; and
- any subvention payments and corresponding loss offset with FPA are notified to the Crown and the Trustee with a requisite director's certificate at least three days before the transaction occurs.

For these purposes the related party transactions are:

- expense and overhead recharges to, and repayments from, CISL;
- expense and overhead recharges to, and repayments from, related entities of the Company;
- expense and overhead recharges and repayments for services provided by related entities of the Company;
- interest payments by the Company to FPA in respect of financial accommodation;
- insurance premiums collected by a wholly owned guaranteeing subsidiary of the Company on behalf of and paid to CISL;
- advances of financial accommodation provided by FPA to the Company up to the limit of the subordinated debt facility (now cancelled); and
- subvention payments and corresponding loss offsets by the Company with FPA.

The Trustee has also consented to the Company entering into a transaction with the FPA Consolidated Tax Group to purchase for $2,156,000, tax credits of equivalent value which the Company used to offset against its August 2011 provisional tax payment.

Where required, the Crown granted equivalent consents to the Company in accordance with the Extended Deed.

Other than Q Card lending in the ordinary course of business, the Charging Group does not make loans to related parties.

SECURITY OF THE STOCK OF THIS ISSUE

The debenture stock is secured by a first ranking general security interest in favour of the Trustee over the undertaking of the Company and the other Charging Group Members, including:

(a) all their respective present and future assets within New Zealand, including uncalled and unpaid capital;

(b) all bank balances and book debts situated outside New Zealand; and

(c) all other assets situated outside New Zealand and charged in favour of the Trustee.

Prior charges (if any) that may rank ahead of the first ranking debenture stock are:

- Charges given priority by legislation such as purchase money security interests registered under the Personal Property Securities Act 1999 (the "PPSA") and other claims given priority by legislation, such as liquidation costs, employees' remuneration and taxes; and
- Prior charges permitted under the Trust Deed (so long as the total borrowing under all such prior charges does not exceed 7.5% of Total Security Assets as defined under the Trust Deed);

Subject to any claims given priority by legislation, as at the date of this Prospectus there were no prior charges ranking in priority to the first ranking secured debenture stock.

The Trust Deed includes provision for the Issue from time to time by any Charging Group Member of additional Stock ranking equally in point of charge with the Stock previously issued.

LIMITATION ON BORROWING

The Trust Deed places limits on the borrowings of the Charging Group. The Charging Group covenants with the Trustee that it will not:

(a) Permit Total Liabilities to exceed the aggregate of:

- 91% of Total Tangible Assets (which includes the Market Worth of Public Sector and Other Approved Securities); and
- 6.5% of the aggregate of the Market Worth of Public Sector and Other Approved Securities.

(b) Permit the First Ranking Stock (including Security Stock) and Prior Charges to exceed the aggregate of:

- 87.5% of Total Security Assets (which includes the Market Worth of Public Sector and Other Approved Securities); and
- 10% of the aggregate of the Market Worth of Public Sector and Other Approved Securities.

OTHER COVENANTS

The Charging Group covenants that it will not without the prior written consent of the Trustee:

(a) dispose of any part of its assets or lend money or provide services to or purchase any assets or accept services from a Non-Charging Related Company other than in the ordinary course of business and for proper value and on reasonable commercial terms;

(b) make any alteration to its business as a result of which the principal business of the Charging Group shall cease to be that of a finance company;

(c) sell or transfer, whether by a single transaction or any series of transactions whether related or not, the whole or any substantial part of the business of the Charging Group (viewing such business as a single entity) except to a Charging Group Member;

(d) write up the value of any Tangible Asset in its books of account to a value in excess of its Market Worth at the time of writing up;

(e) guarantee or give security for the obligations of any Non-Charging Related Company provided, however, that a Charging Group Member can draw, accept or endorse any bill of exchange, where a Non-Charging Related Company and a third party are also liable as parties to such bill of exchange and can guarantee the obligations of any Non-Charging Related Company in respect of any loan or similar facility for the purpose of specific on-lending to third parties;

(f) make any Distribution other than:

- a Distribution from a Charging Subsidiary to the Company; or
- by way of a dividend out of profits;

(g) enter into a Compromise or Arrangement or amalgamate with any other company which is not a Charging Subsidiary; or

(h) give financial assistance to any person for the purpose of, or in connection with, the purchase of, a share issued or to be issued by the Company, a Charging Subsidiary or a Parent, except for loans made to employees of the Company, employees of the Parent or employees of any Subsidiary of the Parent, for the purpose of acquiring shares in the Parent Company.

In addition the Company covenants that:

(a) other than where failure to comply would not have a material adverse effect on the financial conditions or operation of the Charging Group, it will at all times hold a credit rating from a rating agency approved under the Reserve Bank of New Zealand Act 1989 and will comply with the corporate governance, risk management and other deposit taker regulatory requirements set out in that Act to the extent it is required to do so by law.

(b) other than where failure to comply would not have a material adverse effect on the financial conditions or operation of the Charging Group, it will comply with the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 and the Deposit Takers (Liquidity Requirements) Regulations 2010 to the extent it is required to do so by law.

ADDITIONAL COVENANTS

Pursuant to the Deposit Taker (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 and the Deposit Takers (Liquidity Requirements) Regulations 2010 (together "Deposit Takers Regulations") the Company amended the Trust Deed on 29 November 2010 to include the following additional covenants:

(a) A minimum capital ratio calculated in accordance with the Deposit Takers Regulations of at least 8%. As at 31 March 2011, the capital ratio of the Charging Group was 12%.

(b) A maximum limit on related party exposure (being the maximum actual, potential, or contingent exposure to loss for the Company (or a member of the Charging Group) under a contract or arrangement if a related party of the Company (or a member of the Charging Group) fails to discharge its obligations) which must not exceed 15% of the Charging Group's capital. As at 31 March 2011, the related party exposure of the Charging Group was 0.04%.

(c) A liquidity covenant requiring that the sum of the Charging Group's liquid assets and the undrawn portion of any committed bank facility provided to the Charging Group is at all times greater than the sum of the Charging Group's call and term retail borrowings (excluding any term retail borrowings for which repayment is not due within the next three months) and the amount outstanding under any of the Charging Group's bank facilities which have been entered into on an on-demand or uncommitted basis. As at 31 March 2011, the Charging Group held $205m, representing 386% of its call and retail borrowings maturing within 3 months.

(d) reporting obligations requiring the Company to report to the Trustee monthly on the current calculation of the liquidity covenant, minimum capital ratio, aggregate exposures to related parties, the liquidity summary showing the maturity profile for the existing funding facilities and receivables and other information relating to the Charging Group's liquidity position as agreed between the Trustee and the Company.

REPORTS TO TRUSTEE

The Trust Deed, as supplemented by Schedule 15 of the Securities Regulations 2009 requires the Company and/or its Directors to provide the Trustee with:

(a) reports by the Company's Auditors annually and when so required in special circumstances;

(b) half-yearly and annual financial statements for the Company and the Charging Group within three months after the end of the financial year or half year (the annual financial statements are required to be audited, the half yearly financial statements are required to be audited or reviewed by the auditor);

(c) quarterly reports on a list of matters specified in the Trust Deed concerning the affairs, assets and financial performance of the Charging Group (establishing a permitted amount of stock borrowing for the ensuing six-month period) within two months of the end of each financial quarter;

(d) monthly management reports and monthly reports on liquidity, asset quality, reinvestment rates and compliance with financial covenants in financing arrangements with third parties;

(e) quarterly reporting in respect of compliance with the Risk Management Programme, and prompt notification of any material non-compliance and details of the Company's plan to restore compliance;

(f) any other reports that the Trustee requests;

(g) a certificate at least once every three months certifying that at all times during the monthly reporting periods, this Prospectus was up to date, was not false or misleading in a material particular and that the provisions of the Trust Deed have been complied with; and

(h) reports setting out the information in paragraph (d) under the heading "Additional Covenants" above;

The Company amended its Trust Deed on 29 November 2010 to also require regular reporting to the Trustee on compliance with minimal capital adequacy ratio and maximum related party exposure covenants.

Additionally, the Company is required to advise the Trustee of any major transaction to be entered by the Company, and, as soon as it becomes known, of any effective change in control of the Company, of every change of the directors of the Company and of significant changes in the senior management team.

MEETINGS OF STOCKHOLDERS

The Trust Deed provides for meetings of the Debenture Stockholders. Extraordinary resolutions duly passed at properly convened meetings may alter the terms of the Trust Deed and are binding upon all Debenture Stockholders provided that:

(a) where the resolution affects a particular class of Debenture Stockholders, as opposed to the rights of the Debenture Stockholders generally, a resolution of affected Debenture Stockholders is also passed; and

(b) where the resolution affects a particular Debenture Stockholder, as opposed to the rights of the Debenture Stockholders generally, the consent of the affected Debenture Stockholder is obtained.

DUTIES OF THE TRUSTEE

Duties of the Trustee under the terms of the Trust Deed (as supplemented by Schedule 15 of the Securities Regulations 2009), include:

(a) to receive and review reports from the Company and its Auditors;

(b) to monitor compliance with all the covenants and obligations of the Charging Group under the Trust Deed;

(c) to enforce the security constituted by the Trust Deed if any one or more of the events of default, as outlined in the Trust Deed occur;

(d) to exercise reasonable diligence to ascertain whether or not any breach of the terms of the Trust Deed or the terms of the offer of the debenture stock has occurred, and except where the Trustee is satisfied such breach is not material, to cause such breach to be remedied; and

(e) to exercise reasonable diligence to ascertain whether or not the assets of the Charging Group are sufficient or likely to be sufficient to discharge the amounts of the debt securities as they become due.

AUDIT

The Trust Deed (as supplemented by Schedule 15 of the Securities Regulations 2009), requires the Company to:

(a) consult with the Trustee before recommending the appointment or reappointment of the auditor; and

(b) notify the Trustee if an auditor resigns from appointment or declines to accept appointment or reappointment, and to pass on to the Trustee any explanation for the auditor doing so.

Trustee's Letter

Guardian Trust
THE NEW ZEALAND GUARDIAN TRUST COMPANY LIMITED

16 September 2011

The Directors
Fisher & Paykel Finance Limited
31 Highbrook Drive
East Tamaki
AUCKLAND

Dear Sirs

DEBENTURE TRUST DEED DATED 30 SEPTEMBER 1985 AS AMENDED

Clause 14(3) of Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer of securities ("the Securities") by Fisher & Paykel Finance Limited set out in this Prospectus complies with any relevant provisions of the Trust Deed. These provisions are those which:

(i) entitle Fisher & Paykel Finance Limited to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the Securities offered in this Prospectus;

(ii) impose restrictions on the right of Fisher & Paykel Finance Limited to offer the Securities;

and are described in the summary of the Trust Deed in this Prospectus.

The Auditors have reported on the financial information set out in this Prospectus and our statement does not refer to that information or to any other material in this Prospectus which does not relate to the Trust Deed.

We confirm that the offer of Securities set out in this Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis:

(a) set out above; and

(b) that the Trustee relies on the information supplied to it by Fisher & Paykel Finance Limited pursuant to the Trust Deed and does not carry out an independent check of the statements or the figures supplied to it in that information.

The Trustee does not guarantee the repayment of the Securities offered or the payment of interest thereon.

Signed for and on behalf of the Trustee.

M P Jephson
Relationship Manager Corporate Trusts

Corporate Trusts

Vero Centre, 48 Shortland Street, Auckland 1001
PO Box 1934, Auckland 1015, New Zealand
Telephone: (09) 377 7300, Facsimile: (09) 377 7477
Email: ct-auckland@nzgt.co.nz

www.guardiantrust.co.nz

Business Risks

All companies are exposed to a variety of risks depending on the industry in which they operate, and finance companies are no exception. The Company puts significant management resources and effort into identifying, understanding and assessing the risks it faces, and has developed a robust Risk Management Programme in accordance with the requirements of section 157M of the Reserve Bank of New Zealand Act 1989 ("Reserve Bank Act"), with policies and procedures to govern this process.

The Risk Management Programme is based on the then applicable Australian and New Zealand standard on risk management (AS/NZS 4360:2004), which provides a generic guide to organisations for managing risk. The Trustee has approved the risk management programme presented by the Company as meeting the requirements of section 157M(2) of the Reserve Bank Act. The Risk Management Programme is reviewed internally periodically and compliance with the Risk Management Programme is reported to the Trustee in a quarterly directors' certificate. In addition, an annual report is provided to the Trustee. If a material change is required to the Risk Management Programme during the year, this is agreed with the Trustee at the time, otherwise changes to the Risk Management Programme are reported to the Trustee in the annual report.

The Company's approach to risk management is summarised in this section.

PRINCIPAL RISKS

The four principal risks faced by finance companies and identified under the Reserve Bank Act summarised in this section are credit risk, liquidity risk, market risk and operational risk.

- Credit risk is the risk of financial loss that arises if customers are unable to make payments of interest and/or principal in a timely manner or at all.
- Liquidity risk is the risk of insufficient liquid funds to meet financial obligations as they fall due, or being unable to raise sufficient funds at short notice.
- Market risk is the risk to margins resulting from movements in interest rates and currencies, and from changes in patterns of consumption.
- Operational risk is the risk of direct financial loss that can arise from a breakdown of internal controls, an unforeseen disaster or changes in regulation.

The Risk Management Programme's policies and procedures contain the processes for identifying, analysing, evaluating, eliminating and/or mitigating these risks. The effectiveness of the Risk Management Programme policies and procedures is monitored at a formal level by the executive team and senior management, by various committees and by the Board.

Details of these principal risks as they relate to the Charging Group are discussed below.

(a) Credit Risk

The Charging Group lends money to a variety of customers, including individuals, companies and other organisations, and there is a risk of financial loss if customers do not pay interest on, or repay, their loans on time or in full.

As a consequence of the Global Financial Crisis during 2007-2009, and the slow recovery of the economy in 2010 and 2011, households are continuing to experience financial pressure. A specific impairment provision has been raised to recognise the estimated impact of the Christchurch Earthquakes on portfolio performance. Excluding the provisioning impact associated with the Christchurch Earthquakes, the Charging Group's credit impairment provision to receivables ratio has improved over the past twelve months. Bad debt expense has also reduced from peak levels of 2009 but remain above levels previously experienced prior to the Global Financial Crisis. Notwithstanding the current initiatives of the Company as described below, if there is any further significant increase in provisioning and bad debt write-offs, this may have a material adverse effect on the financial performance and financial condition of the Charging Group.

In the consumer lending business, robust credit processes are employed when originating new loans to customers. These processes incorporate credit scorecards, credit checks, fraud detection software, business rules and review of customer credit history to assess a customer's credit worthiness. Wherever appropriate, a charge will be taken by way of a security interest over the asset financed. Generally, the Charging Group will, in the first instance, attempt to collect outstanding debts without recourse to the secured asset. Repossession of secured assets occurs only in circumstances where it is economic to do so. In many instances third party agencies are utilised in the arrears management process. The Company does not usually enter into recourse agreements with its merchants or dealers.

In the commercial lending business, the integrity and financial standing of approved borrowers is relied upon. All equipment finance, rental and leasing contracts are assessed in accordance with a range of credit criteria and the amount of each advance. Criteria include credit checks, trade references and financial account analysis. These contracts are secured over the goods financed and guarantees are obtained from the business proprietors in certain circumstances. Assets financed include machinery, plant and equipment, but do not include residential or commercial property.

The Company provides a wholesale finance facility to Smithcorp Finance Limited, a special purpose funding vehicle, for which the Company takes security over the underlying finance receivables that are assigned to Smithcorp Finance Limited. In addition several factors are taken into account in determining the amount of money advanced, including average yield and arrears levels. A security reserve is also maintained to ensure that a margin exists between the amounts advanced and the estimated fair value of the underlying finance receivables.

The Company has a credit committee that oversees all aspects of credit risk assessment and credit management, and operates within formal credit policies and guidelines approved by the Board of the Company. These policies ensure that any credit risk incurred falls within acceptable parameters.

The Charging Group's exposure to the major lending sectors as at 31 March 2011, stated as a percentage of net finance receivables, is set out below:

- consumer lending activities, incorporating Q Card, represented 71% of net finance receivables. Consumer lending advances were spread over approximately 140,000 accounts with an average exposure of approximately $2,000;
- commercial lending activities represented 10% of net finance receivables. Commercial lending advances were spread over approximately 12,000 accounts with an average exposure of $3,300; and
- the Smithcorp Finance bulk funding facility represented 19% of net finance receivables. The advances made to Smithcorp Finance Limited are secured over approximately 86,000 underlying finance receivable accounts with an average exposure of approximately $900.

(b) Liquidity Risk

This is the risk that the Company may have insufficient liquid funds, or may not be able to raise sufficient funds at short notice, to meet its financial obligations as they fall due. This situation can arise if there is a significant mismatch in the maturity profile of its financial assets and liabilities.

The Company manages liquidity risk in a number of ways:

- by monitoring internal liquidity ratios against internal requirements, the requirements of the Trust Deed and day to day funding requirements;
- by regularly forecasting future cash flows to assess maturity mismatches in advance;
- by not relying on any one funding source, but maintaining a diverse and stable funding base;
- by maintaining strong bank relationships and committed bank credit facilities; and
- by monitoring the maturity profile for existing funding facilities and receivables.

In addition, the Company is subject to the liquidity covenants contained in its Trust Deed (refer page 20 for a discussion on compliance with these covenants).

The Company operates an asset and liability committee that oversees all aspects of balance sheet risk assessment and management, including liquidity risk. This committee has a formal charter that outlines its role and responsibilities. All treasury related activity must comply with formal treasury risk management policies.

Liquidity risk increases when long term assets are funded with short term liabilities. As at 31 March 2011 the weighted average expected repayment of the Charging Group's total loans and advances was 13 months (based on the Company's modelling undertaken for hedging purpose) and the weighted average time to maturity of its total borrowings (excluding equity capital) was 20 months, mitigating its liquidity risk.

The Company obtains its funding from retail debentures ($140.4 million as at 31 March 2011), committed bank facilities ($225.0 million drawn as at 31 March 2011), and equity capital.

A material change in the availability of these sources of funding may materially affect the financial performance and condition of the Company.

In relation to these sources of funding the following factors may be relevant:

(i) Crown Retail Deposit Guarantee Scheme

The Crown retail deposit guarantee scheme expires on 31 December 2011. Investors initially attracted by a Crown Guarantee may choose not to reinvest and the Company's retail reinvestment rates may consequently be adversely affected. In the two month period since the Company ceased offering new guaranteed term and call debentures, the Company has experienced a significant decline in reinvestment rates. The Company anticipates reinvestment rates will remain volatile in the near-term, as a result of the Crown retail deposit guarantee scheme expiring on 31 December 2011. The Company is implementing a range of initiatives to manage debenture concentrations and extend the duration of its retail debenture funding portfolio. As at 31 August 2011, over half of the term debentures in this portfolio have a maturity date beyond the expiration of the Crown Guarantee.

Instability or disruption in the finance sector caused by finance company failures or otherwise, resulting in reduced investor confidence in companies may also cause the Company's retail re-investment rates to be adversely affected. To address these circumstances, the Company would seek to maintain reinvestment rates through pricing and other strategies, which may or may not be successful. In addition, the current expectation of the Board, based on past practice of the banking syndicate to agree to extension requests to the tranches of the Company's syndicated banking facility, is that a significant reduction in retail debenture funding on expiry of the Crown Guarantee or otherwise could, if required, be replaced by funding under the Company's syndicated banking facility. However, the resulting loss of, or reduction in, diversity in the funding sources of the Company may, over time, have a material adverse effect on the financial performance and financial condition of the Company.

(ii) Retail debentures

The amount of retail debenture funding received by the Company is dependent on the level of new funds received from investors and the re-investment rate achieved on maturing debentures, both of which are affected by the level of investor confidence in the New Zealand finance sector generally and in the Company's business specifically. The Company experienced a reduction in retail debenture funding from $156.9 million to $140.4 million during the course of the year ended 31 March 2011. Since then, the Company has experienced volatility in reinvestment rates and expects this to continue in the near-term. A sustained significant reduction in the debenture reinvestment rates which, if it were not offset by funding from other sources, may have a material adverse effect on the financial performance and financial condition of the Company.

(iii) Parent Company support

Currently the terms of FPA and FPAHL's Syndicated Multi Option Funding Facility do not permit FPA to provide additional capital or funding to the Company. FPA is in the course of renegotiating the terms of its facility and has received an agreed indicative term sheet from its bankers. Pursuant to the agreed indicative term sheet, permitted sources of capital from FPAHL to the Finance Group (including the Charging Group), provided FPAHL continues to meet the terms of its facility, are as follows:

- capital that FPAHL has raised for the express purpose of providing that capital to the Charging Group; or
- capital from cash flow or debt, provided that FPAHL also meets additional specific limitations relating to the provision of capital from such sources.

If the Company is unable to access sufficient levels of additional capital or funding to meet its obligations then this may have a material adverse effect on the financial performance and financial condition of the Company.

(iv) Bank facility

The Company sources a portion of its funding from wholesale bank facilities and $225.0 million was drawn from the Company's $385.0 million syndicated banking facility as at 31 March 2011. At the date of this Prospectus, the facility comprises five tranches: tranche A of $20.0 million maturing in April 2012, tranche B of $105.0 million maturing in October 2013, tranche C of $105.0 million maturing in October 2012, tranche D of $105.0 million maturing in April 2014, and tranche E of $50.0 million maturing in October 2012. The Company may in due course seek further extensions of any of these tranches beyond their current maturity dates. The current expectation of the Board, based on past experience, is that the banking syndicate would agree to such extension requests.

The syndicated banking facility includes a "Change in Market Conditions" clause which defines a "Market Disruption Event" as (i) circumstances, such as adverse funding conditions or market liquidity constraints, which result in a lender becoming unable to participate in an advance requested under the facility or (ii) notification to the facility agent by a lender that its cost of obtaining deposits in the interbank market would be in excess of the base rate for the advance. Where a market disruption event occurs the parties to the agreement will enter into negotiations either to agree a substitute basis for maintaining advances or the relevant future rate of interest (as applicable). If agreement cannot be reached, the Company must repay to the relevant lender(s) each advance outstanding and accrued interest thereon up to the repayment date.

If the banking syndicate did not agree to requested extensions of the bank facilities or if a market disruption event occurred, this would significantly reduce the funding available under the syndicated banking facility. This would place significant liquidity pressure on the Company and could result in a material adverse effect on the financial performance and financial condition of the Company.

(v) Covenants

The syndicated banking facility and the Trust Deed require compliance with financial covenants. The Company is satisfied that it will be able to continue to comply with these financial covenants. However, material increases in bad debt expense and asset impairment or a significant decline in earnings as a result of a further deterioration in general economic conditions or otherwise, could cause the Company not to comply with these financial covenants. Consequences of a failure to comply with any financial covenant may include increased interest costs, decreased availability of debt funding, acceleration of repayment of the outstanding facilities, a requirement for increased capital or enforcement of security interests.

