



General Finance Limited

Financial Statements

For the year ended 31 March 2018

General Finance Limited

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General Finance Limited

Business Profile As at 31 March 2018

Nature of Business	Non-Bank Deposit Taker and Mortgage Lending Company	
Business Address	Level 7, 12-26 Swanson Street Auckland, 1010	
Postal Address	PO Box 1314 Shortland Street, Auckland 1010	
Telephone	09 526 5000	
IRD Number	68-422-167	
Share Capital	3,009,580 Ordinary Shares	
Shareholder	Corporate Holdings Limited (from 19 Dec 2017) Total Shares (General Finance Holdings Ltd – prior to 19 Dec 2017)	<div>Ordinary</div> <div><u>3,009,580</u></div> <div><u>3,009,580</u></div>
Directors	Donald F Hattaway (<i>Chair</i>) – Appointed 19 Dec 2017 Robert G Hart – Appointed 19 Dec 2017 Brent D King (<i>Executive Director</i>) – Appointed 19 Dec 2017 Gregory J Pearce (<i>Executive Director</i>) – Appointed 19 Dec 2017 Alistair A Ward – Appointed 19 Dec 2017 Peter A Anderson (<i>Chair</i>) – Resigned 19 Dec 2017 William A A Cairns – Resigned 19 Dec 2017 John C Hiddleston – Resigned 19 Dec 2017 James R Lockie – Resigned 19 Dec 2017	
Registered Office	Ground Floor, 638 Great South Road Ellerslie, Auckland, 1051	
Company Number	AK 860336	
Date of Incorporation	13 June 1997	
Bankers	Bank of New Zealand Limited Westpac New Zealand Limited	
Auditor	Staples Rodway Auckland – Appointed in Feb 2018 William Buck Christmas Gowland Limited – Resigned in Feb 2018	

General Finance Limited

Who is General Finance Limited

General Finance Limited was incorporated in 1997. It commenced business in 1999 as a second mortgage lender. In 2001 it expanded to provide a full product range of residential home loans. General Finance registered its first prospectus in 2004 and became a deposit taker.

General Finance Limited is a wholly New Zealand owned and operated finance company, located in premises in Greenlane in Auckland. The Company is engaged in mortgage origination and management, providing a range of residential mortgage services. These include no-financials, non-conforming, bridging, and some second mortgages. Lending is secured on residential properties only and funded on our own balance sheet using deposit funding.

The Company also manages some mortgages that it has originated but that are funded from wholesale funding sources.

The Company has been at the forefront in the market of mortgage product development, with initiatives including:

- longer dated interest-only facilities aimed at the residential property investor market
- no financials products aimed at the self-employed market
- becoming an important player in the non-conforming mortgage market, lending to those individuals who have or have had some credit issues
- developing in-house expertise in lending to trust entities and family owned residential property investment companies
- offering a range of bridging finance mortgages

General Finance Limited has been a survivor of the finance company sector collapse in the mid to late 2000's. General Finance Limited traded profitably throughout this period. The latest Product Disclosure Statement was released in February 2018. On 19 December 2017, General Finance Limited was sold to Corporate Holdings Limited. Corporate Holdings Limited has 14 shareholders and they are planning to further develop General Finance Limited. The Company continues as a specialist lender secured by residential property, providing short term and bridging residential mortgages.

During the 2017/18 year, business has been strong, with active demand on both the deposit and lending sides of the business.

General Finance Limited

Directors' Statement For the year ended 31 March 2018

In accordance with Section 208 and 211 of the Companies Act 1993, the Directors present the Annual Report for the Company, including the attached Financial Statements and Independent Auditor's Report thereon.

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

The Directors consider that the financial statements have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgments and estimates and that all the relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The shareholders of the Company have exercised their right under Section 211(3) of the Companies Act 1993 and have agreed that this Annual Report need not include disclosure of the information specified in paragraphs (a) and (e) to (j) of Section 211(1) of the Act.

The Directors of the company authorise the financial statements set out on pages 10 to 32 for issue.

For and on behalf of the Board



Director

Date: 23 May 2018



Director

Date: 23 May 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of General Finance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of General Finance Limited ('the Company') on pages 9 to 31, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Shareholders of General Finance Limited, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than General Finance Limited and the Shareholders of General Finance Limited, for our audit work, for our report or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor, our firm carries out other assignments for General Finance Limited in the area of taxation compliance services. The provision of these other services has not impaired our independence.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is

necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Nigel de Frere.



STAPLES RODWAY AUCKLAND

Auckland, New Zealand

23 May 2018

General Finance Limited

Statement of Comprehensive Income For the year ended 31 March 2018

	Note	2018 \$	2017 Restated* \$
Interest income	4	1,328,087	1,141,500
Interest expense		<u>(535,602)</u>	<u>(494,460)</u>
Net interest income		<u>792,485</u>	<u>647,040</u>
Fee and commission income		267,681	221,346
Fee and commission expense		<u>(69,637)</u>	<u>(49,159)</u>
Net fee and commission income		<u>198,044</u>	<u>172,187</u>
Bad debts recovered		<u>16,719</u>	<u>11,490</u>
Net revenue		<u>1,007,248</u>	<u>830,717</u>
Impaired asset expense / release		(40,061)	14,218
Personnel expenses		(178,118)	(158,649)
Operating lease expenses		(43,683)	(46,977)
Other expenses	5	<u>(366,312)</u>	<u>(198,747)</u>
Profit before income tax		379,074	440,562
Income Tax Expense	8	<u>(106,291)</u>	<u>(123,878)</u>
Net Profit attributable to the shareholders of the Company		272,783	316,684
Other Comprehensive Income			
Other Comprehensive Income		<u>-</u>	<u>-</u>
Total Comprehensive Income attributable to the shareholders of the Company		<u>272,783</u>	<u>316,684</u>

*See Note 2.2 for details regarding the restatement in relation to errors identified

General Finance Limited

Statement of Changes in Equity For the year ended 31 March 2018

	Note	Share Capital	Retained Earnings	Total
Balance at 1 April 2016		2,800,000	356,831	3,156,831
Prior period restatement (net of tax)	2	-	39,034	39,034
Restated total equity at the beginning of the 2017 financial year *		<u>2,800,000</u>	<u>395,865</u>	<u>3,195,865</u>
Profit for the period		-	316,684	316,684
Other comprehensive income		-	-	-
Total comprehensive income for the period		<u>-</u>	<u>316,684</u>	<u>316,684</u>
Transactions with owners in their capacity as owners:				
Dividends provided for or paid		-	(400,000)	(400,000)
Balance at 31 March 2017 (restated) *		<u>2,800,000</u>	<u>312,549</u>	<u>3,112,549</u>
Profit for the period		-	272,783	272,783
Other comprehensive income		-	-	-
Total comprehensive income for the period		<u>-</u>	<u>272,783</u>	<u>272,783</u>
Transactions with owners in their capacity as owners:				
Contributions of equity		250,000	-	250,000
Dividends paid		-	(250,000)	(250,000)
		<u>250,000</u>	<u>(250,000)</u>	<u>-</u>
Balance at 31 March 2018		<u>3,050,000</u>	<u>335,332</u>	<u>3,385,332</u>

