

GENEVA FINANCE LIMITED

AND ITS SUBSIDIARIES

Half Year Report

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

GENEVA FINANCE LIMITED

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EXECUTIVE SUMMARY

Report from the Managing Director

Geneva Finance Limited reported an after tax profit of \$ \$2.3m down 28% on the \$3.2m after tax profit reported in 2017.

Taxation:

The tax expense in the period of \$0.4m compares to a tax credit of \$1.0m. In the prior year, an adverse impact on the reported after tax profit between the two periods of \$1.3m.

The Tax expense/credit referred to above is non cash in nature and reflects timing differences in the recognition of tax losses available to the group and when those losses are used. Current expectations are that the available tax losses will be used by 31 March 2021, i.e. The group will be required to charge tax in the revenue statement, but will not actually pay income tax on Group profits (including the \$0.4m charged in the current period) for earnings up to and including the year ending 31 March 2021.

Business Performance:

The group pre-tax profit of \$2.8m (up 26% on last year) comprised a trading entity pre-tax profit of \$4.1m less group overheads of \$1.3m.

Geneva Financial Services (GFSL - The lending business) reported a \$3.2m profit for the six months, 22% up on the previous period. This was a very good result given the decision to choose asset quality over lending growth as the key driver of lending volumes. As a result the receivables ledger increased to \$66.8m up from \$62.5m the prior year. Asset quality remained strong and within expectations.

Quest Insurance Group Limited (Quest): Premium written increased by 42.4% to \$5.3m. Claim rates are within expectations and the unearned premium reserve (which is available to be released over the life of individual policies) increased a further \$2m over the six months and totals \$9.2m at balance date. While Quest's \$0.4m profit for the six months is down 7.4% on the previous period, we are confident the strong sales performance has this operation well positioned for the balance of the year.

Stellar Collections (Stellar): Stellar reported a profit of \$0.1m for the period, \$0.1m down on the prior year. The MFL business segment acquired late last year is making a positive contribution to Stellar and offers potential for increased profit growth. Cash collection on the old stellar business was down resulting in the profit decrease compared to the prior period.

Geneva Capital: (Invoice Factoring), reported a loss of \$0.3m for the period. The loss is due to initial setup costs incurred and the small size of the ledger at acquisition. Good ledger growth was achieved over the six months and the business is expected to move into profit by the end of the current financial year. Geneva owns 70% of this company. The Non-controlling loss amounted to \$83k for the period.

Federal Pacific Tonga: This business was acquired during the period and settled after balance date. The Group gained control over this business in April 2018 and the trading performance is included in the consolidated results from this date. This operation achieved a NZD \$0.6m profit. Geneva's 60% ownership, equating to \$0.3m, is recognized in the Group's consolidated results. The acquisition accounting for this transaction is incomplete and still in progress.

Balance Sheet:

Total group assets increased to \$117m (32% increase). The company's equity to total assets ratio is 26.9% vs 29.9% prior year.

Revenues:

Revenue increased by 43% to \$12.7m, with the increase being attributable increases from each of the existing operations plus the additional revenue from the Invoice Factoring and Tongan Finance operations.

Operating Costs:

Operating costs increased by 49% to \$6.2m with the increase largely originating from the increased insurance activity plus by the additional costs of the Invoice Factoring and Tongan Finance operations.

Funding:

The group maintained its three sources of funding components during the period:

- a. The securitized funding facility of \$60m was drawn to \$55m. The annual review for this facility is underway.
- b. Stellar's facility remained unchanged at \$3.4m, the facility's term was extended during the period.
- c. Professional investor debt funding increased to \$13.5m. This debt funding includes loans from two directors and a \$3.9m shareholder loan.

Credit Rating:

The group's insurance company, Quest Insurance Group Limited credit rating issued by AM Best remained unchanged being a Financial Strength Rating of B outlook stable and an issuer credit rating of bb+ outlook stable.

Impairment:

The Group completed a provisioning review based on changes to IFRS 9: Financial Instruments in line with expected credit losses and how impairment of assets is treated. As a result, an adjustment of \$1m has been added to the opening retained earnings balance

Highlights / Key Events:

- The 22% increase in profit of the lending business (GFSL).
- Quest premium Sales up 43% to \$0.9m per month
- The acquisition of the invoice factoring (Geneva Capital) and the Tongan Finance operations.
- Total group assets exceeded \$100m
- 27% increase in group pretax profit.

Events Subsequent to Balance Date

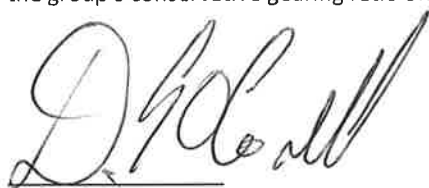
- The group settled the 60% purchase in the Tongan Finance company on 26 October 2018.
- The interim dividend payable on 28 December 2018 increased by 25% to 1.25 cents.

Strategic Direction:

The current focus is to continue to develop the group IT infrastructure to enhance the lending, invoice factoring, insurance and collection operations. In regard to the invoice financing acquisition, we see this acquisition as offering a revenue stream in a sector that is compatible but not competing with the existing operations; while the Tongan finance acquisition offers a new market place to promote our financial services products while also opening the door to further opportunities in the Pacific islands.

Summary and outlook:

During the period the group enjoyed good growth in the core lending and insurance operations, acquired two new business and in doing so delivered a 27% growth in pretax profit. Looking forward we have a positive outlook on the expectation that these investments will deliver profit growth, and the group's conservative gearing ratio offers further potential for acquisitions.