(c) Market Risk

(i) Economic

There are several factors that impact the Company's activities over which it has little or no control, including the political and economic environment in New Zealand.

The New Zealand economy is experiencing a range of adverse influences that are resulting in challenging market conditions. A continued and/or prolonged deterioration in general market conditions will result in reduced demand for point of sale finance and a consequential fall in interest earned by the Company. Reduced or negative growth, such as a reduction in demand for retail goods, could have a material adverse effect on the financial performance of the Company.

The Company regularly monitors local and global economic and business conditions, in order to identify and assess any potential risks that may impact on its operations. In addition the Company holds regular formal meetings with external economic advisers. However, economic changes are not always predictable, and significant changes in the local economy could impact the Company's business.

(ii) Interest rates

The Company and the Charging Subsidiaries hold interest bearing assets and liabilities, and incur interest rate risk because these assets and liabilities will mature or reprice in different periods. Since market interest rates fluctuate, this may impact on the margin earned between these interest bearing financial assets and liabilities.

While the Company has maintained satisfactory lending margins since the onset of the global economic and financial downturn, those lending margins may come under pressure as borrowing rates increase from their recent low levels. Any such increase in borrowing rates could adversely affect the Company's lending margins and thus materially affect the financial performance of the Company.

The Company manages interest rate risk in a number of ways:

- by monitoring the maturity profile of assets and liabilities, and seeking where possible to match the date at which these mature and reprice;
- by monitoring market interest rates and reviewing the impact of these on interest rate exposure;
- by hedging exposure using financial derivative instruments. This activity is undertaken in accordance with treasury risk management policies approved by the Board of the Company; and
- by reviewing lending rates from time to time.

The asset and liability committee is responsible for managing interest rate risk in accordance with its charter and treasury risk management policies. A pricing committee with a separate charter outlining its role and responsibilities is responsible for establishing and reviewing interest rates on money lent.

(iii) Credit rating

The Company was required by the Reserve Bank Act to obtain a credit rating from an approved rating agency by 1 March 2010. The creditworthiness of the Company was rated by S&P, a rating agency approved under section 157J of the Reserve Bank of New Zealand Act 1989. The local currency (New Zealand dollar) long-term issuer credit rating of BB (Outlook Stable) was reaffirmed on 30 March 2011 (refer page 16 for the S&P rating scale).

If there is a subsequent reduction in the credit rating of the Company, this may adversely impact on the lending margins of the Company, on the Company's ability to raise funds from investors and the confidence of its banking syndicate to maintain current funding levels and pricing under its syndicated banking facility.

(iv) Currency

Since the Charging Group operates in New Zealand and transacts business in New Zealand Dollars, it is not exposed to any material foreign currency risk.

(d) Operational Risk

The Company is exposed to financial loss and/or damage to its reputation if operational risks are not identified and properly managed.

This could arise due to information technology systems failure or a breakdown in internal control systems or operating procedures. Alternatively this could arise due to an external event beyond the direct control of the Company. Should any of these events occur this could have a material adverse effect on the financial performance and financial condition of the Company.

(i) Internal Control Environment

The Company's internal control systems are subject to continual review and improvement as the business seeks to gain efficiencies and improve customer service standards across all activities.

Risks and controls are formally assessed by the Company's Board, executive team and senior management on a regular basis, including internal audit reviews and external auditor consideration of the control environment as part of the annual audit. The Risk Management Programme is reviewed internally periodically and compliance with the Risk Management Programme is reported to the Trustee in a quarterly directors' certificate. The company is required to promptly notify the Trustee of any material non-compliance and provide the Trustee with details of the Company's plan to restore compliance. In addition, an annual report (attaching quarterly compliance certificates) is provided to the Trustee. If a material change is required to the Risk Management Programme during the year, this is reported to the Trustee at the time, otherwise changes to the Risk Management Programme are reported to the Trustee in the annual report. In addition, there are a number of management committees which meet regularly and which are responsible for assessment and proactive management of risk. The key committees are the Executive Committee, the Asset and Liability Committee, the Credit Committee, the Pricing Marketing and Operations Committee and the Information Services Committee. The internal and external audit reviews are subject to overview by the Audit and Risk Management Committee (which is a subcommittee of the Board of the Company's ultimate parent, FPAHL).

(ii) Disaster Recovery and Business Continuity

The Charging Group is at risk from the effects of a natural disaster, such as an earthquake, and the consequences that this could have on business operations. Business continuity and disaster recovery plans have been established to minimise the disruption caused by such events, and ensure that operations can be resumed as quickly and efficiently as possible.

(iii) Reliance on key retailers

The Company distributes its financial products and services through a large number and diverse range of retailers in New Zealand. One or more of these retailers choosing to use products and services of a competitor could result in a loss of business for the Company. This could result from a variety of factors, including a change in consumer preference, point of sale technologies and cost of funds. In an environment of increasing competition for exclusivity arrangements, the Charging Group has experienced a change in key retail partners. The loss of one or more relationships with key retailers could have a material adverse effect on the financial performance and financial condition of the Company.

Business Risks continued

(iv) Regulatory Environment

The Company seeks to comply in all respects with all applicable legislation, but acknowledges that regulations and legislation are always subject to change. The Company's Board and management have extensive experience in the industry and keep abreast of current issues and developments, through regular reporting from the General Counsel & Company Secretary, participation in industry groups including in particular the Financial Services Federation, involvement in the wider business community and by engagement of external advisers.

The New Zealand financial sector is in the process of significant regulatory reform:

- **Prudential Regulation by the Reserve Bank:** Pursuant to the Reserve Bank Act, the Company as a Non-Bank Deposit Taker is subject to prudential supervision by the Reserve Bank. The principles of these Non-Bank Deposit Taker reforms include:
  - the importance of recognising that investors are responsible for assessing risk in relation to potential investments;
  - the desirability of providing to investors adequate information to enable them to assess risk in relation to potential investments and to distinguish between high-risk and low-risk deposit takers;
  - the desirability of promoting sound corporate governance; and
  - the need to avoid unnecessary compliance costs.

  Pursuant to these reforms, the Company has a BB (Outlook Stable) credit rating from S&P. The Company has a formal Risk Management Programme in order to effectively identify and manage credit risk, liquidity risk, market risk and operational risk. The Company's Risk Management Programme has been approved by the Trustee as meeting the requirements of section 157M(2) of the Reserve Bank Act. The Company appointed John Gilks as its non-executive Chairman in December 2009. On 22 September 2010 the Company appointed Carlos da Silva and Heughan Rennie QC as independent directors of the Board. The Reserve Bank of New Zealand has acknowledged that as the Fisher & Paykel Finance Group is managed and operated on an interdependent basis it would be unduly onerous and burdensome to restrict these directors from being appointed to the boards of the Company's immediate parent, Fisher & Paykel Finance Holdings Limited, and all of its subsidiaries and accordingly has granted the Company an exemption from this restriction. In 2010 in compliance with the new NBDT provisions of the Reserve Bank Act, the Company amended its constitution with the effect that the directors of the Company must act in the best interests of the Company, and not its immediate holding company or ultimate parent company.

  In November 2010, the Company amended its Trust Deed to reflect the capital, liquidity and related party transaction requirements set out in the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 (refer page 20 for discussion on compliance with these covenants). In August 2011 the Non Bank Deposit Takers Bill was introduced to Parliament to implement a licensing regime for NBDTs as well as imposing fit and proper requirements on directors and extending the Reserve Banks powers to supervise NBDTs.

- **Financial Advisers Regime:** This regime came into force in mid 2011. It affects all staff who give financial advice about products issued by the Charging Group.

- **Anti-Money Laundering and Countering Financing of Terrorism Act 2009:** This Act imposes filtering, monitoring and reporting obligations on financial institutions in relation to transactions that could be used to launder money or finance terrorism and is due to come into force in June 2013. The Company has established a working group sponsored by the General Counsel & Company Secretary and Chief Risk Officer to oversee implementation of this regime. The Company has engaged external consultants to assist with implementation of the regime.

- **Consumer Credit and Credit Repossession Law Reform:** The Ministry of Consumer Affairs has signalled its intention to introduce legislation to Parliament in late 2011 amending consumer credit law. In addition, the Law Commission is reviewing current consumer credit repossession laws. The Charging Group has been and will continue to actively engage with the Financial Services Federation, Ministry of Consumer Affairs and Law Commission on these proposed reforms.

- **Securities Law Reform:** The Charging Group is monitoring the development of proposed securities law reforms.

- **Privacy Law and Positive Credit Reporting:** The Charging Group is monitoring developments on privacy law and proposed positive credit reporting capability with interest and is working closely with its credit bureaus on these matters.

The Company is also closely following developments regarding proposed amendments to the Credit Contracts and Consumer Finance Act 2003 ("the CCCFA"), securities laws and consumer protection laws. In each case, discussion papers have been released. The Company has made submissions on the proposed changes to the CCCFA and anticipates that it will either directly, or through the Financial Services Federation, look to make submissions on the proposed reforms for securities legislation and consumer protection laws.

If the Company's estimates of the cost associated with these regulatory reforms prove materially inaccurate or if the Company is unable to comply with these new regulatory requirements, this will have a material adverse effect on the financial performance and financial condition of the Company.

(v) Litigation

There is always a risk that the Charging Group may be involved in a dispute that results in court or arbitration proceedings which could be costly and time consuming, and may have other adverse consequences on the Company's business. In particular, refer to disclosures on page 30 of this Prospectus under the heading "Pending Proceedings".

IMPACT OF INSOLVENCY

If the Company or any member of the Charging Group should become insolvent for any reason, the Company may be unable to pay interest and/or repay part or all of its debt.

In this event, investors may suffer a direct financial loss, but investors would not be liable to pay any further money to the Company. The claims of investors holding first ranking secured debenture stock rank equally with the claims of all other first ranking secured debenture stock holders and security stock holders, but in the event of insolvency, certain payments must be met by the Company before investments can be repaid. These prior claims include payments given priority by legislation such as purchase money security interests registered under the PPSA and other payments given priority by legislation in a bankruptcy or liquidation, such as taxes, employee remuneration and liquidation costs. Additionally, under the Trust Deed, the Company or another member of the Charging Group may grant prior charges which have priority for payment over the first ranking secured debenture stock, but these charges are restricted to a maximum of 7.5% of Total Security Assets, as defined in the Trust Deed.

Subject to any claims given priority by legislation, as at the date of this Prospectus there were no prior charges ranking in priority to the first ranking secured debenture stock.

As mentioned above, the Charging Group does face certain risks in the conduct of its day-to-day activities. Investors should be aware of these risks so that they can make informed decisions about their investments.

GUARANTORS

Under the terms of the Trust Deed, Consumer Finance Limited and Equipment Finance Limited are members of the Charging Group and guaranteeing subsidiaries.

MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company during the period of two years preceding the date of this Prospectus:

- Crown Deed of Guarantee (Non Bank Deposit Taker) between the Company and the Crown dated 8 December 2009, which replaced the Initial Deed from 1 January 2010 and ran to 12.01 am on 12 October 2010. This deed clarified the operation of the Crown retail deposit guarantee scheme and permitted the offer of "excluded securities" that did not have the benefit of the guarantee. This deed has now expired; and
- Crown Deed of Guarantee (Non Bank Deposit Taker) between the Company and the Crown dated 17 May 2010, pursuant to which the Crown guarantees certain obligations of the Company from 12.01am on 12 October 2010 until 11.59pm on 31 December 2011.

PENDING PROCEEDINGS

Other than the proceedings discussed below, there are no legal proceedings or arbitrations that are pending at the date of this Prospectus that may have a material adverse effect on the financial position of the Charging Group.

FPFSL, a subsidiary of FPFHL (outside of the Charging Group) is involved in legal proceedings with a software supplier, which FPFSL is vigorously defending. No Charging Group company is party to the proceedings. The case is being heard in the High Court at Auckland during August to October 2011. The software supplier has sought a number of remedies including an unspecified amount of damages. If found liable, damages could be awarded against FPFSL as the relevant party to the proceedings. It is expected that if any such costs arose, they would be met by FPFSL or its parent company. The software supplier has also sought an injunction to restrain FPFSL from using aspects of the credit management system that the supplier alleges incorporates its intellectual property. Whether the Court would grant an injunction depends on whether the Court determines liability for FPFSL, and then whether it determines that an injunction is an appropriate remedy for the supplier in the circumstances. Aspects of the credit management system that are the subject of these proceedings also support the business of the Charging Group. The Board considers that if an injunction were granted, the credit management system should be able to be amended to remove any elements found to be infringing in a reasonable period. If this was unable to be achieved, the proceedings could have a material adverse impact on the operations and financial position of the Charging Group until replacement software was introduced.

ISSUE EXPENSES

The estimated expenses of the Issue (including amounts for brokerage, legal fees, printing and advertising) are $200,000. This amount is payable by the Company.

RANKING OF SECURITIES

As at 31 March 2011 the Company had no securities ranking in priority ahead of the securities offered.

At such date borrowings, including accrued interest, ranking equally in point of security with the debenture stock being offered totaled $366,673,000, comprising debenture stock of $140,412,000 and bank loans of $226,261,000.

RESTRICTIONS ON CHARGING GROUP'S ABILITY TO BORROW

The ability of each member of the Charging Group to borrow is restricted by the Trust Deed in the manner described on page 19. Each member's ability to borrow is also restricted by the facility agreement entered into between the banking syndicate and the Charging Group, constraining the Charging Group from incurring from third parties secured or unsecured financial indebtedness beyond that available under the facility agreement without the prior consent of the banking syndicate.

PLACES OF INSPECTION OF DOCUMENTS

A copy of the constitution of the Company, the most recent financial statements for the Charging Group, each of the Crown Deeds of Guarantee and the Trust Deed may be inspected without fee by any person between 8.30 am and 4.30 pm on normal business days at the registered office of the Company, 31 Highbrook Drive, East Tamaki, Auckland and may also be inspected on the public file as detailed on page 4. Copies of the Crown Deeds of Guarantee may also be inspected on the Treasury website at www.treasury.govt.nz

RELATIONSHIP TO FPF APPLIANCES HOLDINGS LIMITED

At the date of this Prospectus, the Company's immediate parent is Fisher & Paykel Finance Holdings Limited, a subsidiary of AF Investments Limited, which is in turn a subsidiary of FPAHL, a company listed on the NZX and ASX.

FPAH, AF Investments Limited and Fisher & Paykel Finance Holdings Limited do not guarantee the repayment by the Company or the Charging Subsidiaries of debenture stock issued pursuant to this Prospectus or interest payable thereon.

The Charging Group does not include the Farmers Finance business acquired by FPFSL, which is another subsidiary of Fisher & Paykel Finance Holdings Limited.

The impact on the Charging Group of these relationships (e.g. limitations on parent company support, limitations on related party transactions and cross default events) is described elsewhere in this Prospectus.

RESTRICTIONS ON DIRECTORS' POWERS

Subject to an overriding obligation to comply with the Companies Act 1993, neither the Companies Act 1993 nor the constitution of the Company imposes any restrictions on the powers of the directors of the Company.

PRINCIPAL ASSETS

The Charging Group's principal asset is Finance Receivables, which are charged as security for the debenture stock offered in this Prospectus and are used to generate interest income.

The Charging Group's assets are subject to obligations in favour of the Trustee and security interests in favour of the banking syndicate and the Crown (to the extent that the Crown Guarantee applies), each of which modify or restrict the Charging Group's ability to deal with those assets.

OTHER TERMS OF OFFER AND SECURITIES

All the terms of the offer of securities by the Company are set out in this Prospectus, other than those:

(a) implied by law; or

(b) set-out in a document that:

- is registered with a public official;
- is available for public inspection; and
- is referred to in this Prospectus.

OTHER MATERIAL MATTERS

The Securities issued under this Prospectus will be governed by the Securities Act (Crown Retail Deposit Guarantee Schemes) Exemption Notice 2010 and the Securities Act (Continuous Debt Issues) Exemption Notice 2002. Copies of this Prospectus may be obtained on request from the Company at its registered office or downloaded from its website at www.fpf.co.nz

INDEX TO STATUTORY INFORMATION

Pursuant to Regulation 16 of the Securities Regulations 2009

Clauses 2, 9 and 16 of Schedule 2 are not applicable.

For the purposes of the Financial Statements, "NZGAAP" means New Zealand Generally Accepted Accounting Practice.

pwc

The Directors
Fisher & Paykel Finance Limited
31 Highbrook Drive
East Tamaki
AUCKLAND

16 September 2011

INDEPENDENT AUDITORS' REPORT FOR INCLUSION IN THE PROSPECTUS

Dear Directors

As auditors of Fisher & Paykel Finance Limited ("the Company") and its guaranteeing subsidiaries ("the Charging Group"), we have prepared this report pursuant to clause 22 of Schedule 2 of the Securities Regulations 2009 for inclusion in a prospectus issued by the Company to be dated 16 September 2011 ("the Prospectus").

The prospectus includes summary financial statements which do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore is not a substitute for reading the audited financial statements of the Charging Group.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of:

(a) the financial statements prepared in accordance with generally accepted accounting practice in New Zealand which give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(b) the summary financial statements of the Charging Group for the years ended 31 March 2007, 2008, 2009, 2010, and 2011 as required pursuant to clause 8 of Schedule 2 of the Securities Regulations 2009; and

(c) disclosure of acquisitions of businesses or subsidiaries as required pursuant to clause 9 of Schedule 2 of the Securities Regulations 2009; and

(d) the ranking of securities of the Company as at 31 March 2011 as required pursuant to clause 13 of Schedule 2 of the Securities Regulations 2009.

Auditors' responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Charging Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charging Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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We are also responsible for reporting, in accordance with clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, on the following matters which have been prepared and presented by the Directors:

(a) the amounts included in the summary financial statements for the years ended 31 March 2007, 2008, 2009, 2010, and 2011; and

(b) amounts disclosed as required pursuant to clause 9(2) and (3) of Schedule 2 where there has been an acquisition of a business or subsidiary; and

(c) the amounts included in the ranking of securities as at 31 March 2011, as required pursuant to clause 13 of Schedule 2.

We have undertaken procedures pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009. Our engagement has been conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ) 810) "Engagements to Report on Summary Financial Statements" to provide reasonable assurance that the amounts set out in the summary financial statements included in the Prospectus have been correctly taken from the audited financial statements of the Charging Group.

We have also undertaken procedures pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulation 2009 to provide reasonable assurance that the amounts set out in the ranking of securities have been correctly taken from the audited financial statements of the Charging Group.

We have no relationship with, or interests in, the Charging Group other than in our capacities as auditors and providers of other assurance services. These services have not impaired our independence as auditors of the Charging Group.

Opinion on the financial statements

Our audit of the financial statements for the year ended 31 March 2011 was completed on 29 June 2011 and our unmodified opinion was issued on that date. We have not undertaken any additional audit procedures from the date of the completion of our audit.

Opinion on the summary financial statements

In our opinion, and pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, the summary financial statements and applicable disclosures on pages 38-42 of the Prospectus have been correctly taken from the audited financial statements of the Charging Group for the years ended 31 March 2007, 2008, 2009, 2010, and 2011 from which they were extracted.

Opinion on the ranking of securities

In our opinion, and pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, the ranking of securities, on page 30 of the Prospectus, have been correctly taken from the audited financial statements of the Charging Group for the year ended 31 March 2011 from which they were extracted.

Restriction on Distribution or Use

This report is made solely to the Directors of the Company in accordance with clause 22 of Schedule 2 to the Securities Regulations 2009. Our work has been undertaken so that we might state to the Directors of the Company those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to the Securities Act 1978 and Securities Regulations 2009, we do not accept or assume responsibility to anyone other than the Company for this report, or for the opinions we have formed.

