GFNZ Group Limited

Independent Adviser's Report

In Respect of the Allotment of Shares under the Underwriting Arrangements with Federal Pacific Group Limited

April 2014

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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1. Introduction

1.1 Background

GFNZ Group Limited (**GFNZ** or the **Company**) provides finance and financial services to the consumer credit and small to medium business markets.

The Company's shares were listed on the alternative market (**NZAX**) operated by NZX Limited (**NZX**) on 1 July 2008. GFNZ's market capitalisation was $11 million as at 2 April 2014 and its unaudited total equity was $12 million as at 30 September 2013.

A profile of GFNZ is set out in section 3.

1.2 Capital Raising

GFNZ announced on 20 March 2014 that it intends to undertake a non-renounceable pro rata rights issue to existing shareholders and optionholders (the **2014 Rights Issue**) to raise $6.1 million of additional capital (before costs of approximately $0.2 million) to strengthen the Company's financial position and to enable it to fund the expansion of its new business lending program.

The 2014 Rights Issue will be fully underwritten by Federal Pacific Group Limited (**Federal Pacific**) (the **Underwriting Arrangements**).

Federal Pacific owns Federal Pacific Nominees Limited (**FedPac Nominees**), which is GFNZ's largest shareholder, holding 33.67% of the Company's 280,872,249 ordinary shares currently on issue. FedPac Nominees also holds 66.23% of the Company's 49,948,953 options currently on issue.

Overview of the 2014 Rights Issue

The principal terms of the 2014 Rights Issue are:

- the rights to subscribe for 11 new ordinary shares for every 18 ordinary shares or options held as at 4 April 2014 (the **Proposed Record Date**), resulting in the issue of up to 202,168,512 new ordinary shares (subject to rounding)
- shareholders and optionholders on the Proposed Record Date will be entitled to the rights at no cost
- the rights are non-renounceable (which means shareholders and optionholders cannot sell or transfer any of their rights)
- the intended closing date for applying for the new ordinary shares will be 6 May 2014. On this basis, it is intended that the new ordinary shares will be allotted on 13 May 2014
- the new ordinary shares will be issued at $0.03 each, payable in full in cash
- shareholders and optionholders may apply for more than their entitlement
- subject to shareholder approval, the 2014 Rights Issue will be fully underwritten by Federal Pacific.

The full terms of the 2014 Rights Issue are set out in the Simplified Disclosure Prospectus dated 3 April 2014 which is being sent to shareholders with the notice of special meeting.

Overview of the Underwriting Arrangements

The principal terms of the Underwriting Arrangements between GFNZ and Federal Pacific, as documented in the Underwriting Agreement between GFNZ and Federal Pacific dated 2 April 2014 (the **Underwriting Agreement**), are:

- Federal Pacific will fully underwrite the 2014 Rights Issue
- Federal Pacific will be paid an underwriting fee of $75,813, representing 1.25% of the $6.1 million of equity to be raised by the 2014 Rights Issue
- Federal Pacific may apply all or part of the $5.0 million of loans it has provided to GFNZ in payment of shares issued to it under its entitlements and its underwrite, subject to GFNZ receiving at least $1.0 million in cash from the 2014 Rights Issue (including the Underwriting Arrangements)
- Federal Pacific may at any time at its discretion appoint sub-underwriters
- the Underwriting Arrangements are conditional on, amongst other things:
  - shareholder approval of the 2014 Rights Issue and the Underwriting Arrangements
  - the 2014 Rights Issue being completed by 30 June 2014
  - no material adverse events occurring before the closing date.

1.3 Federal Pacific Group Limited

Federal Pacific was incorporated on 15 June 1993. It is owned by Alistair Hutchison (86%) and his sons Alan Hutchison (10%) and Semisi Hutchison (4%). Its directors are Alistair Hutchison and Alan Hutchison.

Federal Pacific is an Auckland based financial services company with investments in New Zealand and the Pacific region in banking, personal and business finance, money transfer and foreign exchange trading. Its investments include a joint venture with Irish based FEXCO for the provision of money transfer, foreign exchange and business payment services and a 30.77% shareholding in CBL Insurance Limited, a provider of credit surety and financial risk management products in New Zealand.

Alistair Hutchison is a financial services specialist in insurance, international currency services and micro banking. He 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.

Federal Pacific holds its 33.67% shareholding and 66.23% optionholding in GFNZ through its wholly owned subsidiary FedPac Nominees. It acquired its shareholding and optionholding in 2 tranches:

- GFNZ placed 44,939,000 ordinary shares to FedPac Nominees on 28 February 2012 at $0.0275 per share to raise $1.236 million
- FedPac Nominees increased its shareholding to 94,561,028 ordinary shares when Federal Pacific fully underwrote GFNZ's 1:4 rights issue in November 2012 (the **2012 Rights Issue**) and took up 49,622,028 ordinary shares.

As part of the 2012 Rights Issue, subscribers were granted 2 options for every 3 new ordinary shares subscribed for (the **2012 Options**). FedPac Nominees was granted 33,081,352 2012 Options under the 2012 Rights Issue.

In addition to its shareholding and optionholding, Federal Pacific has provided GFNZ with a $5.0 million funding facility which has been fully drawn down.

Alan Hutchison was appointed a director of GFNZ on 20 November 2013.

1.4 Impact on Shareholding Levels

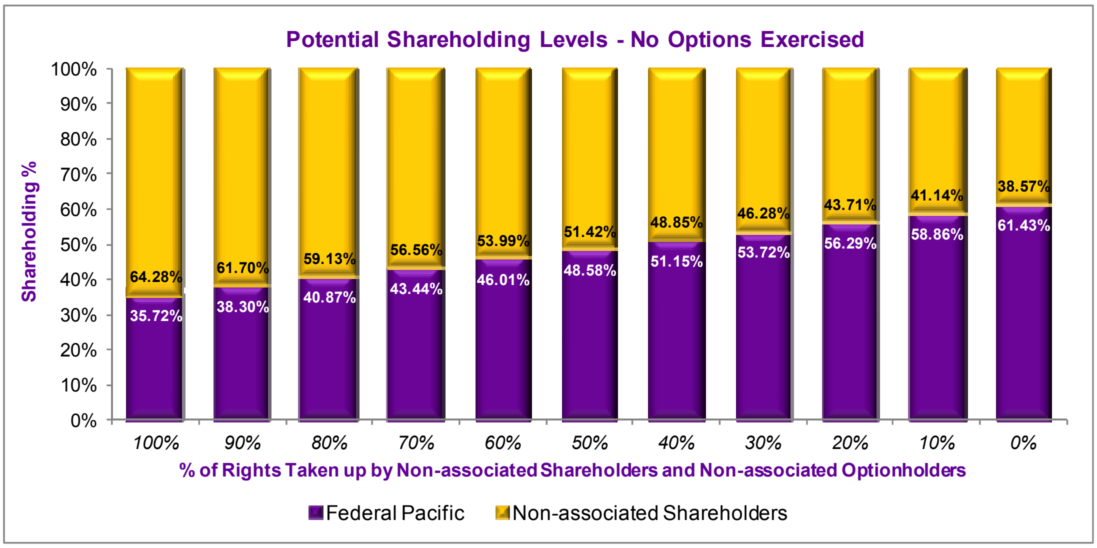
The Company's shareholders not associated with Federal Pacific (the **Non-associated Shareholders**) currently collectively hold 66.33% of the Company's ordinary shares on issue.

The Company's optionholders not associated with Federal Pacific (the **Non-associated Optionholders**) currently collectively hold 33.77% of the Company's options that have been granted.