*See **Note 2.2** for details regarding the restatement in relation to errors identified


General Finance Limited

Statement of Financial Position As at 31 March 2018

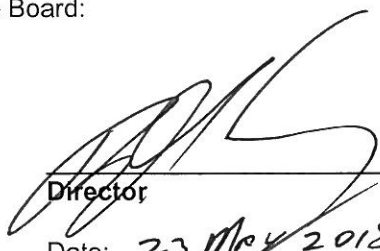
	Note	2018 \$	2017 Restated* \$	1 Apr 2016 Restated* \$
Share capital	11	3,050,000	2,800,000	2,800,000
Retained earnings		<u>335,332</u>	<u>312,549</u>	<u>395,865</u>
Total equity		<u>3,385,332</u>	<u>3,112,549</u>	<u>3,195,865</u>
Assets				
Cash and cash equivalents	6	4,844,288	3,624,873	4,068,161
Accounts receivable		8,070	6,697	9,913
Loan receivables	7	8,610,506	8,302,534	7,400,833
Intangible assets – work in progress	9	33,107	-	-
Deferred tax asset	8	<u>32,938</u>	<u>14,293</u>	<u>36,115</u>
Total assets		<u>13,528,909</u>	<u>11,948,397</u>	<u>11,515,022</u>
Liabilities				
Accounts payable and accruals		143,093	78,313	88,816
Related party payables	16	77,056	-	-
Term Deposit	10	9,854,092	8,681,074	8,213,263
Income tax payable	8	<u>69,336</u>	<u>76,461</u>	<u>17,077</u>
Total liabilities		<u>10,143,577</u>	<u>8,835,848</u>	<u>8,319,156</u>
Net assets		<u>3,385,332</u>	<u>3,112,549</u>	<u>3,195,865</u>

*See **Note 2.2** for details regarding the restatement in relation to errors identified

Authorised for issue on behalf of the Board:


Director

Date: 23 May 2018


Director
Date: 23 May 2018

General Finance Limited

Statement of Cash Flows For the year ended 31 March 2018

	Note	2018 \$	2017 Restated* \$
Cash flows from / (to) operating activities			
Cash was provided from			
Interest received		1,399,050	1,226,234
Bad debts recovered		16,719	11,490
Loan fees, commission and other income		<u>221,724</u>	<u>204,749</u>
		1,637,493	1,442,473
Cash was applied to			
Payments to suppliers and employees		(506,806)	(471,712)
Interest paid		(559,138)	(464,602)
Income tax paid		(132,061)	(42,672)
Loan receivables (net advances)		<u>(388,456)</u>	<u>(945,591)</u>
		(1,586,461)	(1,924,577)
Net cash inflow / (outflow) from / (to) operating activities	23	51,032	(482,104)
Cash flows to investing activities			
Cash was applied to			
Purchases of intangible assets		<u>(33,107)</u>	<u>-</u>
Net cash outflow to investing activities		(33,107)	-
Cash flows from / (to) financing activities			
Cash was provided from / (applied to)			
Shares issued		250,000	-
Dividends paid		(250,000)	(400,000)
Deposit stock (net receipts)		<u>1,201,490</u>	<u>438,816</u>
Net cash inflow from financing activities		1,201,490	38,816
Net cash and cash equivalents movement for year		<u>1,219,415</u>	<u>(443,288)</u>
Opening cash and cash equivalents balance		3,624,873	4,068,161
Closing cash and cash equivalents balance	6	<u><u>4,844,288</u></u>	<u><u>3,624,873</u></u>

*See Note 2.2 for details regarding the restatement in relation to errors identified

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

1.0 Reporting and Accounting Basis

1.1 Reporting Entity

The financial statements presented here are for the entity General Finance Limited.

General Finance Limited (the "Company") is a finance and mortgage lending company incorporated in New Zealand. On 19 December 2017, all of the shares of the Company were purchased by Corporate Holdings Limited, an investment holdings company, from the previous owner General Finance Holdings Limited, an established New Zealand owned and operated mortgage company.

The Company, a profit-oriented entity, is a limited liability company registered under the Companies Act 1993. The address of its registered office is Level 7, 12-26 Swanson Street, Auckland, New Zealand.

1.2 Reporting Framework

The financial statements have been prepared in accordance with the Companies Act 1993. In accordance with the provisions of the Financial Reporting Act 2013 and the Financial Market Conducts Act 2013, the Company is an FMC Reporting Entity.

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to for-profit tier 1 entities. They comply with the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts, as modified by the revaluation of certain assets and liabilities as identified in the accounting policies below.

The presentation and functional currency used by the Company is New Zealand dollars. In presenting amounts in the financial statements these amounts have been rounded to the nearest dollar.

1.3 Specific Accounting Policies

The following particular accounting policies, which materially affect the measurement of profit and financial position, have been applied:

Revenue and expense recognition

Revenue, which includes interest income and fee income, is recognised to the extent that it is probable that economic benefits will flow to the Company and they can be measured reliably. Expenses are recognised in the Statement of Other Comprehensive Income on an accrual basis. Interest revenue and interest expense are recognised using the effective interest method.

Interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or liability and allocates the interest income and directly related fees (including loan origination fees) and transaction costs (including commission expenses) that are an integral component of the effective interest rate over the expected life of the financial asset or liability.

Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in expenses except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Leased Assets

Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged to expenses over the period of expected benefit.

Financial Assets

Financial assets are recognised in the Statement of Financial Position when the Company becomes party to an unconditional financial contract. The Company derecognises a financial asset from its Statement of Financial Position when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Company has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset.

All of the Company's financial assets are initially recorded at fair value plus transaction costs. Due allowance is made for impaired loan receivables (provision for impairment losses). Loan receivables include loans with fixed or determinable payments, that are not quoted in an active market and which are not classified as available for sale or designated at fair value through profit or loss. They arise when the company provides money to a customer by way of loan. They are subsequently recorded using the effective interest method and adjusted for impairment losses.

Financial Liabilities

The Company's financial liabilities include term deposits and trade creditors. All financial liabilities are initially recognised at cost (net of transaction costs) and are subsequently measured at amortised cost using the effective interest method.