David O'Connell
Managing Director

GENEVA FINANCE GROUP LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	<u>Note</u>	Group		
		30 Sep 18	30 Sep 17	31 Mar 18
		6 months Unaudited \$000's	6 months Unaudited \$000's	12 months Audited \$000's
Interest income		7,451	6,114	12,242
Interest expense		2,141	1,777	3,584
Net interest income		5,310	4,337	8,658
Underwriting Profit		1,998	1,152	2,727
Other revenue		2,036	1,119	2,624
Operating revenue (net of interest expense)		9,344	6,608	14,009
Operating expenses		(6,162)	(4,124)	(9,122)
Operating profit		3,182	2,484	4,887
Impaired asset (expense) / release		(406)	(289)	(363)
Net profit before taxation		2,776	2,195	4,524
Taxation benefit (charge)		(373)	958	1,599
Net profit after taxation		2,403	3,153	6,123
Attributable to:				
Group		2,256	3,153	6,123
Non-controlling interest		147	-	-
Basic profit per share (cents)	(7)	3.09	4.48	8.69

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

		Group		
		30 Sep 18	30 Sep 17	31 Mar 18
		6 months Unaudited \$000's	6 months Unaudited \$000's	12 months Audited \$000's
Net profit after taxation		2,403	3,153	6,123
Other comprehensive income:				
<i>Items may not be subsequently reclassified to profit or loss</i>				
<i>Items may be subsequently reclassified to profit or loss</i>				
Movement in fair value of available for sale equity securities		-	-	200
Exchange differences on translation of foreign operations		119	-	-
Cash flow hedge, net of tax		(14)	52	96
Income tax relating to cash flow hedge		-	-	-
		105	52	296
Other comprehensive income / (loss), net of tax		105	52	296
Total comprehensive income		2,508	3,205	6,419
Attributable to:				
Group		2,361	3,205	6,419
Non-controlling interest		147	-	-

The attached notes form part of and are to be read in conjunction with these condensed financial statements.

GENEVA FINANCE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

	<u>Note</u>	Group		
		30 Sep 18	30 Sep 17	31 Mar 18
		6 months Unaudited \$000's	6 months Unaudited \$000's	12 months Audited \$000's
Assets				
Cash and cash equivalents		18,725	10,867	14,473
Prepayments and other debtors		3,249	1,249	4,143
Taxation receivable		11	11	11
Finance receivables	(5)	78,655	66,705	67,664
Financial assets at fair value through profit or loss	(8)	372	448	423
Deferred insurance contract acquisition costs		3,324	2,047	2,733
Deferred taxation		4,288	4,071	4,565
Available for sale equity securities	(8)	3,390	3,190	3,390
Plant and equipment		252	130	128
Intangible assets including goodwill		2,395	497	1,791
Total assets		114,661	89,215	99,321
Liabilities				
Accounts payable and accruals		4,495	1,649	2,211
Outstanding claims liability		816	309	570
Employee entitlements		159	275	313
Unearned premium liability		9,152	4,889	7,085
Derivative financial instruments		67	97	53
Term facilities	(9)	58,149	47,388	51,971
Other Borrowings	(10)	12,996	7,950	7,950
Total liabilities		85,834	62,557	70,153
Equity				
Share capital	(6)	53,037	51,287	51,287
Common control reserve		(2,726)	-	-
Retained earnings		(23,441)	(25,487)	(23,221)
Cash flow hedge		(67)	(97)	(53)
Non Controlling Interest		869	-	-
Available for sale equity reserve		1,155	955	1,155
Total equity		28,827	26,658	29,168
Total equity and liabilities		114,661	89,215	99,321

For and on behalf of the board, dated 30 January 2018



Director



Director

GENEVA FINANCE LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Note	Group						Total equity
		Share Capital	Other reserves	Retained earnings	Non Controlling Interest	Cash flow hedge	Available for sale equity reserve	
		\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Balance at 1 April 2017		51,287	-	(27,231)	-	(149)	955	24,862
Net profit for the period		-	-	3,153	-	-	-	3,153
Other comprehensive income								
Change in cash flow hedge, net of tax		-	-	-	-	52	-	52
Total other comprehensive income		-	-	-	-	52	-	52
Total comprehensive income		-	-	3,153	-	52	-	3,205
Transaction with owners								
Dividends paid		-	-	(1,409)	-	-	-	(1,409)
Total transactions with owners		-	-	(1,409)	-	-	-	(1,409)
Balance at 30 September 2017 (Unaudited)		51,287	-	(25,487)	-	(97)	955	26,658
Net profit for the period		-	-	2,970	-	-	-	2,970
Other comprehensive income								
Increase in available for sale equity reserve		-	-	-	-	-	200	200
Change in cash flow hedge, net of tax		-	-	-	-	44	-	44
Total other comprehensive income		-	-	-	-	44	200	244
Total comprehensive income		-	-	2,970	-	44	200	3,214
Transaction with owners								
Dividends paid		-	-	(704)	-	-	-	(704)
Total transactions with owners		-	-	(704)	-	-	-	(704)
Balance at 31 March 2018 (Audited)		51,287	-	(23,221)	-	(53)	1,155	29,168
Change in accounting policy	(2)			(1,010)				(1,010)
Net profit for the period		-	-	2,256	147	-	-	2,403
Other comprehensive income								
Change in cash flow hedge, net of tax		-	-	-	-	(14)	-	(14)
Exchange differences on translation of foreign operations		-	-	119	-	-	-	119
Total other comprehensive income		-	-	119	-	(14)	-	105
Total comprehensive income		-	-	2,375	147	(14)	-	2,508
Transaction with owners								
Share consideration for acquisition of subsidiary	(13)	1,750						1,750
Non-controlling interest arising on acquisition of subsidiary	(13)				722			722
Common control reserve from acquisition of subsidiary	(13)		(2,726)					(2,726)
Dividends paid		-	-	(1,585)	-	-	-	(1,585)
Total transactions with owners		1,750	(2,726)	(1,585)	722	-	-	(1,839)
Balance at 30 September 2018 (Unaudited)		53,037	(2,726)	(23,441)	869	(67)	1,155	28,827