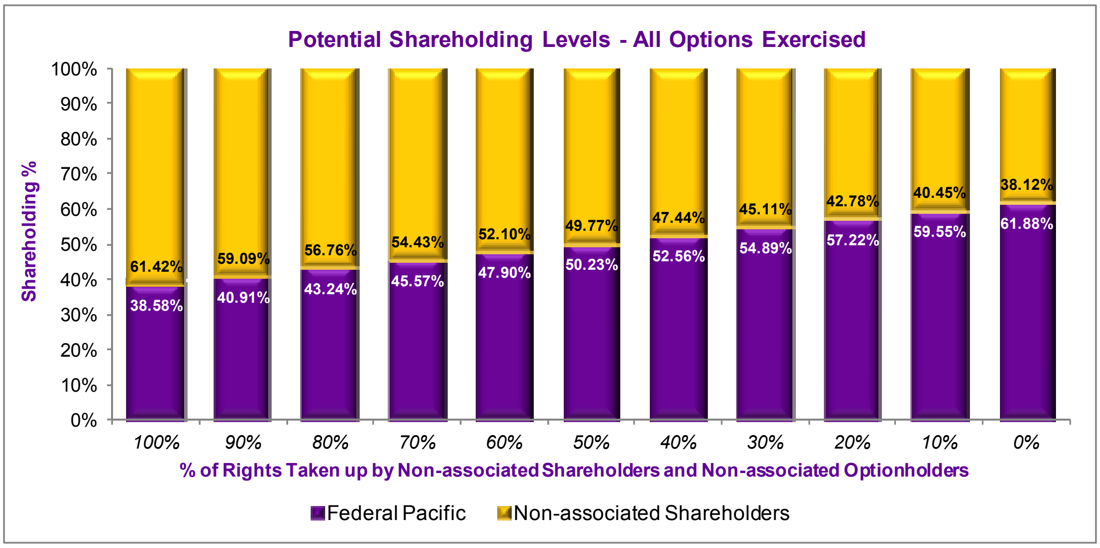
The potential shareholding levels of Federal Pacific and the Non-associated Shareholders following the 2014 Rights Issue are set out below, depending upon:

- the level of take-up by the Non-associated Shareholders and the Non-associated Optionholders of their entitlements
- whether the options are exercised.

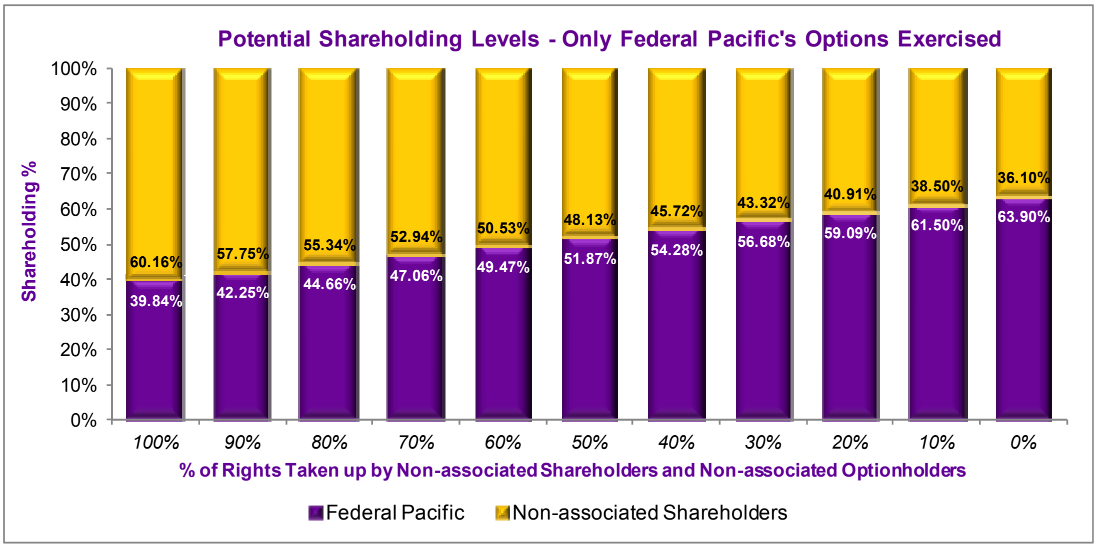
Federal Pacific's shareholding level will range from 35.72% to 61.43% if no options are exercised.



Federal Pacific's shareholding level will range from 38.58% to 61.88% if all of the options are exercised.



Federal Pacific's shareholding level will range from 39.84% to 63.90% if only Federal Pacific's options are exercised.



Accordingly, Federal Pacific's potential shareholding level ranges from:

- 35.72% - assuming the Non-associated Shareholders and the Non-associated Optionholders take up 100% of their entitlements and no options are exercised
- 63.90% - assuming the Non-associated Shareholders and the Non-associated Optionholders do not take up any of their entitlements and only Federal Pacific exercises its options by 19 December 2015.

1.5 Regulatory Requirements

Rule 6 of the Takeovers Code (the **Code**) prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights (together with its associates) beyond 20% and
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and that person's associates to increase its control of voting rights beyond 20% by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Underwriting Arrangements will potentially result in Federal Pacific increasing its shareholding in the Company beyond 33.67%. Accordingly, GFNZ is required to seek shareholder approval of Federal Pacific's increase in control of GFNZ.

The Non-associated Shareholders will vote on an ordinary resolution in respect of the Underwriting Arrangements (resolution 2 - the **Underwriting Resolution**) at the Company's special meeting of shareholders on 29 April 2014.

In accordance with Rule 17(2), Federal Pacific and any of its associates cannot vote on the Underwriting Resolution.

Before voting on the Underwriting Resolution, all of the Company's shareholders will vote on an ordinary resolution in respect of the 2014 Rights Issue (resolution 1 – the **Rights Issue Resolution**).

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

Rule 16(h) of the Code requires that the notice of meeting in respect of an allotment of shares under Rule 7(d) must include or be accompanied by an Independent Adviser's Report.

1.6 Purpose of the Report

The directors of GFNZ not associated with Federal Pacific, being Robin King, David O'Connell and David Smale (the **Independent Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Underwriting Arrangements in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 5 February 2014 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Independent Directors for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on whether to vote for or against the Underwriting Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Underwriting Arrangements in relation to each shareholder. This report on the merits of the Underwriting Arrangements is therefore necessarily general in nature.

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

2. Evaluation of the Merits of the Allotment of Shares to Federal Pacific Under the Underwriting Arrangements

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to Federal Pacific under the Underwriting Arrangements.

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:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated August 2013
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the allotment of shares to Federal Pacific under the Underwriting Arrangements should focus on:

- the requirement for the 2014 Rights Issue
- the prospects for GFNZ without the 2014 Rights Issue
- the alternatives to the 2014 Rights Issue
- the structure of the 2014 Rights Issue
- the terms and conditions of the Underwriting Arrangements
- the alternatives to the Underwriting Arrangements
- the impact of the 2014 Rights Issue on GFNZ's financial position
- the impact of the Underwriting Arrangements on the control of the Company
- the impact of the 2014 Rights Issue and the Underwriting Arrangements on GFNZ's share price
- other benefits and disadvantages to Federal Pacific of the Underwriting Arrangements
- the benefits and disadvantages for the Non-associated Shareholders of the 2014 Rights Issue and the Underwriting Arrangements
- the implications if the Underwriting Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Allotment of Shares to Federal Pacific Under the Underwriting Arrangements

Our evaluation of the merits of the allotment of shares to Federal Pacific under the Underwriting Arrangements is set out in detail in sections 2.3 to 2.15.

