GFNZ GROUP LIMITED

Proposed $1.5m underwritten pro-rata non-renounceable Rights Issue

INDEPENDENT ADVISER'S REPORT

On the merits of the underwritten Rights Issue of GFNZ Shares pursuant to Rule 7(d) of the Takeovers Code

3 October 2012

Statement of Independence

Armillary Limited, trading as Armillary Private Capital, confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased Report; and

- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this Report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this Report.

Armillary Limited, trading as Armillary Private Capital, has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this Report.

Important Note

This Report has been prepared without taking into account the objectives, financial situation or needs of individual GFNZ Group Limited shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the opinion having regard to their own objectives, financial situation or needs. Shareholders should read the Notice of Meeting issued by GFNZ Group Limited in relation to the Proposed Rights Issue and Underwrite.

Voting for or against the Proposed Rights Issue and Underwrite is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions or other events, and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Rights Issue and Underwrite should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold, or sell securities in GFNZ Group Limited. This is an investment decision independent of a decision on whether to vote for or against the Proposed Rights Issue and Underwrite about which Armillary does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

Contents

Abbreviations & Definitions

Armillary	Armillary Limited trading as Armillary Private Capital
Board	Board of directors of GFNZ
BOSI	BOS International (Australia) Limited
cent	one hundredth of a New Zealand dollar
Code	the Takeovers Code
Company	GFNZ Group Limited
FedPac	Federal Pacific Group Limited
GFNZ	GFNZ Group Limited
m	million
Moratorium	the Moratorium agreement with debenture holders entered into in November 2007 and subsequent agreements
NZ	New Zealand
NZAX	The alternative board equity security market operated by NZX
NZX	NZX Limited
Placement	The Placement of 44,939,000 new Shares at 2.75 cents per shares to FedPac in February 2012
Rights Issue	The underwritten pro-rata non-renounceable Rights Issue to shareholders in GFNZ to raise $1.5m
Report	This Independent Adviser's Report in respect of merits of the underwritten Rights Issue of GFNZ Shares
Shares	Ordinary Shares in GFNZ
Underwrite	A proposal by FedPac to underwrite the Rights Issue, which is subject to shareholder approval, and to which this Report relates
$ or NZ$	New Zealand dollars

1.0 Introduction

1.1 Background to the Rights Issue

On 28 February 2012 GFNZ Group Limited ("GFNZ" or the "Company") announced that it had placed 44,939,000 new Shares to Federal Pacific Group Ltd ("FedPac") at 2.75 cents per share to raise $1.236m. The day before the Placement was announced the market price of the Company's Shares was 1.30 cents per Share. The Placement resulted in FedPac acquiring a 19.99% shareholding in GFNZ, making FedPac the single largest shareholder in the Company.

At the same time the Company announced that it would subsequently undertake a pro-rata Rights Issue to all shareholders, including FedPac, at the same price of 2.75 cents per share to which this report relates.

On 27 August 2012 GFNZ announced that FedPac has settled an additional $3m in debt funding support to the company and agreed to use its best endeavours to source a further $3m of debt funding from professional investors.

The proceeds of the Placement announced in February were used to increase working capital and the Company's lending ability and meet scheduled repayments to debenture holders on 30 March 2012 and to make a scheduled repayment to BOS International (Australia) Limited ("BOSI") under the terms of the Company's Moratorium arrangements.

As at 31 March 2012 the Company had repaid $126.3m to investors (including BOSI) being $37.4m of interest at an average interest rate of 10.7% and $88.9m of principal. The Company had liabilities of $19.8m owing to debenture holders and $20m owing to BOSI at 31 March 2012. In the first 5 months of the current financial year the company has repaid $6.5m, comprising $5.0m of the $9.9m in principal repayments it is required to pay to BOSI and Moratorium debenture holders by 31 March 2013 and the balance in interest.

On 22 August 2012, Standard & Poor's lowered its long-term issuer credit rating on the Company to 'CC' with a negative outlook. We understand the Standard & Poor's may review this rating and outlook once the Rights Issue is complete. Refer https://www.nzx.com/companies/GFL/announcements/226372.

1.2 Summary of Rights Issue

GFNZ is proposing to issue new Shares via a pro-rata non-renounceable Rights Issue on the following terms:

Entitlement	1 new Share for every 4 existing Shares
Shares to be Issued	56,174,657
Issue Price	2.75 cents per Share
Issue Proceeds	$1,544,803

In addition, for every three new Shares issued under the Rights Issue the Company will also issue two new options. Each option will entitle the holder to subscribe for one new Share in the company at the exercise price. The options will be issued on the following terms:

Entitlement	2 options for every 3 new Shares issued
Options to be Issued	37,449,771
Issue Price	Nil
Issue Proceeds	Nil
Exercise Price	8 cents per Share
Exercise Date	3 years from date of issue
Exercise Period	30 days from the exercise date

FedPac has agreed to fully underwrite the Rights Issue for a fee of 1.0% of the total value of the Rights Issue, or $15,448.

The Rights Issue is non-renounceable. This means that shareholders will not be able to trade their rights or sell them to another person. Shareholders have four choices;

(i) take up their entitlement in full and pay the issue price;

(ii) take up their entitlement in part and pay the issue price;

(iii) take up their entitlement in full and apply for additional Shares and pay the issue price; or

(iv) allow their rights to lapse, in which case the underwriter (FedPac) will subscribe for the Shares instead pursuant to its underwrite agreement.

The timetable for the Rights Issue is set out in the Simplified Disclosure Prospectus.

1.3 Summary of the Underwrite

FedPac has agreed to fully underwrite the Rights Issue and will acquire all Shares not taken up by other shareholders in the Rights Issue. The key terms of the Underwrite are:

- FedPac will take up its entitlement in full;
- FedPac will underwrite the balance of the Shares not taken up by other shareholders;
- GFNZ will pay a fee to FedPac of 1.0% of the value of the Rights Issue of $15,448;
- the Underwrite is subject to shareholders approving the Rights Issue and Underwrite;

– GFNZ meeting all regulatory requirements; and

– the Simplified Disclosure Prospectus issued by GFNZ for the Rights Issue not becoming false or misleading in a material manner during the period of the Rights Issue offer.

The Underwrite provides GFNZ and shareholders with greater certainty that the Rights Issue will be completed and that all Shares offered for subscription will be subscribed for and settled. Given that FedPac has committed to subscribe for its rights under the Rights Issue, the underwrite fee of 1.0% of the issue proceeds is equivalent to 1.25% of the amount that FedPac is in effect underwriting (the Shares that it has not committed to subscribe for).

In our view, either way, the underwrite fee is not unreasonable given the scope of the underwrite and the limited conditions placed on the underwrite by FedPac.

1.4 Summary of the Options

The Company is also offering 2 options for every 3 new Shares issued to those shareholders who take up their rights under the Rights Issue. The options will be issued at a nil purchase price. The options will not be exercisable until 3 years after the issue date and are exercisable for a 30-day period, after which time any unexercised options will lapse and be cancelled.

The exercise price of the options is 8 cents per Share, which is 2.9 times higher than the issue price of new Shares in the Rights Issue. In order for the options to be 'in the money' the share price of GFNZ would need to appreciate by at least 46.4% per annum over each of the next three years. We offer no view on whether this is achievable or likely, but merely note the annual increase in the share price required to ensure that the share price is higher than the option exercise price during the 30-day window for exercising the option in 3 years time.