Yours faithfully

PricewaterhouseCoopers

Chartered Accountants
16 September 2011

FINANCIAL INFORMATION

Fisher&Paykel Finance

FISHER & PAYKEL FINANCE LIMITED CHARGING GROUP

Financial Statements – 31 March 2011

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Directory

PRINCIPAL BUSINESS	Financial services
DIRECTORS	J W Gilks (Chairman) S B Broadhurst (appointed 27 Apr 2011) C M da Silva (appointed 22 Sep 2010) A A Macfarlane G A Paykel H B Rennie, QC (appointed 22 Sep 2010) M D Richardson (resigned 27 Apr 2011) D M Churches (deceased 1 Jun 2010) W L Gillanders (resigned 23 Aug 2010)
REGISTERED OFFICE	31 Highbrook Drive East Tamaki Auckland, New Zealand
AUDITORS	PricewaterhouseCoopers 188 Quay Street Private Bag 92162 Auckland, New Zealand
SOLICITORS	Bell Gully 48 Shortland Street Auckland, New Zealand Grove Darlow & Partners Level 10, Tower 1 51-53 Shortland Street Auckland, New Zealand Simpson Grierson 88 Shortland Street Auckland, New Zealand
BANKERS	ANZ National Bank Limited ANZ Centre 23-29 Albert Street Auckland, New Zealand Bank of New Zealand Limited Deloitte Tower 80 Queen Street Auckland, New Zealand Westpac Banking Corporation PricewaterhouseCoopers Tower 188 Quay Street Auckland, New Zealand
TRUSTEE FOR DEBENTURE HOLDERS	The New Zealand Guardian Trust Company Limited 48 Shortland Street Auckland, New Zealand
DEBENTURE REGISTRAR	Computershare Investor Services Limited Level 2, 159 Hurstmere Road, Takapuna North Shore City Auckland, New Zealand
WEBSITE ADDRESS	www.fpf.co.nz

Consolidated Financial Summary

STATEMENT OF COMPREHENSIVE INCOME

	NZ IFRS	NZ IFRS	NZ IFRS	NZ IFRS	NZ IFRS	Previous NZ GAAP
	Audited 31/03/11 $'000	Audited 31/03/10 $'000	Audited 31/03/09 $'000	Audited 31/03/08 $'000	Audited 31/03/07 $'000	Audited 31/03/07 $'000
Interest and similar income	**66,891**	58,910	59,531	53,656	43,823	43,772
Interest expense and similar charges	**(27,805)**	(25,851)	(31,701)	(26,558)	(21,902)	(21,902)
Net interest income	**39,086**	33,059	27,830	27,098	21,921	21,870
Fee and commission income	**7,211**	5,949	6,127	3,508	2,273	2,273
Fee and commission expense	**(15)**	(10)	(23)	(56)	(137)	(137)
Net fee and commission income	**7,196**	5,939	6,104	3,452	2,136	2,136
Dividend income	**6,259**	1,905	2,964	2,085	2,400	2,400
Other income	**14,713**	13,055	13,145	14,359	14,402	2,192
Net other income	**20,972**	14,960	16,109	16,444	16,802	4,592
Total net income	**67,254**	53,958	50,043	46,994	40,859	28,598
Employee benefits expense	**(15,047)**	(14,407)	(13,994)	(14,060)	(13,680)	(13,572)
Depreciation and amortisation expense	**(2,262)**	(1,925)	(1,780)	(1,808)	(1,828)	(1,830)
Impairment charge for credit losses	**(14,889)**	(14,390)	(15,956)	(12,148)	(5,850)	(5,361)
Operating Expenses	**(12,527)**	(10,957)	(10,691)	(10,352)	(9,680)	2,597
Total expenses	**(44,725)**	(41,679)	(42,421)	(38,368)	(31,038)	(18,166)
Profit before income tax	**22,529**	12,279	7,622	8,626	9,821	10,432
Income tax expense	**(5,024)**	(3,156)	(1,469)	(1,606)	(2,293)	(2,474)
Profit after income tax	**17,505**	9,123	6,153	7,020	7,528	7,958
Other comprehensive income after income tax	**(1,260)**	–	–	–	–	–
Total comprehensive income for the year	**16,245**	9,123	6,153	7,020	7,528	7,958
Total comprehensive income attributable to: Equity holders of Fisher & Paykel Finance Limited	**16,245**	9,123	6,153	7,020	7,528	7,958

Consolidated Financial Summary continued

STATEMENT OF FINANCIAL POSITION

	NZ IFRS Audited 31/03/11 $'000	NZ IFRS Audited 31/03/10 $'000	NZ IFRS Audited 31/03/09 $'000	NZ IFRS Audited 31/03/08 $'000	NZ IFRS Audited 31/03/07 $'000	Previous NZ GAAP Audited 31/03/07 $'000
Assets						
Cash and cash equivalents	**46,761**	363	416	157	803	801
Derivative financial instruments	**1**	118	214	251	243	–
Current tax receivables	**–**	–	982	1,192	291	291
Receivables	**394,332**	396,669	369,800	360,832	317,668	317,937
Investment in non-guaranteeing subsidiary	**7,500**	5,000	5,000	5,000	5,000	5,000
Other assets	**1,687**	1,216	1,642	984	1,048	352
Intangible assets	**10,056**	8,176	7,838	7,348	7,254	–
Property, plant and equipment	**1,247**	1,316	1,548	1,538	2,117	9,371
Deferred tax assets	**5,306**	4,691	3,646	3,077	2,157	1,733
Total assets	**466,890**	417,549	391,086	380,379	336,581	335,485
Liabilities						
Payables	**7,336**	6,829	5,713	6,544	6,859	4,903
Derivative financial instruments	**2,162**	440	1,277	26	–	–
Current tax liabilities	**1,712**	1,085	–	–	–	–
Other liabilities	**701**	702	687	1,097	–	–
Interest bearing liabilities	**365,249**	333,113	340,052	331,766	297,826	297,826
Total liabilities	**377,160**	342,169	347,729	339,433	304,685	302,729
Net assets	**89,730**	75,380	43,357	40,946	31,896	32,756
Equity						
Capital and reserves attributable to equity holders of the parent						
Share capital	**72,762**	70,262	43,262	36,254	32,224	32,000
Reserves	**(1,260)**	–	–	–	–	–
Retained earnings/(accumulated losses)	**18,228**	5,118	95	4,692	(328)	756
Total equity	**89,730**	75,380	43,357	40,946	31,896	32,756

Consolidated Financial Summary continued

STATEMENT OF CHANGES IN EQUITY

	NZ IFRS Audited 31/03/11 $'000	NZ IFRS Audited 31/03/10 $'000	NZ IFRS Audited 31/03/09 $'000	NZ IFRS Audited 31/03/08 $'000	NZ IFRS Audited 31/03/07 $'000	Previous NZ GAAP Audited 31/03/07 $'000
Balance at 1 April	**75,380**	43,357	40,946	31,896	30,604	31,098
Comprehensive income						
Profit after income tax	**17,505**	9,123	6,153	7,020	7,528	7,958
Other comprehensive income	**(1,260)**	–	–	–	–	–
Total comprehensive income	**16,245**	9,123	6,153	7,020	7,528	7,958
Transactions with owners						
Dividends	**(4,395)**	(4,100)	(10,750)	(2,000)	(8,300)	(8,300)
Issue of share capital	**2,500**	27,000	7,000	4,000	2,000	2,000
Employee share option scheme issues	**–**	–	8	30	64	–
Total transactions with owners	**(1,895)**	22,900	(3,742)	2,030	(6,236)	(6,300)
Balance at 31 March	**89,730**	75,380	43,357	40,946	31,896	32,756

STATEMENT OF CASH FLOWS

	NZ IFRS Audited 31/03/11 $'000	NZ IFRS Audited 31/03/10 $'000	NZ IFRS Audited 31/03/09 $'000	NZ IFRS Audited 31/03/08 $'000	NZ IFRS Audited 31/03/07 $'000	Previous NZ GAAP Audited 31/03/07 $'000
Net cash inflow/(outflow) from operating activities	**23,023**	(13,822)	(3,022)	(34,702)	8,201	16,136
Net cash inflow/(outflow) from investing activities	**(6,573)**	(2,035)	(2,282)	(1,632)	9,549	1,614
Net cash inflow/(outflow) from financing activities	**29,948**	15,804	5,563	35,688	(16,840)	(16,842)
Net increase/(decrease) in cash and cash equivalents	**46,398**	(53)	259	(646)	910	908
Cash and cash equivalents at the beginning of the financial year	**363**	416	157	803	(107)	(107)
Cash and cash equivalents at end of the financial year	**46,761**	363	416	157	803	801

Consolidated Financial Summary continued

ADDITIONAL INFORMATION

1. The summary financial statements in respect of the year ended 31 March 2007 prepared under previous NZ GAAP have been taken from the full audited financial statements of the Charging Group, after amending the presentation of the summary financial statements to comply with the presentation requirements of Financial Reporting Standard No. 43 "Summary Financial Statements" (FRS-43). The summary financial statements for the years ended 31 March 2007, 2008, 2009, 2010 and 2011 prepared under NZ IFRS have been taken from the full audited financial statements of the Charging Group, after amending the presentation of the summary financial statements to comply with the presentation requirements of FRS-43.

   The Charging Group is a profit-oriented entity providing financial services in New Zealand.

2. The dates on which the full financial statements for the Charging Group were authorised for issue were:

Balance date	Date Issued
31 March 2007	31 May 2007
31 March 2008	30 May 2008
31 March 2009	25 June 2009
31 March 2010	28 June 2010
31 March 2011	29 June 2011

3. The full financial statements for the years ended 31 March 2007, 2008 and 2009 were prepared in accordance with the requirements of the Second Schedule of the Securities Regulations 1983. The full financial statements for the years ended 31 March 2010 and 2011 were prepared in accordance with the requirements of Schedule 2 of the Securities Regulations 2009. In complying with these Regulations, the full financial statements depart from New Zealand generally accepted accounting practice in that the financial statements are presented for the Charging Group in accordance with the requirements of these Regulations and consequently, no consolidated financial statements for the Company and its subsidiaries have been prepared in accordance with section 13 of the Financial Reporting Act 1993. Accordingly, except for the non-consolidation of the non-charging subsidiary Consumer Insurance Services Limited, the financial statements for the years ended 31 March 2007, 2008, 2009, 2010 and 2011 comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other interpretations as appropriate for profit-oriented entities, and International Financial Reporting Standards (IFRS), and the financial statements for the year ended 31 March 2007 comply with previous NZ GAAP.

4. The summary financial statements detailed above cannot be expected to provide as complete an understanding as provided by the full financial statements. The full financial statements are available free of charge from the Company through its registered office at 31 Highbrook Drive, East Tamaki, Auckland, New Zealand.

5. The summary financial statements were authorised for issue by the Board of Directors of Fisher & Paykel Finance Limited on 29 June 2011.

6. The summary financial statements are presented in New Zealand Dollars, rounded to the nearest thousand, unless otherwise stated.

7. The full financial statements for the years ended 31 March 2007, 2008, 2009, 2010 and 2011 have been audited, and the auditor issued an unqualified opinion for each of the years respectively.

   Included in the audit opinion of the financial statements for the year ended 31 March 2009 was the following explanatory paragraph highlighting the matters that were regarded as relevant to a proper understanding of the basis of opinion:

   "In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in Note 32 of the financial statements for the Charging Group regarding its ability to meet the obligations under its banking facility agreements, which includes among other things, a cross default clause in respect of Fisher & Paykel Appliances Holdings Limited and/or the Appliances business. We note that this cross default clause has been waived by the Company's banking syndicate through to 1 October 2010. Our opinion is not qualified in respect of this matter."

8. Under NZ IFRS, computer software at 31 March 2007 of $7,254,000 was reclassified from property, plant and equipment (tangible assets) to intangible assets.

Consolidated Financial Summary continued

9. For the NZ GAAP figures for the year ended 31 March 2007, expense recharge and overhead recovery (from commonly controlled entities and the non-guaranteeing subsidiary) of $11,922,000 respectively were included in operating expenses. For the NZ IFRS figures for the years ended 31 March 2007, 2008, 2009 and 2010 these expense recharges and overhead recovery are included in other income.

10. All subsidiaries of the Company with the exception of Consumer Insurance Services Limited are Charging Subsidiaries and together they form the Charging Group.

11. The Charging Group, and the financial information included in the Consolidated financial summary does not include the Farmers Finance business acquired by Fisher & Paykel Financial Services Limited, a subsidiary of Fisher & Paykel Appliances Holdings Limited.

12. For the year ended 31 March 2007:

    Adoption of New Zealand Equivalents to International Financial Reporting Standards

    On 1 April 2007, the Charging Group adopted NZ IFRS which replaced previous NZ GAAP. As a result, the summary financial statements in respect of the year ended 31 March 2007 has been summarised in both previous NZ GAAP and NZ IFRS. A detailed reconciliation is provided in note 36 of the Charging Group financial statements for the year ended 31 March 2008 entitled "Explanation of transition to New Zealand equivalents to IFRS." The accounting policies to be applied under NZ IFRS have been reported in note 2 of the Charging Group financial statements for the year ended 31 March 2008. Copies of the Charging Group financial statements for the year ended 31 March 2008 are available free of charge from the Company through its registered office at 31 Highbrook Drive, East Tamaki, Auckland, New Zealand.

Directors' Statement

The Board of Directors has pleasure in presenting the financial statements of the Charging Group (comprising Fisher & Paykel Finance Limited and all its subsidiaries except Consumer Insurance Services Limited) for the year ended 31 March 2011.

The Board of Directors of Fisher & Paykel Finance Limited authorised these financial statements presented on pages 46-129 for issue on 29 June 2011.

For and on behalf of the Board.

A A Macfarlane
Managing Director

J W Gilks
Chairman

29 June 2011

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDER OF FISHER & PAYKEL FINANCE LIMITED CHARGING GROUP

Report on the Financial Statements

We have audited the financial statements of Fisher & Paykel Finance Limited Charging Group ("the Charging Group") on pages 46-129, which comprise the statement of financial position as at 31 March 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Charging Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charging Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, the Charging Group other than in our capacities as auditors and providers of other assurance services. These services have not impaired our independence as auditors of the Charging Group.

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Independent Auditors' Report on the Financial Statements continued

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Opinion

In our opinion, the financial statements on pages 46-129:

(i) comply with the Securities Regulations 2009 ("the Regulations");

(ii) subject to these Regulations and as described in note 2(a), comply with generally accepted accounting practice in New Zealand; and

(iii) give a true and fair view of the financial position of the Charging Group as at 31 March 2011, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2011:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Charging Group as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Charging Group's shareholder, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Charging Group's shareholder those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charging Group and the Charging Group's shareholder, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland
29 June 2011

Statement of comprehensive income for the year ended 31 March 2011

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Interest and similar income	6	**66,891**	58,910
Interest expense and similar charges	6	**(27,805)**	(25,851)
Net interest income	6	**39,086**	33,059
Fee and commission income	7	**7,211**	5,949
Fee and commission expense	7	**(15)**	(10)
Net fee and commission income	7	**7,196**	5,939
Dividend income	30 (g) (iii)	**6,259**	1,905
Other income	8	**14,713**	13,055
Net other income		**20,972**	14,960
Total net income		**67,254**	53,958
Employee benefits expense	9	**(15,047)**	(14,407)
Depreciation and amortisation expense	9	**(2,262)**	(1,925)
Impairment charge for credit losses	9	**(14,889)**	(14,390)
Operating expenses	9	**(12,527)**	(10,957)
Total expenses		**(44,725)**	(41,679)
Profit before income tax		**22,529**	12,279
Income tax expense	10	**(5,024)**	(3,156)
Profit after income tax		**17,505**	9,123
Other comprehensive income			
Cash flow hedges		**(1,750)**	–
Income tax relating to components of other comprehensive income		**490**	–
Total other comprehensive income after income tax		**(1,260)**	–
Total comprehensive income for the year		**16,245**	9,123
Total comprehensive income for the year is attributable to:			
Equity holders of Fisher & Paykel Finance Limited		**16,245**	9,123

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position as at 31 March 2011

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Assets			
Cash and cash equivalents	11	**46,761**	363
Derivative financial instruments	12	**1**	118
Receivables	13	**394,332**	396,669
Investment in non-guaranteeing subsidiary	31	**7,500**	5,000
Other assets	14	**1,687**	1,216
Intangible assets	15	**10,056**	8,176
Property, plant and equipment	16	**1,247**	1,316
Deferred tax assets	17	**5,306**	4,691
Total assets		**466,890**	417,549
Liabilities			
Payables	18	**7,336**	6,829
Derivative financial instruments	12	**2,162**	440
Current tax liabilities	19	**1,712**	1,085
Other liabilities	21	**701**	702
Interest bearing liabilities	22	**365,249**	333,113
Total liabilities		**377,160**	342,169
Net assets		**89,730**	75,380
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	23	**72,762**	70,262
Reserves	25 (a)	**(1,260)**	–
Retained earnings	25 (b)	**18,228**	5,118
Total equity		**89,730**	75,380

The Board of Directors of Fisher & Paykel Finance Limited authorised these financial statements presented on pages 46-129 for issue on 29 June 2011.

For and on behalf of the Board.

A A Macfarlane
Managing Director

J W Gilks
Chairman

29 June 2011

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

Statement of changes in equity for the year ended 31 March 2011

	Notes	Attributable to equity holders of the Company			
		Share capital $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 01/04/09		43,262	–	95	43,357
Comprehensive income					
Profit after income tax		–	–	9,123	9,123
Cash flow hedges, net of tax	24	–	–	–	–
Total other comprehensive income		–	–	–	–
Total comprehensive income		–	–	9,123	9,123
Transactions with owners					
Dividends	26	–	–	(4,100)	(4,100)
Issue of share capital	23	27,000	–	–	27,000
Total transactions with owners		27,000	–	(4,100)	22,900
Balance at 31/03/10 (Audited)		70,262	–	5,118	75,380
Balance at 01/04/10		**70,262**	**–**	**5,118**	**75,380**
Comprehensive income					
Profit after income tax		**–**	**–**	**17,505**	**17,505**
Cash flow hedges, net of tax	24	**–**	**(1,260)**	**–**	**(1,260)**
Total other comprehensive income		**–**	**(1,260)**	**–**	**(1,260)**
Total comprehensive income		**–**	**(1,260)**	**17,505**	**16,245**
Transactions with owners					
Dividends	26	**–**	**–**	**(4,395)**	**(4,395)**
Issue of share capital	23	**2,500**	**–**	**–**	**2,500**
Total transactions with owners		**2,500**	**–**	**(4,395)**	**(1,895)**
Balance at 31/03/11 (Audited)		**72,762**	**(1,260)**	**18,228**	**89,730**

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

Statement of cash flows for the year ended 31 March 2011

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Cash flows from operating activities			
Net (increase)/decrease in loans and advances made to customers		(13,335)	(42,612)
Dividends received		6,259	1,905
Interest received		66,627	59,065
Other revenue		22,311	19,982
Payments to suppliers and employees		(26,654)	(24,215)
Interest paid		(27,653)	(25,812)
Income taxes paid		(100)	(127)
Subvention payments		(4,432)	(2,008)
Net cash inflow/(outflow) from operating activities	34	23,023	(13,822)
Cash flows from investing activities			
Payments for property, plant and equipment		(419)	(332)
Payments for intangibles		(3,659)	(1,703)
Payments for purchase of shares in non-guaranteeing subsidiary		(2,500)	–
Proceeds from sale of property, plant and equipment		5	–
Net cash inflow/(outflow) from investing activities		(6,573)	(2,035)
Cash flows from financing activities			
Proceeds from issues of shares	23	2,500	27,000
Proceeds from borrowings		87,156	67,900
Repayment of borrowings		(55,313)	(59,996)
Repayment of subordinated loan	30 (g) (ii)	–	(15,000)
Dividends paid	26	(4,395)	(4,100)
Net cash inflow/(outflow) from financing activities		29,948	15,804
Net increase/(decrease) in cash and cash equivalents		46,398	(53)
Cash and cash equivalents at the beginning of the financial year		363	416
Cash and cash equivalents at the end of the financial year	11	46,761	363

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements – 31 March 2011

1 GENERAL INFORMATION

The consolidated financial statements are for the Charging Group comprising Fisher & Paykel Finance Limited ("The Company") and all its subsidiaries except Consumer Insurance Services Limited.

The Company and the Charging Group are profit oriented entities providing financial services in New Zealand. The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 31 Highbrook Drive, East Tamaki, Auckland. It is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978.

These financial statements have been approved for issue by the Board of Directors on 29 June 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for Fisher & Paykel Finance Limited Charging Group only.

(a) Basis of preparation

The financial statements have been prepared in accordance with the requirements of Schedule 2 of the Securities Regulations 2009. In complying with these Regulations, the financial statements depart from New Zealand generally accepted accounting practice in that the financial statements are presented for the Charging Group in accordance with the requirements of these Regulations and consequently, no consolidated financial statements for the Company and its subsidiaries have been prepared in accordance with section 13 of the Financial Reporting Act 1993. Accordingly, except for the non-consolidation of the non-charging subsidiary Consumer Insurance Services Limited, the financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other interpretations as appropriate for profit-oriented entities, and International Financial Reporting Standards (IFRS).

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

These financial statements are presented in New Zealand dollars ($), which is the Charging Group's functional currency.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all charging subsidiaries of the Company (excluding Consumer Insurance Services Limited a non-charging subsidiary) as at 31 March 2011 and the results of all charging subsidiaries for the year then ended. The Company and its subsidiaries (excluding Consumer Insurance Services Limited) together are referred to in these financial statements as the Charging Group.

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

Charging subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

For the Charging Group, intercompany transactions, balances and unrealised gains on transactions between Charging Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Company.

(c) Investment in non-charging subsidiary

Investment in the non-charging subsidiary is carried at cost less an adjustment for impairment if applicable.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team that makes strategic decisions.

(e) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all financial assets and financial liabilities measured at amortised cost using the effective interest method.

The effective interest method allocates the interest income or interest expense over the life of the contract or when appropriate a shorter period using the effective interest rate. The effective interest rate is the discount rate at which the present value of the future cash flows equals the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Charging Group estimates the future cash flows considering all the contractual terms of the contract but does not include future credit losses. The calculation of the effective interest rate includes all fees, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Dividend and fee income

(i) Dividend income

Dividend income is recognised in the statement of comprehensive income when the shareholder's right to receive payment is established.

(ii) Fee income

Yield related fees for finance receivables are accrued to income over the term of the loan using the effective interest method. Fees not included in the effective interest calculation are recognised on an accruals basis when the service has been provided.

Facility fee income on amounts advanced to the bulk finance retailer is accrued to income over the term of the facility.

Fees charged to customer accounts in arrears are recognised as income at the time the fees are charged.

(g) Income tax

The income tax expense or revenue for the year is the total of the current year's taxable income based on the national income tax rate, plus/minus prior year's under/over provisions, plus/minus movements in the deferred tax balance except where the movement in deferred tax is attributable to a movement in reserves.

Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

The income tax expense or revenue attributable to amounts recognised directly in equity are also recognised directly in equity.

Current and deferred tax assets and liabilities of individual entities are reported separately in the consolidated financial statements unless the entities have a legally enforceable right to make or receive a single net payment of tax and the entities intend to make or receive such a net payment or to recover the current tax asset or settle the current tax liability simultaneously.

Tax consolidation group

Fisher & Paykel Finance Holdings Limited (the parent of Fisher & Paykel Finance Limited) and its wholly-owned New Zealand controlled entities form a tax consolidation group. As a consequence, one income tax return is completed for the group and the group is treated for income tax purposes as one taxpayer.

The tax balances have been attributed for reporting purposes to each of the entities on the basis of their individual results. Amounts of tax due to and receivable from the Inland Revenue are made by Fisher & Paykel Finance Limited as nominated member of the tax consolidated group. The current tax balance for the group has been allocated between the members based on each entity's current tax movement for the period. Where tax losses are incurred by group members, these are offset within the group without payment.

The tax consolidated group is required to complete one imputation credit account (filed as part of the Fisher & Paykel Appliances Holdings Limited imputation group). The imputation credit account is disclosed in note 20.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Goods and Services Tax (GST)

The financial statements have been prepared so that all components are stated exclusive of GST except where the GST is not recoverable from the Inland Revenue. In these circumstances the GST component is recognised as part of the underlying item. Trade and other receivables and payables are stated GST inclusive. The net amount of GST recoverable from or payable to the Inland Revenue is included within these categories.

Cash flows in the statement of cash flows include GST.

(i) Leases

(i) As the lessee

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

(ii) As the lessor

When assets are leased out to customers under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(j) Impairment of non financial assets

Assets that have indefinite useful lives or are not yet available for use are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term and highly liquid investments with original maturities of three months or less.

(l) Financial assets

Financial assets are classified in the following categories: financial assets at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management due to accounting mismatches or if assets/liabilities are managed at fair value. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the statement of comprehensive income in the period in which they arise.

(m) Impairment of financial assets

(i) Assets carried at amortised cost

An assessment is made at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group; including adverse changes in the payment status of borrowers in the group.

Firstly an assessment is made whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence exists for an individually assessed financial asset, whether significant or not, the assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient impairment may be measured on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling collateral, whether or not foreclosure is probable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Charging Group's grading process that considers collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Charging Group and historical loss experience for assets with credit characteristics similar to those in the Group.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in payment status or other factors indicative of changes in probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off to the statement of comprehensive income. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Assets carried at fair value

At each reporting date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

(n) Asset quality

(i) Other impaired asset

An asset for which an impairment loss is required in accordance with NZ IAS 39 paragraphs 58 to 62, but is not a restructured asset or an asset acquired through the enforcement of security.