In summary, the positive aspects of the Underwriting Arrangements are:

- the rationale for the 2014 Rights Issue and the Underwriting Arrangements is sound
- the structure of the 2014 Rights Issue is reasonable
- the terms of the Underwriting Arrangements are reasonable
- the Underwriting Arrangements provide GFNZ with the certainty that the 2014 Rights Issue will raise $5.9 million (after costs)
- the 2014 Rights Issue and the Underwriting Arrangements will have a positive impact on the Company's financial position
- the Underwriting Arrangements are unlikely to have any material impact on the liquidity of GFNZ’s ordinary shares
- the Underwriting Arrangements are unlikely to have any material impact on the attraction of GFNZ as a takeover target to bidders other than Federal Pacific
- the implications of the Underwriting Arrangements not being approved by the Non-associated Shareholders are significant in that the Company's ability to fund the expansion of its new business receivables book will be put at risk.

In summary, the negative aspects of the Underwriting Arrangements are:

- depending on the level to which the Non-associated Shareholders and the Non-associated Optionholders take up their entitlements and the extent to which the options are exercised, Federal Pacific’s shareholding level may range from 35.72% to 63.90% following the 2014 Rights Issue and the exercise of options. At the higher end of the range, Federal Pacific will significantly increase its ability to influence the outcome of shareholding voting and exert shareholder control over the Company’s board of directors and operations
- the dilutionary impact of the 2014 Rights Issue and Underwriting Arrangements on Non-associated Shareholders who do not take up their entitlements will result in their proportionate interests in the Company reducing by up to 47% (assuming they hold no options and all of the options are exercised) and the value of their investment potentially reducing by approximately 12%
- depending on the level of Federal Pacific’s shareholding following the 2014 Rights Issue, the attraction of GFNZ as a takeover target for Federal Pacific may diminish.

There are a number of positive and negative features associated with the allotment of shares to Federal Pacific under the Underwriting Arrangements. In our view, when the Non-associated Shareholders are evaluating the merits of the transaction, they need to carefully consider:

- firstly, the imperative for the Company to undertake the 2014 Rights Issue
- secondly, the need for the 2014 Rights Issue to be fully underwritten
- thirdly, the degree to which they will participate in the 2014 Rights Issue.

If most or all of the Non-associated Shareholders are of the mind to take up their entitlements under the 2014 Rights Issue, then the level of dilution associated with the Underwriting Arrangements significantly diminishes, potentially to the extent that it is not a negative aspect to any great degree. In such circumstances, the benefits of the Underwriting Arrangements significantly outweigh the negative aspects.

Conversely, if a number of Non-associated Shareholders are unlikely to take up their entitlements under the 2014 Rights Issue, they need to consider whether the negative aspects of the Underwriting Arrangements, including the potential dilution, justify voting against the Underwriting Arrangements with the possible outcome that the Company will be undercapitalised and therefore may not be able to fully execute its growth initiatives.

In our opinion, after having regard to all relevant factors, on balance the positive aspects of the allotment of shares to Federal Pacific under the Underwriting Arrangements outweigh the negative aspects from the perspective of the Non-associated Shareholders.

2.3 The Requirement for the 2014 Rights Issue

The purpose of the 2014 Rights Issue is to raise funds to enable GFNZ to strengthen its financial position and to fund the expansion of its new business lending program.

The 2014 Rights Issue will raise approximately $5.9 million of fresh equity for GFNZ (after costs):

- $3.5 million to $4.0 million will be used to strengthen the Company's balance sheet, replacing equity eroded by the losses incurred on the Company's residual old finance receivables book
- $2.0 million to $2.5 million will be applied towards GFNZ's equity funding of the expanding new business receivables book. The Company obtained a $30 million securitisation facility from Westpac New Zealand Limited (**Westpac**) in July 2013. Under the Westpac securitisation facility, typically each dollar of new lending is 78% funded by the facility with the remaining 22% funded by GFNZ.

2.4 The Prospects for GFNZ Without the 2014 Rights Issue

The carrying value of GFNZ's equity was $12.5 million as at 30 September 2013 and it had $2.8 million of cash and cash equivalents at that date.

Without the additional funding from the 2014 Rights Issue, the Company will be able to operate but it will not have as much equity capital as the Independent Directors consider prudent in order to fund the expansion of the Company's new business receivables book. Accordingly, the Company's ability to enhance its profitability would be diminished and GFNZ would need to raise additional equity in the near future.

2.5 Alternatives to the 2014 Rights Issue

GFNZ could pursue alternative forms of raising capital including:

- seeking debt funding
- making a series of share placements
- seeking another strategic investor
- sale of assets.

We are advised by the Independent Directors that as the Company recently secured $40 million of new debt facilities in July 2013 and all of the Company's assets are charged, they do not consider that GFNZ could access sufficient additional debt funding on commercially viable terms.

We are also advised that the Independent Directors did not seek to make any share placements as they did not wish to dilute existing shareholders' and optionholders' interests in the Company. They considered a pro rata rights issue to be the fairest form of capital raising for the Company's shareholders and optionholders.

Having sold its land and buildings in April 2013 for $4.3 million, the Company has negligible uncharged assets available for sale other than its 11% shareholding in a Hamilton medical property company, which has a carrying value of $2.6 million.

We are of the view that the alternative funding sources are not realistic alternatives at this point in time.

2.6 Structure of the 2014 Rights Issue

The terms of the 2014 Rights Issue were finalised by GFNZ's board of directors on or around 21 February 2014. The 2014 Rights Issue has been structured as an issue of up to 202,168,512 ordinary shares to existing shareholders and optionholders on an 11 for 18 basis at $0.03 per share that is fully underwritten by Federal Pacific.

Size of the 2014 Rights Issue

We are advised by the Independent Directors that the $5.9 million of capital to be raised under the 2014 Rights Issue (after costs) was based on the sum required to restore the Company's equity position to an appropriate level following the losses incurred on the Company's residual old finance receivables book and to ensure that there is sufficient equity available to fund the expanding new business receivables book over the next year to year and a half.

Pricing

The 2014 Rights Issue is at a discount to the prevailing share price prior to the formulation of the structure of the 2014 Rights Issue. The subscription price of $0.03 per share is at a 30% discount to the Company's volume weighted average share price (**VWAP**) for the one month up to 21 February 2014 of $0.043. This level of discount is broadly in line with the average discounts observed for rights issues in New Zealand.

When rights issues are priced at a discount to the prevailing share price, this results in a transfer of value from shareholders who do not participate in the rights issue to shareholders who take up their entitlements.

Based on GFNZ’s 3 month VWAP to 31 March 2014 of $0.043 and a 11 for 18 rights issue at a subscription price of $0.03 per share, the theoretical price of GFNZ’s shares after the 2014 Rights Issue (the **Theoretical Ex-rights Share Price**) is $0.038 ([$0.043 x 18 + $0.03 x 11] ÷ 29).

The pricing of the 2014 Rights Issue at a discount contrasts with the pricing of the 2012 Rights Issue, which was at $0.0275 per share compared with the then one month VWAP of $0.025. The Non-associated Shareholders took up less than 15% of their entitlements in the 2012 Rights Issue.

Non-renounceable

The rights are non-renounceable, meaning that they cannot be transferred or sold. Accordingly, if the rights are not exercised by the shareholder, then no value can be derived from the right.

We are advised by the Independent Directors that given the lack of trading in the Company’s shares, they did not believe that the complexity and costs associated with a renounceable pro rata rights issue (whereby the rights could be traded) was justified.

Given the size of the 2014 Rights Issue and a theoretical rights price in the vicinity of $0.005 per right, we concur with the Independent Directors’ view.

2.7 Underwriting Options

On the basis that a rights issue is the most appropriate method at the present time for GFNZ to raise additional capital, GFNZ does have the following options regarding the underwriting of the 2014 Rights Issue:

- the Underwriting Arrangements as proposed or
- it could seek an alternative underwriter or
- it could undertake a non-underwritten issue.