If all options are exercised at the end of three years (November 2015) then GFNZ will issue 37,449,771 Shares and raise an additional $2.996 million in capital at that time.

We have valued the options using the Black-Scholes option pricing formula. The key inputs to the formula are:

Current share price	2.5 cents per Share
Exercise Price	8 cents per Share
Term	3 years
Risk Free Interest Rate (3year NZ Government Stock yield)	2.7% per annum
Volatility (standard deviation of changes in the GFNZ share price over the prior 12 month period)	92.6%

Our valuation using the Black and Scholes option pricing formula with the inputs as set out above implies a theoretical value of 0.89 cents per option based on the current market price of GFNZ Shares of 2.5 Cents per Share. This theoretical value will be impacted by changes in the Risk Free Interest Rate, Volatility and Term over time.

GFNZ is not seeking to list the options on the NZAX market. In our view if the number of shareholders participating in the Rights Issue is small then it may not be cost effective to list the options, as that cost will be borne by all shareholders rather than just the option holders. However, if the level of participation in the Rights Issue is high then it may be in the Company's and option holder's interests to have the options listed. Management have indicated that if there was a wide spread of option holders and there was a clear benefit to Shareholders then they would revisit the issue of listing the options taking into account the additional costs that would be incurred.

1.5 Analysis of the Rights Issue and Underwrite

FedPac's current shareholding is extremely close to the 20% limit imposed by the Takeovers Code under its Fundamental Rule (Rule 6). Under the proposed Rights Issue if any shareholder(s) with more than 3,631 Shares do not take up their rights, FedPac will exceed the 20% limit under Rule 6 as a consequence of the Underwrite Agreement between FedPac and the Company, hence the requirement for this Report.

Table 1.1 below sets out different levels of FedPac's shareholding

(i) post the Rights Issue, and
(ii) assuming the Options are exercised in just over three years time.

Although the exercise of the Options is currently uncertain, this information is provided to ensure that all shareholders are aware of the likely impact on the future shareholding structure of the Company.

Table 1.1

Shareholder Uptake Analysis					
Uptake by non-Fedpac shareholders	**0%**	**25%**	**50%**	**75%**	**100%**
Total Rights Issued	56,174,657	56,174,657	56,174,657	56,174,657	56,174,657
FedPac Entitlement	11,234,750	11,234,750	11,234,750	11,234,750	11,234,750
Uptake by Non-FedPac Shareholders	-	11,234,976	22,469,953	33,704,930	44,939,907
Uptake by FedPac via Underwrite	44,939,907	33,704,931	22,469,954	11,234,977	-
Initial FedPac Shareholding	19.99%	19.99%	19.99%	19.99%	19.99%
Post Rights Issue FedPac Shareholding	**36.00%**	**32.00%**	**28.00%**	**24.00%**	**19.99%**
Options Issued to FedPac	37,449,771	29,959,787	22,469,803	14,979,818	7,489,833
FedPac Shares Post Option Exercise	138,563,428	119,838,468	101,113,507	82,388,545	63,663,583
Non-FedPac Shares Post Option Exercise	179,759,631	198,484,591	217,209,553	235,934,514	254,659,476
FedPac shareholding Post Option Exercise	**43.53%**	**37.65%**	**31.76%**	**25.88%**	**19.99%**
Non-FedPac shareholding Post Option Exercise	56.47%	62.35%	68.24%	74.12%	80.01%

Source: Armillary

The left column shows the situation where only FedPac exercises its rights and the underwrite provided by FedPac is called in full. In this situation FedPac would move to a 36.0% shareholding post the Rights Issue, increasing to 43.5% if the options are exercised the three years time. If the options are not exercised then FedPac's shareholding will remain at the post Rights Issue FedPac shareholding level.

Each column to the right progressively increases the participation by all other shareholders by 25%. The right hand column shows that if all shareholders exercise their rights in full then there will be no substantive change in the respective shareholdings of any shareholder compared to its current position.

We consider that either extreme outcome is unlikely and that a more realistic scenario is one where some of the non-FedPac shareholders take up their rights, but a substantive portion do not. Assuming that only half of the top 20 shareholders as shown in the 2012 Annual Report take up their rights, then FedPac would increase its shareholding from 19.99% currently to 32.49% post the Rights Issue and potentially to 38.37% post the exercise of the option in three years time.

Because the Rights Issue price is currently higher than the prevailing share price, and assuming that the GFNZ share price increases to the implied post Rights Issue share price, there is a small value transfer from those that participate in the Rights Issue to those that do not. Table 1.2 below sets out the situation for a theoretical shareholder with 200,000 Shares in GFNZ showing the value implication if they participate in the Rights Issue and if they do not.

If the theoretical shareholder participates in the Rights Issue then the theoretical shareholder will also receive value from the issue of the options, in this example the expected value of the options, from the valuation above is $296, or approximately 0.9 cents per option held. This is set out in the left hand column of the table.

If the theoretical shareholder does not participate in the Rights Issue then there is an uplift in the value of their existing shareholding by $100, due to the fact that the issue price of the new Shares is higher than the prevailing market price as a small transfer of value may occur in favour of those that do not participate in the Rights Issue. This is set out in the right hand column of the table.

Table 1.2

Rights Issue & Options Value Analysis for a Theoretical Shareholder		
	Takes up Rights	**Does Not Take Up Rights**
Number of Shares Currently Held	200,000	200,000
Number of New Shares Issued	50,000	-
Share Held Post RightsIssue	**250,000**	**200,000**
Share Price Pre Rights Issue	$0.0250	$0.0250
Rights Issue Price	$0.0275	$0.0275
Implied Post Rights Issue Share Price	$0.0255	$0.0255
Value Of Holding Pre Rights Issue	$5,000	$5,000
Cost Of Rights Purchased	$1,375	$0
Value Of Holding Post Rights Issue	**$6,375**	**$5,100**
Options Issued	33,333	-
Current Value Per Option	$0.0089	$0.000
Value of Options Held	$296	$0
Total Value of Shares and Options	$6,671	$5,100
less Cost to Acquire Shares	$6,375	$5,000
Value Gained from Participating	**$296**	
Value Gained from Not Participating		**$100**

Source: Armillary, GFNZ

There is an immediate net gain to the theoretical shareholder of $296 from participating in the Rights Issue due to the gain in value from the options received less the $100 value foregone by not participating, thus a net increase in the value of the theoretical shareholders' position by $196.

This theoretical gain will only be realised if the options are able to be sold for 0.89 cents per option (or more) and the future value of the theoretical gain will change over time as noted in Section 1.4. The exercise price of the options is 8 cents per Share, which is 2.9 times higher than the issue price of new Shares in the Rights Issue. In order for the options to be 'in the money' the share price of GFNZ would need to appreciate by at least 46.4% per annum over each of the next three years. We offer no view on whether this is achievable or likely, but merely note the annual increase in the share price required to ensure that the share price is higher than the option exercise price during the 30-day window for exercising the option in 3 years' time.