Term deposits may have the interest either capitalised or paid out in accordance with the terms of the term deposit. The Company derecognises a financial liability from its Statement of Financial Position, when and only when, it is extinguished.

Impairment of Loan Receivables

Loan receivables are regularly reviewed for impairment loss and impairment provisions are raised for identified exposures. Loans are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events occurring after the initial recognition of the loan and prior to the reporting date, and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows from the loan. When a loan has been identified as impaired the carrying amount is decreased to its estimated recoverable amount, being the present value of the expected future cashflows, including amounts recoverable from the realisation of security, discounted at the loan's original effective interest rate.

Impairment is assessed on an individual loan basis firstly and then assessed for impairment on a collective basis for loans that are not individually impaired.

Past Due Assets are any financial assets in which the counterparty has failed to make a payment when contractually due which continues to be outstanding at balance date.

Restructured Assets are impaired financial assets that have been restructured due to deterioration in the counterparty's financial position and where the Company has made concessions that it may not otherwise consider. Once a financial asset is restructured it remains in this category independent of satisfactory performance after restructuring.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

A restructured asset may also be represented as a past due asset when the counterparty has failed to make a payment when contractually due, based on the restructured terms.

If, in a subsequent year, the amount of the impairment loss for a specific loan decreases or completely reverses, the previously recognised impairment loss is reversed, and the reversal recognised in the Statement of Comprehensive Income.

Notes 7 and 18 disclose impaired assets, past due assets and restructured assets.

Accounts payables

Accounts payables are stated at the estimated amounts payable and include all obligations that can be reliably estimated.

Goods and services tax (GST)

The Company is involved in exempt activities for Goods and Services Tax purposes. Accordingly it is not required to account for GST on its revenues. Expenditure items are stated inclusive of GST where applicable. Receivables and Payables are stated inclusive of GST where applicable.

Cash and cash equivalents

Cash includes demand deposits with an original term of less than 150 days and other highly liquid investments readily convertible into cash used by the Company as part of day-to-day cash management.

Statement of cash flows

The Statement of Cash Flows has been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure.

The advances to and repayments received from borrowers in relation to loan receivables are considered operating activities and are reported on a net basis in the Statement of Cash Flows.

Proceeds from deposits issued and repayments to deposit investors are considered financing activities and are also reported on a net basis in the Statement of Cash Flows.

1.4 Standards and interpretations to published standards that are not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2016 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the company, except the following set out below:

NZ IFRS 9 *Financial Instruments*

NZ IFRS 9 is applicable for annual periods beginning on or after 1 January 2018. Earlier application is permitted. NZ IFRS 9 is part of the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces amended requirements for classifying and measuring financial assets and liabilities and also incorporates amendments to hedge accounting.

The standard introduces an expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. Lifetime expected credit losses are recognised if the credit risk on a financial instrument has increased significantly since initial recognition. 12 month expected credit losses are recognised if the credit risk on a financial instrument has not increased significantly.

The Company will adopt this standard for the first time in the financial statements for the year ending 31 March 2019.

Whilst management are still finalising the assessment the impact of these changes, preliminary assessments have indicated that the adoption of the standard will impact the 31 March 2019 financial statements as follows:

**Notes to and forming part of the financial statements
For the year ended 31 March 2018**

- The Company does not expect a change in the classification of financial assets or financial liabilities.
- No change is expected with regard to lifetime expected credit losses for loans with significant credit risk deterioration.
- With respect to 12 month expected credit losses for loans without significant deterioration in credit risk, an increase to loss provisions (and reduction in retained earnings) of approximately \$27,000 is expected for 31 March 2018 and approximately \$26,000 for 1 April 2017.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 deals with revenue recognition and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flow arising from an entity's contracts with customers. This standard replaces IAS 18 *Revenue* and is applicable to periods beginning on or after 1 January 2018.

The Company will adopt this standard for the first time in the financial statements for the year ending 31 March 2019.

Whilst management are still finalising the assessment the impact of these changes, preliminary assessments have indicated that the adoption of the standard will impact the 31 March 2019 financial statements as follows:

- Loan receivable related income: No change is expected. Interest income and fee income directly related to the origination of loan receivables are scoped out of NZ IFRS 15, and are recorded in accordance with NZ IAS 39, or NZ IFRS 9 going forward (see above).
- Other income: No change is expected.

NZ IFRS 16 Leases

NZ IFRS 16, 'Leases', replaces NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Lessors will also be affected by the new standard. The standard is effective for accounting periods beginning on or after 1 January 2019. General Finance Limited intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

Whilst the impact of NZ IFRS 16 has not yet been quantified with the Company's current lease arrangements, the effect is not expected to be material.

1.5 New and amended standards adopted by the company

All mandatory standards, amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements.

2. Critical accounting estimates, judgments and errors

2.1 Critical accounting estimates and judgements

These financial statements are prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and other authoritative accounting pronouncements. Notwithstanding the application of relevant accounting standards, there are a number of critical accounting treatments which include complex or subjective judgments and estimates that may affect the reported amounts of assets in these financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. An explanation of the judgments and estimates made by the Company in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements, are set out below.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Impairment Provisioning

Provisions for impairment of loan receivables are raised by management to cover actual and expected losses arising from past events. Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan has occurred. Impairment losses are calculated on an individual loan basis. Losses expected from future events, no matter how likely, are not recognised. The amount of the impairment loss is recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

The calculation of impairment provisions includes consideration of all expected cash flows associated with the loss. This includes any expected cash flows from realisation of security interests and takes into account any costs expected to be incurred, including security realisation costs, legal and administration costs.

At each balance date, the Company reviews individual loans for evidence of impairment. All relevant information, including the economic situation, solvency of the customer/guarantor, enforceability of guarantees, current security values and the time value of future cash flows are taken into account in determining individual provisions. At a minimum, individual provisions are reassessed on a quarterly basis, upon receipt of a significant asset realisation, or when there is a change in customer circumstances/business strategy.

Management regularly reviews and adjusts these estimates and judgments as new or improved information becomes available. Changes in these estimates and judgments can have a direct impact on the level of impairment provisions and impairment expenses recorded in the financial statements.

2.2 Correction of errors in relation to the prior period financial statements

Management under the new ownership have identified the following errors and reclassifications in relation to the prior period financial statements:

Accrued interest income that had not been recognised totalled \$43,607 as at 31 March 2017 and \$39,396 as at 31 March 2016 having an after tax impact of \$3,032 (increase) on profit for the year ended 31 March 2017 and an after tax impact of \$28,365 (increase) on retained earnings as at 1 April 2016.

Prepaid commission expenses (deposits) that had not been recognised totalled \$3,482 as at 31 March 2017 and \$2,620 as at 31 March 2016 having an impact on profit after tax of \$621 (increase) for the year ended 31 March 2017 and an after tax impact of \$1,886 (increase) on retained earnings as at 1 April 2016.