Underwriting Arrangements

Federal Pacific will be paid an underwriting fee of 1.25% of the funds to be raised by the 2014 Rights Issue. This represents an underwriting fee of $75,813.

The payment of underwriting fees to an underwriter is a normal part of a rights issue. The actual fee percentage varies and generally is a function of the discount of the rights price, the size of the issue and the assessment of the risk that the underwriter is assuming (ie the probability that the underwriter will be called upon to purchase any shortfall in subscriptions). Underwriting fees in New Zealand tend to be in the range of 1.5% to 5.0%. The 1.25% underwriting fee to be paid to Federal Pacific is below the range.

Given that Federal Pacific intends to take up its full entitlement under the 2014 Rights Issue, then Federal Pacific's underwriting risk is effectively restricted to the entitlements of the Non-associated Shareholders and the Non-associated Optionholders, which total 61.42% of the 2014 Rights Issue ($3.7 million). From this perspective, the underwriting fee of $75,813 equates to an effective underwriting fee of 2.0%, which is at the lower end of the range of underwriting fees.

Federal Pacific has the right to sub-underwrite all or part of its underwriting obligations. In such circumstances, Federal Pacific will be required to meet the costs of any sub-underwrite fees.

We consider the Underwriting Arrangements to be reasonable.

Alternative Underwriter

Given the relatively small size of the Company, the absence of institutional investors on its shareholder register and the limited liquidity of the Company's shares, we consider it unlikely that the underwriting opportunity would hold appeal to potential underwriters other than a party who was prepared to possibly hold a significant shareholding in GFNZ.

We are advised that the Independent Directors sought to agree the Underwriting Arrangements with Federal Pacific rather than seeking alternative underwriters on this basis.

No Underwriter

An alternative option to seeking a different underwriter would be for GFNZ to undertake the 2014 Rights Issue without it being underwritten. In general terms, the greater the discount of the subscription price for the new shares under a rights issue to the current share price, the lower the risk of the rights issue being under subscribed.

A discounted subscription price does not necessarily guarantee the full take-up of a rights issue. Other factors that impact on the likely level of subscription under a rights issue include the demand for the shares (i.e. liquidity and spread of shareholders), the quantum of the required investments (in this case the average required investment is approximately $914 per Non-associated Shareholder and Non-associated Optionholder (excluding the 10 largest shareholders and optionholders)) and the general state of the equity markets.

While the 2014 Rights Issue is at a significant discount to the prevailing share price and the average level of investment for the Non-associated Shareholders and the Non-associated Optionholders is relatively low, the demand for GFNZ shares is very low (based on volumes traded).

We are of the view that GFNZ would bear considerable risk of not raising the expected level of capital of $5.9 million (after costs) if it did not arrange for the 2014 Rights Issue to be underwritten.

2.8 Impact on Financial Position

A summary of GFNZ's recent financial performance and financial position is set out in section 3.8.

GFNZ's total equity as at 30 September 2013 was $12.5 million, which equated to $0.044 per share as at that date.

The 2014 Rights Issue will raise $5.9 million (after costs). For illustrative purposes, if the net proceeds were to have been received on 30 September 2013, GFNZ's total equity would significantly increase by 47% to $18.4 million. Equity per share would decrease by 14% to $0.038, due to the subscription price of $0.03 per share being lower than equity per share as at 30 September 2013.

Under the Underwriting Arrangements, Federal Pacific may apply all or part of the $5.0 million of loans it has provided to GFNZ in payment of shares issued to it under its entitlement and its underwrite. This is however subject to GFNZ receiving at least $1.0 million in cash from the 2014 Rights Issue (including the Underwriting Arrangements).

2.9 Impact on Control

Share Capital and Shareholders

GFNZ currently has 280,872,249 fully paid ordinary shares on issue held by 2,322 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 29 March 2014 are set out in section 3.6.

Federal Pacific's 33.67% interest is the largest shareholding in GFNZ. The top 10 shareholders collectively hold over 52% of the Company's shares.

GFNZ has also granted 49,948,953 options to 362 optionholders.

The names, number of options and percentage holding of the 10 largest 2012 Option holders as at 6 March 2014 are set out in section 3.6.

Federal Pacific holds 66.23% of the options.

Federal Pacific's Potential Shareholding Levels

Depending on the uptake by the Non-associated Shareholders and the Non-associated Optionholders of their entitlements under the 2014 Rights Issue, Federal Pacific will increase its shareholding in GFNZ without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the reason why the Non-associated Shareholders have the opportunity to vote for or against the proposed allotment of shares to Federal Pacific under the terms of the Underwriting Arrangements.

The graphs on pages 3 and 4 show the potential shareholding levels for Federal Pacific depending upon:

- the levels of take-up by the Non-associated Shareholders and the Non-associated Optionholders of their entitlements
- whether the options are exercised.

Assuming that no options will be exercised, Federal Pacific's potential shareholding levels will be between 35.72% and 61.43%, depending upon the level of take-up by the Non-associated Shareholders and the Non-associated Optionholders of their entitlements.

Assuming that all of the options will be exercised, Federal Pacific's potential shareholding levels will be between 38.58% and 61.88%.

Assuming that only the options held by Federal Pacific will be exercised, Federal Pacific's potential shareholding levels will be between 39.84% and 63.90%.

Accordingly, there are a wide range of possible outcomes with respect to Federal Pacific's eventual shareholding in GFNZ, ranging from 35.72% to 63.90%:

- because optionholders participate in the 2014 Rights Issue and Federal Pacific holds 66.23% of the options on issue, Federal Pacific's shareholding is guaranteed to increase from 33.67% to at least 35.72% under the 2014 Rights Issue, irrespective of the Underwriting Arrangements
- it is highly likely that Federal Pacific will increase its shareholding above 35.72% as it is often the case that some rights holders do not take up their entitlements. For example, in the 2012 Rights Issue, the Non-associated Shareholders took up less than 15% of their entitlements
- we consider it highly unlikely that no Non-associated Shareholders or Non-associated Optionholders will take up their entitlements and therefore it is unlikely that Federal Pacific will hold more than 60% of the voting rights in the Company
- if the Non-associated Shareholders and the Non-associated Optionholders take up 50% of their entitlements, then Federal Pacific will hold between 48.58% and 51.87% of the voting rights in the Company (depending on the extent to which the options are exercised)
- the options' exercise prices range from $0.05 to $0.08 and their expiry dates range from 31 July 2015 to 19 December 2015. All of the options are currently *out of the money* and therefore there is no certainty that they will be exercised.

Shareholding Voting

Federal Pacific currently has the ability to influence the outcome of shareholder voting. Its 33.67% shareholding can block special resolutions (which require the approval of 75% of the votes cast by shareholders) but cannot singlehandedly pass, or block, ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

In the extreme scenario of the Non-associated Shareholders and the Non-associated Optionholders taking up all of their entitlements – which we consider to be highly unlikely – Federal Pacific's shareholding will be between 35.72% and 39.84% (depending on the extent to which the options are exercised). As such, Federal Pacific's ability to influence the outcome of shareholder voting will not increase to any significant degree.

In the other extreme scenario of the Non-associated Shareholders and the Non-associated Optionholders taking up none of their entitlements – which we also consider to be highly unlikely – Federal Pacific's shareholding will be between 61.43% and 63.90% (depending on the extent to which the options are exercised). In which case, Federal Pacific's ability to influence the outcome of shareholder voting will have increased significantly. It will be able to singlehandedly determine the outcome of ordinary resolutions and block any special resolutions. It will also be able to strongly influence the passing of any special resolutions.