(ii) Restructured assets

Assets on which original terms have been changed due to borrowers' difficulty in complying, and on which interest continues to be accrued at a rate of interest which is equal to or greater than the average cost of funds at the date of restructuring. The revised terms are not comparable with the terms of new facilities with comparable risks.

(iii) Past due assets

Financial assets on which a counterparty has failed to make a payment when contractually due and which is not a restructured asset, other impaired asset or an asset acquired through the enforcement of security.

(iv) Assets acquired through the enforcement of security

Are those assets (mainly consumer goods) acquired through the enforcement of security which satisfy part or full repayment of the loan or receivable due.

(o) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, profits are recognised on day one.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivatives are designated as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Charging Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Charging Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in equity are recycled in the statement of comprehensive income in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Charging Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment have been depreciated using the straight line method to allocate their cost over their estimated useful lives, as follows:

- Leasehold improvements 7 years
- Furniture, fittings and equipment 5-10 years
- Computer hardware 3-4 years

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

If an asset's carrying amount is greater than its estimated recoverable amount its carrying amount is written down immediately to its recoverable amount by recording an impairment loss in the statement of comprehensive income (note 2(j)).

Gains and losses on disposals are calculated by taking the difference between the net sale proceeds and the carrying amount at the time of disposal. These are included in the statement of comprehensive income.

(q) Intangible assets

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (three to ten years).

(r) Borrowings and subordinated debt

Borrowings and subordinated debt are initially recognised at fair value, net of transaction costs incurred. Borrowings and subordinated debt are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(s) Employee benefits

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

Liabilities for wages and salaries, annual leave and sick leave accruing to employees and expected to be settled within twelve months of the reporting date are recognised and measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

Liabilities for long service leave, which are not expected to be settled within twelve months of the balance date are measured as the present value of estimated future cash outflows from the Charging Group in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Share-based payments

The Charging Group participates in an equity-settled employee share option scheme in its ultimate parent company, Fisher & Paykel Appliances Holdings Limited. NZ IFRS 2 is applied to all share options granted after 7 November 2002 that had not vested at balance date. The fair value of the share options is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The fair value of share options granted is measured using a binomial model taking into consideration factors such as expected dividends and estimates of the number of options that are expected to become exercisable and shares expected to be distributed. Further details on this scheme are provided in note 35.

The Charging Group also participates in a cash-settled share scheme in Fisher & Paykel Appliances Holdings Limited. For cash-settled schemes, the Charging Group recognises an employee benefit expense over the life of the scheme and remeasures the fair value of associated liability at each reporting date, with any change in fair value recognised in the statement of comprehensive income for the period.

Further details of these schemes are provided in note 35.

(iv) Profit-sharing and bonus plans

The Charging Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. A provision is recognised where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

(t) Share capital

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

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's directors.

(u) Dividends

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

(v) Changes in accounting policies

There have been no significant changes in accounting policies during the current year. Accounting policies have been applied on a basis consistent with the prior year.

(w) Prior year comparatives

Certain prior year comparatives have been reclassified to conform with current year presentation.

(x) New and amended standards adopted

The Charging Group has adopted the following new and amended standards as of 1 April 2010:

- NZ IFRS 3, Business Combinations (revised) and NZ IAS 27, Consolidated and Separate Financial Statements (revised). The revised standard continues to apply the acquisition method to business combinations but with some significant changes to the treatment of transaction costs and contingent consideration. This has not affected the Company's financial statements in the year ended 31 March 2011.
- NZ IFRS 5 (Amendment), Non-current Assets Held for Sale and Discontinued Operations. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. This has not affected the Company's financial statements in the year ended 31 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Charging Group's accounting periods beginning on or after 1 April 2010 or later periods but which the Charging Group has not early adopted:

- NZ IFRS 9, "Financial Instruments" part 1: Classification and measurement. NZ IFRS 9 was issued in November 2009 and replaces those parts of NZ IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  While adoption of NZ IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Charging Group is considering the implications of the standard, the impact on the Charging Group and the timing of its adoption by the Charging Group.

  - NZ IAS 24 (revised), Related Party Disclosures (effective from annual periods beginning on or after 1 January 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government related entities. This is not expected to have a material impact on the Charging Group.

  - NZ IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective from annual periods beginning on or after 1 July 2010). This interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This is not expected to have a material impact on the Charging Group.

  - NZ IFRIC 14 (Amendment), NZ IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from annual periods beginning on or after 1 January 2011). The interpretation removes unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. Results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This is not expected to have a material impact on the Charging Group.

  - Improvements to NZ IFRSs 'Improvements to NZ IFRSs' were issued in July 2010. They contain numerous amendments to NZ IFRS that the IASB considers non-urgent but necessary. 'Improvements to NZ IFRSs' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

3 FINANCIAL RISK MANAGEMENT

All companies are exposed to a variety of financial risks depending on the industry in which they operate, and finance companies are no exception. The Charging Group puts significant management resources into identifying and assessing all the risks it faces, and has formal risk management policies and procedures in place to govern this process and to minimise any potential adverse effects on financial performance. Risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice.

The Charging Group has developed a formal risk management programme in accordance with the requirements of the Reserve Bank of New Zealand Amendment Act 2008 ("Reserve Bank Amendment Act"), which is reviewed and updated on an annual basis, or more frequently as required by business circumstances or the prevailing risk environment.

The risk management programme is based upon the Australian and New Zealand standard on risk management (AS/NZS 4360:2004) which provides a generic guide to organisations for managing risk. The Trustee has approved the risk management programme presented by the Charging Group as meeting the requirements of section 157M(2) of the Reserve Bank Amendment Act.

Under this framework, all the key risk categories affecting the business are identified and the responsibility for managing each is assigned to a member of the Executive Management Team. Each risk category is further analysed into individual risks, and assessed in the context of any existing mitigating controls.

At each review date, each identified risk category is assigned:

(i) a Gross Risk Index, reflecting the severity of any potential adverse impact on the business in the absence of any mitigating controls, and

(ii) a Net Risk Index, reflecting the residual severity of any potential adverse impact on the business after factoring in the effectiveness of any mitigating controls.

These two risk indices are measured for each risk category to enable Management and the Board of Directors to be fully informed on a timely basis of the key risks facing the business, the relative importance of each risk on a gross and net basis, and the relative movement in risk indices for each risk category over time. Where the net risk index for a given risk category is deemed to be too high, priority can be given to enhance the control environment relevant to that particular risk.

The principal financial risks faced by the Charging Group are credit risk, liquidity risk and interest rate risk, which are described in the remainder of this note. Since all Charging Group activities are conducted in New Zealand and denominated in NZ Dollars, there is no material exposure to currency risk.

The Board of Directors has approved a number of committees and other specialists to manage the various risks faced by the Charging Group:

- Asset & Liability Committee, comprising the Managing Director, the Chief Operating Officer, the Chief Financial Officer (Chair) and the Treasury & Funding Manager. The committee is responsible for managing interest rate risk, liquidity risk and balance sheet and capital structure. It is governed by a formal charter and ensures that all treasury risk management policies are followed;
- Pricing, Marketing & Operations Committee, comprising the Managing Director, the Chief Operating Officer (Chair) and the Chief Financial Officer. The committee's principal responsibility is to establish and review interest rates on money advanced to customers and productivity, performance and compliance of finance group operations;
- Credit Committee, comprising the Managing Director, the Chief Operating Officer, the Chief Financial Officer and the Chief Risk Officer (Chair). The committee's principal responsibility is to oversee all aspects of credit risk assessment and management, and operates within formal credit policies and guidelines which ensure that any credit risk incurred falls within acceptable parameters;
- Information & Support Services Steering Committee comprises the Management Director, the Chief Operating Officer, Chief Financial Officer and Chief Information & Support Services Officer (Chair). The committee is responsible for approving strategy, setting policy, monitoring risk and reviewing work in progress across information services, human resources, process improvement and procurement; and

3 FINANCIAL RISK MANAGEMENT (continued)

- Treasury. This department's principal responsibility is the day-to-day management of the liability side of the balance sheet, especially focussing on maintaining the appropriate level and mix of funding sources and ensuring that the Charging Group has sufficient liquidity for its business requirements. In addition, Treasury is responsible for (i) the execution of interest rate risk management strategies including the use of derivative financial instruments in accordance with formal treasury risk management policies and (ii) ensuring compliance with all internal and external measures, covenants and ratios.

In addition the Audit & Risk Management Committee of the parent company Fisher & Paykel Appliances Holdings Limited oversees all matters relating to the financial accounting and reporting for the Fisher & Paykel Appliances Holdings Limited group of companies. The Audit & Risk Management Committee also monitors risk management, the processes which are undertaken by management and both external and internal auditors. One full time internal audit resource is dedicated to reviewing processes within the finance group including the activities undertaken in the Charging Group. The Audit & Risk Management Committee has a charter setting out the committee's objectives, procedures, composition and responsibilities.

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Charging Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks relating to its financial instruments. Interest margins may increase or decrease, as the case may be, as a result of changes in market interest rates. The effects of the global economic and financial downturn has resulted in borrowing fees and margins increasing.

(i) Interest rate risk management process

The Asset & Liability Committee is responsible for managing interest rate risk in accordance with its charter and treasury risk management policies. A Pricing Committee is responsible for establishing and reviewing interest rates on money lent.

The Charging Group manages interest rate risk in a number of ways:

- by monitoring the maturity profile of assets and liabilities, and seeking where possible to match the date at which these mature and reprice;
- by monitoring market interest rates and reviewing the impact of these on interest rate exposure;
- by hedging a portion of any residual exposure using financial derivative instruments. This activity is undertaken in accordance with treasury risk management policies approved by the Board of Directors; and
- by reviewing lending rates from time to time.

(ii) Concentrations of interest rate exposure

The Charging Group's borrowings are generally short term in nature to match the profile of maturing assets. Borrowings issued at variable rates expose the Charging Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Charging Group to fair value interest rate risk.

(iii) Repricing schedule

The Charging Group has a policy which establishes risk control limits for the net repricing gap. Interest rate exposure is monitored on a regular basis and reported to and reviewed monthly by the Asset & Liability Committee and the Board of Directors.

The table below summarises the Charging Group's exposure to interest rate risks. It includes the Charging Group's financial instruments at carrying amounts, categorised by the earlier of their contractual repricing or expected maturity dates.

3 FINANCIAL RISK MANAGEMENT (continued)

31/03/11 Audited	Weighted average interest rate %	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Non interest bearing $'000	Total $'000
Financial assets								
Cash and cash equivalents	4.0	46,761	–	–	–	–	–	46,761
Derivative financial instruments	2.8	–	–	1	–	–	–	1
Receivables:								
– *Net finance receivables*	17.9	212,914	6,834	50,935	9,320	–	–	280,003
– *Net related party receivables*	–	–	–	–	–	–	27	27
– *Net finance lease receivables*	14.4	10,460	8,692	11,934	7,755	68	–	38,909
– *Net bulk finance receivables*	7.7	40,619	24,108	10,666	–	–	–	75,393
Other financial assets	–	–	–	–	–	–	1,216	1,216
		310,754	39,634	73,536	17,075	68	1,243	442,310
Financial liabilities								
Interest bearing liabilities:								
– *Bank loans*	4.2	224,837	–	–	–	–	–	224,837
– *Debentures*	7.0	79,423	39,568	17,231	4,190	–	–	140,412
Derivative financial instruments	4.0	22	222	889	1,029	–	–	2,162
Other financial liabilities	–	–	–	–	–	–	3,685	3,685
		304,282	39,790	18,120	5,219	–	3,685	371,096
Net effective interest rate gap		6,472	(156)	55,416	11,856	68	(2,442)	71,214
Off balance sheet - derivative financial instruments		133,872	(34,176)	(53,696)	(46,000)	–	–	–
Adjusted net effective interest rate gap		140,344	(34,332)	1,720	(34,144)	68	(2,442)	71,214

3 FINANCIAL RISK MANAGEMENT (continued)

31/03/10 Audited	Weighted average interest rate %	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Non interest bearing $'000	Total $'000
Financial assets								
Cash and cash equivalents	1.9	363	–	–	–	–	–	363
Derivative financial instruments	4.1	–	–	–	118	–	–	118
Receivables:								
– *Net finance receivables*	17.9	231,176	21,084	17,284	5,360	3	–	274,907
– *Net related party receivables*	–	–	–	–	–	–	228	228
– *Net finance lease receivables*	13.6	11,725	9,475	12,981	7,091	189	–	41,461
– *Net bulk finance receivables*	6.7	42,451	26,149	11,473	–	–	–	80,073
Other financial assets	–	–	–	–	–	–	846	846
		285,715	56,708	41,738	12,569	192	1,074	397,996
Financial liabilities								
Interest bearing liabilities:								
– *Bank loans*	3.8	176,201	–	–	–	–	–	176,201
– *Debentures*	7.3	108,620	32,271	11,740	4,281	–	–	156,912
Derivative financial instruments	3.9	55	40	229	116	–	–	440
Other financial liabilities	–	–	–	–	–	–	2,982	2,982
		284,876	32,311	11,969	4,397	–	2,982	336,535
Net effective interest rate gap		839	24,397	29,769	8,172	192	(1,908)	61,461
Off balance sheet – derivative financial instruments		118,080	(34,120)	(51,460)	(32,500)	–	–	–
Adjusted net effective interest rate gap		118,919	(9,723)	(21,691)	(24,328)	192	(1,908)	61,461

The Charging Group uses derivative financial instruments to economically hedge a portion of the net effective interest rate gap. To determine the appropriate level and mix of derivatives required, the Charging Group calculates the net effective interest rate gap using the expected maturity dates of the underlying financial assets and the earlier of the contractual repricing dates and expected maturity dates of its financial liabilities. As the tables above, categorise all financial instruments by the earlier of their contractual repricing or expected maturity dates, it is not representative of how management manages interest rate risk using derivative financial instruments.

For example in the tables above, the net finance receivables figures includes receivables for which the Charging Group can reprice (i.e. change the interest rate) at short notice (contractual repricing). As a result the finance receivables are shown in earlier time periods than they would have been, had the categorisation been based on expected maturity dates.

3 FINANCIAL RISK MANAGEMENT (continued)

(iv) Summarised sensitivity analysis

Cash flow sensitivity analysis

The following tables summarise the sensitivity of the Charging Group's financial assets and financial liabilities to cash flow interest rate risk.

		Cash flow interest rate risk			
		-1%		+1%	
31/03/11 Audited	Carrying amount $'000	Profit after tax $'000	Equity $'000	Profit after tax $'000	Equity $'000
Financial assets					
Cash and cash equivalents	46,761	(330)	(330)	330	330
Receivables	394,332	(2,243)	(2,243)	2,243	2,243
Other financial assets	1,216	–	–	–	–
Financial liabilities					
Interest bearing liabilities	365,249	2,558	2,558	(2,558)	(2,558)
Other financial liabilities	3,685	–	–	–	–
Total increase/(decrease) before derivative financial instruments		(15)	(15)	15	15
Net derivative financial instrument asset/(liability)	(2,161)	(1,234)	(1,234)	1,234	1,234
Total increase/(decrease) after derivative financial instruments		(1,249)	(1,249)	1,249	1,249

		Cash flow interest rate risk			
		-1%		+1%	
31/03/10 Audited	Carrying amount $'000	Profit after tax $'000	Equity $'000	Profit after tax $'000	Equity $'000
Financial assets					
Cash and cash equivalents	363	(2)	(2)	2	2
Receivables	396,669	(2,224)	(2,224)	2,224	2,224
Other financial assets	846	–	–	–	–
Financial liabilities					
Interest bearing liabilities	333,113	2,334	2,334	(2,334)	(2,334)
Other financial liabilities	2,982	–	–	–	–
Total increase/(decrease) before derivative financial instruments		108	108	(108)	(108)
Net derivative financial instrument asset/(liability)	(322)	(1,113)	(1,113)	1,113	1,113
Total increase/(decrease) after derivative financial instruments		(1,005)	(1,005)	1,005	1,005

The above table incorporates the effect a 1% movement in interest rates has on the financial assets and financial liabilities held at balance date. It includes the impact that the change would have on the annual interest receipts and interest payments to this interest rate movement.

3 FINANCIAL RISK MANAGEMENT (continued)

Fair value sensitivity analysis

The following tables summarise the sensitivity of the Charging Group's financial assets and financial liabilities (which are measured at fair value) to fair value interest rate risk.

		Fair value interest rate risk			
		-1%		+1%	
31 March 2011 Audited	Carrying amount $'000	Profit after tax $'000	Equity $'000	Profit after tax $'000	Equity $'000
Financial assets					
Derivative financial instruments	1	(7)	(7)	7	7
Financial liabilities					
Derivative financial instruments	2,162	(208)	(1,684)	205	1,628
Total increase/(decrease)		(215)	(1,691)	212	1,635

		Fair value interest rate risk			
		-1%		+1%	
31 March 2010 Audited	Carrying amount $'000	Profit after tax $'000	Equity $'000	Profit after tax $'000	Equity $'000
Financial assets					
Derivative financial instruments	118	(200)	(200)	193	193
Receivables	11,292	13	13	(13)	(13)
Financial liabilities					
Derivative financial instruments	440	(1,030)	(1,030)	1,006	1,006
Total increase/(decrease)		(1,217)	(1,217)	1,186	1,186

The above table incorporates the effect a 1% movement in interest rates has on those financial assets and financial liabilities which are measured at fair value. It includes the impact that the change would have on the fair value of those financial assets and financial liabilities at balance date to this interest rate movement.

For the Charging Group, the carrying amounts of derivative financial instruments and bulk finance receivables (year ended 31 March 2010 only) are impacted by changes in interest rates.

For the derivative financial instruments which were subject to cash flow hedge accounting at year ended 31 March 2011 the fair value sensitivity from a movement in interest rates did not effect profit after tax. Fair value movements (gains/losses) in respect of these derivative financial instruments were accounted for in other comprehensive income.

Assumptions used in the sensitivity analyses

Significant assumptions used in the cash flow sensitivity analysis and fair value sensitivity analysis included:

- Reasonably possible movements in interest rates were determined based on the Charging Group's current credit rating and mix of funding, relationships with finance institutions, the level of funding 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 balance date is representative of what the Charging Group was and is expecting to be exposed to in the next twelve months from balance date.

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Charging Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. It includes the risk that the Charging Group may have insufficient liquid funds, or may not be able to raise sufficient funds at short notice, to meet its payment obligations associated with financial liabilities when they fall due. This situation can arise if there is a significant mismatch of its financial assets and financial liabilities.

During March 2011 Fisher & Paykel Finance Limited significantly strengthened its liquidity position and its $335.0 million syndicated banking facility with the extension of the maturity date of the $105.0 million tranche D and the addition of a further $50.0 million tranche E.

As at 31 March 2011, the syndicated banking facility comprised the following tranches:

- Tranche A – $20.0 million, maturing in April 2012
- Tranche B – $105.0 million, maturing in October 2013
- Tranche C – $105.0 million, maturing in October 2012
- Tranche D – $105.0 million, maturing in April 2014
- Tranche E – $50.0 million, maturing in October 2012

The Charging Group may elect which tranche to draw down, and has to date drawn down on the tranches with the lowest marginal cost of funding.

As at 31 March 2011, the Charging Group had total committed banking facilities of $385.0 million and available undrawn committed bank facilities of $160.0 million. Further information on the syndicated facility is included in note 22(c).

During the year ended 31 March 2011, overall retail debenture funding decreased by $16.5 million from $156.9 million to $140.4 million. During this period, the debenture reinvestment rate averaged 63% and approximately $38.8 million of new investment funds were received. The amount of retail debenture funding received by the Company is dependent on the amount of new funds and reinvestment rates, both of which are affected by the level of investor confidence in the New Zealand finance sector generally and in the Company's business specifically.

(i) Liquidity risk management process

The Charging Group operates an Asset & Liability Committee which oversees all aspects of balance sheet risk assessment and management, including liquidity risk. This committee has a formal charter which outlines its role and responsibilities. All treasury related activity must comply with formal treasury risk management policies.

The Charging Group manages liquidity risk in a number of ways:

- day to day funding requirements and future cash flows are monitored to ensure requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Charging Group maintains an active presence in local money markets to enable this to happen;
- regularly forecasting future cash flows to assess maturity mismatches between financial assets and financial liabilities in advance;
- not relying on one funding source, but maintaining a diverse and stable funding base;
- maintaining strong bank relationships and committed banking facilities; and
- monitoring balance sheet liquidity ratios against internal and external requirements.

The Asset & Liability Committee also monitors the level and type of undrawn lending commitments against committed credit facilities to ensure there is sufficient capacity.

3 FINANCIAL RISK MANAGEMENT (continued)

(ii) Concentrations of funding

Sources of liquidity are regularly reviewed by Treasury to maintain an appropriate diversification by provider, product and term. Sources of funding include debentures and bank loans.

The Charging Group has access to committed lines of credit (refer note 22(d)) to meet liquidity needs. At balance date all bank loans drawn were sourced from New Zealand domiciled financial institutions.

The table below details the debenture funding split by geographic region:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Upper North Island *	**80,590**	95,112
Central North Island	**20,891**	23,012
Lower North Island *	**15,332**	15,405
South Island	**19,644**	19,296
Overseas	**3,955**	4,087
	140,412	156,912

Debenture funding from overseas investors is denominated in New Zealand dollars.

* Upper North Island includes the Auckland and Northland regions. Lower North Island includes the Wellington and Manawatu regions.

(iii) Maturity analysis

The table below analyses the Charging Group's financial assets and financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, except for derivative financial instruments.

3 FINANCIAL RISK MANAGEMENT (continued)

31/03/11 Audited	Call $'000	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Total $'000
Financial assets							
Cash and cash equivalents	1,761	45,155	–	–	–	–	46,916
Derivative financial instruments *	–	(1)	–	1	–	–	–
Receivables:							
– *Net finance receivables*	–	106,512	66,376	80,424	93,277	17,295	363,884
– *Net related party receivables*	–	27	–	–	–	–	27
– *Net finance lease receivables*	–	12,878	10,427	13,923	9,462	461	47,151
– *Net bulk finance receivables*	–	42,731	24,983	11,076	–	–	78,790
Other financial assets	–	1,216	–	–	–	–	1,216
	1,761	208,518	101,786	105,424	102,739	17,756	537,984
Financial liabilities							
Interest bearing liabilities:							
– *Bank loans*	–	4,761	4,735	112,310	124,645	–	246,451
– *Debentures*	8,288	74,478	41,012	19,516	4,630	–	147,924
Derivative financial instruments *	–	999	879	563	(180)	–	2,261
Other financial liabilities	–	3,685	–	–	–	–	3,685
	8,288	83,923	46,626	132,389	129,095	–	400,321

31/03/10 Audited	Call $'000	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Total $'000
Financial assets							
Cash and cash equivalents	363	–	–	–	–	–	363
Derivative financial instruments *	–	(78)	(14)	26	207	–	141
Receivables:							
– *Net finance receivables*	–	101,971	66,913	81,304	90,511	16,531	357,230
– *Net related party receivables*	–	228	–	–	–	–	228
– *Net finance lease receivables*	–	14,142	11,169	14,846	8,602	474	49,233
– *Net bulk finance receivables*	–	44,429	26,977	11,860	–	–	83,266
Other financial assets	–	846	–	–	–	–	846
	363	161,538	105,045	108,036	99,320	17,005	491,307
Financial liabilities							
Interest bearing liabilities:							
– *Bank loans*	–	3,350	3,333	178,586	–	–	185,269
– *Debentures*	6,732	105,488	33,448	13,664	4,751	–	164,083
Derivative financial instruments *	–	748	120	(141)	(297)	–	430
Other financial liabilities	–	2,982	–	–	–	–	2,982
	6,732	112,568	36,901	192,109	4,454	–	352,764

In addition the Charging Group has access to committed lines of credit (refer note 22(d)) to meet further liquidity needs.