1.6 Summary of Armillary Opinion

In our opinion the Rights Issue and Underwrite has merit for GFNZ shareholders not associated with FedPac.

The key factors in our evaluation of the merits of the Rights Issue and Underwrite are:

– FedPac's expected post Rights Issue shareholding of between 20% and 36% does not provide outright control although it does provide a measure of 'negative control' which could be exercised through FedPac blocking a special resolution of Shareholders. The higher the level of participation by non-FedPac shareholders, the less of an impact this factor has.

- Both the initial FedPac Placement and the Rights Issue are at a premium to the current share price leading to a transfer of value from FedPac to the non-FedPac shareholders for the Placement and a transfer of value from FedPac and those Shareholders who participate in the Rights Issue to those who do not participate in the Rights Issue.

- FedPac's underwrite fee is modest.

- The impact of FedPac as a significant shareholder is as yet unclear however despite the Placement giving FedPac the right to appoint two directors to the Company's Board it has yet to do so.

- The price premium under the Rights Issue is in contrast to other pro-rata rights issues undertaken over the past 12 months.

- The infusion of further equity capital into the balance sheet of the Company will strengthen its capital adequacy ratios and may provide comfort to the Company's rating agency.

- The level of dilution is dependent on each shareholder's participation in the Rights Issue.

- A rejection by shareholders of the Rights Issue and Underwrite would significantly restrict the Company's ability to raise further capital and limit its ability to grow its business and restore profitability.

The above points are discussed in further detail throughout this Report specifically in Sections 2.3 to 2.12. Taken collectively the above factors indicate that the Rights Issue and Underwrite has merit for GFNZ shareholders not associated with FedPac.

1.7 Regulatory Requirements

Rule 6 (the "Fundamental Rule") of the Takeovers Code prohibits:

- A person who holds or controls less than 20% of the voting rights in a code company from increasing their control of voting rights beyond 20%; and

- A person holding 20% or more of the voting rights in a code company from increasing their control of voting rights;

unless the person complies with exceptions to this Fundamental Rule.

Rule 7 of the Code outlines exceptions to the Fundamental Rule, including under Rule 7(d):

- By an allotment to a person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with this code.

As a consequence of the proposed Rights Issue and Underwrite, FedPac's control of the voting rights in GFNZ could become greater than 20%, therefore shareholder approval is required in accordance with Rule 7(d) above. Rule 16(h) of the Code further requires that the notice of meeting containing the proposed resolution in respect of an allotment of voting securities referred to in rule 7(d) must contain, or be accompanied by an Independent Adviser's Report which complies with Rule 18 of the Code.

Rule 18 stipulates that the directors of the code company must obtain a report from an independent adviser on the merits of any proposed allotment under rule 7(d) having regard to the interests of those persons who may vote to approve the allotment.

As the specific number of Shares (voting rights) that FedPac will hold at the completion of the Rights Issue is unknown, GFNZ and FedPac are unable to comply with rules 7(d) and 16(b) of the Code. Accordingly in the Notice of Meeting GFNZ and FedPac are relying on the exemption provided by Clause 10A of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 and the conditions of that exemption as set out in schedule 2 of that notice.

1.8 Purpose of the Report

The independent directors of GFNZ have engaged Armillary to prepare an Independent Adviser's Report ("Report") on the merits of the Rights Issue and Underwrite in accordance with Rule 18 of the Code.

Armillary has been approved by the Takeovers Panel to prepare the Independent Adviser's Report.

Armillary issues this Independent Adviser's Report to assist GFNZ shareholders in forming their own opinion on whether or not to approve the Rights Issue and Underwrite. We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Rights Issue and Underwrite in relation to each shareholder. This Report on the merits of the Rights Issue and Underwrite is therefore necessarily general in nature.

This Independent Adviser's Report is not to be used for any other purpose without Armillary's prior written consent.

2.0 Evaluation of the Merits of the Rights Issue/Underwrite

2.1 Basis of Evaluation

Rule 18 of the Code requires the directors of GFNZ to engage an independent adviser to prepare a report on the merits of the proposed Rights Issue and Underwrite. There is no legal definition of the term "merits" in New Zealand in either the Code or in any statute dealing with securities or commercial law. In the absence of an explicit definition of "merits", guidance can be taken from:

- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- the Takeovers Panel's guidance note on the role of independent advisors dated August 2007;
- NZ and overseas precedents; and
- the ordinary meaning of the term "merits".

The New Zealand regulations[1] and overseas regulations[2] in relation to takeovers focus primarily on fairness and reasonableness rather than "merits" and as such are of limited assistance. The New Collins Concise Dictionary of the English Language defines the term "merit" as "the actual and intrinsic rights and wrongs of an issue, especially in a legal case." Black's Law Dictionary defines "merit" as "the substance, elements or grounds of a course of action or defence." These definitions imply that the essential elements of an issue should be considered as well as the issue itself, and an assessment is then made of the associated advantages and disadvantages of the issue in relation to the relevant party. In our view an assessment of the merits of the Rights Issue and Underwrite should focus on:

- the level of control achieved by FedPac;
- whether the Rights Issue price is fair, taking into account:
  - the extent to which any premium for control is required;
  - the market price of GFNZ's Shares before and after the Rights Issue; and
  - the pricing of other underwritten rights issues in the current market;
- the extent of ownership dilution and any value dilution experienced by existing shareholders;

[1] *NZSX Listing Rules (Rule 7.5.1) and Guidance Note No. 10 issued by the Institute of Chartered Accountants of New Zealand ("Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders").*
[2] *Policy Statements 74 and 75 and Practice Note 43 issued by the Australian Securities and Investment Commission and Rule 3 of the City Code (City of London).*

- the likelihood of an alternative capital raising providing equivalent or greater benefits to existing shareholders; and

- the implications for shareholders approving, or not approving, the Rights Issue and Underwrite.

2.2 Prospective Value of GFNZ

As part of our analysis we have not performed a valuation of the GFNZ business. Businesses of the nature of GFNZ are difficult to value due to the inherent uncertainties in the collection of overdue loans and the ability of the Company to write new, profitable, business. As outlined in the Company's 2012 Annual Report there is a significant risk that actual results may vary dramatically from forecasts.

GFNZ is still operating under its Moratorium and does not have a current offer of debentures open for public subscription. In this context value is essentially a judgement determined by what share of the Company investors expect in return for the cash they are prepared to commit today in return for the expectation that, if the business can be successful, they will receive a substantial return through its subsequent growth.

Our opinion should be considered in its entirety. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the factors underlying the opinion.

2.3 Armillary Opinion

In our opinion the Rights Issue and Underwrite has merit for GFNZ shareholders not associated with FedPac. The key factors in our evaluation of the merits of the Rights Issue and Underwrite are:

- FedPac's expected post Rights Issue shareholding between 20% and 36% does not provide outright control but does provide a measure of 'negative control', through the ability to block special resolutions, which would require a 25% shareholding. The higher the level of participation by non-FedPac shareholders, the less of an impact this factor has.

- FedPac has already subscribed for a 19.99% shareholding in the Company at a significant premium to the then current share price and has committed to fully underwrite the Rights Issue for a modest fee. Both the initial Placement and the Rights Issue are expected to be undertaken at a premium to the current share price leading to a transfer of value from FedPac to the non-FedPac shareholders.