Federal Pacific will hold the ability to determine the outcome of ordinary resolutions and block any special resolutions if the Non-associated Shareholders and the Non-associated Optionholders take up 50% of their entitlements.

The ability for any shareholder to influence the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the NZAX Listing Rules and the Companies Act 1993.

We are of the view that the allotment of shares to Federal Pacific under the Underwriting Arrangements will potentially increase its ability to exert shareholder control over GFNZ as Federal Pacific will potentially be able to singlehandedly pass or block ordinary resolutions in addition to its current ability to singlehandedly block special resolutions.

Board Control

GFNZ currently has 4 directors, as set out in section 3.5.

Other than Alan Hutchison, none of the Company's directors are deemed to be associates of Federal Pacific, as defined in the Code or the NZAX Listing Rules.

We are advised by the Independent Directors that as far as they are aware, any increase in Federal Pacific's shareholdings following the 2014 Rights Issue will have no impact on the composition of the Company's board of directors or Federal Pacific's level of influence at board level.

Federal Pacific is entitled to appoint a maximum of 2 directors under the placement subscription agreement that it entered into with GFNZ in February 2012.

We note that the Company's constitution provides for a maximum of 7 directors. Assuming Federal Pacific exercised its rights and appointed an additional director to the Company's board of directors, there would be 5 directors in total. Any additional director appointed by Federal Pacific would be required to stand for re-election at the next annual meeting of shareholders in accordance with GFNZ's constitution.

Operations

We are advised by the Independent Directors that any increase in Federal Pacific's shareholding will have no discernible impact on the Company's operations.

2.10 Dilutionary Impact

The Underwriting Arrangements may result in the Non-associated Shareholders' proportionate shareholdings in the Company and the value of their investments being diluted, depending on the extent to which they take up their entitlements under the 2014 Rights Issue.

As set out in section 2.9, Federal Pacific will hold between 35.72% and up to 63.90% of the shares in GFNZ depending on the extent to which the Non-associated Shareholders and the Non-associated Optionholders take up their entitlements and the extent to which the options are exercised.

Non-associated Shareholders who do not take up their entitlements under the 2014 Rights Issue will see their shareholding interests in the Company diluted by up to 47% (assuming they hold no options and all the options are exercised) and, based on the Theoretical Ex-rights Share Price, the value of their investments in the Company potentially reduced by approximately 12%.

While the potential level of dilution is significant, the actual level of dilution is in the hands of the Non-associated Shareholders as it is a function of whether they take up their entitlements under the 2014 Rights Issue.

2.11 Impact on Share Price and Liquidity

A summary of GFNZ's daily closing share price and daily volumes of shares traded from 4 January 2012 to 31 March 2014 is set out in section 3.10.

During the period, GFNZ's shares have traded between $0.013 and $0.060 at a VWAP of $0.033.

Trading in the Company's shares is extremely thin, reflecting that 33.67% of the shares are held by Federal Pacific.

The average volume of shares traded each month since 4 January 2012 represented approximately 0.2% of the shares on issue.

In our view, given the relatively small size of the public pool of shares, the 2014 Rights Issue and the Underwriting Arrangements are unlikely to have a positive or negative effect on the liquidity of GFNZ's ordinary shares in the near term.

Given that the 2014 Rights Issue subscription price of $0.03 is at a 30% discount to the current market price, the Company's share price could possibly drop immediately after the 2014 Rights Issue. As set out in section 2.6, the Theoretical Ex-rights Share Price is $0.038.

2.12 Key Benefit to Federal Pacific

The subscription price of $0.03 per share is at a 30% discount to the 3 months VWAP of $0.043. Accordingly, the Underwriting Arrangements provide Federal Pacific with the opportunity to increase its shareholding (and level of control) in GFNZ at a discounted price. However, this will only occur if some Non-associated Shareholders and Non-associated Optionholders do not take up their entitlements.

2.13 Disadvantages to Federal Pacific

Increased Exposure to the Risks of GFNZ

The key issues and risks that are likely to impact upon the business operations of GFNZ are summarised in section 3.4.

As Federal Pacific's ownership in GFNZ increases, so does its exposure to these risks. The level of ownership for Federal Pacific will range from 35.72% to up to 63.90%. Federal Pacific has little control over the uptake of the 2014 Rights Issue by the Non-associated Shareholders and the Non-associated Optionholders and hence its ultimate shareholding in GFNZ.

Further Financial Commitments

The current market value of Federal Pacific's equity investment in GFNZ is $4.2 million as at 31 March 2014. It has also provided $5.0 million of loans to GFNZ.

Federal Pacific has committed to take up its entitlement under the 2014 Rights Issue. This will require it to invest $2.4 million in GFNZ. If it is required to subscribe for additional shares under the Underwriting Arrangements, it may need to invest up to a further $3.7 million in GFNZ (assuming the Non-associated Shareholders and the Non-associated Optionholders do not take up any of their entitlements and Federal Pacific does not enter into any sub-underwrite arrangements). Accordingly, Federal Pacific's maximum exposure under the Underwriting Arrangements is $6.1 million (assuming it does not enter into any sub-underwrite arrangements). Federal Pacific may apply all or part of the $5.0 million of loans it has provided to GFNZ in payment of shares issued to it under its entitlements and its underwrite, subject to GFNZ receiving at least $1.0 million in cash from the 2014 Rights Issue.

2.14 Other Issues

All Shareholders (and Optionholders) Participate in the 2014 Rights Issue

The 2014 Rights Issue is pro rata. All Non-associated Shareholders have the opportunity to take up their entitlements to acquire ordinary shares, as do all Non-associated Optionholders. If all Non-associated Shareholders and Non-associated Optionholders take up their entitlements, then Federal Pacific will only increase its shareholding immediately after the 2014 Rights Issue from 33.67% to 35.72%.

Benefits to GFNZ of Federal Pacific as a Cornerstone Shareholder

The major benefit to GFNZ of the Underwriting Arrangements is that the Company is certain to obtain the $5.9 million of funds (after costs) that it requires.

The Underwriting Arrangements will enhance Federal Pacific's position as an important cornerstone investor in the Company and further signals its confidence in the future prospects of GFNZ.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Underwriting Arrangements and the allotment of shares to Federal Pacific.

The Underwriting Arrangements will not proceed unless the Non-associated Shareholders approve the Underwriting Resolution.

Non-associated Shareholders not Taking up Their Entitlements will be Diluted

Non-associated Shareholders who choose not to take up their rights will be diluted by those shareholders, including Federal Pacific, who subscribe for new ordinary shares. Their proportionate interests in the Company will reduce by up to 47% (assuming they hold no options and all of the options are exercised).

It is possible that the value of their investments, as measured by the share price in the market, will decline. This is due to the dilutionary effect of the price of the new shares issued under the 2014 Rights Issue being lower than the current market price of the shares.

If Non-associated Shareholders do not take up their entitlements, they will potentially suffer a loss of approximately 12% in the value of their existing shareholdings (based on GFNZ's 3 month VWAP to 31 March 2014 of $0.043 and a Theoretical Ex-rights Share Price of $0.038). The value will be transferred to Federal Pacific as underwriter and all other Non-associated Shareholders and Non-associated Optionholders who choose to take up their entitlements.

The 2014 Rights Issue is non-renounceable, which means Non-associated Shareholders cannot transfer or sell their rights. Therefore if any Non-associated Shareholders or Non-associated Optionholders elect not to subscribe for their entitlements under the 2014 Rights Issue, then Federal Pacific will subscribe for those entitlements under the Underwriting Arrangements.

May Reduce the Likelihood of a Takeover Offer from Federal Pacific

The Underwriting Arrangements will result in Federal Pacific's shareholding in the Company ranging from 35.72% to up to 63.90% following the 2014 Rights Issue and depending upon the extent to which the options are exercised.