GENEVA FINANCE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	30 Sep 18 6 months Unaudited \$000's	30 Sep 17 6 months Unaudited \$000's	31 Mar 18 12 months Audited \$000's
Cash flow from operating activities:			
Cash was provided from:			
Interest received	5,642	5,502	10,968
Dividends received	78	117	231
Receipts from insurance policy sales, collections activities and other sources	7,136	4,576	10,478
Proceeds from collections made on purchased debt ledger	140	197	456
	<u>12,996</u>	<u>10,392</u>	<u>22,133</u>
Cash was applied to:			
Net movement in finance receivables	(9,352)	(2,240)	(2,483)
Interest paid	(2,141)	(1,777)	(3,584)
Payments to suppliers and employees	(5,044)	(6,280)	(14,960)
Tax paid	(97)	-	-
	<u>(16,634)</u>	<u>(10,297)</u>	<u>(21,027)</u>
Net cash inflow from operating activities	(3,638)	95	1,106
Cash flows from investing activities:			
Cash was applied to:			
Purchase of plant and equipment	(78)	(33)	(53)
Purchase of intangible assets	(74)	(108)	(245)
Purchase of investments	(3,416)	-	(1,140)
	<u>(3,568)</u>	<u>(141)</u>	<u>(1,438)</u>
Net cash outflow from investing activities	(3,568)	(141)	(1,438)
Cash flows from financing activities:			
Cash was provided from:			
Net movement of term facilities: Westpac	6,168	1,250	5,846
Net movement of other borrowings	5,125	-	0
	<u>11,293</u>	<u>1,250</u>	<u>5,846</u>
Cash was applied to:			
Payments relating to the issue of new shares	1,750	-	-
Dividends paid to Company shareholders	(1,585)	(1,409)	(2,113)
	<u>165</u>	<u>(1,409)</u>	<u>(2,113)</u>
Net cash outflow from financing activities	11,458	(159)	3,733
Net increase / (decrease) in cash and cash equivalents held	4,252	(205)	3,401
<i>Add:</i> Opening cash and cash equivalents balance	14,473	11,072	11,072
Cash and cash equivalents at the end of the period	<u>18,725</u>	<u>10,867</u>	<u>14,473</u>
Represented by:			
Cash at bank	18,725	10,867	14,473
Cash and cash equivalents at the end of the period	<u>18,725</u>	<u>10,867</u>	<u>14,473</u>

The attached notes form part of and are to be read in conjunction with these condensed financial statements.

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements of Geneva Finance Limited (the Company) and its subsidiaries (the Group) for the six months ended 30 September 2018 have been prepared in accordance with NZ IAS 34: *Interim Financial Reporting*.

The Company is incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993, listed on the New Zealand Alternative Stock Exchange (NZAX) and is an FMC reporting entity in terms of the Financial Markets Conduct Act 2013.

The Group is a for-profit entity.

The unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2018 should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2018, which were prepared in accordance with New Zealand equivalents to International Financial Reporting Standards.

The accounting policies applied in these unaudited consolidated interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2018. The same significant judgements, estimates and assumptions included in the notes to the Group's annual financial statements for the year ended 31 March 2018 have been used in these unaudited consolidated interim financial statements.

2. STANDARDS AND INTERPRETATIONS

(a) Change in accounting policies

The following new standards, amendments and interpretations to existing standards mandatory for the first time for the financial period ended 30 September 2018:

- NZ IFRS 9 *Financial Instruments*

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

There is now a new expected credit losses impairment model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

NZ IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

Impairment

The adoption of NZ IFRS 9 has fundamentally changed the Group's accounting for impairment for financial assets by replacing NZ IAS 39's incurred loss approach with a forward-looking expected credit losses (ECL) approach.

NZ IFRS 9 requires the Group to record an allowance for ECLs for all finance receivables, and other debt financial assets not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The impact of the adoption of NZ IFRS 9 on the Group's financial statements:

The Group has chosen not to restate comparative information. Adjustments required by the application of the new standard have been made to the opening balance of retained earnings recognised in the Statement of Changes in Equity for the six months ended 30 September 2018.

The Group's financial assets and liabilities include only those measured, at amortised cost (being financial assets currently classified under loans and receivables), at fair value through profit or loss (being financial assets and liabilities currently classified under financial assets and liabilities at fair value through profit or loss); and at fair value through other comprehensive income (being financial assets currently classified under available for sale). The Group's classification measure of financial assets and liabilities under NZ IFRS 9 remains largely the same as it was under NZ IAS 39.

The adoption of the ECL requirements of NZ IFRS 9 resulted in an increase in impairment allowance for the Group's finance receivables. The increase in allowance resulted in a (\$1,010,000) adjustment to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

(a) Change in accounting policies (continued)

The Group's previous accounting policy for financial instruments

For the Group's previous accounting policy for financial instruments please refer to accounting policies 3 (m) (pages 15 - 17) in Group's consolidated financial statements for the year ended 31 March 2018.