- Shareholders have not yet had time to assess the impact of FedPac as a significant shareholder on the Company although FedPac has stated its desire to support and help grow the Company. The initial Placement to FedPac was completed seven months ago and despite having the right to appoint two directors to the Company's Board thus far FedPac has not done so.

- The price premium that has been paid by FedPac and is expected to be paid under the Rights Issue is in contrast to other pro-rata rights issues undertaken over the past 12 months, which have all been at a price that is less than the prevailing market price.

- The infusion of further equity capital into the balance sheet of the Company will strengthen its capital adequacy ratios and provide comfort to the Company's rating agency, Standard & Poor's. Refer https://www.nzx.com/companies/GFL/announcements/226372.

- The level of dilution is dependent on each shareholder's participation in the Rights Issue. Shareholders have the option to take up their entitlement in full, in part, in full and apply for excess Shares or allow their rights to lapse. The issue is non-renounceable thus shareholders cannot sell their entitlement nor purchase entitlements.

- A rejection by shareholders of the Rights Issue and Underwrite would significantly restrict the Company's ability to raise further capital and limit its ability to grow its business and restore profitability. An alternative non-underwritten rights issue would likely need to proceed on a deeply discounted basis that would severely dilute both value and ownership for shareholders that did not participate. We consider this a less attractive option for non-FedPac shareholders.

The following sub-sections consider each of the above points in more detail.

2.4 Level of Control Held by FedPac

A key principle underlying the Takeovers Code is that all shareholders share in the control of a company, and that control should not be transferred without all selling shareholders having the opportunity to be paid a share price reflecting that control value. To facilitate this, the Code:

- Requires that any takeover offers (i.e. to acquire at least 50% of the voting rights in a company) be made at the same price to all shareholders; and

- Creates a so-called "no fly zone" for shareholdings of between 20% and 50%.

Shareholder approval is required for any party to obtain a shareholding of between 20% and 50%, and once in this zone the party can only increase its shareholding by making a takeover offer or gaining further shareholder approval. Effectively this means that:

- Parties cannot obtain the "negative control" associated with significant minority shareholdings of 25% or more without shareholder approval; and

- A shareholder cannot obtain 50% control by "creeping" towards that target through progressive small acquisitions, or acquiring another large shareholding, without making a takeover offer to all shareholders.

The proposed Rights Issue and Underwrite is not a takeover of GFNZ.

Neither FedPac nor any other party will increase their shareholding to more than 50% as a result of the Rights Issue and Underwrite. Even if no other shareholder than FedPac participated in the Rights Issue it would increase it's holding from 19.99% to 36.00%. Further, if FedPac held all the options to be issued, and subsequently exercised them it would still have a less than a 50% shareholding in the Company.

FedPac's shareholding is likely to be between 20% and 36%. Armillary cannot state with any certainty what the eventual shareholding of FedPac will be without understanding the intentions of every shareholder with respect to the Rights Issue, however, there is a reasonable probability that it is likely to be greater than 25% if the issue proceeds.

Accordingly FedPac may have the absolute ability to block special resolutions of the Company and exercise 'negative control', by virtue of its ability to stop certain resolutions of the Company from being passed. However, while FedPac may have a dominant shareholding by virtue of being significantly larger than the 2nd largest shareholder, it will be unable to block ordinary resolutions of the Company.

We highlight to shareholders that by approving the Rights Issue and Underwrite there is an acknowledgement that through the issuance of the options stapled to the Rights Issue Shares that FedPac may be able to further increase its shareholding in GFNZ in three years' time when the options are exercisable. There is no certainty that the options will be exercised.

In Armillary's view, control will not pass as a consequence of the Rights Issue and Underwrite, and shareholders will not lose the right to be paid for control at some future date.

2.5 Pricing of Rights Issue

New Shares to be issued under the Rights Issue and Underwrite have been priced at 2.75 cents per share. This is the same price that the Shares were issued to FedPac in the Placement announced on 28 February 2012.

The new Shares have been priced at a premium to the current market price, and thus represent a slight transfer of value *from* shareholders that participate in the Rights Issue *to* those that do not. Generally, rights issues are priced at a discount to the prevailing market price and the transfer of value would normally flow from shareholders not participating to those who are participating. Over the past two years there have been nine rights issues undertaken by NZX listed companies. The average discount of the rights price to the preannouncement price has been just over 39%. Table 2.1 sets out this analysis:

Table 2.1

Analysis of Rights Issues					
Date	**Issuer**	**Ratio**	**Underwritten**	**Amount Raised ($m)**	**Prem/Discount to market price**
Nov-10	Vital Healthcare Property Trust	1:1	Fully	$150.870	-17.81%
Nov-10	Windflow Technology	2:1	Partial	$3.318	-13.88%
Jan-11	Wellington Drive Technologies	1:1	No	$8.420	-52.47%
Jan-11	Mercer Group	4.6:1	Fully	$9.000	-58.33%
Mar-11	Solution Dynamics	1:3	No	$0.347	-63.64%
Apr-11	Contact Energy	1:9	Fully	$331.993	-13.60%
Aug-11	Pacific Edge	3:7	No	$15.068	-23.23%
Apr-12	Vertias Investments	2:1	No	$0.700	-69.23%
Jun-12	Rubicon	1:3	Fully	$20.885	-40.60%
	Average Premium/Discount				**-39.20%**
	Weighted Average Premium/Discount				-17.54%
	Average Premium/Discount of non-underwritten rights issues				-52.14%

Source: Armillary, NZX

As partial compensation for this transfer of value, the Company intends to issue two options for every three new Shares issued to shareholders that participate in the Rights Issue. The fact that new Shares are to be issued at a premium, which mitigates to some extent the risk of value dilution, is a notable positive of the Rights Issue. Additionally if the options are "in the money" at the time at which they are exercisable (ie the Share price in November 2015 is greater than 8 Cents per Share) there is further dilution risk for those Shareholders who do not participate in the Rights Issue.

2.6 FedPac as a Significant Shareholder

FedPac is a new shareholder in GFNZ and had no prior shareholding before the Placement was announced on 28 February 2012, when it took the 19.99% stake. Under the terms of that Placement, FedPac is entitled to appoint two directors to the board of GFNZ. As at the date of this Report FedPac has not exercised this right of appointment.

Under the terms of the Rights Issue and Underwrite it is likely that FedPac will emerge with a significant minority shareholding in the Company and be in a position to exercise negative control through the ability to block special resolutions at meetings of shareholders.

FedPac has not disclosed any specific information regarding its shareholding in GFNZ, nor its intentions with respect to the Company. As set out in Section 4.0 FedPac has various interests in financial service providers in New Zealand and elsewhere, however, this is its first foray into a significant shareholding in a publicly listed company.

Armillary understands from management that FedPac has stated its desire to support and grow the Company and be a long-term shareholder, however, the short time that its has been a shareholder means that the veracity of this intent remains unclear.

2.7 Injection of Capital into the Company

The Rights Issue and Underwrite will raise $1.548m in new capital for the Company. After allowing for the costs and expenses of the Rights Issue and Underwrite, the capital raised will be available to invest in new lending and other activities. Assuming a capital adequacy ratio of 10%, the Company will be able to write an additional $15.4m in new loans, thereby increasing the revenue and profitability of the Company.