Federal Pacific will not be able to increase the level of its shareholding unless it complies with the provisions of the Code. Federal Pacific will only be able to acquire more shares in the Company if:

- it makes a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders
- the Company undertakes a share buyback that is approved by the Company's shareholders and Federal Pacific does not accept the offer of the buyback
- it complies with the *creep* provisions of Rule 7(e) of the Code.

The *creep* provisions enable entities that hold or control more than 50%, but less than 90% of the voting rights in a code company to buy up to a further 5% of the code company's shares per annum. If Federal Pacific holds more than 50% of the voting rights in GFNZ following the 2014 Rights Issue and the Underwriting Arrangements, it will be entitled to *creep* 12 months after the allotment of shares.

An increase in Federal Pacific's shareholding to up to 63.90% may reduce the likelihood of a takeover offer for the Company from Federal Pacific as it may consider that it has sufficient control over the Company.

It is possible that if Federal Pacific did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

Likelihood of Other Takeover Offers does not Change

With Federal Pacific currently holding 33.67% of the shares in GFNZ, any bidder looking to fully take over the Company would need to ensure that Federal Pacific would accept its offer, irrespective of whether Federal Pacific held 33.67% or up to 63.90% of the shares in the Company.

Similarly, in the event that a bidder made a partial takeover offer for (say) 50.1% of the Company, it would want Federal Pacific to accept its offer to ensure its success, irrespective of whether Federal Pacific held 33.67% or up to 63.90% of the shares in the Company.

In our view, the increase in Federal Pacific's shareholding from 33.67% to up to 63.90% will not have a material impact on the attraction of GFNZ as a takeover target to other parties.

2.15 Implications of the Resolutions not Being Approved

If the Rights Issue Resolution is not approved, then the 2014 Rights Issue will not proceed.

As stated in section 2.5, there are limited viable alternative forms of raising capital for the Company in the near term. While the Independent Directors consider that the Company has sufficient funds to maintain its current operations, its ability to fund the expansion of its new business lending program (and hence enhance the Company's profitability) will be restricted.

If the Rights Issue Resolution is approved but the Underwriting Resolution is not approved, then the 2014 Rights Issue will proceed but it will not be underwritten. This means that there will be no certainty that the Company will raise the $5.9 million of equity (after costs) that it is seeking. In our view there is a strong possibility that the 2014 Rights Issue will not be fully subscribed if it is not fully underwritten.

2.16 Voting For or Against the Underwriting Resolution

Voting for or against the Underwriting Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Profile of GFNZ

3.1 Background

GFNZ was incorporated on 19 August 2002 as Geneva Finance Limited. It changed its name to GFNZ Group Limited on 7 April 2011.

The GFNZ business was established in October 2002 to provide finance and financial services to consumers and businesses. GFNZ's original business model was to raise funds from the public through the issue of debenture stock and subordinated notes and from institutional wholesale lenders such as BOS International (Australia) Limited (**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 late 2007, the Company found itself in financial difficulty when it faced liquidity problems as a result of declining debenture reinvestment levels across the New Zealand finance company sector. It subsequently defaulted on its payment obligations to investors and faced receivership.

On 15 October 2007, the Company suspended all principal payments to its investors. On 5 November 2007, the Company entered into a moratorium with debenture stockholders, subordinated noteholders and BOSI (the **Moratorium**), which allowed it to stabilise the business, restructure and focus on the process of collecting its receivables book and repay its borrowings in an orderly fashion.

As part of the Moratorium, debenture stockholders and subordinated noteholders had portions of their principal amounts converted into 62,241,091 ordinary shares in April 2008 as part of a capital reconstruction plan and the Company listed its shares on the NZAX on 1 July 2008.

On 31 March 2011, subordinated noteholders elected to convert their subordinated notes into ordinary shares. $4.4 million of subordinated notes were converted (at $0.05 per ordinary share) into 88,747,934 new ordinary shares.

In April 2011, the Company's shareholding approved the restructure of GFNZ into 4 trading entities.

In July 2013, GFNZ secured $40 million of new funding facilities:

- $30 million from Westpac
- $5 million from a group of professional investors (including GFNZ directors Robin King and David Smale)
- $5 million from Federal Pacific.

$27.8 million of the facilities were drawn down in August 2013 to repay the outstanding amounts owing to investors and BOSI and the Company exited the Moratorium. In total, GFNZ repaid in excess of $169 million of interest and principal to investors and BOSI while under the Moratorium, including $41.8 million of interest at a weighted average interest rate of 10.5%.

GFNZ now no longer borrows from the public and therefore is not subject to supervision by the Reserve Bank of New Zealand or any external trustee company.

3.2 Nature of Operations

The Company provides finance and financial services to the consumer credit and small to medium business markets. Its principal activity involves the provision of hire purchase finance to the consumer credit market, primarily by way of motor vehicle finance to both individuals and small businesses. The Company's other main activity involves the provision of personal loans to the consumer credit market.

GFNZ has 3 key business operations trading under 3 wholly owned subsidiaries:

Lending	Insurance	Collections
*Geneva Financial Services Limited (**GFSL**)*	*Quest Insurance Group Limited (**QIGL**)*	*Stellar Collections Limited (**SCL**)*

GFSL is a motor vehicle financing operation that lends monies to second tier customers, primarily for the acquisition of, or secured by, motor vehicles. GFSL distributes its products through 2 introducer channels, motor vehicle dealers, brokers and the direct marketing of its own database. GFSL's strategy is to profile its customers based on key risk indicators with the resultant profile being used to determine the interest rate the customer is required to pay and the maximum loan exposure the company is prepared to accept.

QIGL is an insurance company that primarily supplies insurance products to the customers of GFSL. Its 2 main products are comprehensive motor vehicle insurance and lifestyle protection insurance.

SCL has the responsibility to collect the residual old finance receivables that relate to GFNZ's lending activities prior to 31 March 2008. SCL's primary goal is to recover the remaining net book value of these loans and deliver a modest profit in doing so.

3.3 Corporate Strategy

GFNZ is committed to the consumer finance and insurance market with its primary focus being on the automotive sector.

Having secured sustainable and affordable funding in 2013, the Company's key focus is to expand the distribution of its consumer loan and insurance products while maintaining asset quality.

3.4 Key Issues Affecting GFNZ

The main industry and specific business factors and risks that GFNZ faces include:

- funding risk – the ability of GFNZ to adequately fund its business
- customer credit risk – the ability of borrowers to repay their loans and make interest payments on due date
- liquidity risk – managing cash inflows from borrowers with cash outflows to lenders
- interest rate risk – ensuring that interest received on loans to customers and on bank balances is sufficient to pay interest due on borrowings as well as to pay all expenses

- regulation and compliance – the non-bank finance sector has faced increasing regulation and costs in recent years
- dependence on key personnel.

3.5 Directors and Executive Management

The directors of GFNZ are:

- Alan Hutchison, non-executive director, Federal Pacific representative
- Robin King, independent director
- David O'Connell, managing director
- David Smale, chair and independent director.

Mr Hutchison was appointed on 20 November 2013. Peter Francis resigned as a director on 22 November 2013.

In addition to Mr O'Connell, the Company's executive management team includes:

- Albert Boy, chief financial officer
- Phil Eketone, manager – sales and lending
- Pat Dunn, manager – collections and human resources.

3.6 Capital Structure and Shareholders

Ordinary Shares

GFNZ currently has 280,872,249 ordinary shares on issue held by 2,322 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 29 March 2014 are set out below.