Fee income that had not been recognised totalled \$3,508 as at 31 March 2017 having an impact on profit after tax of \$2,526 (increase) for the year ended 31 March 2017.

Fee income (loans) and corresponding commission costs (loans) that had not been deferred totalled \$10,043 as at 31 March 2017 and \$16,487 as at 31 March 2016 having a net impact on profit after tax of Nil for the year ended 31 March 2017 and Nil impact on retained earnings as at 1 April 2016.

Brokerage and fee income (loans) and corresponding brokerage and fee costs (loans) of \$72,460 for the year ended 31 March 2017 had been recognised in fee and commission income and fee and commission expense in the Statement of Comprehensive Income but did not relate to income or expenditure of the Company. The amounts collected in respect of these amounts were on behalf of third parties and should have been excluded from revenue and expenses. The net impact on profit after tax was Nil for the year ended 31 March 2017.

Deferred tax assets not recognised in respect of accrued expenses totalled \$9,004 as at 31 March 2017 and \$8,783 as at 31 March 2016 having an after tax impact of \$221 (increase) on profit for the year ended 31 March 2017 and an after tax impact of \$8,783 (increase) on retained earnings as at 1 April 2016.

Transaction costs directly attributable to the acquisition of loans receivable and capitalised interest were recorded as liabilities in the Statement of Financial Position rather than being included as part of the financial asset. These amounts totalled \$39,069 as at 31 March 2017 and \$29,607 as at 31 March 2016.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Loans receivable written off were recorded as part of other expenses in the Statement of Comprehensive Income rather than being included as part of impaired asset expense / (release). This totalled \$64,507 for the year ended 31 March 2017.

The above errors and reclassifications have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Statement of Financial Position (extract):

	As reported 31 Mar 2017 \$	Increase/ Decrease \$	31 Mar 2017 Restated \$	As reported 31 Mar 2016 \$	Increase/ Decrease \$	1 Apr 2016 Restated \$
Retained earnings	267,115	45,434	312,549	356,831	39,034	395,865
Total equity	3,067,115	45,434	3,112,549	3,156,831	39,034	3,195,865
Assets						
Loan receivables	8,294,488	8,046	8,302,534	7,391,044	9,789	7,400,833
Deferred tax asset	5,289	9,004	14,293	27,332	8,783	36,115
Total assets	11,931,347	17,050	11,948,397	11,496,450	18,572	11,515,022
Liabilities						
Deposit stock	8,684,556	(3,482)	8,681,074	8,215,883	(2,620)	8,213,263
Deferred income	39,069	(39,069)	-	29,607	(29,607)	-
Income tax payable	62,294	14,167	76,461	5,313	11,764	17,077
Total liabilities	8,864,232	(28,385)	8,835,848	8,339,619	(20,462)	8,319,156
Net assets	3,067,115	45,434	3,112,549	3,156,831	39,034	3,195,865

Statement of Comprehensive Income (extract):

	As reported 2017 \$	Effect of restatement \$	2017 Restated* \$
Interest income	1,137,289	4,211	1,141,500
Net interest income	642,829	4,211	647,040
Fee and commission income	296,741	(75,395)	221,346
Fee and commission expense	(128,925)	79,766	(49,159)
Net fee and commission income	167,816	4,371	172,187
Net revenue	822,135	8,582	830,717
Other income	370	(370)	-
Net impairment gain on financial assets	78,725	(64,507)	14,218
Other expenses	(263,624)	64,877	(198,747)
Profit before income tax	431,980	8,582	440,562
Income tax expense	(121,696)	(2,182)	(123,878)
Net Profit attributable to the shareholders of the Company	310,284	6,400	316,684
Other Comprehensive Income			
Other Comprehensive Income	-	-	-
Total Comprehensive Income attributable to the shareholders of the Company	310,284	6,400	316,684

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

3. Management of capital

The Company's capital includes share capital and retained earnings as disclosed in the Statement of Changes in Equity.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company has a minimum capital ratio requirement of 15% (10% prior to 19 December 2017) of capital against risk weighted assets which it is required to maintain in accordance with its Trust Deed, and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010, and the Non-Bank Deposit Takers Act 2013. The Company has complied with this ratio requirement during the year. As at 31 March 2018, the capital ratio of the company was 48.0%.

The Company maintains an appropriate buffer above these ratios and reports these to its Board of Directors monthly.

4. Interest income

	2018 \$	2017 \$
Loan receivables	1,294,616	1,087,080
Loan receivables - impaired	-	-
Other interest income	33,471	54,420
Total interest income	<u>1,328,087</u>	<u>1,141,500</u>

5. Other expenses

	2018 \$	2017 \$
Audit fees – Staples Rodway	60,375	-
Audit fees – William Buck Christmas Gouwland	17,494	39,818
Other assurance services – William Buck Christmas Gouwland	-	3,100
Tax services – Staples Rodway	1,932	-
Tax services (not paid to the auditors)	4,192	3,893
Directors fees (note 16)	32,666	20,000
Management fees (note 16)	64,316	-

The above items are included within other expenses in the Statement of Comprehensive Income

6. Cash and cash equivalents

	2018 \$	2017 \$
Bank deposit and current accounts	2,332,941	2,410,342
Short term bank deposit (original maturity of less than four months)	2,511,347	1,214,531
	<u>4,844,288</u>	<u>3,624,873</u>

Interest Rates: Between 0.00% and 0.10% (on call) and between 1.75% - 3.15% (short term bank deposit)
There is no overdraft facility (March 2017: Nil)

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

7. Loan receivables

	2018 \$	2017 \$
First mortgage advances	7,661,337	7,610,080
Second mortgage advances	1,059,987	719,312
Unsecured advances	13,688	27,591
	<u>8,735,012</u>	<u>8,356,983</u>
Less deferred interest	(10,596)	(8,821)
Less deferred fee income and expenditure	(54,961)	(26,740)
Less impairment provision	(58,949)	(18,888)
Net carrying value	<u>8,610,506</u>	<u>8,302,534</u>
Current portion	8,173,674	8,302,534
Non-current portion	436,832	-
	<u>8,610,506</u>	<u>8,302,534</u>

Loan receivables represent loans to unrelated parties at commercial interest rates. Current loan receivables are contractually repayable within 12 months. Non-current loan receivables are contractually repayable within 12 months to 2 years.

At year end there were no undrawn loan commitments (March 2017: \$34,000).

Interest rate: Between 8.95% and 16.50% (2017: Between 9.95% and 16.50%).

Effective interest rate: Between 11.14% and 25.25% (2017: Between 11.60% and 20.72%).