However, the Company has to balance the desire to write new loans against its Moratorium obligations to BOSI and debenture holders, thus some of the proceeds from the Rights Issue and Underwrite may be used to effect scheduled repayments to these parties.

2.8 Dilution of Existing Shareholders

As the Rights Issue and Underwrite is being undertaken at a share price higher than the current market price there is a small transfer of value from shareholders that do participate in the Rights Issue to those that do not. In value terms alone the Rights Issue does not result in any direct dilution of existing shareholder positions.

Of more interest will be the dilution of voting rights and the aggregation of voting rights by FedPac via its Underwrite of the Rights Issue. If less than 68.7% of non FedPac shareholders elect to participate in the Rights Issue then FedPac will end up holding in excess of 25% of the voting rights in the Company and thus be able to exert some measure of negative control over the Company.

2.9 Likelihood of Capital Raising Alternatives

There are a number of alternatives that the Company could pursue to raise capital, however, each needs to be considered relative to the costs and benefits of the proposed Rights Issue and Underwrite.

Sale of Assets – The Company has two property assets that it might be able to sell to raise capital. These are the building at Pacific Rise in Auckland and the property asset identified as being held for sale in Hamilton. These two assets have a book value of $6.7 million as at 31 March 2012. The Company has been seeking to realise these assets for some time and as yet no offers have been received that have been attractive to the Company. We consider the likelihood of selling both of these assets at an acceptable price to the Company as very low for the foreseeable future.

Securitisation of Loans –As at the date of this report FedPac has invested $3m in Prime Asset Trust to securitise $3.3m of the Company's loan receivables. Although the possibility remains, it is unclear whether the Company will be able to arrange further funding in a similar manner.

Issue of Subordinated Debt – The Company could issue subordinated debt such as capital notes, however, this would only make sense if the total cost, including interest, was lower than the interest rate currently being paid to BOSI and debenture holders

(10.7%). Given the Company's CC credit rating with negative outlook from Standard & Poor's it is likely that the interest rate required to attract investment in capital notes would need to be greater than 10.7%. We also note that in March 2011 the Company put a proposal to its then subordinated note holders to convert their subordinated notes to Shares in the Company. The resolution passed with 79.5% in favour.

Further Placement – Given the position of FedPac as a 19.99% shareholder in the Company and the undertaking to proceed with a Rights Issue it is unlikely that the Company could attract another party to subscribe for a significant block of Shares in the Company without offering a substantial discount to the current share price. While it may raise capital, it would be at the cost of dilution to existing shareholders.

Non Underwritten Rights Issue – Rather than having the Rights Issue underwritten by FedPac, GFNZ could instead elect to not have the issue underwritten in keeping with market expectations. This would likely see any rights issue priced at a significant discount to the current market price, which would see shareholders that did not participate suffer significant dilution. As shown in Table 2.1 the average discount for non-underwritten rights issues over the past two years has been 52.14%. Further the success of the Rights Issue could not be assured leading to a higher risk of failure through widespread non-participation. Such failure could impose significant financial and reputational costs on the Company.

No Capital Raising – The Company could continue as is without raising further equity capital. This would see the Company continue to operate but its balance sheet would shrink each month as it reduces the size of its old loan book and continues to repay BOSI and the Moratorium debenture holders. In this scenario it is unlikely that the Company would have sufficient capital to be able to grow its new loan book and therefore would be unlikely to make a profit for the foreseeable future. The value of the Company may be significantly reduced from its position today if it is unable to make a profit due to declining revenues and a shrinking balance sheet.

On balance Armillary considers that none of the alternatives described above are either likely, or will provide the same level of beneficial outcomes as the proposed Rights Issue and Underwrite.

2.10 Implications of Approving the Rights Issue and Underwrite

By approving the Rights Issue and Underwrite shareholders have a higher degree of certainty that the Company will raise the capital being sought, albeit with the potential loss of some voting control to FedPac. By raising the capital sought the Company will be able to advance its business plans and improve its financial performance, for the benefit of all shareholders. The Company may also be able to achieve an improved credit rating as a result.

Ultimately a positive capital raising at present could improve the likelihood of the Company being in a position to issue new debenture securities to members of the public or raise other debt capital to write new loans and to meet its obligations to BOSI and existing debenture holders.

2.11 Implications of Rejecting the Rights Issue and Underwrite

By rejecting the Rights Issue and Underwrite shareholders will be restricting the Company's ability to raise further capital (either equity or debt) and grow its business. In this case the most likely scenario is a gradual realisation of the assets of the Company in line with the obligations to BOSI and existing Moratorium debenture holders, with both revenues and costs declining. It is unlikely that the Company will make a sustainable profit in this case.

2.12 Acceptance or Rejection of the Rights Issue and Underwrite

Acceptance or rejection of the Rights Issue and Underwrite is a matter for individual shareholders based on their own views as to the terms and merits of the Rights Issue and Underwrite, the value of GFNZ, willingness to be diluted, future market conditions, risk profile and other factors. Shareholders will need to consider these factors and consult their own professional adviser, if appropriate.

3.0 Profile of GFNZ

3.1 Nature of Business

GFNZ was established in October 2002 to provide finance and financial services to consumers and businesses. Its original business model was to raise funds from the public through the issue of debentures and from institutional wholesale lenders such as BOSI. The Company established a network of branch offices to provide loans to individuals and businesses whose lending needs were not catered for by the banking sector.

In 2007 the Company entered into a Moratorium with debenture holders and BOSI which allowed it to stabilise the business, restructure and focus on the process of collecting its loan book and repay its borrowings in an orderly fashion.

Since entering into the Moratorium the Company has:

- Repaid $126.3m of interest and principal to investors and BOSI as at 31 March 2012, and a further $6.5m of interest and principal in the period ended 31 August 2012;

- Converted $0.5m of Moratorium repayments scheduled for March 2015 into new equity at 5 cents per share;

- Exited all of its branch offices and reduced costs by circa $29m per annum;

- Written down the value of its old loan book to $12.3m

- Established a new loan book from which the Company has loaned a total of approximately $79m which is currently approximately $31m in size;

- Refocused on three key distribution channels (Direct, Broker and Dealer) with a central sales desk and loan administration team at its offices in Mt Wellington; and

- Developed new lending criteria and internal credit scoring processes to improve the quality of its lending.

To continue to fulfil the Moratorium obligations the Company must continue to repay the outstanding debentures and BOSI loan on the agreed terms.

GFNZ now has four key business operations:

Lending	Geneva Finance NZ Limited manages the new book of hire purchase finance to individuals secured over personal assets such as motor vehicles and household goods and mortgages of residential property.
Insurance	Quest Insurance Group Limited provides motor vehicle and income protection insurance to borrowers. To manage this division, the

	Company outsources all technical advice, accounting and claim management to professional service providers.
Collections	Stellar Collections Limited is primarily focused on collecting the old loan book through active engagement with existing borrowers, however has also from time-to-time acquired other receivables ledgers at a discount.
Property	Pacific Rise Limited owns the building from which GFNZ operates in Mt Wellington.

The Company currently employs approximately 43 staff based at its Mt Wellington head office.