GFNZ's 10 Largest Shareholders

Shareholder	No. of Shares	%
FedPac Nominees	94,561,028	33.67%
Brume Securities Limited (**Brume**)	15,960,000	5.68%
John Green and Judy Green	7,277,484	2.59%
Brookes Lands Limited (**Brookes**)	6,303,136	2.24%
Robin King and Lynn King	4,500,000	1.60%
Dawn Clark	4,202,872	1.50%
David Smale and E Smale	3,922,585	1.40%
FNZ Custodians Limited	3,810,517	1.36%
Bryce Weeks	3,728,893	1.33%
Jack Wakelin and Margo Wakelin	3,677,513	1.31%
Subtotal	147,944,028	52.67%
Others (2,312 shareholders)	132,928,221	47.33%
Total	280,872,249	100.00%

Source: NZX Data

Brume is owned by interests associated with Peter Francis. Mr Francis is a founding shareholder and director of GFNZ. He resigned from the board on 22 November 2013.

Brookes is owned by parties associated with John Brookes.

Options

GFNZ currently has 49,948,953 options on issue:

- 37,448,953 2012 Options held by 358 optionholders
- 12,500,000 options held by 4 Company executives (the **Executive Options**).

The options are not quoted on the NZAX.

2012 Options

The 2012 Options were granted in November 2012 as part of the 2012 Rights Issue. Two 2012 Options were granted for every 3 ordinary shares subscribed for under the 2012 Rights Issue.

The key terms of the 2012 Options are:

- the options can only be exercised during a 30 day period, commencing 3 years from their grant date (November 2012). They expire on 19 December 2015
- an exercise price of $0.08 per share
- the options may participate in all new cash issues of capital.

The names, number of shares and percentage holding of the 10 largest 2012 Option holders as at 6 March 2014 are set out below.

GFNZ's 10 Largest 2012 Options Holders

Optionholder	No. of Options	% [1]
FedPac Nominees	33,081,352	66.23%
Brookes	997,527	2.00%
Bruce Weeks	497,185	1.00%
Preben Petersen and Sylvia Petersen	290,467	0.58%
Select Tours Holdings Limited	176,648	0.35%
Colin Henderson and Robyn Henderson	151,497	0.30%
Lesley Tack and Richard Tack	117,586	0.24%
Ulrika Haller	94,979	0.19%
David Smale and E Smale	93,333	0.19%
Walter Frogle, Judith Frogle and William Wilson	84,106	0.17%
Subtotal	35,584,680	71.24%
Others (348 optionholders)	1,864,273	3.73%
Total	37,448,953	74.97%

1 % of the total 49,948,953 options on issue (including the Executive Options)

Source: GFNZ

Executive Options

GFNZ granted 12,500,000 Executive Options to 4 executives on 31 July 2012:

- David O'Connell – 9,000,000 options
- Albert Boy – 2,000,000 options
- Phil Eketone – 1,000,000 options
- Pat Dunn – 500,000 options.

The Executive Options represent 25.03% of the total number of options currently on issue.

The key terms of the Executive Options are:

- the options may be exercised at any time up until 31 July 2015 or when the executive's employment ceases (whichever is the earlier)
- the options will be forfeited if the executive ceases to be employed by the Company
- an exercise price of $0.05 per share
- the options may participate in all new cash issues of capital.

3.7 Financial Performance

A summary of GFNZ's recent financial performance is set out below.

Summary of GFNZ Financial Performance				
	Year to 31 Mar 11 (Audited) $000	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	6 Mths to 30 Sep 13 (Unaudited) $000
Interest income	9,824	7,914	6,403	2,815
Interest expense	(5,996)	(4,105)	(3,382)	(1,474)
Net interest income	3,828	3,809	3,021	1,341
Net premium revenue	1,986	1,729	1,484	671
Other revenue	3,699	2,753	2,220	2,411
Operating revenue	9,513	8,291	6,725	4,423
Net claims expense	(597)	(564)	(365)	(196)
Operating expenses	(9,970)	(8,720)	(7,429)	(3,550)
Operating profit / (loss)	(1,054)	(993)	(1,069)	677
Impaired asset release / (charge)	(5,129)	(584)	1,160	(596)
Net profit / (loss) before taxation	(6,183)	(1,577)	91	81
Taxation expense	(2,466)	-	-	-
Net profit / (loss) after taxation	(8,649)	(1,577)	91	81
EPS (cents)	(10.71)	(0.88)	0.04	0.03

EPS: Earnings per share

Source: GFNZ audited financial statements and half year report for the 6 months ended 30 September 2013

GFNZ's financial performance has steadily improved since the implementation of its new business model in April 2011, coupled with a focus on cost reduction.

The Company derives most of its revenue from:

- interest income on its finance receivables book
- insurance premiums
- collection services income.

The Company recorded an $8.6 million loss in the 2011 financial year due mainly to:

- $5.1 million of impaired asset expense
- a $2.5 million write off of deferred tax asset.

The improvement in the 2012 financial year to a loss of $1.6 million was primarily due to:

- relatively steady net interest income and net premium revenue and reduced collection services income
- a $1.3 million reduction in operating costs
- impaired asset expense reducing from $5.1 million to $0.6 million.

The continued improvement in the 2013 financial year to a profit of $0.1 million was primarily due to:

- a $1.6 million decrease in revenue offset to a large degree by a $1.3 million reduction in operating costs
- a $1.2 million impaired asset release, due mainly to a $1.6 million decrease in the impaired asset provision.

The profit of $0.1 million for the first half of the 2014 financial year included a $1.2 million gain arising from favourable debt settlement terms negotiated with BOSI when GFNZ exited the Moratorium.

3.8 Financial Position

A summary of GFNZ's recent financial position is set out below.

Summary of GFNZ Financial Position

	As at 31 Mar 11 (Audited) $000	As at 31 Mar 12 (Audited) $000	As at 31 Mar 13 (Audited) $000	As at 30 Sep 13 (Unaudited) $000
Cash and cash equivalents	2,313	1,384	1,982	2,775
Fixed assets – held for sale	-	-	4,280	-
Available for sale equity securities	2,473	2,473	2,579	2,579
Prepayments and other debtors	370	144	275	285
Taxation receivable	9	8	10	11
Finance receivables	48,938	40,999	36,178	33,651
Deferred insurance contract acquisition costs	724	584	405	409
Financial assets at fair value through profit or loss	2,421	2,289	2,259	1,079
Intangible assets	689	395	285	217
Fixed assets	5,125	4,817	380	300
Total assets	63,062	53,093	48,633	41,306
Accounts payable and accruals	(1,144)	(950)	(673)	(1,528)
Outstanding claims liability	(231)	(169)	(132)	(119)
Employee entitlements	(163)	(134)	(122)	(125)
Unearned premium liability	(1,860)	(1,476)	(1,191)	(1,084)
Derivative financial instruments	(58)	(49)	(19)	-
Term facilities	(23,200)	(20,000)	(14,900)	(15,952)
Other borrowings	-	-	-	(10,017)
Debentures	(25,821)	(19,783)	(15,379)	-
Professional investor facility	-	-	(3,849)	-
Total liabilities	(52,477)	(42,561)	(36,265)	(28,825)
Share capital	41,997	43,611	44,885	44,885
Share option reserve	-	-	244	244
Property revaluation reserve	561	648	752	-
Retained earnings	(32,339)	(33,916)	(33,825)	(32,992)
Cash flow hedge	128	(49)	(32)	-
Available for sale equity reserve	238	238	344	344
Total equity	10,585	10,532	12,368	12,481

Source: GFNZ audited financial statements and half year report for the 6 months ended 30 September 2013

The Company's main current asset is its finance receivables book which has decreased from $48.9 million as at 31 March 2011 to $33.7 million as at 30 September 2013. The provision for impairment on the financial receivables book has increased from 34.8% as at 31 March 2011 to 45.0% as at 30 September 2013.