* The amounts expected to be receivable/payable in relation to the derivative financial instruments have been estimated using forward interest rates applicable at the reporting date.

3 FINANCIAL RISK MANAGEMENT (continued)

The table below analyses the Charging Group's financial assets and financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the expected maturity date. The amounts disclosed in the table are the expected undiscounted cash flows, except for derivative financial instruments.

31/03/11 Audited	Call $'000	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Total $'000
Financial assets							
Cash and cash equivalents	1,761	45,155	–	–	–	–	46,916
Derivative financial instruments *	–	(1)	–	1	–	–	–
Receivables:							
– *Net finance receivables*	–	99,925	76,289	91,155	84,749	2,602	354,720
– *Net related party receivables*	–	27	–	–	–	–	27
– *Net finance lease receivable*	–	12,878	10,427	13,923	9,462	461	47,151
– *Net bulk finance receivables*	–	42,731	24,983	11,076	–	–	78,790
Other financial assets	–	1,216	–	–	–	–	1,216
	1,761	201,931	111,699	116,155	94,211	3,063	528,820
Financial liabilities							
Interest bearing liabilities:							
– *Bank loans*	–	4,503	4,393	21,622	210,114	–	240,632
– *Debentures*	8,288	74,478	41,012	19,516	4,630	–	147,924
Derivative financial instruments	–	999	879	563	(180)	–	2,261
Other financial liabilities	–	3,685	–	–	–	–	3,685
	8,288	83,665	46,284	41,701	214,564	–	394,502

31/03/10 Audited	Call $'000	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Total $'000
Financial assets							
Cash and cash equivalents	363	–	–	–	–	–	363
Derivative financial instruments	–	(78)	(14)	26	207	–	141
Receivables:							
– *Net finance receivables*	–	99,375	74,570	93,832	75,809	2,246	345,832
– *Net related party receivables*	–	228	–	–	–	–	228
– *Net finance lease receivable*	–	14,142	11,169	14,846	8,602	474	49,233
– *Net bulk finance receivables*	–	44,429	26,977	11,860	–	–	83,266
Other financial assets	–	846	–	–	–	–	846
	363	158,942	112,702	120,564	84,618	2,720	479,909
Financial liabilities							
Interest bearing liabilities:							
– *Bank loans*	–	3,350	3,333	76,953	107,135	–	190,771
– *Debentures*	6,732	105,488	33,448	13,664	4,751	–	164,083
Derivative financial instruments *	–	748	120	(141)	(297)	–	430
Other financial liabilities	–	2,982	–	–	–	–	2,982
	6,732	112,568	36,901	90,476	111,589	–	358,266

The expected maturity dates of the financial assets and financial liabilities are based on estimates made by management using historical trends. The principal difference between the maturity analysis tables above and the contractual maturity analysis tables on page 68 is that in the contractual maturity analysis, for receivables the contractual minimum payments a customer is required to make are assumed rather than the expected payments. Additionally in the contractual maturity analysis, for bank loans the contractual expiry date of the current bank loan utilised is assumed rather than the available expiry dates of all facilities.

* The amounts expected to be receivable/payable in relation to the derivative financial instruments have been estimated using forward interest rates applicable at the reporting date.

3 FINANCIAL RISK MANAGEMENT (continued)

(iv) External requirements

During the reporting period the Charging Group's Trust Deed was amended to incorporate a new liquidity covenant in compliance with the Part 5D of the Reserve Bank of New Zealand Act 1989 and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

The Charging Group has complied with this liquidity covenant since it came into force on 1 December 2010.

The table below shows the calculation of this liquidity covenant at 31 March 2011.

	Audited 31/03/11 $'000
Liquid Assets	45,000
Undrawn Committed Facility Amount	160,000
Less Committed Facility Limits expiring within 3 months	–
	205,000
Less:	
Term Retail Borrowings due within 3 months	33,852
On-Demand Retail Borrowings	8,288
Uncommitted Bank Borrowings	–
	42,140
Surplus	162,860

(c) Credit risk

The Charging Group is exposed to credit risk, which is the risk that a counterparty will cause a financial loss for the Charging Group by failing to discharge an obligation. Credit exposures arise principally in advances made to its customers which are classified as receivables and deposits held with other entities. There is also credit risk in off-balance sheet financial instruments such as loan commitments.

(i) Credit risk management process

The Charging Group has a credit committee which oversees all aspects of credit risk assessment and management, and operates within formal credit policies and guidelines approved by the Board of Directors. These policies ensure that any credit risk incurred falls within acceptable parameters.

The Charging Group manages credit risk in a number of ways:

- In the consumer lending business, robust credit processes are employed to originate new loans to customers. These processes incorporate credit scorecards, credit checks, fraud detection software, business rules and review of customer credit history to assess a customers credit worthiness. Wherever appropriate, a charge will be taken by way of reservation of title over the asset financed, except for personal loans, where advances are generally unsecured. The personal loans business ceased originating business in January 2006. Additionally where appropriate the Charging Group registers a Purchase Money Security Interest (PMSI) charge over each customer and all details of the asset used as security on the Personal Property Securities Register.
- In the commercial lending business, the integrity and financial standing of approved borrowers is relied upon. All equipment finance, rental and leasing contracts are assessed in accordance with a range of credit criteria and the amount of each advance. Criteria include credit checks, trade references and financial account analysis. These contracts are secured over the goods financed and guarantees are requested from business proprietors in certain circumstances. Assets financed include machinery, plant and equipment and (to a very limited extent) motor vehicles, but does not include residential or commercial property. Additionally where appropriate the Charging Group registers a Purchase Money Security Interest (PMSI) charge over each customer and all equipment used as security on the Personal Property Securities Register.

3 FINANCIAL RISK MANAGEMENT (continued)

- In the bulk funding business, security is a general security interest charging all present and after acquired personal property and a specific security interest (first mortgage) over the finance receivables, which are sold to Smithcorp Finance Limited, a special purpose funding vehicle. In addition several factors are taken into account in determining the amount of money advanced, including average yield and arrears levels. A general security reserve is also maintained to ensure that a margin exists between the amounts advanced and the estimated market value of the underlying finance receivables.
- Interest rate instruments have been entered into with trading banks. The Charging Group's exposure to credit risk from these financial instruments is limited because it does not expect non-performance of the obligations contained therein due to the credit rating of the financial institutions concerned. The Charging Group does not require collateral or other security to support these financial instruments.
- Related Parties: The Debenture Trustee and the Crown under the Extended New Zealand Deposit Guarantee Scheme have consented to the Charging Group providing services to and accepting services from certain noncharging related companies and a non-charging subsidiary, with certain stipulations relating to maximum size of transactions, prompt settlement and full reporting to the Trustee. These services are incurred in the ordinary course of business, for proper value and on reasonable commercial terms and relate to expense recharges, insurance commissions and taxation payments made by or on behalf of these companies.

  During the reporting period the Charging Group's Trust Deed was amended to incorporate a new related party exposure covenant, in compliance with the Part 5D of the Reserve Bank of New Zealand Act 1989 and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

  The Charging Group has complied with this related party exposure covenant since it came into force on 1 December 2010. Under the terms of this covenant the Charging Group's aggregate related party exposures should not exceed 15% of the Charging Group's capital, as defined in the Regulations.

(ii) Concentrations of credit exposure

As at 31 March 2011 the Charging Group had advanced $75.4 million to Smithcorp Finance Limited, a bulk finance merchant (31 March 2010: $80.1 million). Security is a general security interest charging all present and after acquired personal property and a specific security interest over finance receivables. These receivables, taken as individual finance receivable agreements, are largely low value advances to retail customers.

Counterparty concentrations of receivables

Excluding Smithcorp Finance Limited the Charging Group had no exposure to retailers, commercial accounts or individual receivable agreements which exceeded 10% of shareholders equity (31 March 2010: Nil).

Economic concentrations of receivables

Concentrations of credit risk will exist if a number of retail and/or commercial customers are engaged in similar activities and are subject to similar economic conditions that would cause their ability to meet contractual obligations to be similarly affected by changes in these conditions.

The table below details the economic sector split of receivables.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Receivables by sector		
Retail customers *	**355,396**	354,980
Commercial customers	**38,909**	41,461
Related party	**27**	228
	394,332	396,669

* Included within the "Retail customers" sector is bulk finance receivables.

3 FINANCIAL RISK MANAGEMENT (continued)

Geographic concentrations of receivables

The table below details the geographic split of receivables.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Upper North Island	**128,974**	125,755
Central North Island	**87,980**	89,586
Lower North Island	**46,711**	47,564
South Island	**130,667**	133,764
	394,332	396,669

Upper North Island includes the Auckland and Northland regions. Lower North Island includes the Wellington and Manawatu regions.

Industry concentration of receivables

The following table breaks down the Charging Group's receivables exposure at their carrying amounts, as categorised by the industry sectors of counterparties.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Agriculture, forestry, fishing and hunting	**757**	578
Mining	**22**	5
Manufacturing	**3,434**	3,848
Electricity, gas and water supply	**131**	224
Construction	**2,786**	3,282
Wholesale trade	**1,558**	2,180
Retail trade *	**80,872**	87,032
Accommodation, cafes and restaurants	**4,315**	5,548
Transport and storage	**4,485**	4,643
Communication services	**642**	954
Finance and insurance	**208**	289
Property and business services	**4,741**	2,425
Government administration and defence	**201**	291
Education	**1,999**	1,875
Health and community services	**6,989**	6,380
Personal and other services **	**281,192**	277,115
	394,332	396,669

The Australian and New Zealand Standard Industrial Classification (ANZIC) codes were used to identify the industry sectors in the above table.

* Included within the "Retail trade" category is bulk finance receivables.

** Included within the "Personal and other services" category is finance receivables and related party receivables.

3 FINANCIAL RISK MANAGEMENT (continued)

Concentration of receivables by security type

The following table breaks down the Charging Group's receivables exposure at their carrying amounts, as categorised by the type of security.

	Audited 31/03/11 $'000
General Security Interest	338,392
General Security Interest and Purchase Money Security Interest	7,741
Purchase Money Security Interest	47,765
Unsecured	434
	394,332

For the finance receivables (advances on Q Card), security is a general security interest charging all present and after acquired property.

Additionally certain Q Card advances on existing fixed instalment loans are secured by a Purchase Money Security Interest ("PMSI") registered on the Personal Property Securities Register.

For the finance lease receivables (i.e. rental and lease finance provided to businesses) the security is a PMSI.

For the bulk finance receivables (advance to Smithcorp Finance Limited) security is a general security interest charging all present and after acquired personal property and a specific security interest over finance receivables. These receivables, taken as individual finance receivable agreements, are largely low value advances to retail customers.

Comparative figures were not disclosed as it was determined that reliable information could not be obtained for the year ended 31 March 2010. This note for "Concentration of receivables by security type" is a new note in the financial statements and has been included to align with industry practice.

3 FINANCIAL RISK MANAGEMENT (continued)

(iii) Maximum exposure to credit risk before collateral held or other credit enhancements

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Credit exposures relating to on-balance sheet assets:		
Cash and cash equivalents	**46,761**	363
Derivative financial instruments	**1**	118
Receivables:		
– *Finance receivables*	**280,003**	274,907
– *Related party receivables*	**27**	228
– *Finance lease receivables*	**38,909**	41,461
– *Bulk finance receivables*	**75,393**	80,073
Other financial assets	**1,216**	846
Credit exposures relating to off-balance sheet items:		
Undrawn lending commitments *	**351,942**	359,002
	794,252	756,998

The above table represents a maximum credit risk exposure scenario at 31 March 2011 and 31 March 2010, without taking account of any collateral held, other credit enhancements attached or the cancellation of undrawn lending commitments. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

* Undrawn lending commitments include unutilised Q Card limits which can be unconditionally cancelled by the Charging Group at any time.

(iv) Impaired receivables

For details of impaired receivables refer to note 13(b).

(d) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Charging Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of financial liabilities and financial assets for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Charging Group for similar financial instruments. For those short term financial assets and financial liabilities their carrying amount is a reasonable approximation of their fair values.

Where present value techniques are used to value future cash flows deriving from interest rate derivative contracts, the Charging Group uses an Excel-based valuation model licensed from a reputable third party vendor. Market data used for valuation purposes (i.e. interest rate yield curves) are provided by independent third party data providers where possible. In addition, month-end derivative portfolio valuations are obtained from all derivative counterparties for comparison with internal valuations.

Effective 1 April 2009, the Charging Group adopted the amendment to NZ IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

3 FINANCIAL RISK MANAGEMENT (continued)

The following table presents the Charging Group's assets and liabilities that are measured at fair value.

	Level 1	Level 2	Level 3	Total balance
Audited 31/03/11	**$'000**	**$'000**	**$'000**	**$'000**
Assets				
Derivative financial instruments – fair value hedges	–	1	–	1
Total assets	–	1	–	1
Liabilities				
Derivative financial instruments – cash flow hedges	–	1,881	–	1,881
Derivative financial instruments – fair value hedges	–	281	–	281
Total liabilities	–	2,162	–	2,162

	Level 1	Level 2	Level 3	Total balance
Audited 31/03/10	$'000	$'000	$'000	$'000
Assets				
Derivative financial instruments – held for trading	–	118	–	118
Bulk finance receivables	–	–	11,292	11,292
Total assets	–	118	11,292	11,410
Liabilities				
Derivative financial instruments – fair value hedges	–	176	–	176
Derivative financial instruments – held for trading	–	264	–	264
Total liabilities	–	440	–	440

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Charging Group is the current bid price. These instruments are included in level 1. The Charging Group did not hold any financial instruments in the level 1 category at 31 March 2011 (31 March 2010: $Nil).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of derivative financial instruments at 31 March 2011 was based on cash flows discounted using interest rates ranging between 2.5% and 4.3% (31 March 2010: 2.6% and 5.2%).

Note that all of the resulting fair value estimates are included in level 2 except for certain bulk finance receivables as explained below.

3 FINANCIAL RISK MANAGEMENT (continued)

The following table presents the changes in level 3 instruments.

Audited 31/03/11	Bulk finance receivables $'000
Balance at 01/04/10	**11,292**
Gains/(losses) recognised in the statement of comprehensive income (included within interest and similar income)	**(17)**
Gains/(losses) recognised in other comprehensive income	**–**
Advances *	**–**
Interest and similar charges	**148**
Repayments	**(11,423)**
Balance at 31/03/11	**–**

Audited 31/03/10	Bulk finance receivables $'000
Balance at 01/04/09	84,873
Gains/(losses) recognised in the statement of comprehensive income (included within interest and similar income)	(609)
Gains/(losses) recognised in other comprehensive income	–
Advances *	–
Interest and similar charges	2,790
Repayments	(75,762)
Balance at 31/03/10	11,292

Total losses for the year ended 31 March 2010 included in statement of comprehensive income (included within interest and similar income) for receivables held at 31 March 2010 was $357,000.

Bulk finance receivables measured at fair value are classified as level 3 in the fair value measurement hierarchy. This is because one of the inputs (the credit margin) used in the fair value calculation is not based on observable market inputs.

The fair value of bulk finance receivables which are measured at fair value in the statement of financial position at 31 March 2010 was based on cash flows discounted using lending rates (including the credit margin) ranging between 7.2% and 8.5%.

At 31 March 2010, if interest rates had changed by -/+ 1% from the period end rates with all other variables held constant, bulk finance receivables would have been $18,000 higher/$18,000 lower as a result of the change to the fair value of these financial instruments.

At 31 March 2011 there were no remaining bulk finance receivables measured at fair value. All bulk finance receivable advances at 31 March 2011 were measured at amortised cost.

* Advances for 31 March 2011 and 31 March 2010 are $Nil as loans and advances made to Smithcorp Finance Limited on or after 1 April 2009 have been measured at amortised cost. Refer note 13(b)(iii).

(e) Foreign exchange risk

As at 31 March 2011 the Charging Group had no foreign currency exposure (31 March 2010: $Nil).

(f) Price risk

As at 31 March 2011 the Charging Group had no price risk exposure (31 March 2010: $Nil).

3 FINANCIAL RISK MANAGEMENT (continued)

(g) Other activities

The Charging Group has no involvement in funds management, securitisation, custodial or trust activities.

(h) Credit rating

During the reporting period the Charging Group's Trust Deed was amended to incorporate the requirement to hold a credit rating from an Approved Rating Agency in compliance with the Part 5D of the Reserve Bank of New Zealand Act 1989 and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

Fisher & Paykel Finance Limited's local currency (New Zealand dollar) long-term issuer credit rating was reaffirmed by Standard & Poor's Ratings Service on 30 March 2011 as BB Outlook Stable.

A local currency long-term issuer credit rating is a rating agency's opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations in New Zealand dollars in the long term. Under a long-term issuer credit rating, an obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments. See www.standardandpoors.com.

The rating Outlook assigned by Standard & Poor's assesses the potential direction of a long-term issuer credit rating over the intermediate term (typically six months to two years). A Stable Outlook means that a rating is not likely to change, and reflects Standard & Poor's expectation that Fisher & Paykel Finance's financial characteristics will remain stable in the medium term.

There have been no other ratings assigned to Fisher & Paykel Finance in the last two years.

3 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial instruments by category

Assets as per statement of financial position

	Assets at fair value through profit or loss – designated $'000	Assets at fair value through profit or loss – held for trading $'000	Derivatives used for hedging $'000	Loans and receivables measured at amortised cost $'000	Total $'000
At 31 March 2011 (Audited)					
Cash and cash equivalents	–	–	–	46,761	46,761
Derivative financial instruments	–	–	1	–	1
Receivables	–	–	–	394,332	394,332
Other assets	–	–	–	1,216	1,216
	–	–	1	442,309	442,310
At 31 March 2010 (Audited)					
Cash and cash equivalents	–	–	–	363	363
Derivative financial instruments	–	118	–	–	118
Receivables	11,292	–	–	385,377	396,669
Other assets	–	–	–	846	846
	11,292	118	–	386,586	397,996

Liabilities as per statement of financial position

	Liabilities at fair value through the profit or loss – held for trading $'000	Derivatives used for hedging $'000	Liabilities measured at amortised cost $'000	Total $'000
At 31 March 2011 (Audited)				
Payables	–	–	3,685	3,685
Derivative financial instruments	–	2,162	–	2,162
Interest bearing liabilities	–	–	365,249	365,249
	–	2,162	368,934	371,096
At 31 March 2010 (Audited)				
Payables	–	–	2,982	2,982
Derivative financial instruments	264	176	–	440
Interest bearing liabilities	–	–	333,113	333,113
	264	176	336,095	336,535

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Charging Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment losses on loans and advances

The Charging Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Charging Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent that the net present value of estimated cashflows differs by -/+ 1 %, the provision would be estimated at $176,000 lower or $176,000 higher. Consequently the receivables at 31 March 2011 of $394,332,000 would be $176,000 lower or $176,000 higher.

(ii) Fair value of derivative financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques (such as discounted cash flow analysis.) The Charging Group uses judgements to select a method and makes assumptions that are mainly based on market conditions existing at balance date.

The carrying amount of derivative financial instrument assets at 31 March 2011 of $1,000 would be $10,000 lower or $10,000 higher if the discount rate was changed by -/+ 1%.

The carrying amount of derivative financial instrument liabilities at 31 March 2011 of $2,162,000 would be $2,406,000 higher or $2,326,000 lower if the discount rate was changed by -/+ 1%.

5 SEGMENT INFORMATION

(a) Description of segments

Operating segments

The Charging Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The executive management team considers the business from a product perspective.

The Charging Group's business is organised into the following main operating segments.

Consumer Finance

Consumer Finance is provided through Q Card, a lifestyle card that incorporates all the benefits of a store card and credit card including fixed instalment and revolving credit purchases, all on the one card. Q Card allows customers to choose from a range of payment options within pre-approved credit limits.

Equipment Finance

The Equipment Finance operating segment provides specialist rental and lease finance options to businesses to finance a broad range of products.

Bulk Finance

The Charging Group provides a bulk financing facility to Smithcorp Finance Limited to finance consumer credit sales.

Other segments

Included in other segments is the Charging Group's investment in deposits held with New Zealand registered Banks.