For loans that are in default, an additional 10% interest is charged.

The core lending activity of the company is providing, through a broker network, short term and bridging finance secured by mortgage over residential property. The majority of loans are entered into with a maturity date within 12 months, with a proposal that repayment will be funded by the sale of the secured property or through refinancing by the borrower. The Company's lending policy allows for a maximum "loan to security value" of 70% (excluding fees and charges) on advances.

Frequently the loan repayment does not occur on the contractual maturity date and the term of the loan is extended i.e. rollover occurs. Before a loan is rolled over, the company's standard credit checking and approval processes are re-applied. The current "loan to security value" position will be re-assessed and updated valuations are obtained where the Directors consider this appropriate. Loan application fees are charged and evidence is obtained of the borrower's agreement to the contractual terms and conditions of the extended loan.

At balance date, 57.9% (March 2017: 57.8%) of loans by number and 59.7% (March 2017: 60.6%) by value represent loans that have been rolled over and are into their second or subsequent credit periods.

Where loans have been rolled over, their classification in these financial statements as current or non-current (as in Note 7 and Note 18), or as past due (as in Note 7 and Note 18), is based on payment due dates as per the terms of the extended contract, and not as per the original or preceding contract.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Borrower payment terms are profiled as follows:

	2018 \$	2017 \$
Principal only	13,688	18,888
Principal and interest paid monthly	61,187	24,562
Interest only paid monthly	8,474,380	7,463,006
Part interest only and part interest capitalised	-	718,360
Interest capitalised	185,757	132,167
Total loan receivables	<u>8,735,012</u>	<u>8,356,983</u>

Income earned during the financial year from amounts capitalised to loan receivables were as follows:

	2018 \$	2017 \$
Interest income	16,046	14,293
Loan fees	247,104	205,571
Total	<u>263,150</u>	<u>219,864</u>

Reconciliation of Movement in Impairment Provision Account

	2018 \$	2017 \$
Balance at beginning of year	18,888	97,613
Bad debts written off	-	(64,507)
Reversals of previously recognised impairment losses	(5,200)	(24,200)
Additional provision for impairment losses	45,261	9,982
Balance at end of year	<u>58,949</u>	<u>18,888</u>

Reconciliation of Movement in Past Due and Impaired Assets

	2018 \$	2017 \$
Balance of past due and impaired assets at beginning of year	1,776,382	2,607,541
Additions to past due	1,565,718	1,745,435
Repayments	(1,657,111)	(1,274,267)
Rolled over	(89,724)	(1,237,820)
Bad debts written off	-	(64,507)
Balance of past due and impaired assets at end of year	<u>1,595,265</u>	<u>1,776,382</u>

Balance of impaired assets at beginning of year	18,888	174,683
Additions to impaired assets	111,012	80
Repayments	(5,200)	(91,368)
Bad debts written off	-	(64,507)
Balance of impaired assets at end of year	<u>124,700</u>	<u>18,888</u>

Balance of restructured assets at beginning of year	18,888	52,613
Repayments	(5,200)	(24,200)
Bad debts written off	-	(9,525)
Balance of restructured assets at end of year	<u>13,688</u>	<u>18,888</u>

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

8. Income Tax

	2018 \$	2017 \$
Profit Reconciliation		
Operating surplus before income tax	379,074	440,562
Temporary differences / permanent differences	911	2,230
Imputation credits attached to dividends	142	141
Non taxable income	(9)	(8)
Taxable income	<u>380,118</u>	<u>442,925</u>
Prima facie tax – 28% (2017: 28%)	106,433	124,019
Less imputation credits attached to dividends	<u>(142)</u>	<u>(141)</u>
	<u>106,291</u>	<u>123,878</u>
Current tax	124,937	102,056
Deferred tax	<u>(18,646)</u>	<u>21,822</u>
Income tax expense	<u>106,291</u>	<u>123,878</u>
Current tax @ 28%	124,937	102,056
Resident withholding tax paid	(25)	(25)
Provisional tax payments	<u>(69,739)</u>	<u>(37,334)</u>
Income tax payable for current year	55,173	64,697
Prior year tax payable	<u>14,163</u>	<u>11,764</u>
Income tax payable	<u>69,336</u>	<u>76,461</u>

Imputation Credits

As at balance date imputation credits totalled \$34,869 (March 2017: \$6,911). Subject to the provisions of the Income Tax Act 2007, the benefit of these credits may be passed to the shareholder as imputed tax paid on future dividends.

Movements through the Imputation Credit account were as follows:

	2018 \$	2017 \$
Balance at beginning of year	6,911	119,653
Income tax payments / (refunds)	132,037	42,647
Resident withholding tax credits received	25	25
Credits attached to dividends received	142	141
Credits attached to dividends paid	(97,222)	(155,555)
Imputation credits written off on change of ownership	<u>(7,024)</u>	<u>-</u>
Balance at end of year	<u>34,869</u>	<u>6,911</u>

Deferred Tax Reconciliation

	2018 \$	2017 \$
Balance at beginning of year	14,293	36,115
Increase / (decrease) in accrued expenses	7,428	221
Increase / (decrease) in impairment loss provision	<u>11,217</u>	<u>(22,043)</u>
Balance at end of year	<u>32,938</u>	<u>14,293</u>

Deferred tax attributed to:

Accrued expenses	16,432	9,004
Impairment loss provision	<u>16,506</u>	<u>5,289</u>
	<u>32,938</u>	<u>14,293</u>

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

9. Intangible assets – work in progress

	2018 \$	2017 \$
Software system		
Opening balance	-	-
Additions	33,107	-
Less accumulated amortisation	-	-
Net carrying value	<u>33,107</u>	<u>-</u>

Intangible assets – work in progress as at 31 March 2018 relates to purchased licenses and customisation costs relating to a new loan software system being implemented. The loan system has become operational subsequent to year end on 1 April 2018 and is expected to have a useful life of 3 years and be amortised on a straight line basis over that period.

10. Term Deposits

	2018 \$	2017 \$
Gross deposit stock liability	9,862,510	8,684,556
Less deferred commission expenditure	(8,418)	(3,482)
Net carrying value	<u>9,854,092</u>	<u>8,681,074</u>
Contractual repayment terms:		
On call	105,243	136,226
Within 12 months	4,217,743	2,759,905
Greater than 12 months	5,531,107	5,784,942
	<u>9,854,092</u>	<u>8,681,074</u>

Repayment Terms: On call up to 5 years
Interest Rate: 4.00% - 7.00% and 2.00% on call (March 2017: 4.00% - 7.00% and 2.00% on call)
Effective Interest Rate: 4.07% - 7.19% and 2.00% on call (March 2017: 4.00% - 7.21% and 2.00% on call)
Security: First ranking security interest over the assets and undertakings of General Finance Limited in favour of the Trustee (subject only to any prior security interests permitted by the Trust Deed and preferential claims given priority by operation of law).