The Group's current policy for financial instruments

Impairment

The Group calculates ECLs on 12 months of expected losses where there has not been a significant increase in credit risk and lifetime expected credit losses where there has been a significant increase in risk. The Group has established a provision based on the Group's historic credit loss experience, adjusted for forward-looking factors.

The Group considers a financial asset has significantly increased in risk when contractual payments are 30 days past due. However, in certain circumstances, the Group may also consider a financial asset to have significantly increased credit risk when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any debt recovery.

Hedge accounting

The Group has hedging arrangements, however the recognition and measurement of these arrangements under NZ IFRS 9 have remained largely unchanged.

- NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 'Revenue from Contracts with Customers' will replace NZ IAS 18 'Revenue'.

NZ IFRS 15 provides a five-step model to be applied to the recognition of revenue arising from contracts with customers:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the entity satisfies a performance obligation.

NZ IFRS 15 also introduces new disclosures for revenue.

Under NZ IFRS 15 the Group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised service to a customer (which is when the customer obtains control of that service). A performance obligation may be satisfied at a point in time (e.g. upon the supply or recruitment of staff) or over time (e.g. consulting services). For a performance obligation satisfied over time, the Group determines how much revenue should be recognised as the performance obligation is satisfied based on appropriate measure of progress.

Impact of the adoption of NZ IFRS 15 on the Group's financial statements:

The way in which the Group recognised revenue from contracts with its customers under the requirements of NZ IAS 18 'Revenue' is materially consistent with the revenue recognition requirements of NZ IFRS 15 and therefore the adoption of NZ IFRS 15 has not had material impact on the way in which the Group's recognises revenue.

Accordingly, neither the comparative financial information nor the opening balance sheet on 1 April 2018 have been restated.

The Group's previous accounting policy for revenue recognition

For the Group's previous accounting policy for revenue recognition please refer to accounting policies 3 (c)-(j) (pages 13-14) in Group's consolidated financial statements for the year ended 31 March 2018.

The Group's current policy for revenue recognition

The Group's revenue is predominantly earned from the following:

Interest income and interest expense

Interest income and interest expense are amortised costs of a financial asset or financial liability by applying the effective interest rate. The income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

Premium revenue

Premium revenue comprises amounts charged to the insurance contract policyholders, excluding taxes collected on behalf of third parties. Premium earned is earned from the date of attachment of risk over the indemnity period. Earned and unearned premiums are determined by apportioning the premium income written over the indemnity period from date of attachment.

Fee, commission and brokerage income

Fee, commission and brokerage income integral to the effective yield of a financial asset or liability are recognised as an adjustment to the effective interest calculation and included in interest income.

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

Fee, commission and brokerage income (continued)

Fee, commission and brokerage income that relate to the execution of a significant act (for example, loan servicing fees and insurance commissions) are recognised when the significant act has been completed.

Collections Income

Collection services income rendering of services is recognised upon the delivery of the service to the customers. Collection services income is recognised in the reporting period in which the services are rendered by reference to the stage of completion if the outcome of the contract can be estimated reliably.

(b) New accounting policies adopted as a result of transactions occurring during the year

- Business Combinations outside the scope of NZ IFRS 3 ' Business Combinations

For acquisitions that represent a business combination under common control, there is no NZ IFRS or IFRS that specifically applies to an acquisition and consolidation under common control. As such the Board of Directors and Management have followed the requirements of NZ IAS 8 and IAS 8 'Accounting policies, accounting estimates and errors', which requires management to use its judgement in developing and applying an accounting policy that results in information that is: relevant to the economic decision-making needs of users; and reliable, in that the financial statements, represent faithfully the financial position, financial performance and cash flows of the entity; reflect the economic substance of transactions, other events and conditions, and not merely the legal form; are neutral, i.e. free from bias; are prudent; and are complete in all material respects.

In making this judgement, the Board of Directors and Management have referred to, and considered the applicability of, the following sources in descending order: the requirements in NZ IFRSs dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the NZ Framework. Board of Directors and Management have also considered the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the requirements in NZ IFRSs dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the NZ Framework.

The Board of Directors and Management have treated Group's acquisition of Federal Pacific Finance Limited (Tonga) business (refer note 13) in accordance with predecessor accounting where the acquisition is accounted for using predecessor book values.

The following is the accounting policy applied by the Group.

Merger accounting for business combinations under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the business combination under common control occurs from the date of the combination.

The net assets of the combining entities or businesses are combined using the existing book values (predecessor book values) from the controlling parties' perspective (and not adjusted to fair value upon combining). No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest. Any difference between the cost of investment recognised by the controlling entity and the nominal value of the net assets of the combining entities or businesses on the date at which the combining entities or businesses first came under the control of the controlling entity results in the recognition of a common control reserve.

The consolidated income statement includes the results of each of the combining entities or businesses from the date of the combination.

The common control reserve is released to profit and loss when there is a disposal or impairment charge or amortisation charge posted in respect of the investment that created it.