Summary of GFNZ Finance Receivables Book				
	As at 31 Mar 11 (Audited) $000	**As at 31 Mar 12 (Audited) $000**	**As at 31 Mar 13 (Audited) $000**	**As at 30 Sep 13 (Unaudited) $000**
Personal loans				
Secured	54,096	47,305	42,226	40,996
Unsecured	19,991	21,098	20,170	19,493
Total	74,087	68,403	62,396	60,489
Provision for credit impairment	(25,091)	(27,122)	(25,834)	(26,498)
Net book value of personal loans	48,996	41,281	36,562	33,991
Business loans				
Secured	803	100	60	44
Unsecured	1,184	1,559	1,437	1,420
Total	1,987	1,659	1,497	1,464
Provision for credit impairment	(1,341)	(1,366)	(1,366)	(1,366)
Net book value of business loans	646	293	131	98
Less unearned interest and deferred fee revenue and expenses	(704)	(575)	(515)	(438)
Finance receivables	48,938	40,999	36,178	33,651

Source: GFNZ audited financial statements and half year report for the 6 months ended 30 September 2013

The Company’s land and buildings were sold on 15 April 2013 for $4.3 million and have subsequently been leased back. The assets were classified as fixed assets held for sale as at 31 March 2013.

Available for sale equity securities represent an 11% investment in an unlisted medical property company.

Term facilities up to 31 March 2013 represented the BOSI term facility. This was fully repaid on 1 August 2013, along with the amount owing to debenture holders and the Company exited the Moratorium.

Term facilities of $16.0 million as at 30 September 2013 represented the Westpac term facility. The Westpac facility is a $30 million wholesale funding arrangement under which loan receivables are securitised through The Geneva Warehouse A Trust.

Other borrowings of $10.0 million as at 30 September 2013 represented $5.0 million of secured loans from professional investors and $5.0 million of unsecured loans from Federal Pacific.

3.9 Cash Flows

A summary of GFNZ's recent cash flows is set out below.

Summary of GFNZ Cash Flows	Year to 31 Mar 11 (Audited) $000	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	6 Mths to 30 Sep 13 (Unaudited) $000
Net cash flow from / (used in) operating activities	4,912	6,860	5,034	3,434
Net cash from / (used in) investing activities	(118)	(15)	(104)	4,269
Net cash from / (used in) financing activities	(7,188)	(7,774)	(4,332)	(6,910)
Net increase/(decrease) in cash held	(2,394)	(929)	598	793
Opening cash balance	4,707	2,313	1,384	1,982
Closing cash balance	2,313	1,384	1,982	2,775

Source: GFNZ audited financial statements and half year report for the 6 months ended 30 September 2013

GFNZ has generated positive cash flows from its operating activities each year.

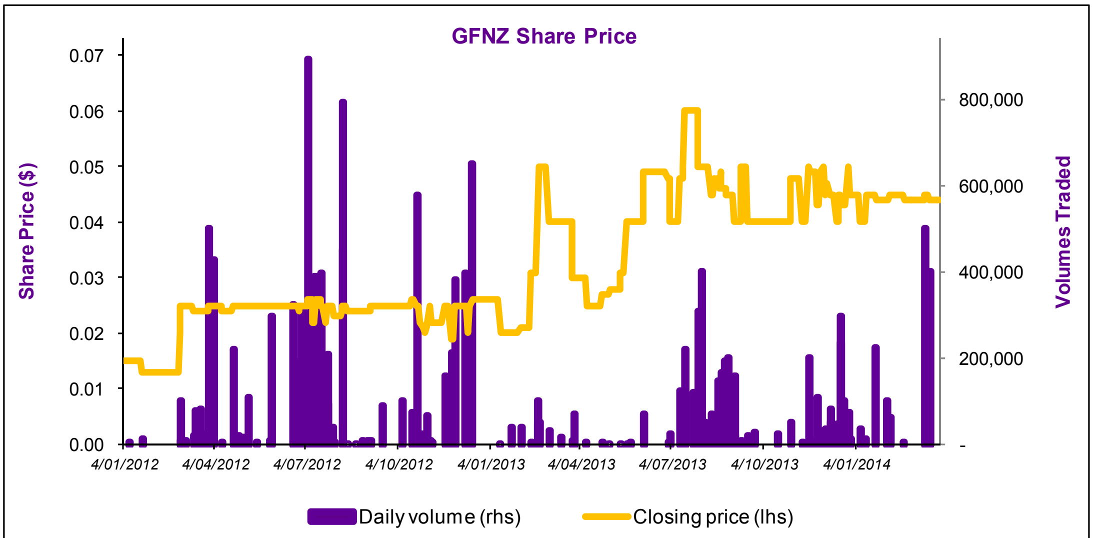
Cash from investing activities in the first half of the 2014 financial year represented the sale of the Company's land and buildings on 15 April 2013.

Cash flows used in financing activities each year have mainly been in respect of the repayment of debentures and the BOSI facility. These were completely repaid by 1 August 2013.

GFNZ raised $1.2 million of equity in the 2012 financial year from the placement of 44,939,000 ordinary shares to FedPac Nominees on 28 February 2012 and $1.5 million in the 2013 financial year from the issue of 56,173,618 ordinary shares under the 2012 Rights Issue.

3.10 Share Price History

Set out below is a summary of GFNZ's daily closing share price and daily volumes of shares traded from 4 January 2012 to 31 March 2014.



Source: NZX Data

During the period, GFNZ's shares have traded between $0.013 and $0.060 at a VWAP of $0.033.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) is set out below.

GFNZ Share Trading

Period	Low [1] ($)	High [1] ($)	VWAP [1] ($)	Volume Traded [1] (000)	Liquidity
1 month	0.044	0.045	0.043	900	0.3%
3 months	0.040	0.045	0.043	1,357	0.5%
6 months	0.040	0.050	0.044	2,804	1.0%
12 months	0.025	0.060	0.047	5,804	2.1%

1 to 31 March 2014

Source: NZX Data

Trading in the Company's shares is extremely thin, reflecting that 33.67% of the shares are currently held by Federal Pacific. Only 2.1% of the Company's shares traded in the year to 31 March 2014 on 63 days.

4. Sources of Information, Reliance on Information, Disclaimer and Indemnity

4.1 Sources of Information

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

- the notice of special meeting
- the 2014 Rights Issue Simplified Disclosure Prospectus
- the Underwriting Agreement
- the GFNZ annual reports for the years ended 31 March, 2009 to 2013
- the GFNZ half year report for the 6 months ended 30 September 2013
- data in respect of GFNZ from NZX Data and Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Independent Directors and executive management of GFNZ and GFNZ's legal advisers.

The Independent Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Underwriting Arrangements that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by GFNZ to the Non-associated Shareholders is sufficient to enable the Independent Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Underwriting Arrangements.

4.2 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 furnished to us by GFNZ and its advisers.

We have evaluated that 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 an 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 which an audit, due diligence review or extensive examination might disclose.

4.3 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 do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of GFNZ will be achieved. Forecasts 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 forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever 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 this report.

We have had no involvement in the preparation of the notice of special meeting issued by GFNZ and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

4.4 Indemnity

GFNZ has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance 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 Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

5.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with GFNZ or Federal Pacific or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the transactions.

Simmons Corporate Finance has not had any part in the formulation of the 2014 Rights Issue or the Underwriting Arrangements or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the 2014 Rights Issue or the Underwriting Arrangements. We will receive no other benefit from the preparation of this report.

5.3 Declarations

An advance draft of this report was provided to the Independent Directors for their comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

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

5.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to GFNZ's 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.

Peter Simmons
Director
Simmons Corporate Finance Limited
2 April 2014