The Company has a total of 170 depositors as at 31 March 2018 (March 2017: 151). As at balance date, the largest deposit the Company has is \$300,000 (March 2017: \$300,000) which represents 3.04% (March 2017: 3.45%) of total deposits. As at balance date the largest aggregate deposits under a single deposit holder totals \$600,000 (March 2017: \$600,000) which represents 6.08% (March 2017: 6.91%) of total deposits.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Further analysis of gross deposit funding is as follows:

a) Concentration of funding

	2018 \$	2017 \$
Auckland	4,642,865	4,342,734
Wellington	984,181	808,951
Other North Island	3,106,837	2,505,710
South Island	950,475	857,025
Overseas	178,152	170,136
Total gross deposit stock liability	<u>9,862,510</u>	<u>8,684,556</u>

b) Contractual maturity of funding

	2018 \$	2017 \$
Maturing in 0 - 6 months	2,207,958	1,381,792
Maturing in 6 - 12 months	2,115,504	1,514,729
Maturing in 12 - 24 months	3,702,957	3,777,700
Maturing after 24 months	1,836,091	2,010,335
Total gross deposit stock liability	<u>9,862,510</u>	<u>8,684,556</u>

c) Profile of deposit holders

	2018	2018 \$	2017	2017 \$
Deposits over \$200,000	9	3,201,608	8	2,930,819
Deposits \$100,000 - \$200,000	14	2,007,821	10	1,379,568
Deposits \$50,000 - \$100,000	27	1,969,236	25	1,870,230
Deposits \$20,000 - \$50,000	58	1,884,047	53	1,762,635
Deposits \$10,000 - \$20,000	38	605,606	38	612,239
Deposits under \$10,000	24	194,192	17	129,064
Total gross deposit stock liability	<u>170</u>	<u>9,862,510</u>	<u>151</u>	<u>8,684,556</u>

11. Share capital

	Number of ordinary shares	Value \$
Opening balance as at 1 April 2016 / 31 March 2017	2,800,000	2,800,000
Issue of fully paid ordinary shares	209,580	250,000
Balance as at 31 March 2018	<u>3,009,580</u>	<u>3,050,000</u>

The Company issued 209,580 ordinary shares on 28 February 2018 to the parent company (Corporate Holdings Limited) for an issue price of \$1.19 per share resulting in an increase in capital of \$250,000 (2017: Nil).

All ordinary shares are fully-paid, have no par value and rank pari passu (equally) in all respects. An ordinary shares confers on the holder the right to one vote on a poll.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

12. Lease commitments

The Company leases its premises under a lease agreement which commenced on 1 July 2015. The lease term is for three years with one right of renewal for a further three years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 \$	2017 \$
No later than 1 year	7,013	28,051
Later than 1 year and no later than 5 years	-	7,013
Total	<u>7,013</u>	<u>35,064</u>

13. Unrecognised Assets and Liabilities

The Company has not entered into any contractual arrangements which would lead to off Statement of Financial Position assets or liabilities. (March 2017: Nil)

14. Capital Commitments

There were no material commitments for capital expenditure outstanding at balance date. (March 2017: Nil)

15. Contingencies

There were no material contingent assets or liabilities at balance date. (March 2017: Nil)

16. Related Party Transactions and Balances

On 19 December 2018 (the "transaction date"), 100% of the ordinary shares of the Company were acquired by Corporate Holdings Limited ("the parent entity") from General Finance Holdings Limited.

Accordingly, related party transactions will be disclosed in two sections, one for balances and transactions prior to the transaction date, and one for balances and transactions after the transaction date.

All remuneration paid to executive and non-executive directors is considered to be short-term remuneration in accordance with NZ IAS 24.

Related party transactions and balances prior to the transaction date:

During the period up to the transaction date the Company paid a total of \$15,000 (March 2017: \$20,000) in Directors Fees to non-executive directors. The Chair received \$9,000 (March 2017: \$12,000) and the other non-executive Director received \$6,000 (March 2017: \$8,000). The Executive Directors also received remuneration for the executive services that they provide to the company of \$72,000 (March 2017: \$96,000).

Parties related to the previous Directors, including family members, had invested in aggregate \$290,969 as at the end of March 2017 in deposit stocks of the Company on normal terms and conditions and at arms length. Total interest paid to related parties on their deposit stocks during the period up to the transaction date was \$12,028 (March 2017: \$30,220).

In the year ended 31 March 2017, the Company sold one loan to related party entity Home Loans Ltd. The loan had a balance outstanding of \$56,145 and was settled for \$56,145 resulting in a gain/loss to the company of \$Nil.

On 8 December 2017 the Company declared a full imputed final dividend of \$250,000 (\$0.08929 per share) (March 2017: \$400,000, \$0.14286 per share).

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Related party transactions and balances after the transaction date:

209,580 ordinary shares were issued to the parent entity on 28 February 2018 for an issue price of \$1.19 per share resulting in an increase of capital of \$250,000 (refer to Note 11).

Since the transaction date the Company paid a total of \$17,666 in Directors Fees to non-executive directors. The Chairperson received \$7,865 and the other non-executive Directors received \$9,802 in aggregate. These amounts include GST where applicable.

Since the transaction date the Company paid a total of \$58,182 in remuneration to executive directors. \$34,247 is included in personnel expenses in the statement of comprehensive income and \$23,935 is included in management fees (note 5).

Directors fees and remuneration to executive directors was paid by Investment Research Group Limited, subsidiary of the parent entity, and recharged to General Finance Limited.

Management fees of \$64,316 were charged by Investment Research Group Limited to the Company. This included an amount for executive directors salaries totaling \$23,935 as mentioned above, recharges of fees of \$26,150 paid to Garth Ward, a contractor of Investment Research Group / Director of the parent entity in relation to management services rendered to General Finance Limited and recharges of shared costs including shared rental and other costs totaling \$14,231. Insurance costs of \$9,675 were paid by Investment Research Group Limited and recharged to the company. Salary costs of \$5,875 were recharged by the parent entity to the Company.

There is a balance of \$77,056 payable to Investment Research Group Limited as at 31 March 2018. This balance is unsecured and payable on normal business trading terms.