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

3. SEGMENT REPORTING

The Group's reportable operating segments are as follows:

- Corporate: The operations of this segment include the raising of debt and the advancing loans to other operating segments within the Group.
- New Business: The operations of this segment include the lending of money to individuals, companies and other entities. On 1 August 2013 this segment entered into a wholesale funding arrangement with Westpac New Zealand Limited (Westpac) under which it securitised loan receivables.
- Insurance: The operations of this segment include the issuing of temporary insurance contracts covering death, disablement and redundancy risks and short term motor vehicle contracts covering comprehensive, third party, mechanical breakdown risk and guaranteed asset protection.
- Old Business: The operations of this segment include the collection and management of money lent to individuals, companies and other entities originally originated by the Group and external debt collection.
- Property: The operations of this segment included a holding in a property investment and raising debt to advance to Corporate segment. The holding in the property investment was transferred to the insurance segment during the prior period and the segment debt was settled at the same juncture. This segment of operations discontinued on 31 March 2018.
- Invoice Factoring: The operations of this segment includes invoice financing specialising in helping SMEs overcome cashflow challenges, offering a range of innovative and practical finance solutions specifically designed for a wide range of different industries and situations.
- Overseas: The operations in this segment include the lending of money to individuals, companies and other entities under the subsidiary "Federal Pacific Finance Ltd Tonga". This company was 60% acquired on 1 April 2018.

Each Group operating segment is operated as a discrete business unit and transactions between segments are on normal commercial terms and conditions. The eliminations arise from transactions between the Group segments and are predominantly interest, commission/brokerage, marketing subsidy, debt collection and rent/lease charges

None of the Group's operating segments place any reliance on a single major customer amounting to 10% or more of the applicable segments revenue.

Group summary revenues and results for the period ended 30 September 2018 (Unaudited)

\$'000	Corporate	New Business	Insurance	Old Business	Invoice Factoring	Overseas	Eliminations	Group
External revenues	4	6,956	3,288	1,095	538	763		12,644
Revenue - other segments	754	445	148	112	-	-	(1,459)	-
Total	758	7,402	3,436	1,206	538		(1,459)	12,644
Segment profit/(loss)	(1,327)	3,172	437	116	(193)	346	77	2,628
Taxation benefit/(expense)	(373)	-	-	-	-	-	-	(373)
Non controlling interest	-	-	-	-	(83)	231	-	148
Net profit/(loss) after taxation	(1,700)	3,172	437	116	(276)	577	77	2,403
Interest income	835	6,670	201	124	395	762	(1,536)	7,451
Interest expense	1,106	2,034	-	123	400	14	(1,536)	2,141
Depreciation	-	18	6	1	-	11	-	36
Amortisation	-	96	13	44	4	-	-	157
Other material non-cash items:								
Impaired asset (release)/expense	77	689	-	(283)	-	-	(77)	406

Group summary assets and liabilities as at 30 September 2018 (Unaudited)

\$'000	Corporate	New Business	Insurance	Old Business	Invoice Factoring	Overseas	Eliminations	Group
Segment assets								
Total assets	47,189	83,672	20,475	11,123	6,817	3,051	(57,666)	114,661
Additions to non current assets	-	73			5		-	78
Segment liabilities								
Total liabilities	36,152	67,150	10,757	4,798	7,092	550	(40,665)	85,834

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

3. SEGMENT REPORTING (continued)

Group summary revenues and results for the year 31 March 2018 (Audited)

\$'000	Corporate	New Business	Insurance	Old Business	Property	Eliminations	Group
External revenues	5	13,277	4,435	1,275	-	-	18,992
Revenue - other segments	1,560	587	299	229	-	(2,675)	-
Total	1,565	13,864	4,734	1,504	-	(2,675)	18,992
Segment profit/(loss)	(1,913)	5,493	855	612	(27)	(495)	4,524
Taxation benefit/(expense)	1,591	-	-	8	-	-	1,599
Net profit/(loss) after taxation	(322)	5,493	855	620	(27)	(495)	6,123
Interest income	1,070	12,707	377	268	-	(2,180)	12,242
Interest expense	1,565	3,951	-	248	-	(2,180)	3,584
Depreciation	-	31	11	1	-	-	43
Amortisation	-	176	7	30	-	-	213
Other material non-cash items:							
Impaired assets expense	(495)	1,392	-	(1,029)	-	495	363

Group summary assets and liabilities as at 31 March 2018 (Audited)

\$'000	Corporate	New Business	Insurance	Old Business	Property	Eliminations	Group
Segment assets							
Total assets	40,364	81,900	17,621	10,505	-	(51,069)	99,321
Additions to non current assets	28	167	85	18	-	-	298
Segment liabilities							
Total liabilities	33,017	63,291	8,339	4,320	-	(38,814)	70,153

Group summary revenues and results for the period ended 30 September 2017 (Unaudited)

\$'000	Corporate	New Business	Insurance	Old Business	Property	Eliminations	Group
External revenues	1	6,624	1,781	454	-	-	8,860
Revenue - other segments	781	231	149	114	-	(1,275)	-
Total	782	6,856	1,930	567	-	(1,275)	8,860
Segment profit/(loss)	(878)	2,600	472	258	-	(257)	2,195
Taxation benefit/(expense)	958	-	-	-	-	-	958
Net profit/(loss) after taxation	80	2,600	472	258	-	(257)	3,153
Interest income	525	6,281	186	140	-	(1,018)	6,114
Interest expense	715	1,955	-	125	-	(1,018)	1,777
Depreciation	-	15	5	-	-	-	20
Amortisation	-	80	1	-	-	-	81
Other material non-cash items:							
Impaired assets expense	(257)	773	-	(484)	-	257	289

Group summary assets and liabilities as at 30 September 2017 (Unaudited)

\$'000	Corporate	New Business	Insurance	Old Business	Property	Eliminations	Group
Segment assets							
Total assets	36,327	73,218	14,415	10,035	2,814	(47,594)	89,215
Additions to non current assets	(96)	157	78	2	-	-	141
Segment liabilities							
Total liabilities	30,660	57,546	5,716	4,211	-	(35,576)	62,557

By geographical segment

The Group operated predominantly in New Zealand. Revenues are derived from New Zealand with the exception of Federal Pacific Finance Ltd (Tonga) which operates in Tonga.