(b) Reporting

The segment information provided to the executive management team for the reportable operating segments for the year ended 31 March 2011 is as follows:

31/03/11 (Audited)	Consumer Finance $'000	Equipment Finance $'000	Bulk Finance $'000	All other segments $'000	Total $'000
Interest income	53,440	5,889	6,648	939	66,916
Other income	7,430	1,562	94	–	9,086
Total segment revenue	60,870	7,451	6,742	939	76,002
Inter-segment revenue	–	–	–	–	–
Revenue from external customers	60,870	7,451	6,742	939	76,002
Net contribution before income tax expense	13,096	1,667	1,367	(143)	15,987
Depreciation and amortisation	1,099	113	–	–	1,212
Impairment charge for credit losses	12,855	1,554	480	–	14,889
Operating expenses	14,265	1,370	474	–	16,109
Interest expense	19,554	2,747	4,422	1,082	27,805
Income tax expense	–	–	–	–	–
Total segment assets	299,224	40,823	75,873	45,000	460,920
Total assets includes:					
Additions to non-current assets (other than financial assets and deferred tax)	–	–	–	4,078	4,078

5 SEGMENT INFORMATION (continued)

31/03/10 (Audited)	Consumer Finance $'000	Equipment Finance $'000	Bulk Finance $'000	All other segments $'000	Total $'000
Interest income	46,856	6,368	5,749	–	58,973
Other income	6,156	822	113	–	7,091
Total segment revenue	53,012	7,190	5,862	–	66,064
Inter-segment revenue	–	–	–	–	–
Revenue from external customers	53,012	7,190	5,862	–	66,064
Net contribution before income tax expense	8,005	670	1,489	–	10,164
Depreciation and amortisation	912	77	–	–	989
Impairment charge for credit losses	13,289	1,101	–	–	14,390
Operating expenses	12,257	2,007	405	–	14,669
Interest expense	18,549	3,334	3,968	–	25,851
Income tax expense	–	–	–	–	–
Total segment assets	295,063	42,590	80,073	–	417,726
Total assets includes: Additions to non-current assets (other than financial assets and deferred tax)	–	–	–	2,035	2,035

(c) Reconciliations

A reconciliation of total net contribution before income tax to profit before income tax is provided below:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Net contribution before income tax expense	**15,987**	10,164
Dividend income	**6,259**	1,905
Operating expenses (allocation to related parties)	**308**	272
Other	**(25)**	(62)
Profit before income tax per statement of comprehensive income	**22,529**	12,279

5 SEGMENT INFORMATION (continued)

Reportable segments' assets are reconciled to total assets as follows:

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Segment assets for reportable segments		**460,920**	417,726
Unallocated:			
Cash and cash equivalents	11	**1,761**	363
Derivative financial instruments	12	**1**	118
Investment in non-guaranteeing subsidiary	31	**7,500**	5,000
Other assets	14	**1,687**	1,216
Intangible assets	15	**10,056**	8,176
Property, plant and equipment	16	**1,247**	1,316
Deferred tax assets	17	**5,306**	4,691
Receivables:			
– *Net finance receivables – allowance for impairment*	13	**(19,221)**	(20,156)
– *Net related party receivables*	13	**27**	228
– *Net finance lease receivables – allowance for impairment*	13	**(1,914)**	(1,129)
– *Net bulk finance receivables – allowance for impairment*		**(480)**	–
Total assets per statement of financial position		**466,890**	417,549

A reconciliation of total segment interest income to interest income is provided below:

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Total segment interest income		**66,916**	58,973
Fair value gains/(losses) on derivative financial instruments	6	**(211)**	640
Fair value gains/(losses) on bulk finance receivables	6	**184**	(715)
Interest income – banks	6	**2**	16
Other		**–**	(4)
Interest and similar income per statement of comprehensive income		**66,891**	58,910

A reconciliation of total segment other income to other income is provided below:

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Total segment other income		**9,086**	7,091
Fee and commission income	7	**(7,211)**	(5,949)
Expense recharge and overhead recovery from commonly controlled entities and the non-guaranteeing subsidiary	8	**12,731**	11,838
Fair value gains/(losses) on derivative financial instruments	6	**211**	(640)
Fair value gains/(losses) on bulk finance receivables	6	**(184)**	715
Other		**80**	–
Other income per statement of comprehensive income		**14,713**	13,055

5 SEGMENT INFORMATION (continued)

A reconciliation of total segment depreciation and amortisation expense to depreciation and amortisation expense is provided below:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Total segment depreciation and amortisation expense	1,212	989
Allocation of depreciation to related parties	1,050	936
Depreciation and amortisation expense per statement of comprehensive income	2,262	1,925

A reconciliation of total segment operating expenses to operating expense per the statement of comprehensive income is provided below:

	Notes	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Total segment operating expense		16,109	14,669
Expense recharge and overhead recovery from commonly controlled entities and the non charging subsidiary	8	12,731	11,838
Employee benefits expense	9	(15,047)	(14,407)
Other		(1,266)	(1,143)
Operating expenses per statement of comprehensive income		12,527	10,957

5 SEGMENT INFORMATION (continued)

(d) Information about revenue from external customers

Revenues from external customers mainly consists of interest income earned on loans and advances made to customers. Additionally fees and commission income is earned upon the loans and advances made to customers.

Breakdown of revenue from all services is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Analysis of revenue by category		
Interest income	**66,916**	58,973
Fee and commission income	**9,086**	7,091
	76,002	66,064

The Charging Group operates solely in New Zealand and the business is managed on a national basis. All revenue is derived from New Zealand.

Revenues of approximately $6,742,000 (31 March 2010: $5,862,000) are derived from a single customer Smithcorp Finance Limited, a bulk finance merchant. This represents 8.9% of the Charging Group's total segment revenue (31 March 2010: 8.9%).

(e) Notes to and forming part of the segment information

The Charging Group does not include liabilities in the segment information reported internally to the Chief Operating Decision Maker. The Charging Group's interest bearing liabilities are not considered to be segment liabilities but rather are managed by the treasury function.

Income tax expense is not reported by segment for the internal reporting purposes and consequently is not allocated to segments in the segment tables.

At the year ended 31 March 2011, the Charging Group held $45.0 million of deposits with New Zealand registered Banks. The interest revenue and interest expense (allocated) to this investment is included in the "All other segments" category in the segment tables on page 80.

6 NET INTEREST INCOME

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Interest and similar income		
for financial assets not at fair value through profit or loss:		
Finance receivables – not impaired	**54,083**	47,594
Finance receivables – individually impaired (restructured)	**1,403**	1,482
Finance receivables – individually impaired (other)	**3,844**	4,145
Banks	**941**	16
Bulk finance receivables	**6,499**	2,958
Fair value gains/(losses) of hedged risks on bulk finance receivables in fair value hedge relationship	**201**	(106)
Fair value gains/(losses) of hedged risks on derivative financial instruments in fair value hedge relationship	**(201)**	106
	66,770	56,195
for financial assets at fair value through profit or loss:		
Bulk finance receivables	**148**	2,790
Fair value gains/(losses) on bulk finance receivables not subject to a fair value hedge relationship	**(17)**	(609)
Fair value gains/(losses) on derivative financial instruments held for trading	**(10)**	534
	121	2,715
Total interest and similar income	**66,891**	58,910
Interest expense and similar charges		
for financial liabilities not at fair value through profit or loss:		
Bank overdraft	**(1)**	(2)
Debentures	**(10,626)**	(11,528)
Wholesale borrowings	**(16,131)**	(11,829)
Subordinated debt	**–**	(380)
Crown Retail Deposit Guarantee Scheme fee	**(1,047)**	(4,185)
Crown Retail Deposit Guarantee Scheme rebate	**–**	2,073
Total interest expense and similar charges	**(27,805)**	(25,851)
Net interest income	**39,086**	33,059

In the year ended 31 March 2010, the Charging Group received a rebate on its participation fees for the Retail Deposit Guarantee Scheme by obtaining a Long-Term Issuer Credit rating for Fisher & Paykel Finance Limited from Standard & Poor's in February 2010. Fisher & Paykel Finance Limited was previously unrated.

7 NET FEE AND COMMISSION INCOME

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Fee and commission income		
for financial assets not at fair value through profit or loss		
Credit related fees and commissions	4,550	4,160
Other fee income	2,661	1,789
	7,211	5,949
Fee and commission expense		
for financial liabilities not at fair value through profit or loss		
Other fees paid	(15)	(10)
Net fee and commission income	7,196	5,939

8 OTHER INCOME

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Expense recharge and overhead recovery from commonly controlled entities	11,008	10,365
Expense recharge and overhead recovery from non-guaranteeing subsidiary	1,723	1,473
Other income	1,982	1,217
Other income total	14,713	13,055

9 EXPENSES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Computer hardware	**305**	352
Furniture, fittings & equipment	**113**	147
Leasehold improvements	**65**	61
Total depreciation (note 16)	**483**	560
Amortisation		
Acquired computer software	**211**	70
Internally generated computer software	**1,568**	1,295
Total amortisation (note 15)	**1,779**	1,365
Rental expense relating to operating leases		
Minimum lease payments	**1,928**	1,919
Total rental expense relating to operating leases *	**1,928**	1,919
Operating expenses		
Administration	**1,412**	1,313
Audit fees (note 27)	**225**	300
Computer	**1,330**	1,361
Directors fees	**135**	90
Donations	**–**	41
Marketing	**609**	1,131
Occupancy	**1,758**	1,720
Operational	**2,217**	2,163
Other	**3,336**	1,329
Professional	**1,073**	1,070
Telephone & tolls	**432**	439
Total operating expenses	**12,527**	10,957
Employee benefits		
Pension costs – defined contribution plans	**659**	653
Share-based payments	**(11)**	47
Wages and salaries, including restructuring costs and termination benefits	**14,399**	13,707
Total employee benefits	**15,047**	14,407
Impairment charge for credit losses		
for finance receivables:		
Receivables written off during the year	**14,592**	12,831
Recovery of amounts previously written off	**(802)**	(622)
Movement in allowance for impairment	**(935)**	1,079
	12,855	13,288
for finance lease receivables:		
Receivables written off during the year	**812**	524
Recovery of amounts previously written off	**(43)**	(15)
Movement in allowance for impairment	**785**	593
	1,554	1,102
for bulk finance receivables:		
Receivables written off during the year	**–**	–
Recovery of amounts previously written off	**–**	–
Movement in allowance for impairment	**480**	–
	480	–
Total impairment charge for credit losses	**14,889**	14,390

* The rental expenses are also included in the "Operating expenses" table within "Computer" and "Occupancy" expenses.

10 INCOME TAX EXPENSE

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
(a) Income tax expense		
Current tax	5,704	4,269
Deferred tax – temporary differences (note 17)	(789)	(1,109)
Deferred tax – change in tax rate *	344	–
Under (over) provided in prior years	(235)	(4)
	5,024	3,156
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	22,529	12,279
Tax at the New Zealand tax rate of 30.0% (31 March 2010: 30.0%)	6,759	3,684
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax exempt income	(1,878)	(572)
Tax rate changes *	344	–
Under (over) provision in prior years	(235)	(4)
Non deductible expenses	34	48
	(1,735)	(528)
Income tax expense	5,024	3,156
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Current tax – debited (credited) directly to equity	–	–
Net deferred tax – debited (credited) directly to equity (notes 17 and 24)	(490)	–
	(490)	–

* On the 1 April 2011 the corporate income tax rate was reduced from 30.0% to 28.0%.

(d) Income tax expense relating to components of other comprehensive income

The tax (charge)/credit relating to components of other comprehensive income is as follows:

Audited 31/03/11	Before tax amount $'000	Tax (expense)/ benefit $'000	Net-of-tax amount $'000
Cash flow hedges	(1,750)	490	(1,260)
Other comprehensive income	(1,750)	490	(1,260)
Current tax		–	
Deferred tax		490	
		490	

There was no other comprehensive income (and hence no tax on other comprehensive income) for the year ended 31 March 2010.

11 CASH AND CASH EQUIVALENTS

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Cash at bank and on hand	**1,761**	363
Deposits	**45,000**	–
	46,761	363

(a) Cash at bank and on hand

For the Charging Group the weighted average interest rate on Cash at bank and on hand at 31 March 2011 was 2.5% (31 March 2010: 1.9%).

(b) Deposits

The weighted average interest rate on the deposits at 31 March 2011 was 4.1% (31 March 2010: N/A).

In addition to undrawn committed bank facilities of $160.0 million at the reporting date (refer note 22(d)), the Charging Group held $45.0 million of short term deposits with New Zealand registered Banks in order to strengthen its on-balance sheet liquidity.

(c) Fair value

The carrying amount for cash and cash equivalents equals its fair value.

12 DERIVATIVE FINANCIAL INSTRUMENTS

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Assets		
Interest rate swaps – fair value hedges	1	–
Interest rate swaps – held for trading	–	118
Total derivative financial instrument assets	1	118
Liabilities		
Interest rate swaps – cash flow hedges	1,881	–
Interest rate swaps – fair value hedges	281	176
Interest rate swaps – held for trading	–	264
Total derivative financial instrument liabilities	2,162	440

(a) Instruments used by the Charging Group

The Charging Group is party to derivative financial instruments in the normal course of business in order to convert economically floating interest rate exposure into fixed interest rate exposure in accordance with the Charging Group's financial risk management policies (refer to note 3).

The Charging Group uses interest rate swaps to manage its interest rate risk.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate).

(b) Derivatives that qualify for fair value hedge accounting

The Charging Group only applies fair value hedge accounting for hedging fixed interest on its bulk finance receivables. The Charging Group uses fair value hedges to protect against movements in the fair value of its fixed rate receivables due to movements in market interest rates. Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income (within "interest and similar income"), together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

The Charging Group has designated certain interest rate swaps as hedging instruments against loans and advances made to Smithcorp Finance Limited (bulk finance receivables).

The notional principal outstanding at 31 March 2011 for these interest rate swaps was $74,029,000 (31 March 2010: $67,433,000).

The fair value movement on the hedging instrument (interest rate swaps) for the year ended 31 March 2011 was a loss of $201,000 (31 March 2010: gain $106,000). The fair value movement on the hedged item (attributable risk of bulk finance receivables) for the year ended 31 March 2011 was a gain of $201,000 (31 March 2010: loss $106,000).

(c) Derivatives that qualify for cash flow hedge accounting

The Charging Group only applies cash flow hedge accounting for hedging the variability in cash flows arising from the rollover of its bank loans. The Charging Group uses cash flow hedges to protect against variability in future cash flows due to movements in market interest rates. Changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recorded in equity (within "hedging reserves").

The Charging Group has designated a portion of certain interest rate swaps as hedging instruments against the variability in the cash outflows arising on the rollover of bank loans after 1 April 2010.

The notional principal outstanding at 31 March 2011 for these interest rate swaps was $99,000,000 (31 March 2010: N/A).

The fair value loss on the hedging instrument (interest rate swaps) for the year ended 31 March 2011 recognised in equity was $1,260,000 (net of tax). For the year ended 31 March 2011 there was no ineffectiveness recognised in the statement of comprehensive income arising from these cash flow hedges.

There was no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 March 2011 as a result of the highly probable cash flows no longer being expected to occur.

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(d) Derivatives that do not qualify for hedge accounting

The Charging Group does not currently hold or issue derivative financial instruments for trading purposes, although under the classification of NZ IAS 39, derivative financial instruments are classified as "held for trading" unless they are designated hedges. During the year ended 31 March 2010, as the Charging Group did not designate all of its derivative financial instruments as designated hedges, those undesignated derivative financial instruments held by the Charging Group were therefore classified as held for trading and were recognised at fair value through profit or loss.

The Charging Group uses interest rate swaps to economically hedge a portion of the Charging Group's asset/liability gap.

The notional principal outstanding at 31 March 2011 for these interest rate swaps was $Nil (31 March 2010: $91,809,000).

(e) Credit risk exposures

Interest rate financial instruments have been entered into with financial institutions approved by the Board of Directors. The Charging Group's exposure to credit risk from these financial instruments is limited because it does not expect nonperformance of the obligations contained therein due to the credit rating of the financial institutions concerned. At reporting date $1,000 is receivable in respect of these financial instruments (31 March 2010: $118,000). At balance date all approved counterparties have a long term credit rating of "AA" from Standard & Poor's and the Charging Group does not require collateral or other security to support these financial instruments.

(f) Fair values

The fair value of derivative financial instruments at 31 March 2011 was based on cash flows discounted using interest rates ranging between 2.5% and 4.3% (31 March 2010: 2.6% and 5.2%).

(g) Current/Non-current

The table below shows the derivatives expected to be realised no more than twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current).

	Current $'000	Noncurrent $'000	Total $'000
Assets			
31/03/11 (Audited)			
Derivative financial instrument assets	**–**	**1**	**1**
31/03/10 (Audited)			
Derivative financial instrument assets	–	118	118
Liabilities			
31/03/11 (Audited)			
Derivative financial instrument liabilities	**244**	**1,918**	**2,162**
31/03/10 (Audited)			
Derivative financial instrument liabilities	95	345	440

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(h) Interest rate swaps – cash flow hedges

The table below analyses the Charging Group's derivatives financial instruments (which are subject to cashflow hedge accounting) into relevant maturity groupings based on the remaining period at the reporting date to the expected date the cashflows are expected to occur.

	0 to 6 months $'000	7 to 12 months $'000	13 to 24 months $'000	25 to 60 months $'000	Over 60 months $'000	Total $'000
Assets						
31/03/11 (Audited)						
Interest rate swaps	–	–	–	–	–	–
31/03/10 (Audited)						
Interest rate swaps	–	–	–	–	–	–
Liabilities						
31/03/11 (Audited)						
Interest rate swaps	805	767	550	(180)	–	1,942
31/03/10 (Audited)						
Interest rate swaps	–	–	–	–	–	–

The interest rate swaps require settlement of net interest receivable or payable every 3 months. The settlement dates coincide with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and as such are considered highly effective. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are recognised in other comprehensive income and reclassified into profit and loss when the interest expense is recognised.

13 RECEIVABLES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Net finance receivables		
Finance receivables	304,198	300,966
Provision for unearned interest	(4,974)	(5,903)
Allowance for impairment	(19,221)	(20,156)
	280,003	274,907
Net related party receivable		
Related party receivables (note 30(g)(i))	27	228
Allowance for impairment	–	–
	27	228
Net finance lease receivables		
Finance lease receivables	43,333	45,756
Unearned finance income	(2,510)	(3,166)
Allowance for uncollectible minimum lease payments receivable	(1,914)	(1,129)
	38,909	41,461
Net bulk finance receivables		
Bulk finance receivables	75,599	79,967
Fair value hedge adjustment	274	106
Allowance for impairment	(480)	–
	75,393	80,073
	394,332	396,669

Net finance receivables

Net finance receivables consist primarily of advances on Q Card.

Net related party receivable

The net related party receivable is for the intercompany accounts between the entities of the Charging Group and other commonly controlled entities and the non-guaranteeing subsidiary. The main type of intercompany transactions consisting of expenses paid on an entities behalf and also overheads recharged.

Net finance lease receivables

Net finance lease receivables consist of rental and leasing finance provided to businesses.

Net bulk finance receivables

Net bulk finance receivables consist of loans and advances to Smithcorp Finance Limited.

Impairment charge for credit losses on receivables

The Charging Group has recognised an impairment charge for credit losses of $14,889,000 in respect of receivables during the year ended 31 March 2011 (31 March 2010: $14,390,000). Refer note 9 for details of the impairment charge by class of receivable.

13 RECEIVABLES (continued)

(a) Finance leases

The Charging Group provides lease finance to customers for purchase of office equipment and other equipment.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Finance lease receivables		
Gross receivables from finance leases:		
Not later than 1 year	21,624	23,727
Later than 1 year and not later than 5 years	21,626	21,808
Later than 5 years	83	221
	43,333	45,756
Unearned finance income	(2,510)	(3,166)
Allowance for uncollectible minimum lease payments receivable	(1,914)	(1,129)
	(4,424)	(4,295)
Net investment in finance leases	38,909	41,461

The net investment in finance leases is analysed as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Not later than 1 year	19,152	21,200
Later than 1 year and not later than 5 years	19,689	20,072
Later than 5 years	68	189
	38,909	41,461

13 RECEIVABLES (continued)

(b) Impaired receivables

Net finance receivables and net finance lease receivables are summarised as follows:

	Finance receivables	
	Audited 31/03/11 $000	Audited 31/03/10 $000
Neither past due nor impaired	**262,975**	254,794
Past due but not impaired	**12,124**	13,090
Impaired – individually assessed (restructured receivables)	**4,957**	4,912
Impaired – individually assessed (other receivables)	**19,168**	22,267
Gross *	**299,224**	295,063
Less:		
Allowance for impairment – collectively assessed	**2,789**	1,991
Allowance for impairment – individually assessed (restructured receivables)	**2,069**	1,784
Allowance for impairment – individually assessed (other receivables)	**14,363**	16,381
Net	**280,003**	274,907

	Finance lease receivables	
	Audited 31/03/11 $000	Audited 31/03/10 $000
Neither past due nor impaired	**38,294**	40,041
Past due but not impaired	**745**	864
Impaired – individually	**1,784**	1,685
Gross *	**40,823**	42,590
Less:		
Allowance for impairment – collectively assessed	**729**	137
Allowance for impairment – individually assessed	**1,185**	992
Net	**38,909**	41,461

* Gross amount for finance receivables class is after provision for unearned interest. Gross amount for finance lease receivables class is after unearned finance income.

Past due but not impaired

The past due but not impaired category includes those receivables for which the customer has failed to make a payment when contractually due and for which the receivable has not been individually assessed for impairment. The gross figures disclosed in the table above include the customers entire balance rather than the overdue portion.

Impaired individually – Restructured

A restructured receivable is an impaired receivable. Refer note 2(n)(ii). Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is generally only applied to the finance receivables class.

Impaired individually – other receivables

For the finance receivables class, receivables assessed on an individual basis includes those receivables for which payment is more than 90 days in arrears.

13 RECEIVABLES (continued)

For the finance lease receivables class, receivables assessed on an individual basis includes those receivables for which payment is more than 120 days in arrears. In addition some receivables (commercial type loans) were individually assessed for impairment as they were deemed individually significant (based on $ size of loan).

Allowance for impairment – collective

Receivables assessed for impairment on a collective basis include the finance receivables less than or equal to 90 days in arrears and also the finance lease receivables less than or equal to 120 days and excludes those receivables which have been individually assessed for impairment. The collective allowance for impairment is estimated taking into account ageing and historical loss ratios, amongst other factors. Refer note 2(m).

In the year ended 31 March 2011, the collective allowance for impairment includes an allowance for impairment of $1.0 million (finance receivables $750,000 and finance lease receivables $250,000) against receivables in respect of the earthquake that struck Christchurch in February 2011.

Renegotiated receivables

The carrying amount of receivables that would otherwise be past due whose terms have been renegotiated at 31 March 2011 was $35,353,000 (31 March 2010: $28,541,000). These receivables are included in the neither past due nor impaired category and are considered by management of the Charging Group to be fully performing.

(i) Finance receivables

The table below shows a reconciliation of the movement in restructured finance receivables which are individually impaired.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Gross balance at 1 April	**4,912**	4,190
Net additions/(deletions) to/from class	**348**	859
Receivables written off during the year	**(303)**	(137)
Gross balance at 31 March	**4,957**	4,912
Less allowance for impairment	**(2,069)**	(1,784)
Net balance at 31 March	**2,888**	3,128

The table below shows a reconciliation of the movement in other finance receivables which are individually impaired.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Gross balance at 1 April	**22,267**	22,818
Net additions/(deletions) to/from class	**10,571**	11,729
Receivables written off during the year	**(13,670)**	(12,280)
Gross balance at 31 March	**19,168**	22,267
Less allowance for impairment	**(14,363)**	(16,381)
Net balance at 31 March	**4,805**	5,886

The ageing of gross other finance receivables past due but not impaired is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
1 to 30 days	**6,204**	5,913
31 to 60 days	**4,388**	5,166
61 to 90 days	**1,532**	2,011
	12,124	13,090

13 RECEIVABLES (continued)

Collateral held for finance receivables individually determined to be impaired and finance receivables past due but not impaired is as follows:

- Where appropriate Q Card advances are secured by way of reservation of title over the asset financed. Personal Loans are generally unsecured.
- It is impracticable to estimate the fair value of collateral held because of the average size of each advance outstanding, the number of advances outstanding, the term to maturity of each advance and the wide variety and condition of each asset financed. The Charging Group will, in the first instance, attempt to collect the outstanding debt without recourse to the secured asset. In many instances third party collection agencies are utilised. Repossession of secured assets occurs only in limited circumstances and where it is economic to do so. The carrying amount of these repossessed collateralised assets at balance date was immaterial.