17. Lending Industry Segments and Concentration of Credit

Credit exposures are concentrated in the residential property sector, particularly in the North Island and the Auckland Market. As at 31 March 2018, advances by General Finance in the North Island residential property sector represented 89.3% (March 2017: 92.3%) of its total exposure, with 31.1% (March 2017: 39.2%) being in the Auckland market. The geographical profile of loan receivables is analysed further as follows:

Credit risk concentration

	2018 \$	2017 \$
Northland	955,792	752,181
Auckland	2,716,307	3,276,266
Waikato	756,743	688,006
Wellington	1,599,566	1,815,809
Other North Island	1,772,829	1,181,621
Christchurch	704,262	216,622
Other South Island	215,825	398,887
Unsecured	13,688	27,591
Total	<u>8,735,012</u>	<u>8,356,983</u>

As at 31 March 2018 the Company's loan advances are secured as follows: first mortgages 87.7% (March 2017: 91.1%); second mortgages 12.1% (March 2017: 8.6%); and unsecured 0.2% (March 2017: 0.3%).

The company is also exposed to credit risk from deposits held with banks. As at balance date, the Company's cash and cash equivalents are held in Bank of New Zealand (representing 113.5% of total equity of the company at 31 March 2018) and Westpac (representing 29.9% of total equity of the company at 31 March 2018) who both have AA- credit ratings from Standard & Poor's.

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

The maximum credit exposure of the Company including Bank deposits, assuming a zero value for collateral is \$13,579,300 (March 2017: \$11,981,856). Of this exposure, 64.2% is covered by collateral over properties as disclosed in Note 7 (March 2017: 69.5%).

The company has no foreign exchange exposure.

As at 31 March 2018 the Company had the following concentration of credit exposures on loan advances as a percentage of equity.

Equity Percentage	2018 No of Loans	2018 Average Loan Size \$	2017 No of Loans	2017 Average Loan Size \$
0% to 5%	18	98,669	15	99,233
5% to 10%	10	206,309	8	209,238
10% to 15%	7	415,233	7	387,485
15% to 20%	2	612,648	3	587,945
20% to 25%	1	763,959	1	718,359
Total No. of Loans	<u>38</u>		<u>34</u>	

The concentration of the credit exposure to the six largest loans is 38.2% (March 2017: 39.7%) of the total loan portfolio. The company has elected to disclose the largest six balances as this is considered to provide a meaningful indication of concentration of credit risk.

18. Asset Quality

Gross past due loan receivables total \$1,595,265 (March 2017: \$1,766,382) which equates to 18.3% (March 2017: 21.2%) of total loan receivables. This balance comprises:

Past due but not impaired assets total \$1,470,565 (March 2017: \$1,757,494) which equates to 16.8% (March 2016: 21.0%) of total loan receivables.

Impaired assets total \$124,700 (March 2017: \$18,888) which equates to 1.4% (March 2017: 0.2%) of total gross loan receivables. Any interest accrued or capitalised on impaired assets has been provided for in the period it was accrued.

As at 31 March 2018 the total provision for impairment was \$58,949 (March 2017: \$18,888) assessed on an individual loan basis. As the Company has security over all but 1 of its loans, the level of the impairment provision represents only those cases where the security value (if any) is not expected to cover the outstanding loan balance.

Security held over the past due assets is by way of first or second mortgage over residential properties. Loans now unsecured and impaired as a result of security enforcement total \$13,688 (March 2017: \$18,888) which equates to 0.2% (March 2017: 0.2%) of total loan receivables.

As at balance date, the Company has a total of \$842,633 in over 90-day past due assets (March 2017: \$286,026). Of the \$842,633 (March 2017: \$286,026) which is past due, as disclosed in Note 7, only \$58,949 (March 2017: \$18,888) is considered to be impaired.

Aging Analysis – Past Due but Not Impaired

	2018 \$	2017 \$
Up to 30 Days	170,879	886,570
31 - 60 Days	581,754	254,216
61 - 90 Days	-	349,570
91 - 120 Days	-	251,279
120+ Days	717,932	15,859
Total	<u>1,470,565</u>	<u>1,757,494</u>

General Finance Limited

Notes to and forming part of the financial statements For the year ended 31 March 2018

Impaired assets are valued at \$65,751, comprising the loan value of \$124,700, less specific provisions for impairment of \$58,949 (March 2017: \$nil, comprising the loan value of \$18,888, less specific provisions for impairment of \$18,888). In determining whether an asset is impaired management takes into consideration the amount of time the loan is overdue, expected repayments, the estimated resale value of the secured properties, and the value of any security ranking above that held by the Company. There were no real estate assets acquired through the enforcement of security held at year end (March 2017: Nil).

19. Liquidity Profile

The following tables set out the undiscounted contractual cash flows, and the undiscounted expected cash flows, of the Company's financial assets and liabilities. Refer Notes 6, 7 and 10 for respective interest rates. No other monetary assets and liabilities are interest bearing.

March 2018	Weighted Average Int. Rate	Total \$	Contractual Cash Flows			
			0 – 6 Months \$	7 - 12 Months \$	13 - 24 Months \$	24+ Months \$
Financial assets						
Cash and cash equivalents	1.26%	4,857,886	4,857,886	-	-	-
Other monetary assets	0%	3,470	3,470	-	-	-
Loan receivables	11.89%	9,138,575	6,718,709	1,956,086	463,780	-
Totals		13,999,931	11,580,065	1,956,086	463,780	-
Financial liabilities						
Other payables	0%	128,364	128,364	-	-	-
Deposit stock	5.60%	10,548,230	2,499,402	2,295,800	3,907,436	1,895,592
Totals		10,676,594	2,577,766	2,295,800	3,907,436	1,895,592
Net cashflow		3,323,337	9,002,299	(339,714)	(3,443,656)	(1,895,592)

March 2017	Weighted Average Int. Rate	Total \$	Contractual Cash Flows			
			0 – 6 Months \$	7 - 12 Months \$	13 - 24 Months \$	24+ Months \$
Financial assets						
Cash and cash equivalents	1.13%	3,624,873	3,624,873	-	-	-
Other monetary assets	0%	6,697	6,697	-	-	-
Loan receivables	11.67%	8,532,791	7,511,586	1,021,205	-	-
Totals		12,164,361	11,143,156	1,021,205	-	-
Financial liabilities						
Other payables		14,983	14,983	-	-	-
Deposit stock	5.79%	9,368,037	1,617,699	1,700,138	3,984,318	2,065,882
Totals		9,383,020	1,632,682	1,700,138	3,984,318	2,065,882
Net cashflow		2,781,341	9,510,474	(678,933)	(3,984,318)	(2,065,882)

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Notes to and forming part of the financial statements For the year ended 31 March 2018