To continue to grow its new loan book GFNZ recognises that it needs a stable capital base. The Company is regulated under the new Non-Bank Deposit Taker rules and therefore is under the oversight of the Reserve Bank of New Zealand.

These new rules and oversight place requirements on the Company in respect of capital adequacy and credit rating. GFNZ's current Standard & Poor's credit rating is CC with a negative outlook. We understand the Standard & Poor's may review this rating and outlook once the Rights Issue is complete. Refer https://www.nzx.com/companies/GFL/announcements/226372.

Capital adequacy requirements reflect the amount of equity that Non-Bank Deposit Takers are required to hold against their loan book. Simplistically capital adequacy is the percentage of equity required to be held for each dollar of loans held. By way of example, assuming a 10% capital adequacy requirement then for every $10m of new loans the Company requires at least $1.0m of equity.

3.2 Competitive Position

Since 2007, the Company has moved its focus from providing tier three auto loans to providing tier one and two auto loans. As a result of this shift GFNZ's average loan yield has dropped from 29% to just over 20% and its bad debt ratio has improved to approximately 3% from 15%.

Given this tier one and two focus, GFNZ is now competing with Motor Trade Finance, GE Money, UDC and Marac primarily focused on the motor vehicle lending market. We understand that the Company's share of lending to the motor vehicle market is currently less than 0.5% of that total lending market.

Since launching its new loan book on 2008, the Company has been able to write some $79m of new loans to nearly 9,800 borrowers of whom approximately 4,200 borrowers still owe money to the Company. This has been achieved through its three key distribution channels (Direct, Broker and Dealer) and central sales desk and loan administration team utilising GFNZ's new lending criteria and internal credit scoring processes.

3.3 Financial Background

The Company's historical audited financial performance for the five years ended 31 March 2012 is summarised in Table 3.1 as follows:

Table 3.1

Summary Statement of Financial Performance					
FYE 31 March	**2008**	**2009**	**2010**	**2011**	**2012**
NZ$000					
Interest income	42,422	27,335	15,441	9,824	7,914
Interest expense	16,722	12,424	7,406	5,996	4,105
Net Interest income	**25,700**	**14,911**	**8,035**	**3,828**	**3,809**
Net premium rev enue	-	4,660	2,797	1,986	1,729
Other rev enue	2,705	6,756	5,493	3,699	2,753
Operating revenue (net of interest expense)	**28,405**	**26,327**	**16,325**	**9,513**	**8,291**
Net claims expense	-	960	687	597	564
Operating expenses	26,666	20,054	14,628	9,970	8,720
Operating profit	**1,739**	**5,313**	**1,010**	**(1,054)**	**(993)**
Impaired asset expense	12,900	11,878	1,886	5,129	584
Net loss before taxation	**(11,161)**	**(6,565)**	**(876)**	**(6,183)**	**(1,577)**
Taxation expense	(3,284)	433	4,114	2,466	-
Net Loss after taxation	**(7,877)**	**(6,998)**	**(4,990)**	**(8,649)**	**(1,577)**
Other comprehensiv e income	-	(722)	(129)	675	(90)
Total comprehensive income	**(7,877)**	**(7,720)**	**(5,119)**	**(7,974)**	**(1,667)**

Source: GFNZ Audited Financial Statements

Key aspects of the historical financial performance are as follows:

- Interest income and expense have declined in line with the declining old book and repayments of Moratorium debentures and the BOSI loan;
- The Company has impaired nearly $32.9m of loans over the periods presented;
- Annual operating expenses have continued to be reduced between 2008 and 2012; and
- The Company has posted pre-tax losses as it is continuing to accrue interest payable to Moratorium debenture holders and BOSI while at the same time it is not accruing interest receivable on non-performing loans.

The following Table 3.2 provides an analysis of the Company's 2011 and 2012 financial performance by segment as reported in the Company's 2012 annual report:

Table 3.2

Divisional Financial Performance		
NZ$000's	**2011**	**2012**
New Business	451	907
Insurance	226	268
Old Business	(9,698)	(2,597)
Property	283	59
Head Office (Corporate)	89	(214)
Net Loss after Taxation	**(8,649)**	**(1,577)**

Source: GFNZ Audited Financial Statements

The Company's historical audited financial position as at 31 March 2008 to 2012 is summarised in Table 3.3 as follows:

Table 3.3

Summary Statement of Financial Position					
As at 31 March	**2008**	**2009**	**2010**	**2011**	**2012**
NZ$000					
ASSETS					
Cash and cash equivalents	21,483	8,125	4,707	2,313	1,384
Finance receivables	121,366	79,708	59,191	48,938	40,999
Other Assets	7,176	15,191	8,740	5,997	5,498
Intangible assets - computer software	1,933	1,520	856	689	395
Fixed assets	8,096	6,969	5,809	5,125	4,817
Total Assets	**160,054**	**111,513**	**79,303**	**63,062**	**53,093**
LIABILITIES					
Accounts payable and accruals	1,976	1,492	1,669	1,144	950
Debentures	98,960	45,473	31,271	25,821	19,783
Term facility	42,826	34,627	24,000	23,200	20,000
Unsecured loans	-	915	615	-	-
Subordinated loans and notes	12,455	4,458	4,444	-	-
Other Liabilities	1,153	5,168	3,043	2,312	1,828
Total Liabilities	**157,370**	**92,133**	**65,042**	**52,477**	**42,561**
Equity					
Share Capital	13,283	37,699	37,699	41,997	43,611
Retained earnings	(11,702)	(18,700)	(23,690)	(32,339)	(33,916)
Reserves	1,103	381	252	927	837
Total Equity	**2,684**	**19,380**	**14,261**	**10,585**	**10,532**
Total Equity and Liabilities	**160,054**	**111,513**	**79,303**	**63,062**	**53,093**

Source: GFNZ Audited Financial Statements

The key points to note in respect of the Company's financial position are as follows:

– The Company's net loan book is $80m less than in 2008 as a result of further impairment provisions and loan repayments, partially offset by new loans written;

- Debenture funding, subordinated loans and the BOSI term loan are $114m less than in 2008;

- Additional equity in 2009 was provided by the conversion of debentures and subordinated loans plus additional investment by the then major shareholder; and

- Additional equity in 2012 was provided by the partial conversion of the March 2012 Moratorium debt repayment and the Placement with FedPac.

The Company's historical audited cash flow for the five years ended 31 March 2012 is summarised in Table 3.4 as follows:

Table 3.4

Summary Statement of Cash Flow					
FYE 31 March	**2008**	**2009**	**2010**	**2011**	**2012**
NZ$000					
Net Cash inflow/(outflow) from operating activ ities	12,504	34,590	22,291	4,912	6,860
Net Cash inflow/(outflow) from inv esting activ ities	(2,585)	(11)	(396)	(118)	(15)
Net Cash inflow/(outflow) from financing activ ities	4,337	(49,585)	(25,313)	(7,188)	(7,774)
Net increase/(decrease) in cash held	14,256	(15,006)	(3,418)	(2,394)	(929)
Ending cash balance	21,483	8,125	4,707	2,313	1,384

Source: GFNZ Audited Financial Statements

In respect of the Company's cash flow, net movements in financial receivables (loans) are included in operating activities which have provided the Company with a cash surplus to allow the ongoing repayment of Moratorium debentures and BOSI.