Movements in the allowance for impairment of finance receivables collectively assessed is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Balance at 1 April	**1,991**	1,283
Movement in allowance for impairment during the year	**798**	708
Balance at 31 March	**2,789**	1,991

Movements in the allowance for impairment of restructured finance receivables individually impaired is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Balance at 1 April	**1,784**	1,230
Movement in allowance for impairment during the year	**285**	554
Balance at 31 March	**2,069**	1,784

Movements in the allowance for impairment of other finance receivables individually impaired is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Balance at 1 April	**16,381**	16,564
Movement in allowance for impairment during the year	**(2,018)**	(183)
Balance at 31 March	**14,363**	16,381

The creation and release of the allowance for impairment has been included in 'Impairment charge for credit losses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

13 RECEIVABLES (continued)

(ii) Finance lease receivables

The table below shows a reconciliation of the movement in finance lease receivables which are individually impaired.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Gross balance at 1 April	**1,685**	988
Additions to class	**715**	948
Receivables written off during the year	**(535)**	(200)
Deletions from class	**(81)**	(51)
Gross balance at 31 March	**1,784**	1,685
Less allowance for impairment	**(1,185)**	(992)
Net balance at 31 March	**599**	693

The ageing of gross finance lease receivables past due but not impaired is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Up to 30 days	**189**	254
31 to 60 days	**354**	324
61 to 90 days	**132**	190
91 to 120 days	**70**	96
	745	864

Collateral held for finance lease receivables individually determined to be impaired and finance lease receivables past due but not impaired is as follows:

- Rental and leasing advances are generally secured by way of reservation of title over the asset financed and guarantees are requested from the business proprietors in certain circumstances.
- It is impracticable to estimate the fair value of collateral held because of the average size of each advance outstanding, the number of advances outstanding, the term to maturity of each advance and the wide variety and condition of each asset financed.

Movement in allowance for impairment of finance lease receivables collectively assessed is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Balance at 1 April	**137**	102
Movement in allowance for impairment during the year	**592**	35
Balance at 31 March	**729**	137

Movement in allowance for impairment of finance lease receivables individually impaired is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Balance at 1 April	**992**	434
Movement in allowance for impairment during the year	**193**	558
Balance at 31 March	**1,185**	992

13 RECEIVABLES (continued)

The creation and release of the allowance for impaired receivables has been included in 'Impairment charge for credit losses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(iii) Related party receivables and bulk finance receivables

Related party receivables do not contain impaired assets and are not past due. Based on the credit history of these classes, it is expected that these amounts will be received when due.

Bulk finance receivables at 31 March 2011 of $75.4 million (31 March 2010: $80.1 million) is after deducting reserves for allowance for impairment of receivables, yield adjustments and security reserves. In the year ended 31 March 2011, an allowance for impairment of $480,000 (31 March 2010: $Nil) was made against bulk finance receivables in respect of the earthquake that struck Christchurch in February 2011.

For loans and advances made to Smithcorp Finance Limited on or after 1 April 2009, management has chosen not to designate them at fair value through profit or loss at inception. Consequently these receivables advanced on or after 1 April 2009 are measured at amortised cost.

For the year ended 31 March 2010, loans and advances made to Smithcorp Finance Limited (bulk finance receivables), originally advanced prior to 31 March 2009 were measured at fair value through profit or loss. This designation was made by management to ensure consistency to the underlying derivative financial instruments which were also measured at fair value through profit or loss.

As at 31 March 2011 all loans and advances made to Smithcorp Finance Limited were measured at amortised cost.

Effective 1 April 2009, the Charging Group adopted hedge accounting. For each loan or advance made to Smithcorp Finance Limited on or after 1 April 2009 a hedge relationship has been formed. With certain interest rate swaps being designated as the hedging instrument and a portion of the interest rate risk of the advances to Smithcorp Finance Limited being designated as the hedged item.

Gains/losses on the hedged item attributable to the hedged risk are adjusted to the carrying amount of the bulk finance receivables and are recognised as part of "interest and similar income" in the statement of comprehensive income.

13 RECEIVABLES (continued)

(iv) Neither past due nor impaired receivables

The credit quality of receivables which are neither past due nor impaired is as follows:

Finance receivables	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Very good	**240,482**	235,397
Good	**8,430**	9,528
Moderate	**14,063**	9,869
	262,975	254,794

Finance lease receivables	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Very good	**7,391**	7,288
Good	**30,009**	32,233
Moderate	**894**	520
	38,294	40,041

The credit quality of the finance receivables and finance lease receivables is determined by the use of an internal grading system. In measuring credit quality the Charging Group looks at the counterparty's payment history and whether any arrears type action has been taken.

The credit quality categories are also representative of the Charging Group's assessment of the likelihood of default by the counterparty on its contractual obligations for payment. The "Very good" category representing the receivables for which management has judged there is the lowest probability of default (expected future loss).

13 RECEIVABLES (continued)

(c) Fair values

The fair values and carrying values of receivables of the Charging Group are as follows:

	Audited 31/03/11		Audited 31/03/10	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Net finance receivables	**280,003**	**277,536**	274,907	272,161
Net related party receivables	**27**	**27**	228	228
Net finance lease receivables	**38,909**	**38,457**	41,461	41,083
Net bulk finance receivables	**75,393**	**75,183**	80,073	78,413
	394,332	**391,203**	396,669	391,885

The fair values of finance receivables at 31 March 2011 was based on cash flows using a lending rate of 15.6% (31 March 2010: 15.9%).

The fair values of finance lease receivables at 31 March 2011 was based on cash flows discounted using a lending rate of 14.8% (31 March 2010: 13.9%).

The fair value of bulk finance receivables at 31 March 2011 was based on cash flows discounted using lending rates ranging between 6.5% and 8.3% (31 March 2010: 7.2% and 8.5%).

The fair value of the other receivables were equal to their carrying amounts as discounting was not material.

(d) Interest rate risk

For an analysis of the sensitivity of receivables to interest rate risk refer to note 3(a)(iv).

(e) Credit risk

Information relating to credit risk including objectives, policies and processes for managing credit risk is set out in note 3(c).

(f) Current/Non-current

The table below shows the receivables expected to be realised no more than twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current).

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Current receivables	**223,200**	227,857
Non-current receivables	**171,132**	168,812
	394,332	396,669

14 OTHER ASSETS

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Accrued interest	527	233
Goods and Services Tax receivable	64	36
Prepayments	405	334
Other assets	691	613
	1,687	1,216

All of the items included in "Other assets" are current assets.

15 INTANGIBLE ASSETS

	Internally generated computer software $'000	Acquired computer software $'000	Total $'000
At 1/04/09 (Audited)			
Cost	19,654	2,412	22,066
Accumulated amortisation and impairment	(11,941)	(2,287)	(14,228)
Net book amount	7,713	125	7,838
Year ended 31/03/10 (Audited)			
Opening net book amount	7,713	125	7,838
Additions	1,644	59	1,703
Disposals (cost) *	(9,299)	(318)	(9,617)
Disposals (accumulated amortisation) *	9,299	318	9,617
Impairment charge	–	–	–
Amortisation charge	(1,295)	(70)	(1,365)
Closing net book amount	8,062	114	8,176
At 31/03/10 (Audited)			
Cost	11,999	2,153	14,152
Accumulated amortisation and impairment	(3,937)	(2,039)	(5,976)
Net book amount	8,062	114	8,176
Year ended 31/03/11 (Audited)			
Opening net book amount	**8,062**	**114**	**8,176**
Additions	**3,272**	**387**	**3,659**
Disposals (cost) *	**–**	**–**	**–**
Disposals (accumulated amortisation) *	**–**	**–**	**–**
Impairment charge	**–**	**–**	**–**
Amortisation charge	**(1,568)**	**(211)**	**(1,779)**
Closing net book amount	**9,766**	**290**	**10,056**
At 31/03/11 (Audited)			
Cost	**15,271**	**2,540**	**17,811**
Accumulated amortisation and impairment	**(5,505)**	**(2,250)**	**(7,755)**
Net book amount	**9,766**	**290**	**10,056**

Amortisation for the year ended 31 March 2011 of $1,779,000 (31 March 2010: $1,365,000) is included in "Depreciation and amortisation expense" in the statement of comprehensive income. There has been no impairment charge for intangible assets in the year ended 31 March 2011 (31 March 2010: $Nil).

Internally generated computer software is expected to have a remaining amortisation period of less than 10 years and acquired computer software less than 5 years.

* During the year ended 31 March 2010, intangible assets with a net book value of $Nil (cost $9,617,000, accumulated amortisation $9,617,000) were derecognised. The derecognition of these intangible assets was made on the basis that no future economic benefits were expected from the use or disposal of these assets.

16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements $'000	Furniture, Fittings & Equipment $'000	Computer Hardware $'000	Total $'000
At 1/04/09 (Audited)				
Cost	518	1,590	3,576	5,684
Accumulated depreciation	(248)	(1,023)	(2,865)	(4,136)
Net book amount	270	567	711	1,548
Year ended 31/03/10 (Audited)				
Opening net book amount	270	567	711	1,548
Additions	11	36	285	332
Disposals (cost)	–	(99)	(46)	(145)
Disposals (accumulated depreciation)	–	95	46	141
Impairment charge	–	–	–	–
Depreciation charge	(61)	(147)	(352)	(560)
Closing net book amount	220	452	644	1,316
At 31/03/10 (Audited)				
Cost	529	1,527	3,815	5,871
Accumulated depreciation	(309)	(1,075)	(3,171)	(4,555)
Net book amount	220	452	644	1,316
Year ended 31/03/11 (Audited)				
Opening net book amount	**220**	**452**	**644**	**1,316**
Additions	**48**	**111**	**260**	**419**
Disposals (cost)	**–**	**(11)**	**–**	**(11)**
Disposals (accumulated amortisation)	**–**	**6**	**–**	**6**
Impairment charge	**–**	**–**	**–**	**–**
Depreciation charge	**(65)**	**(113)**	**(305)**	**(483)**
Closing net book amount	**203**	**445**	**599**	**1,247**
At 31/03/11 (Audited)				
Cost	**577**	**1,627**	**4,075**	**6,279**
Accumulated depreciation	**(374)**	**(1,182)**	**(3,476)**	**(5,032)**
Net book amount	**203**	**445**	**599**	**1,247**

Depreciation expense for the year ended 31 March 2011 of $483,000 (31 March 2010: $560,000) is included in the "Depreciation and amortisation expense" in the statement of comprehensive income.

17 DEFERRED TAX ASSETS

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
The balance comprises temporary differences attributable to:		
Finance receivables – allowance for impairment	**6,052**	6,386
Employee benefits	**815**	881
Property, plant and equipment and intangible assets	**(2,171)**	(2,576)
Other	**120**	–
Cash flow hedges	**490**	–
Net deferred tax assets	**5,306**	4,691
Movements:		
Balance at 1 April	**4,691**	3,646
Credited to the statement of comprehensive income (note 10)	**789**	1,109
Credited/(charged) to equity	**490**	–
Change in tax rate *	**(344)**	–
Prior period adjustments	**(321)**	(63)
Other	**1**	(1)
Balance at 31 March	**5,306**	4,691
Expected settlement:		
Within 12 months	**6,908**	6,957
In excess of 12 months	**(1,602)**	(2,266)
	5,306	4,691

Obtaining the benefits of the deferred tax assets is dependent upon deriving sufficient accessible income and complying with relevant tax legislation.

Deferred tax has been recognised at 28.0% for 31 March 2011 (31 March 2010: 30.0%).

* Effective 1 April 2011 the corporate income tax rate was reduced from 30.0% to 28.0%.

18 PAYABLES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Trade payables	3,248	2,911
Net related party payables (note 30(g))	13	–
Accrued expenses	3,153	3,161
Share-based payment liability – executive long term performance incentive scheme	34	75
Other payables	888	682
	7,336	6,829

All of the items included in "Payables" are current payables.

19 CURRENT TAX LIABILITIES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Current income tax liabilities	2,268	1,152
Adjustment recognised in current period for current tax of prior periods	(556)	(67)
	1,712	1,085

20 IMPUTATION CREDITS

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Balances		
Imputation credit account	–	34
	–	34
Movements		
Imputation credit account		
Balance at 1 April	34	34
Tax payments, net of refunds	4,532	769
Transfers to Fisher & Paykel Appliances Holdings Limited imputation group	(4,566)	(769)
Balance at 31 March	–	34

The Charging Group is part of the Fisher & Paykel Appliances Holdings Limited imputation group.

21 OTHER LIABILITIES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Deferred fee income	701	702
	701	702

22 INTEREST BEARING LIABILITIES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Secured		
Bank loans	**224,837**	176,201
Debentures	**140,412**	156,912
Total secured interest bearing borrowings	**365,249**	333,113

(a) Assets pledged as security

Total secured borrowings are secured by a first ranking general security interest in favour of the Trustee over the undertaking and assets of the Fisher & Paykel Finance Limited Charging Group. Bank overdrafts and Bank borrowings are secured by Security Stock issued under the terms of the Trust Deed. Fisher & Paykel Finance Limited Charging Group includes Fisher & Paykel Finance Limited and all of its subsidiaries as per note 31 except Consumer Insurance Services Limited. Consumer Insurance Services Limited was removed from the Charging Group on 19 February 2004.

The carrying amounts of assets pledged as security by the Charging Group for interest bearing liabilities are:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Cash and cash equivalents	**46,761**	363
Derivative financial instruments	**1**	118
Receivables	**394,332**	396,669
Investment in non guaranteeing subsidiary	**7,500**	5,000
Other assets	**1,687**	1,216
Intangible assets	**10,056**	8,176
Property, plant and equipment	**1,247**	1,316
Total assets pledged as security	**461,584**	412,858

(b) Debentures

Debenture stock which is issued on the basis that it is repayable on demand may be repaid by the Company at any time. Other debenture stock is issued on terms ranging from 3 months to 5 years and is repayable on the maturity date. For the majority of debentures interest is payable quarterly in arrears on the last day of March, June, September and December. On other debentures interest is paid on the last working day of each month. The weighted average interest rate of the debenture stock (excluding brokerage and New Zealand Deposit Guarantee fees) at 31 March 2011 was 7.0% (31 March 2010: 7.3%).

The Company has a guarantee under the New Zealand Deposit Guarantee Scheme which expires on 31 December 2011, meaning that interest and deposit repayments after 31 December 2011 will not be covered by the guarantee, irrespective of the maturity date of the investment. This guarantee applies to all the Company's debentures other than the Company's non-guaranteed debentures (Excluded Securities). Specific eligibility criteria, a maximum guarantee amount and terms and conditions apply to the guarantee. Further information about the New Zealand Deposit Guarantee Scheme is available on the Treasury website at www.treasury.govt.nz.

Subsequent to balance date the Company is planning to cease offering guaranteed investments (refer note 33 (b)).

(c) Bank loans

The bank loans are a combination of call and short term loans (with fixed interest rates for periods of approximately 90 days) and bear interest at an average rate of 4.2% (31 March 2010: 3.8%).

During March 2011 Fisher & Paykel Finance Limited significantly strengthened its liquidity position and its $335.0 million syndicated banking facility with the extension of the maturity date of the $105.0 million tranche D and the addition of a further $50.0 million tranche E.

22 INTEREST BEARING LIABILITIES (continued)

As at 31 March 2011, the syndicated banking facility totalling $385.0 million comprised the following tranches:

- Tranche A – $20.0 million, maturing in April 2012
- Tranche B – $105.0 million, maturing in October 2013
- Tranche C – $105.0 million, maturing in October 2012
- Tranche D – $105.0 million, maturing in April 2014
- Tranche E – $50.0 million, maturing in October 2012

The Charging Group may elect which tranche to draw down, and has to date drawn down on the tranches with the lowest marginal cost of funding.

The syndicated banking facility increases the number of financial covenants with which the Charging Group must comply, and requires a formal compliance certificate to be provided to the facility agent and the lending banks on a monthly basis.

The financial covenants comprise:

- A liquidity ratio;
- An interest cover ratio;
- A minimum capitalisation covenant;
- A limit on lending concentration;
- Two impaired asset tests, one relating to asset net write-off levels, and one relating to the level of greater than three month impaired assets compared to total receivables; and
- A prior charges limit.

If a covenant breach occurs, and depending on its nature, the Charging Group is generally able to remedy the breach by procuring additional capital from its parent in the form of equity or subordinated debt. Under the facility agreement, the Charging Group is only permitted one remedy in any twelve month period.

The facility documentation also includes a "Change in Market Conditions" clause, which defines a "Market Disruption Event" as:

(i) Circumstances, such as adverse funding conditions or market liquidity constraints, which result in a lender becoming unable to participate in an advance requested under the facility, or

(ii) Notification to the facility agent by a lender that it's cost of obtaining matching deposits in the inter-bank market would be in excess of the base rate for an advance.

In the event of a market disruption event occurring, and depending on the exact circumstances, then the parties to the agreement will enter into negotiations either to agree a substitute basis for maintaining advances, or to agree the rate of interest applicable to further advances. If agreement cannot be reached between the Charging Group and one or more Lenders, then the Charging Group must repay to that Lender that Lender's participation in each advance plus accrued interest thereon on its repayment date.

For the period up to 31 March 2011 and between 31 March 2011 and the date of signing these Financial Statements, no Market Disruption Event has occurred.

22 INTEREST BEARING LIABILITIES (continued)

(d) Financing arrangements

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

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Credit standby arrangements		
Total facilities		
Bank loans	**385,000**	335,000
Bank overdrafts	**2,100**	2,000
	387,100	337,000
Drawn at balance date		
Bank loans	**225,000**	176,625
Bank overdrafts	**–**	–
	225,000	176,625
Undrawn at balance date		
Bank loans	**160,000**	158,375
Bank overdrafts	**2,100**	2,000
	162,100	160,375

The figures in the above tables for financing arrangements are principal amounts only.

22 INTEREST BEARING LIABILITIES (continued)

(e) Fair value

The carrying amounts and fair values of borrowings at balance date for the Charging Group are:

	Audited 31/03/11		Audited 31/03/10	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Bank loans	**224,837**	**224,868**	176,201	176,210
Debentures	**140,412**	**141,320**	156,912	158,602
	365,249	**366,188**	333,113	334,812

(i) On-balance sheet

The fair value of bank loans for 31 March 2011 was based on cash flows using a borrowing rate of 4.0% (31 March 2010: 3.7%).

The fair values of debentures for 31 March 2011 was based on cash flows discounted using borrowing rates varying from 5.0% to 7.8% (31 March 2010: 5.0% to 7.3%) depending on the maturity date of those debentures.

(ii) Contingent liabilities

There were no interest bearing contingent liabilities as at 31 March 2011 (31 March 2010: $Nil).

(f) Current/Non-current

The table below shows the interest bearing liabilities expected to be settled no more than twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current).

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Current interest bearing liabilities	**120,252**	141,646
Non-current interest bearing liabilities	**244,997**	191,467
	365,249	333,113

(g) Priority of claims

In the event that the Charging Group was liquidated or ceased trading bank loans and debentures rank equally as to the priority of claims over the Charging Group's assets.

(h) Interest rate risk

For an analysis of the sensitivity of interest bearing liabilities to interest rate risk refer to note 3(a)(iv).

Notes to the financial statements – 31 March 2011 continued

23 SHARE CAPITAL

(a) Share capital	Audited 31/03/11 Shares '000	Audited 31/03/10 Shares '000	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Ordinary shares				
Fully paid	**72,500**	70,000	**72,762**	70,262
Total share capital			**72,762**	70,262

(b) Movements in ordinary share capital	Audited 31/03/11 Shares '000	Audited 31/03/10 Shares '000	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Opening balance of ordinary shares issued	**70,000**	43,000	**70,262**	43,262
Issue of ordinary shares	**2,500**	27,000	**2,500**	27,000
Closing balance of ordinary shares issued	**72,500**	70,000	**72,762**	70,262

(c) Ordinary shares

On the 11 June 2010, 2.5 million shares were issued for a cash consideration of $2.5 million.

Shares issued for cash consideration during the year ended 31 March 2010 were: $10.0 million (26 August 2009), $15.0 million (20 October 2009) and $2.0 million (29 March 2010).

Ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the Fisher & Paykel Appliances Holdings Limited Employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 35(a).

(e) Capital risk management

Information relating to Capital risk management, including objectives, policies and processes for managing capital, is set out in note 32.

24 DISCLOSURE OF COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Other comprehensive income:		
Cash flow hedges:		
Gains/(losses) arising during the year	(2,598)	–
Less: Reclassification adjustments for (gains)/losses included in profit or loss	848	–
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	–	–
	(1,750)	–
Income tax relating to components of other comprehensive income	490	–
Other comprehensive income for the year	(1,260)	–

25 RESERVES AND RETAINED EARNINGS

(a) Reserves

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Hedging reserve – cash flow hedges	(1,260)	–
	(1,260)	–

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Movements:		
Hedging reserve – cash flow hedges		
Opening balance	–	–
Gain/(loss) recognised on cash flow hedges	(2,108)	–
Transfer to net profit – gross	848	–
Transfer to initial carrying amount of non-financial hedged item on cash flow hedges	–	–
Closing balance	(1,260)	–

The net result of measuring the effective part of hedges used in cash flow hedges after deduction of deferred taxes is presented in the cash flow hedge reserve.