4. SIGNIFICANT EVENTS AND TRANSACTIONS

There were no significant events and transactions during the period.

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

5. FINANCE RECEIVABLES

	30 Sep 18 6 months Unaudited	30 Sep 17 6 months Unaudited	31 Mar 18 12 months Audited
	\$000's	\$000's	\$000's
Gross finance receivables	25,828	36,077	31,942
Gross finance receivables (The Geneva Warehouse A Trust)	67,509	53,483	59,162
Gross finance receivables (Prime Asset Trust Limited)	2,190	3,310	2,656
Total gross finance receivables	95,527	92,870	93,760
Less: Unearned Interest	44	90	61
Deferred fee revenue and expenses	156	520	392
Less: Provision for credit impairment	16,672	25,555	25,643
Net finance receivables	78,655	66,705	67,664

The Company's securitisation facility was established on 1 August 2013. refer to note 11 for further information.

While the sale of the finance receivables to the Geneva Warehouse A Trust (the Trust) constitute a legally enforceable sale and purchase transaction, it does not meet the criteria for the derecognition of financial assets under NZ IAS 39 and thus at the time of the sale does not meet the Company's accounting policy for derecognition of a financial asset. NZ IAS 39 establishes specific guidance for the derecognition of financial assets, such that a financial asset can only de-recognised when substantially all of the risks and rewards of ownership is measured by the change in the variability of the cash flow arising from the financial assets before and after the transfer.

During the six month period ended 30 September 2018, finance receivables totalling approximately \$41.9m (30 September 2017: \$19.0m; 31 March 2018: \$43.2m) were sold to the Trust, of which \$19.8m related to Geneva Capital Limited (GCL). As there has been no change in the management of the receivables and because there were no significant change in the cash flows before and after the sale, the sold receivables did not meet the derecognition criteria. Furthermore, as the sales constitute legally enforceable transfer of equitable interest in the transferred receivables, the carrying values of these receivables at reporting date of \$60.5m (30 September 2017: \$53.5m; 31 March 2018: \$59.2m) are subject to limitations on disposal.

6. SHARE CAPITAL

Number of ordinary shares	30 Sep 18 6 months Unaudited	30 Sep 17 6 months Unaudited	31 Mar 18 12 months Audited
	\$000's	\$000's	\$000's
Opening balance	70,435	70,435	70,435
Placement of new shares via consideration for purchase of subsidiary	2,500	-	-
Total issued shares	72,935	70,435	70,435

Dollar value of ordinary shares	30 Sep 18 6 months Unaudited	30 Sep 17 6 months Unaudited	31 Mar 18 12 months Audited
	\$000's	\$000's	\$000's
Opening balance	51,287	51,287	51,287
Placement of new shares via consideration for purchase of subsidiary	1,750	-	-
Total issued shares	53,037	51,287	51,287

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

7. EARNINGS PER SHARE

Basic profit per share

The calculation of basic profit per share at 30 September 2018 was based on the profit attributable to ordinary shareholders of \$2,256,000 (30 September 2017: \$3,153,000, 31 March 2018: \$6,123,000) and a weighted average number of shares 72,935,275 (30 September 2017: 70,435,275, 31 March 2018: 70,435,275) calculated as follows:

	Group		
	30 Sep 18	30 Sep 17	31 Mar 18
	6 months	6 months	12 months
	Unaudited	Unaudited	Audited
Net profit attributable to ordinary shares (\$'000)	2,256	3,153	6,123
Weighted number of shares	72,935	70,435	70,435
Basic earnings per share (cents)	3.09	4.48	8.69

Weighted number of shares

	30 Sep 18	30 Sep 17	31 Mar 18
	6 months	6 months	12 months
	Unaudited	Unaudited	Audited
	\$000's	\$000's	\$000's
Issued shares 1 April	70,435	70,435	70,435
	72,935	70,435	70,435

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had no options outstanding during the reporting periods.

8. FAIR VALUE DISCLOSURES

As at 30 September 2018 the carrying value of cash and cash equivalents, other than receivables or payables approximated their fair values due to the short-term nature of the financial assets or liabilities. As at 30 September 2018 the carrying value of borrowings approximates its fair value as all borrowings are subject to floating or short-term interest rates.

Fair value of financial assets and liabilities carried at fair value are determined as follows:

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

Level 2 the fair value is estimated using inputs other than quoted prices in level 1 that are observable for the asset or liability, either directly or indirectly.

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

30 September 2018 (Unaudited)	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Equity securities available for sale	-	-	3,390	3,390
Purchased debt	-	-	372	372
Derivatives	(67)	-	-	(67)
	(67)	-	3,762	3,695
30 September 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Equity securities available for sale	-	-	3,190	3,190
Purchased debt	-	-	448	448
Derivatives	(97)	-	-	(97)
	(97)	-	3,638	3,541
31 March 2018 (Audited)	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Equity securities available for sale	-	-	3,390	3,390
Purchased debt	-	-	423	423
Derivatives	(53)	-	-	(53)
	(53)	-	3,813	3,760

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

8. FAIR VALUE DISCLOSURES (continued)

Equity securities

The 10.47% stake in this company is held by Quest Insurance Group Limited. The investment in the unlisted medical property company is an available for sale financial asset and is measured at fair value. This investment is denominated in NZ dollars. The Directors have disclosed their intention to sell this investment. This equity security is not quoted in an active market. The fair value of this equity security is based on the Group's share of the entity's net assets at reporting date as reported in the entity's financial statements (valuation technique). The entity is a property investment company that is solely in the business of holding and leasing investment property under operating leases and is involved in the development of investment property. The majority of the entity's assets and liabilities are reported in their financial statements at either their fair value or their carrying value which approximates their fair value (the significant unobservable inputs). The inter-relationship between key unobservable inputs and fair value measurement is that an increase / (decrease) in the net assets would decrease / (increase) the fair value of the investment.