We specifically note the declining ending cash balance which will start to inhibit the Company's future lending ability.

3.4 Loan Book

Table 3.5 below provides a summary of GFNZ's loan books as at 31 March 2011 and 2012.

Table 3.5

Summary of Loan Books		
NZ$000	**2011**	**2012**
Personal Loans		
Secured	54,096	47,305
Unsecured	19,991	21,098
Total Personal Loans	74,087	68,403
Provision for Credit Impairment	(25,091)	(27,122)
Net Book Value of Personal Loans	**48,996**	**41,281**
Business Loans		
Secured	803	100
Unsecured	1,184	1,559
Total Business Loans	1,987	1,659
Provision for Credit Impairment	(1,341)	(1,366)
Net Book Value of Business Loans	**646**	**293**
Less Unearned Interest & Deferred fee revenue & expenses	(704)	(575)
Finance receivables	**48,938**	**40,999**

Source: GFNZ

We understand that the net book value of the old loan book at 31 May 2012 was $12.3m and the net book value of the new loan book was approximately $28.4m. At 31 May 2012 the old loan book had a face value of $42m with impairment provisions of $29.7m and 47% of the old loan book loans by value were being serviced by the borrower. We note however that in some cases such servicing includes small weekly payments of as little as $10 per week however the average across the book is somewhat higher than this amount.

3.5 Debenture Funding and Compliance

The Company's Moratorium debenture funding is governed by its trust deed of which Covenant Trustees are the trustee. We understand that the Company remains in compliance with the Trust Deed and Reserve Bank requirements and that its current capital adequacy ratio is at 11.5% compared to its Trust Deed requirement of 10% and Reserve Bank requirement of 8%.

As noted in the 2012 Annual Report the Company had two minor breaches of one of its BOSI loan covenants in respect of new lending during the 2012 financial year. At the time the Company and BOSI agreed a waiver for this covenant and have subsequently agreed to remove that covenant in its entirety.

3.6 Use of Proceeds

The Company intends to utilise the capital raised from the Rights Issue to predominantly fund its new loan book. There is an implicit assumption that GFNZ is able to arrange additional debt funding to support this growth option provided by the additional equity.

If the new capital is not applied to growing the new book then it is possible that it will be used for general working capital requirements and to supplement repayments to Moratorium debenture holders and BOSI alongside realisations from the old book.

3.7 Current Ownership Structure & Governance Arrangements

The breakdown of shareholders set out in Table 3.6 below is taken from the 2012 Annual Report:

Table 3.6

	Top 20 shareholders at 31 March 2012		
1	Federal Pacific Group Nominees Ltd	44,939,000	19.99%
2	Brume Securities Ltd	15,960,000	7.10%
3	Mr John Green & Mrs Judy Green	7,277,484	3.24%
4	John Ghassan Ayache & Barbara Winifred Ayache	5,883,186	2.62%
5	Brookes Land Ltd	4,544,409	2.02%
6	Robin King & Lynn King	4,500,000	2.00%
7	Beverley Claudette Owen & Annette Christine Pitceathly	4,480,000	1.99%
8	Dawn Clark	4,202,872	1.87%
9	David W Smale & E M Smale	3,782,585	1.68%
10	Jack Wakelin & Margo Wakelin	3,677,513	1.64%
11	Ronald Robin King & Lynn Barbara King	3,214,181	1.43%
12	Bruce Weeks	2,983,115	1.33%
13	Anthony Howard Bradley & Deborah Nan Bradley & Victoria Ruth Ohms	2,824,167	1.26%
14	Suvira Rani Gupta	2,637,381	1.17%
15	Dennis Reichenbach	2,514,295	1.12%
16	Lucyna Zazulak & John Zazulak	2,477,853	1.10%
17	Mark Hansen & Sharon Hansen	2,336,345	1.04%
18	Mark Cullen	2,235,407	1.00%
19	Pamela Ann Isaac & Alexander John Isaac	1,800,000	0.80%
20	Preben Petersen & Sylvia Petersen	1,742,806	0.78%

Source: GFNZ

In aggregate the top 20 shareholders hold 123,742,599 or 55.07% of the issued capital of the Company. The Company has 2,635 shareholders.

The Company has received substantial shareholder notice from two shareholders under Sub Part 3 of Part 2 of the Securities Markets Act 1988:

Table 3.7

Substantial Shareholder Notices	
Federal Pacific Group Nominees Ltd	44,939,000
Brume Securities Ltd	15,960,000

Source: GFNZ

The directors have disclosed the following shareholding interests in the Company:

Table 3.8

Director Shareholding Interests	
P E Francis & D G O'Connell (Brume Securities Ltd)	15,960,000
R R King	7,714,181
D W Smale	4,005,668
P E Francis (Francis Securities Ltd)	1,375,527

Source: GFNZ

Collectively the Directors control 29,055,376 Shares or 12.93% of the issued capital of the Company. We understand that management anticipates that the directors will subscribe for their entitlement under the Rights Issue.

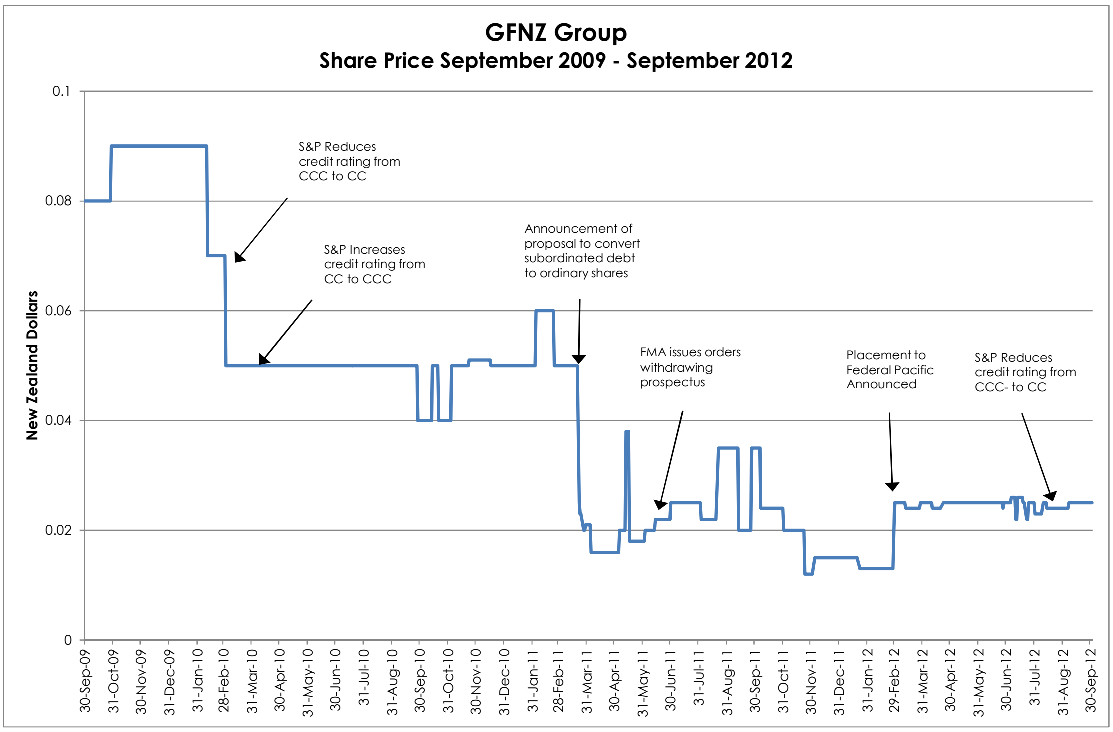
The largest shareholder, FedPac, has not appointed any directors to the Board, although it is entitled to appoint a maximum of two directors as per the Placement subscription agreement dated February 2012.