(b) Retained earnings

Movements in retained earnings were as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Opening balance	5,118	95
Profit after tax for the year	17,505	9,123
Dividends	(4,395)	(4,100)
Closing balance	18,228	5,118

26 DIVIDENDS

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Ordinary shares		
Interim dividend for the year ended 31 March 2011 of 2.9 cents (31 March 2010: 2.1 cents) per ordinary share paid on 29 September 2010 (31 March 2010: paid on 29 September 2009).	**2,100**	1,100
2nd interim dividend for the year ended 31 March 2010 of 1.5 cents per fully paid share paid on 24 December 2009.	**–**	1,000
Final dividend for the year ended 31 March 2011 of 3.2 cents (31 March 2010: 2.9 cents) per ordinary share paid on 25 March 2011 (31 March 2010: paid on 26 March 2010).	**2,295**	2,000
	4,395	4,100

27 REMUNERATION OF AUDITORS

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

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
(a) Assurance services		
Audit services		
PricewaterhouseCoopers		
Statutory audit – current year	190	225
Statutory audit – prior year	–	–
Prospectus audit	10	14
Total remuneration for audit services	200	239
Other assurance services		
PricewaterhouseCoopers		
Advice re International Financial Reporting Standards	4	17
Risk Management programme	–	22
Trustee reporting and other assurance services	13	12
Total remuneration for other assurance services	17	51
Total remuneration for assurance services	217	290
(b) Other services		
PricewaterhouseCoopers		
Statutory reporting software	8	10
Total remuneration for other services	8	10
Total remuneration	225	300

28 CONTINGENCIES

(a) Contingent liabilities

The Charging Group had contingent liabilities at 31 March 2011 in respect of:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
(i) GST		
The Charging Group is part of a Goods and Services Tax ("GST") Group with the following non-charging related companies: – Fisher & Paykel Finance Holdings Limited – Fisher & Paykel Financial Services Limited – Retail Financial Services Limited – Consumer Insurance Services Limited		
These non-charging related companies, which are subsidiaries of Fisher & Paykel Appliances Holdings Limited, provide financial services to the Farmers Trading Company Limited and other merchants through Farmers Card and fixed instalment loans, consumer insurance and extended warranty insurance.		
All members of the Group are jointly and severally liable for the GST obligations of the GST Group. As at the balance date the GST liability of other members of the GST Group was:	**55**	49
(ii) Taxation		
The Charging Group is part of a Taxation group with the following non-charging related companies: – Fisher & Paykel Finance Holdings Limited – Fisher & Paykel Financial Services Limited – Retail Financial Services Limited – Consumer Insurance Services Limited		
All members of a taxation group are jointly and severally liable for the taxation obligations of the taxation group.		
As at balance date the taxation liability of other members of the taxation group was:	**2,216**	1,882

28 CONTINGENCIES (continued)

(iii) Imputation

The Charging Group is part of the Fisher & Paykel Appliances Holdings Limited imputation group.

All members of an imputation group are jointly and severally liable to meet any debit balance in the imputation credit account as at 31 March in any year. The group imputation account as at 31 March 2011 and 2010 was in credit.

(iv) Other

There are no other contingent liabilities at 31 March 2011 (31 March 2010: $Nil)

(b) Contingent assets

There were no contingent assets at 31 March 2011 (31 March 2010: $Nil).

29 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Property, plant and equipment	**56**	7
	56	7
Intangible assets	**9**	38
	9	38

(b) Lease commitments: as lessee

Operating leases

The Charging Group leases land and buildings under a non-cancellable operating lease expiring May 2016 with rights of renewal every 5 years to May 2031. Rent is reviewed every third anniversary during the term and any renewal term.

The Charging Group also leases motor vehicles under non-cancellable operating leases. The Charging Group is required to give six months notice for termination of these leases.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,787**	1,909
Later than one year but not later than five years	**5,450**	5,175
Later than five years	**105**	1,334
	7,342	8,418
Commitments not recognised in the financial statements	**7,342**	8,418

29 COMMITMENTS (continued)

(c) Undrawn lending commitments

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Revocable undrawn lending commitments	**351,942**	359,002
Irrevocable undrawn lending commitments	**–**	–
	351,942	359,002

Undrawn lending commitments include unutilised Q Card limits which can be unconditionally cancelled by the Charging Group at any time.

Industry concentration of undrawn lending commitments

The following table breaks down the Charging Group's undrawn lending commitments exposure as categorised by the industry sectors of its counterparties.

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Agriculture, forestry, fishing and hunting	**84**	37
Mining	**2**	–
Manufacturing	**380**	249
Electricity, gas and water supply	**14**	15
Construction	**308**	212
Wholesale trade	**172**	141
Retail trade *	**20,006**	15,460
Accommodation, cafes and restaurants	**477**	359
Transport and storage	**496**	300
Communication services	**71**	62
Finance and insurance	**23**	19
Property and business services	**524**	157
Government administration and defence	**22**	19
Education	**221**	121
Health and community services	**773**	413
Personal and other services **	**328,369**	341,438
	351,942	359,002

The Australian and New Zealand Industrial Classification (ANZIC) codes were used to identify the industry sectors in the above table.

* Included within the "Retail trade" category is the undrawn lending commitments for the bulk financing facility to Smithcorp Finance Limited.

** Included within the "Personal and other services" category is the undrawn lending commitments on Q Card.

30 RELATED PARTY TRANSACTIONS

(a) Parent entities

The Charging Group is controlled by Fisher & Paykel Finance Holdings Limited (incorporated in New Zealand), which owns 100% of the ordinary shares. The ultimate parent of the Charging Group is Fisher & Paykel Appliances Holdings Limited (incorporated in New Zealand).

(b) Related parties

A number of transactions were entered into in the ordinary course of business with companies which were members of the Fisher & Paykel Finance Holdings Limited Group. These transactions mainly consisted of expenses and overheads paid on behalf of these related parties and the repayment thereof. Refer note g(i) and g(iii).

Additionally there were related party transactions with Fisher & Paykel Appliances Limited (a Company controlled by the ultimate parent, Fisher & Paykel Appliances Holdings Limited). Refer note g(ii) and g(iii).

There were no related party transactions with the parent company, Fisher & Paykel Finance Holdings Limited other than the payment of dividends and the issue of share capital.

For the year ended 31 March 2011, no loans or advances were made to any related party (31 March 2010: $Nil).

Details of transactions with key management personnel or entities related to them are included in note (d) and (e).

(c) Directors

The names of persons who were directors of the Company at any time during the year ended 31 March 2011 were as follows: D M Churches; C M da Silva; J W Gilks; W L Gillanders; A A Macfarlane; G A Paykel; H B Rennie and M D Richardson.

Changes during the period reported included:

- D M Churches (deceased) ceased to be a Director of the Company effective 1 June 2010;
- W L Gillanders resigned as a director of the Company effective 23 August 2010; and
- C M da Silva and H B Rennie, QC were appointed directors (independent) of the Company effective 22 September 2010.

The appointment of two independent directors was a requirement of new governance requirements imposed on non-bank deposit takers as required by the Reserve Bank of New Zealand Act 1989 which came into effect on 1 December 2010.

Subsequent to balance date there were further changes to the directors of the Company (refer note 33(a)).

(d) Key management and personnel compensation

Key management personnel compensation for the year ended 31 March 2011 and year ended 31 March 2010 is set out below. The key management personnel are all the directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

	Short-term benefits $'000	Postemployment benefits $'000	Other long term benefits $'000	Share-based payments $'000	Total $'000
31/03/11 (Audited)	**2,138**	**80**	**2**	**(11)**	**2,209**
31/03/10 (Audited)	2,008	93	–	47	2,148

30 RELATED PARTY TRANSACTIONS (continued)

(e) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Key management personnel invested cash in debenture stock issued by the Company during the year. The debenture stock was acquired on the same terms and conditions that applied to other investors at the time the investments were made.

During the year a related company, Fisher & Paykel Appliances Limited sold products to key management personnel on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with customers. The amount of these purchases is not material.

No director is a material supplier or customer of the Charging Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.

A director, Mr J W Gilks, is a director of Receivables Management (NZ) Limited, a company which provides debt collection services to the Charging Group. These services were provided on normal commercial terms and conditions.

The movement in key management personnel's investment in debenture stock is shown below.

	Audited 31/03/11 $000	Audited 31/03/10 $000
Balance at 1 April	**1,292**	1,650
Additional investment	**123**	372
Interest earned on debenture stock	**24**	67
Withdrawals	**(385)**	(797)
Ceased to be a related party	**(494)**	–
Balance at 31 March	**560**	1,292

(f) Subsidiaries

Interests in subsidiaries are set out in note 31.

30 RELATED PARTY TRANSACTIONS (continued)

(g) Transactions with other related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

(i) Net related party receivables/(payables)

The movement in net related party receivables/(payables) during the year is shown below:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Commonly controlled entities		
Balance at 1 April	**137**	(68)
Expenses paid on behalf of related parties	**6,153**	6,497
Overheads recharged to related parties (note 8)	**11,008**	10,365
Repayments from related parties	**(17,222)**	(16,661)
Other	**(49)**	4
Balance at 31 March	**27**	137

The Charging Group recharges expenses and overheads to Fisher & Paykel Financial Services Limited a related party. These recharges are based on actual costs incurred including audit and rental expenses. Expense recharge and overhead recovery received during the year ended 31 March 2011 was $11,008,000 (31 March 2010: $10,365,000).

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Non-guaranteeing subsidiary		
Balance at 1 April	**91**	312
Expenses paid on behalf of related party	**1,821**	1,849
Overheads recharged to related party (note 8)	**1,723**	1,473
Management fee	**284**	287
Repayments from related party	**(3,932)**	(3,830)
Balance at 31 March	**(13)**	91

The Charging Group recharges Consumer Insurance Services Limited expenses based on actual costs incurred including audit and rental expenses. Expense recharge and overhead recovery received during the year ended 31 March 2011 was $1,723,000 (31 March 2010: $1,473,000).

No allowance for impairment has been raised in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

(ii) Interest bearing related party balances

The movement in interest bearing related party balances during the year is shown below:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Commonly controlled entities		
Balance at 1 April	**–**	15,139
Interest recharged	**–**	380
Repayments to related party	**–**	(15,519)
Balance at 31 March	**–**	–

30 RELATED PARTY TRANSACTIONS (continued)

On 20 October 2009, the fully drawn $15.0 million subordinated debt facility from Fisher & Paykel Appliances Limited was repaid in full by Fisher & Paykel Finance Limited and the facility was cancelled. Also on this date, the capital of Fisher & Paykel Finance Holdings Limited (the parent of Fisher & Paykel Finance Limited) was increased by $15.0 million and the capital of Fisher & Paykel Finance Limited was increased by $15.0 million through the cash subscription by Fisher & Paykel Finance Holdings Limited for 15.0 million ordinary shares (refer note 23(c)).

Interest paid on the subordinated debt facility from Fisher & Paykel Appliances Limited during the year ended 31 March 2011 was $Nil (31 March 2010: $380,000).

(iii) Other transactions

Other transactions with related parties are shown below:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Other transactions		
Dividends paid to parent entity	**4,395**	4,100
Subscriptions for new ordinary shares by parent entity	**2,500**	27,000
Dividend revenue from non guaranteeing subsidiary	**6,259**	1,905
Subvention payments to commonly controlled entity	**4,649**	2,008
Contributions to superannuation funds on behalf of employees	**659**	653
Insurance premiums collected by subsidiary on behalf of non-charging subsidiary	**185**	394
Insurance commission received by subsidiary from non-charging subsidiary	**342**	30
Services provided by commonly controlled entities	**627**	798

Dividends paid during the year ended 31 March 2011 to the parent Fisher & Paykel Finance Holdings Limited were $4,395,000 (31 March 2010: $4,100,000).

During the year ended 31 March 2011 the Charging Group made subvention payments totalling $4,649,000 (31 March 2010: $2,008,000) to Fisher & Paykel Appliances Limited.

The Charging Group accepts services from Fisher & Paykel Appliances Limited (a related company). These services are incurred in the ordinary course of business, for proper value and on reasonable commercial terms. Services includes general re-charges for insurance, legal services, security, electricity, payroll processing and travel. Value of services provided by Fisher & Paykel Appliances Limited to the Charging Group for the year ended 31 March 2011 was $627,000 (31 March 2010: $798,000).

(h) Guarantees

	Audited 31/03/11 $000	Audited 31/03/10 $000
Charging Subsidiaries guarantee of secured interest bearing liabilities	**365,249**	333,113
	365,249	333,113

The subsidiaries of Fisher & Paykel Finance Limited (except Consumer Insurance Services Limited) are guaranteeing subsidiaries under the Debenture Trust Deed of the Fisher & Paykel Finance Limited group of companies. This means that each subsidiary has entered into a guarantee in respect of the obligation of Fisher & Paykel Finance Limited to pay interest and repay debenture stock and security stock, and has granted a first ranking general security interest over its assets in favour of the Trustee for Fisher & Paykel Finance Limited to secure that liability.

31 INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following charging subsidiaries (except Consumer Insurance Services Limited a non-charging subsidiary) in accordance with the accounting policy described in note 2(b) and note 2(c).

Name of entity	Country of incorporation	Class of shares	Equity holding	
			Audited 31/03/11 %	Audited 31/03/10 %
Consumer Finance Limited	New Zealand	Ordinary	**100**	100
Consumer Insurance Services Limited	New Zealand	Ordinary	**100**	100
Equipment Finance Limited	New Zealand	Ordinary	**100**	100

Investment in non-charging subsidiary

Consumer Insurance Services Limited is a wholly owned subsidiary of the Company. In accordance with the Securities Regulations 2009 it has not been consolidated into the Charging Group as it is not a charging subsidiary under the Fisher & Paykel Finance Limited Debenture Trust Deed.

On the 11 June 2010, Consumer Finance Limited acquired an additional 2.5 million shares in Consumer Insurance Services Limited for cash consideration of $2.5 million.

32 CAPITAL RISK MANAGEMENT

The Charging Group's objectives when managing capital are:

- to safeguard the Charging Group's ability to continue as a going concern so that it can continue to provide returns to its shareholders, and
- to maintain a strong capital base to support the development of its business.

The level of capital is determined by the Board of Directors taking into account the requirements of the Debenture Trust Deed as well as financial covenants contained in the syndicated banking facility documentation.

The syndicated banking facility documentation contains a minimum capitalisation covenant, under which:

- The ratio of net tangible assets to total tangible assets must not be less than 12.0%.

The Charging Group has fully complied with this covenant during all the periods reported.

During the reporting period the Charging Group's Trust Deed was amended to incorporate a new capital adequacy covenant in compliance with the Part 5D of the Reserve Bank of New Zealand Act 1989 and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

Under the terms of this covenant the Charging Group's minimum capital ratio should not be less than:

(a) 8%, for as long as Fisher & Paykel Finance Limited has a credit rating, or

(b) 10% at all other times.

The Charging Group has complied with this minimum capital ratio covenant since it came into force on 1 December 2010.

The tables below shows the calculation of this capital ratio at 31 March 2011.

(a) Capital adequacy ratios

	Audited 31/03/11 %
Capital expressed as a percentage of total risk weighted exposures	**12.0**
Minimum Capital Ratio	**8.0**

32 CAPITAL RISK MANAGEMENT (continued)

(b) Capital

	Audited 31/03/11 $'000
Capital	
Share capital	72,762
Cash flow hedge reserve	(1,260)
Retained earnings	18,228
Less: Investment in subsidiaries	(7,500)
Intangible Assets	(10,056)
Deferred tax assets	(5,306)
Total capital	66,868

(c) Risk weighted exposures

	Assets $'000	Deduction $'000	Adjusted Assets $'000	Risk weight %	Risk weighted exposure $'000
31/03/11 Audited					
Cash and cash equivalents	46,761	–	46,761	20.0	9,352
Derivative financial instruments	1	–	1	20.0	–
Finance receivables	280,003	–	280,003	100.0	280,003
Bulk finance receivables	75,393	–	75,393	150.0	113,090
Finance lease receivables – lease finance	15,469	–	15,469	150.0	23,204
Finance lease receivables – rental	23,440	–	23,440	175.0	41,020
Net related party receivables	27	–	27	350.0	95
Investment in subsidiaries	7,500	(7,500)	–	–	–
Other assets	1,687	–	1,687	350.0	5,905
Intangible assets	10,056	(10,056)	–	–	–
Property, plant and equipment	1,247	–	1,247	350.0	4,365
Deferred tax assets	5,306	(5,306)	–	–	–
	466,890	(22,862)	444,028		
Credit risk					477,034
Market risk and operational risk					82,593
Total risk weighted exposures					559,627

Increase in share capital

During the year ended 31 March 2011 the Company increased its share capital by $2.5 million from $70.3 million to $72.8 million.

During the year ended 31 March 2010 the Company increased its share capital by $27.0 million to $70.3 million. This increase in share capital includes the capitalisation during October 2009 of $15.0 million of subordinated debt provided to the Company by Fisher & Paykel Appliances Limited.

33 EVENTS OCCURRING AFTER THE REPORTING DATE

(a) Directors

M D Richardson resigned as a Director of the Company effective 27 April 2011.

S B Broadhurst was appointed a Director of the Company effective 27 April 2011.

(b) Debentures

Subsequent to balance date, the Board of Directors approved the decision to cease offering guaranteed debentures (refer note 22(b)).

The decision to revert to offering only non-guaranteed term debentures aimed to reduce the uncertainty that the New Zealand deposit guarantee scheme creates when managing funding requirements leading up to the expiration of the guarantee on 31 December 2011.

Investors with existing guaranteed term debentures will continue to have the benefit of the guarantee in accordance with its terms.

(c) Other

There have been no other material subsequent events after the reporting date.

34 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Profit after tax for the year	**17,505**	9,123
Fair value loss/(gain) on non-derivative financial instruments	**(184)**	715
Unrealised fair value loss/(gain) on derivative financial instruments	**211**	(640)
Non-cash employee benefits expense – share-based payments	**(11)**	47
Depreciation and amortisation	**2,262**	1,925
Impairment charge for credit losses provided for	**15,860**	15,027
Net (gain)/loss on sale of non-current assets	**4**	4
Movement in accrued interest	**(125)**	39
Movement in current tax receivable	**627**	2,067
Movement in loans and advances to customers	**(13,335)**	(42,612)
Movement in other assets	**(173)**	449
Movement in deferred tax asset	**(124)**	(1,045)
Movement in payables	**506**	1,079
Net cash inflow (outflow) from operating activities	**23,023**	(13,822)

35 SHARE-BASED PAYMENTS

(a) Employee option plan

Fisher & Paykel Appliances Holdings Limited (the ultimate parent of the Charging Group) has established a Share Option Plan for executives, managers and selected employees working in the Appliances and Finance businesses. Under the Plan, the Fisher & Paykel Appliances Holdings Limited Board of Directors may make annual grants of options to plan participants to subscribe for ordinary shares. For options granted in August 2004, the exercise price per share is recalculated on each anniversary of the grant date and is equal to the higher of the base price at grant date or the recalculated base price. The recalculated base price is calculated by multiplying the last base price by a percentage determined by the Fisher & Paykel Appliances Holdings Limited Board of Directors to represent the Fisher & Paykel Appliances Holdings Limited Group's cost of capital and reducing the resulting figure by the amount of any net cash dividends paid by the Fisher & Paykel Appliances Holdings Limited Group.

One third of the options granted pursuant to the Plan on a particular grant date become exercisable after each of the second, third and fourth anniversaries of the grant date and all unexercised options expire on the fifth anniversary of the grant date.

Options also become exercisable if a person (or group of persons acting in concert) acquires more than half of the ordinary shares on issue. On leaving employment due to death, serious illness, accident, permanent disablement, redundancy or in other circumstances determined by the Fisher & Paykel Appliances Holdings Limited Board of Directors, the participant (or if applicable participant's executor) will have one month to exercise all outstanding options.

Options granted under the plan carry no dividend or voting rights.

In the current year, the Fisher and Paykel Appliances Holdings Limited Board of Directors granted no options to acquire shares under the Plan (31 March 2010: Nil).

On 31 August 2009, the 505,000 share options (relating to the scheme which commenced on 31 August 2004) lapsed on maturity. There are no share option schemes in operation during the year ended 31 March 2011.

Set out below are summaries of options granted under the plan to persons in the Charging Group for the year ended 31 March 2010:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Year ended 31/03/10 (Audited)								
31/08/04	31/08/09	$4.93	505,000	–	–	(505,000)	–	–
Total			505,000	–	–	(505,000)	–	–
Weighted average exercise price			$4.93			$4.93		

35 SHARE-BASED PAYMENTS (continued)

(b) Executive Long Term Performance Incentive

Effective 1 July 2007, the Fisher & Paykel Appliances Holdings Limited Board introduced an executive long-term performance incentive scheme (the Scheme) for selected senior managers (working in the Appliances and Finance businesses) to link their remuneration with shareholder returns and encourage those employees to hold and retain shares in Fisher & Paykel Appliances Holdings Limited. Payment of any benefit is dependent on remaining employed during the vesting period and also on the Fisher & Paykel Appliances Holdings Limited Group's total shareholder return exceeding the 75th percentile of the total shareholder return (including imputation credits) of a comparative group of companies over a three year vesting period.

Entitlements are granted under the Scheme for no consideration. At the end of the vesting period, the Fisher & Paykel Appliances Holdings Limited Group will pay a cash bonus to the participating employees equivalent to half their allocated entitlement, which should be used to buy shares in Fisher & Paykel Appliances Holdings Limited on-market (subject to Insider Trading rules) unless the employee's personal shareholding (calculated at current market values) is greater than 50% of their annual fixed remuneration. To the extent performance targets have been met, up to half of the allocated entitlement will also be paid as a cash bonus to the participating employee and this should be used to buy shares onmarket (subject to Insider Trading rules) unless the employee's personal shareholding (calculated at current market values) is greater than 50% of their annual fixed remuneration.

If employment ceases prior to the vesting date due to death, serious illness, accident, permanent disablement or redundancy, the Fisher & Paykel Appliances Holdings Limited Board will make a pro rata payment or other such payment as may be determined at their sole discretion.

Set out below is a summary of movements in the number of shares attached to cash benefits granted under the scheme:

Grant Date	Expiry date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired/ forfeited during the year Number	Balance at end of the year Number
Year ended 31/03/11 (Audited)						
01/07/07	30/06/10	**61,500**	**–**	**(61,500)**	**–**	**–**
01/10/08	30/09/11	**140,000**	**–**	**(30,000)**	**(20,000)**	**90,000**
Total		**201,500**	**–**	**(91,500)**	**(20,000)**	**90,000**
Year ended 31/03/10 (Audited)						
01/07/07	30/06/10	61,500	–	–	–	61,500
01/10/08	30/09/11	140,000	–	–	–	140,000
Total		201,500	–	–	–	201,500

Fair value of shares granted

The assessed fair value of the schemes as at 31 March 2011 was $34,000 (31 March 2010: $75,000). The fair value was derived using a Monte Carlo simulation model that takes into account the vesting criteria, the share price at grant date and the volatility of returns on Fisher & Paykel Appliances Holdings Limited shares and shares of a comparative group of companies.

The model inputs included:

(a) entitlements are granted for no consideration, vesting three years after grant date

(b) grant date: 1 July 2007 / 1 October 2008

(c) expiry date: 30 June 2010 / 30 September 2011

(d) share price at grant date: $3.45 / $1.66

(e) correlation coefficient to NZSX50 returns: nil (31 March 2010: 0.20)

(f) expected dividend yield: Nil%

(g) risk-free interest rate: 2.7% (31 March 2010: 2.7%/3.8%)

35 SHARE-BASED PAYMENTS (continued)

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	Audited 31/03/11 $'000	Audited 31/03/10 $'000
Executive long term performance incentive scheme	(11)	47
	(11)	47

Notes

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