Purchased debt

Purchased debt is typically past due and non-performing debt acquired by Stellar Collections Limited at a discount to face value. These debt instruments are not quoted in an active market. The fair value on the purchased debt is based on the valuation using discounted cash flow models as performed by external valuers, Northington Partners at 31 March 2018. Key assumptions and inputs in the valuation include, a discount rate of 27.5%, projected cash flows for four years based on historical collection rates of similar portfolios and collections costs. The purchased debt was designated at fair value through the profit and loss upon initial recognition. Directors are satisfied that the assumptions used for the 31 March 2018 values are appropriate for 30 September 2018 values.

Derivative financial instruments and hedge accounting

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

9. BANK FACILITIES

	Group		
	30 Sep 18	30 Sep 17	31 Mar 18
	6 months	6 months	12 months
	Unaudited	Unaudited	Audited
	\$000's	\$000's	\$000's
Bank facility: Westpac	54,768	44,004	48,600
Bank facility: Kiwi Bank	3,400	3,400	3,400
Capitalised transaction costs: Westpac	(15)	(12)	(28)
Capitalised transaction costs: Kiwibank	(4)	(4)	(1)
	58,149	47,388	51,971

The Westpac facility annual review was completed during November 2017 and the facility was extended to 31 July 2019.

The Stellar Collections Limited Kiwi Bank facility annual review was carried out during July 2018 and the facility was extended to June 2019.

10. OTHER BORROWINGS

	Group		
	30 Sep 18	30 Sep 17	31 Mar 18
	6 months	6 months	12 months
	Unaudited	Unaudited	Audited
	\$000's	\$000's	\$000's
Unsecured	12,996	7,950	7,950
Capitalised transaction costs	-	-	-
	12,996	7,950	7,950

Include borrowings from Directors, David Smale: \$0.45m and Robin King: \$2.0m

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

11. SECURITISATION

Geneva Financial Services Limited (GFSL) a wholly owned subsidiary of the Company has a wholesale funding arrangement with Westpac New Zealand Limited (Westpac) under which it securitised loan receivables through The Geneva Warehouse A Trust (the Trust). Under the facility, Westpac provided funding to the Trust secured by loan receivables transferred to the Trust from GFSL. The facility annual review was completed during June 2018 and was extended to 31 July 2019, with a further review currently in progress. The current facility is \$60,000,000. The Trust is a special purpose entity set up solely for the purpose of receiving loans from GFSL with Westpac funding up to 83% of the purchase and the remainder being funded by a subordinated loan from the Company. The NZ Guardian Trust Limited, via NZGT (GF) Trustee Limited, has been appointed as Trustee for the Trust with GFSL as the sole beneficiary. Under NZ IAS 39, Financial Instruments: Recognition and Measurement and NZ IFRS 10: Consolidated Financial Statements, the Company controls the financing and operating activities of the Trust. As a result the Trust is required to be consolidated into the Group financial statements.

GFSL continues to administer the loans and collect loan instalments as they fall due. As GFSL retains all of the risks and rewards relating to the transferred loan receivables, the loan receivables do not qualify for derecognition under NZ IAS 39 and they continue to appear in the consolidated balance sheet of the Group.

During the six months ended 30 September 2018 GFSL transferred \$41.9m of loans receivables to the Trust (September 2017: \$19.0m, March 2018: \$43.2m) of which \$19.8m related to Geneva Capital Limited (GCL). As at 30 September 2018 the carrying value of these assets was \$60.5m (September 2017: \$53.5m, March 2018: \$59.2m)

12. RELATED PARTIES

Loans and advances to related parties

	Group		
	30 Sep 18 6 months Unaudited	30 Sep 17 6 months Unaudited	31 Mar 18 12 months Audited
	\$000's	\$000's	\$000's
<i>Finance receivables</i>			
Loans receivables	373	373	373
Impairment provision	(273)	(273)	(273)
Net loans receivable	<u>100</u>	<u>100</u>	<u>100</u>

The loans carried an interest rate of 8% up to the 30 September 2007, from 1 October 2007 these loans are interest free. The loans were granted for a period of three to five years. The loans were advanced to purchase shares in Financial Investment Holdings Limited. The loans were fully provided for at 30 September 2018, 31 March 2017 and 30 September 2017.

On 21 July 2017 a \$100,000 loan was issued to the Collections Manager. The loan was issued for the purchase of Geneva Finance Ltd ordinary shares. The loan carry's an interest rate of 7.1% and has a 36 month term with an early settlement option.

Facilities from related parties

Deposits from related parties

	Group		
	30 Sep 18 6 months Unaudited	30 Sep 17 6 months Unaudited	31 Mar 18 12 months Audited
	\$000's	\$000's	\$000's
Opening balance as at 1 April	2,450	2,400	2,400
Movement	-	-	-
	<u>2,450</u>	<u>2,400</u>	<u>2,400</u>

The related party deposits carries an interest rate of 8%-8.425%, (30 September 2017: 9%, March 2018: 9%)

Other

There were no other related party transactions

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

13. ACQUISITIONS OF BUSINESSES

Acquisition of Federal Pacific Finance Limited (Tonga) business

On 1 April 2018, the Group acquired 60% of the shares and voting interests in Federal Pacific Finance Limited, Tonga ('FPFLT'), thus obtaining control. The principal activity of the FPFLT business is consumer finance. The FPFLT business will fall under the ownership of Geneva Financial Services Limited. The primary reason for the acquisition was to expand the Group's presence in the Pacific region.