March 2018	Total	Expected Cash Flows			
		0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
	\$	\$	\$	\$	\$
Financial assets					
Bank deposits	4,874,918	4,874,918	-	-	-
Other monetary assets	3,470	3,470	-	-	-
Loan receivables	9,616,405	3,814,432	1,262,212	4,322,731	217,030
Totals	14,494,793	8,692,820	1,262,212	4,322,731	217,030
Financial liabilities					
Other payables	128,364	128,364	-	-	-
Deposit stock	11,728,899	1,161,059	1,097,835	1,950,533	7,519,472
Totals	11,857,263	1,289,423	1,097,835	1,950,533	7,519,472
Net cashflow	2,637,530	7,403,397	164,377	2,372,198	(7,302,442)

March 2017	Total	Expected Cash Flows			
		0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
	\$	\$	\$	\$	\$
Financial assets					
Bank deposits	3,645,402	3,645,402	-	-	-
Other monetary assets	6,697	6,697	-	-	-
Loan receivables	9,070,276	4,424,732	766,404	3,879,140	-
Totals	12,722,375	8,076,831	766,404	3,879,140	-
Financial liabilities					
Other payables	14,983	14,983	-	-	-
Deposit stock	9,889,110	809,351	834,748	1,917,925	6,327,086
Totals	9,904,093	824,334	834,748	1,917,925	6,327,086
Net cashflow	2,818,282	7,252,497	(68,344)	1,961,215	(6,327,086)

The table above shows management's expected maturities of existing financial assets and liabilities. In determining the expected cash flow the following assumptions have been made based on management's best estimate having regard to current market conditions and past experience:

- 60% of maturing deposit holders reinvest (March 2017: 60%)
- Reinvestments are made for a weighted average 24 month term (March 2017: 24 months)
- 50% of loans not past due repay on existing contractual maturity date, with the balance rolled over and repaid after a further 12 months.

**Notes to and forming part of the financial statements
For the year ended 31 March 2018**

20. Fair Value

Fair value of assets

The fair value of the Company's loan receivables and other assets is considered to closely approximate their carrying value. As loan receivables are not traded in an active market, fair values are estimated by discounting the future contractual cash flows using interest rates applicable for an instrument with similar terms and conditions.

Fair value of liabilities

The fair value of the Company's deposits and of other liabilities is considered to closely approximate their carrying value.

21. Risk Management Policies

The Company manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports are conducted within the Company.

The Company is currently revising its Risk Management Programme (last updated in December 2015) pursuant to the requirements of the Non-bank Deposit Takers Act 2013. The Risk Management Programme identifies risks to be managed and describes the processes to measure, monitor and control those risks.

* *Credit risk*, applicable to loan receivables and bank deposits, is the risk of potential loss arising from the non-performance by the counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures which are carried out on a regular basis, the frequency of which is dependent on the level of risk. The Directors oversee credit policy and asset quality.

Loan receivables are subject to regular scrutiny, as a key component of credit risk management. This includes a review of the borrower's repayment history and any interest arrears; any changes in the borrowers circumstances which could impact on their ability to repay either interest or principal amounts on their due date; and any movement in the security value.

* *Interest rate risk* management focuses on two principal factors; mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Management's objective is to produce strong and stable net interest income over time.

At 31 March 2018 bank deposits attracted a weighted average interest rate of 1.26% (see Note 6 and 19 for interest rates). A 1% decrease in the weighted average interest rate would reduce the annual interest income from \$61,260 to \$12,817 (based on bank deposits held at 31 March 2018). As at 31 March 2017 the weighted average interest rate on deposit stock was 5.79% (see Note 6 and 19 for interest rates). A 1% decrease in the weighted average interest rate would reduce the annual interest income from \$41,059 to \$4,810 (based on bank deposits held at 31 March 2017). All deposits have fixed interest rates for their terms, as do loan receivables, so the Company is not exposed to interest rate risk on these items.

* *Liquidity risk* is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. The Trust Deed requires us to have a liquidity cover ratio of at least 1.25 times which is measured based on the total expected cash position from loans and deposits expected to mature over the next three month period. The Company closely monitors and forecasts its liquidity and ensures that sufficient funds are available to meet the repayment requirements for deposits as they fall due, by both holding cash on hand and by collections of loan receivables.

* *Indirect price risk* relates to the risk arising from the link between the Company's mortgage securities and the property market, which may vary from time to time. The Company assesses the risk of loss in fair value from the effect of hypothetical changes in property values. The Company's weighted average loan to asset ratio is not to exceed 70% (first mortgages) or 65% (second mortgages) of market value.

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Notes to and forming part of the financial statements For the year ended 31 March 2018

As at 31 March 2018 the weighted average loan to asset ratio was 51.22% (March 2017: 53.89%). Based on sensitivity testing of the loan portfolio at 31 March 2018 the Company estimates it has a \$139,931 (31 March 2017: \$Nil) exposure on secured mortgages to a property downturn of up to 25% (including the cost of realisation) from most recent valuations. Of this exposure, \$45,261 (March 2017: \$Nil) has been provided for in impairment losses in the financial statements.

Other material business risks to which the Company is exposed consist of operating risks that are inherent in day to day operations. These risks include natural disaster, criminal activity including fraud and forgery, systems failure, personnel failure and non-compliance with legislation and regulations. In accordance with Company Policy, operating risks are managed as part of the day to day running of all business activities. Operating risks are managed by setting standards and policies, providing advisory and investigation services, and monitoring compliance.

22. Post Balance Date Events

There have been no material post balance date events (March 2017: Nil)

23. Reconciliation of Net Profit after Tax with Cash Inflow from Operating Activities

	2018 \$	2017 \$
Reported Profit after Tax	272,783	316,684
Add/(deduct) non-cash items		
Bad debts written off – loan receivables	-	64,507
Movement in impairment loss provision – loan receivables	40,061	(78,725)
Deferred tax movement	(18,645)	21,822
	<u>21,416</u>	<u>7,604</u>
Movements in other working capital items		
(Increase) / Decrease in loan receivables (net advances)	(388,456)	(945,591)
(Increase) / Decrease in accrued interest on loan receivables	(33,304)	21,841
(Increase) / Decrease in capitalised loan fees	(63,360)	(18,705)
(Increase) / Decrease in capitalised interest	102,491	55,145
(Increase) / Decrease in accounts receivable	3,227	(2,911)
(Increase) / Decrease in prepaid commission	(4,936)	(862)
Increase / (Decrease) in income tax payable	(7,125)	59,384
Increase / (Decrease) in deferred income	29,996	5,953
Increase / (Decrease) in interest payable	(23,536)	29,858
Increase / (Decrease) in related party payable	77,056	-
Increase / (Decrease) in accounts payable and accruals	64,780	(10,504)
	<u>(243,167)</u>	<u>(806,392)</u>
Total movement – inflow / (outflow)	(221,751)	(798,788)
Net cash inflow / (outflow) from operating activities	<u>51,032</u>	<u>(482,104)</u>