The constitution of the Company allows for a maximum of seven directors. Assuming FedPac exercised its rights and appointed two directors to the Board there would be six directors in total. Any directors appointed by FedPac would be required to stand for re-election at the next annual shareholders meeting in accordance with the constitution.

3.8 Share Price Analysis

The performance of GFNZ's Shares since 1 October 2009 is shown in Chart 3.1 below along with notations in respect of certain key events for the Company. Over the past 12 months there were 78 trades in GFNZ Shares totalling just over 0.9m Shares for an aggregate value of just under $216,000.

Chart 3.1



Source: Armillary, NZX

4.0 Profile of Federal Pacific Group Limited

Federal Pacific Group Limited is an Auckland based financial services company with interests in New Zealand and abroad. It is owned by family interests associated with Alistair Hutchison.

Federal Pacific Group Limited holds its 19.99% shareholding in GFNZ through its wholly owned subsidiary Federal Pacific Nominees Limited.

It also has a 27.6% shareholding in CBL Insurance Limited (formerly Contractors Bonding Limited) a provider of credit surety and financial risk management products in New Zealand. CBL Insurance offers a wide range of credit insurance, reinsurance and financial surety related products through an international distribution network. CBL Insurance has an investment grade international financial rating of B+ (Good – Positive Outlook) from AM Best.

Federal Pacific Group Limited also has investments throughout the Pacific region, including a joint venture with Irish based Fexco for the provision of money transfer, foreign exchange and business payment services.

Alistair Hutchison was previously a member of the Board of Governors of the World Bank, International Monetary Fund and Asian Development Bank, and was Financial Secretary of the Samoan Government.

5.0 Sources of Information, Reliance, Disclaimer & Indemnity

5.1 Sources of Information

The statements and opinions expressed in this Report are based on the following sources of information:

- GFNZ 2009, 2010, 2011 and 2012 Annual Reports;
- Investment Capital Terms Sheet between GFNZ and FedPac and related entities;
- Share subscription agreement between GFNZ and FedPac;
- Underwrite Agreement between GFNZ and FedPac;
- Draft Simplified Disclosure Prospectus; and
- Draft GFNZ Notice of Annual Meeting.

During the preparation of this Report, Armillary has had discussions with and/or received information from the management of GFNZ. The Directors of GFNZ have confirmed that Armillary has been provided for the purposes of preparing this Report with all the information relevant to the Rights Issue and Underwrite that is known to them and that all information is true and accurate in all material respects and is not misleading in a material manner by way of omission or otherwise.

Including this confirmation, we have obtained all the relevant information that we believe necessary for the purpose of preparing this Report.

In our opinion, the information set out in this Report is sufficient to enable the shareholders of GFNZ not associated with FedPac to understand all the relevant factors and to make an informed decision in respect of the Rights Issue and Underwrite.

5.2 Reliance on Information

In preparing this Report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was provided to us by GFNZ and its advisers.

We have evaluated this information through analysis, enquiry and examination for the purposes of preparing this Report but we have not verified the accuracy or completeness of any such information or conducted any appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of GFNZ. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

5.3 Disclaimer

We have prepared this Report with care and diligence and the statements in the Report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way does Armillary or the independent directors of GFNZ guarantee or otherwise warrant that any forward looking statements inclusive of any projections or forecasts of future profits, cash flows or financial position of GFNZ will be achieved. Forward looking statements are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of GFNZ and its directors and management. Actual results will vary from the forward looking statements including any projections and forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatever for errors or omissions (including responsibility to any person for negligence) for the preparation of the Report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the Report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this Report or to review, revise or update our Report.

We have had no involvement in the preparation of the Rights Issue or Underwriting related documentation issued by GFNZ and have not verified or approved the contents of the documentation. We do not accept any responsibility for the contents of the Rights Issue or Underwrite related documentation except for this Report.

5.4 Indemnity

GFNZ has agreed that to the extent permitted by law, it will indemnify Armillary and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the Report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. GFNZ has also agreed to indemnify Armillary and its directors, employees and consultants for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Armillary or its directors, employees and consultants are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Armillary shall reimburse such costs.

6.0 Qualifications and Expertise, Independence, Declarations and Consents

6.1 Qualifications & Expertise

Armillary is a specialist New Zealand based investment banking, funds management, financial training and advisory firm. Armillary provides a range of services including the preparation of valuations, merger and acquisition advice, capital raising management and due diligence. Its client base includes a range of private and small to medium listed companies and a number of government agencies.

The individuals responsible for this Report are David Wallace and Bruce McKay.

David Wallace and Bruce McKay have significant experience in financial markets including advising companies on merger, acquisition and divestment transactions, capital raisings, valuations, corporate strategy and appropriate financial structures. Bruce McKay has been contracted by Armillary for the preparation of this Report. David Wallace was formerly a director of Lombard Group Limited, the parent company of Lombard Finance & investments Limited (In Receivership). Lombard Group Limited was removed from the New Zealand Companies Register in April 2010.

Bruce McKay was formerly a director of Viaduct Capital Limited (In Receivership). The company was placed into receivership at the request of the directors in May 2010. He was also a director of Phoenix Finance Holdings Limited, the sole shareholder of Viaduct Capital. Phoenix Finance Holdings Limited was removed from the New Zealand Companies Register in October 2011.

6.2 Independence

Armillary has not had any part in the formulation of the Rights Issue or Underwriting or any aspects thereof. Armillary's only involvement has been the preparation of this report.

Armillary will receive a fee for the preparation of this Report. This fee is not contingent on the conclusions of this report or the outcome of the Rights Issue or Underwrite. Armillary will receive no other benefit from the preparation of this Report. Armillary does not have any conflict of interest that could affect its ability to provide an unbiased report.

6.3 Declarations

This Report is dated 3 October 2012 and has been prepared by Armillary at the request of the directors of GFNZ to fulfil the reporting requirements of the Code. This Report, or any part of it, should not be reproduced or used for any other purpose. Armillary specifically disclaims any obligation or liability to any party whatsoever in the event that this Report is supplied or applied for any purpose other than that for which it is intended.

Advance drafts of this Report were provided to GFNZ directors and representatives of FedPac. Certain changes were made to the Report as a result of the circulation of the drafts. However, there was no material alteration to any part of the substance of this Report, including the methodology or conclusions as a result of issuing the drafts.

Our terms of reference for this engagement did not contain any term that materially restricted the scope of the Report.

6.4 Consents

Armillary consents to the issuing of this Report in the form and context in which it is to be included with the GFNZ Notice of Annual Meeting to be sent to GFNZ shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Armillary Private Capital

David Wallace
Director