	1 April 2018
Fair Value of consideration transferred;	\$'000
Cash	1,410
Share Consideration (2.5m shares at a price of 70c per share)	1,750
Deferred Consideration (Loan from Federal Pacific Group Ltd (NZ), 5 years at 8.5%)	650
	<u>3,810</u>
Identified assets acquired and liabilities assumed	
Property plant and equipment	84
Cash in bank	261
Finance receivables	2,810
Prepayments & accruals	(124)
Accounts payable	(68)
Other borrowings	(755)
Deferred tax liability	(402)
Identifiable net assets	<u>1,806</u>
Non-controlling interest	(722)
Common control reserve	2,726
Net Assets Required	<u>3,810</u>

Translation of presentation currency

The presentation currency of FPFLT is the Tongan Pa'anga (TOP). This has been translated to the functional currency of GFL, being the New Zealand Dollar (NZD), at a rate on 1 April 2018 of 1 TOP to 0.6344 NZD.

Share issue

The share issue at 70 cps represented a 14.7% premium against the share price at the time of acquisition, however the directors considered the 70 cps price more accurately reflected the underlying value of the Group's ordinary shares.

Common control reserve

The Board of Directors and Management have determined that the acquisition represents a business combination under common control. There is no NZ IFRS or IFRS that specifically applies to an acquisition and consolidation under common control and therefore outside of the scope of NZ IFRS, the predecessor value ('pooling of interests') method has been adopted. In this case the net assets of the combining entities or businesses are combined using the existing book values (predecessor book values) from the controlling parties' perspective (and not adjusted to fair value upon combining). No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest. Any difference between the cost of investment recognised by the controlling entity and the nominal value of the net assets of the combining entities or businesses on the date at which the combining entities or businesses first came under the control of the controlling entity results in the recognition of a common control reserve.

Contribution to the Group results

In the six months to 30 September 2018 the business contributed revenue of \$0.8m and profit of \$0.3m to the Group's consolidated results.

GENEVA FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

13. ACQUISITIONS OF BUSINESSES (continued)

Acquisition of Geneva Capital Limited

On 1 April 2018, the Group purchased Geneva Capital Limited ('GCL'). The principal activity of the Geneva Capital business is invoice factoring. The GCL business will be reported as a separate entity within the Group. The primary reason for the acquisition was to add another finance product that complements the Group's existing financial services offered.

	01/04/2018
Fair Value of consideration transferred;	\$'000
Cash	<u>8,850</u>
Identified assets acquired and liabilities assumed	
Balance of disbursement account	156
Invoice factoring loan balances	8,094
Legal costs associated with acquisition	<u>(46)</u>
Identifiable net assets	<u>8,204</u>
Goodwill on acquisition	646
Consideration transferred settled in cash	<u>8,850</u>
Net cash outflow on acquisition	<u>8,850</u>

Goodwill on acquisition

Given the acquisition took place within six months prior to reporting date, the Group is still in the process of completing its initial acquisition accounting. The residual intangible asset arising on acquisition has been provisionally allocated to goodwill while the acquisition accounting is being completed. This intangible asset is expected to include the benefit of customer relationships. If these benefits do not meet the recognition criteria for identifiable intangible assets then they will be included within the goodwill as they can not be recognised separately from goodwill.

Contribution to the Group results

In the six months to 30 September 2018 the business contributed revenue of \$0.54m and loss of \$0.28m to the Group's consolidated results.

14. RECLASSIFICATION AND PRESENTATION OF COMPARATIVE INFORMATION

None

15. COMMITMENTS AND CONTINGENCIES

30 September 2018 None

30 September 2017 None

31 March 2018 None

16. SUBSEQUENT EVENTS

On 6 December 2018 the board approved an interim Dividend payable on 28 December 2018.

An annual review of the Westpac facility is currently in progress, expected to be finalised in early 2019. The facility will be extended from July 2019 to July 2020.

GENEVA FINANCE LIMITED

CORPORATE DIRECTORY AND SHAREHOLDER INFORMATION

Corporate directory

Directors

David W Smale (*Chairman*)
Appointed 12 November 2008

Ronald R King (*Non-executive director*)
Appointed 13 June 2008

Alan L M Hutchison (*Non-executive director*)
Appointed 20 November 2013

David G O'Connell (*Executive director*)
Appointed 19 June 2007

Registered office and address for service

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PO Box 14923, Panmure, Auckland
Telephone: 0800 800 133
Facsimile: (09) 573 5597
Email: investments@genevafinance.co.nz
Web: www.genevafinance.co.nz

Auditor

Staples Rodway

Bankers

ANZ National Bank Limited
Westpac New Zealand Limited
Kiwibank Limited

Solicitor

Dermot Ross

Shareholder information

Company publications

The Company informs investors of the Company's business and operations by issuing an Annual Report, an Interim Report and regular NZX announcements

Financial calendar

Half year results announced	December
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Half year report	January
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End of financial year	31 March
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Annual results announced	June
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Annual report	June
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Annual dividend payment	June
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Enquiries

Shareholders with enquiries about transactions, change of address or dividend payments should contact Link Market Services on +64 9 375 5998. Other questions should be directed to the Company at the registered address.

Share registrar

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