



GENERAL FINANCE LIMITED

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

GENERAL FINANCE LIMITED

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GENERAL FINANCE LIMITED

BUSINESS PROFILE AS AT 30 SEPTEMBER 2011

Nature of Business	Finance and Mortgage Lending Company	
Business Address	638 Great South Road Ellerslie, Auckland, 1051	
Postal Address	PO Box 74 212 Greenlane, Auckland, 1546	
Telephone	09 526 5000	
IRD Number	68-422-167	
Share Capital	2,800,000 Ordinary Shares	
Shareholder	Cairns Lockie Holdings Limited Total Shares	Ordinary <u>2,800,000</u> <u>2,800,000</u>
Directors	PA Anderson WAA Cairns JR Lockie JC Olsen (deceased 6 October 2011)	
Registered Office	Level 1, 638 Great South Road Ellerslie, Auckland, 1051	
Company Number	AK 860336	
Date of Incorporation	13 June 1997	
Bankers	Bank of New Zealand Limited	

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.

During the 2010/11 year, business has been reasonably active, with a number of good quality lending proposals being entertained.

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 full range of residential mortgage services. These include prime, no-financials, non-conforming, bridging, and some second mortgages. Lending is on residential properties only and funded on our own balance sheet using debenture funding.

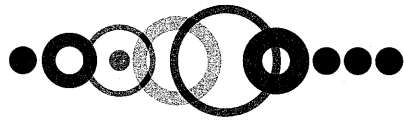
The Company also manages a number of mortgages that it has originated but that are funded from wholesale funding sources.

General Finance Limited is a subsidiary of Cairns Lockie Holdings Limited. The Cairns Lockie group (a well established mortgage banking operation) has originated and managed, in aggregate, over \$1.11 billion of mortgage assets since 1999. At its peak in 2007 it had over \$400 million of mortgages under management and 22 staff.

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
- 100% Home Loans aimed at the first home buyer 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. Throughout this period it traded profitably. Its eighth Prospectus was approved and issued in August 2011. It continues as a specialist residential lender providing short term and bridging residential mortgages.



HAYES KNIGHT | AUDIT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF GENERAL FINANCE LIMITED

Report on the Financial Statements

We have audited the financial statements of General Finance Limited on pages 7 to 31, which comprise the balance sheet as at 30 September 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal 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.

Auditor's Responsibility

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

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

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

Hayes Knight Audit
CHARTERED ACCOUNTANTS

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An associated company, Hayes Knight (NZ) Limited, provides taxation compliance services to the company. The firm and its associates have no other relationship with, or interests in, General Finance Limited.

Opinion

In our opinion, the financial statements on pages 7 to 31:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the financial position of General Finance Limited as at 30 September 2011 and its financial performance and cash flows for the six month period ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required; and
- In our opinion proper accounting records have been kept by General Finance Limited as far as appears from our examination of those records.

Hayes Knight Audit

HAYES KNIGHT AUDIT

AUCKLAND, NEW ZEALAND

1 December 2011



GENERAL FINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Note	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
CONTINUING OPERATIONS				
REVENUE				
Commission and Management Fees		19,059	51,840	87,598
Interest and Loan Fees	4	453,644	706,456	264,364
Bad Debts Recovered		6,800	-	-
		<u>479,503</u>	<u>758,296</u>	<u>351,962</u>
EXPENSES				
Audit Fees (provided by Hayes Knight Audit)		20,798	59,663	25,653
Tax Services (Hayes Knight NZ Limited)		2,392	6,190	-
Bad Debts Written Off		71,406	243,067	-
Movement in Impairment Loss Provisions		(55,155)	(97,485)	36,983
Finance Costs		139,265	184,245	87,918
Brokers' Fees		16,870	33,451	21,347
Lender Commissions		23,490	31,801	26,484
Directors Fees		13,500	-	-
Other Expenses		44,546	107,876	64,552
		<u>277,112</u>	<u>568,808</u>	<u>262,937</u>
RESULT FROM OPERATING ACTIVITIES		202,391	189,488	89,025
Income Tax Expense	7	<u>62,269</u>	<u>63,404</u>	<u>31,954</u>
NET PROFIT FROM CONTINUING OPERATIONS		<u>140,122</u>	<u>126,084</u>	<u>57,071</u>
OTHER COMPREHENSIVE INCOME				
Other Comprehensive Income		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>140,122</u>	<u>126,084</u>	<u>57,071</u>



The accompanying notes form part of and should be read in conjunction with the Financial Statements.

GENERAL FINANCE LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

	Note	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
EQUITY AT BEGINNING OF THE PERIOD		3,013,105	2,887,021	2,887,021
Total Comprehensive Income for the period		<u>140,122</u>	<u>126,084</u>	<u>57,071</u>
TRANSACTIONS WITH OWNERS				
Distributions to owners		-	-	-
Contributions from owners		-	-	-
EQUITY AT END OF THE PERIOD		<u>3,153,227</u>	<u>3,013,105</u>	<u>2,944,092</u>

Share Capital

		6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
Opening Balance	9	2,800,000	2,800,000	2,800,000
New shares issued during the period		-	-	-
Closing Balance		<u>2,800,000</u>	<u>2,800,000</u>	<u>2,800,000</u>

Retained Earnings

		6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
Opening Balance		213,105	87,021	87,021
Profit for the period		140,122	126,084	57,071
Dividend paid during the period		-	-	-
Closing Balance		<u>353,227</u>	<u>213,105</u>	<u>144,092</u>

The accompanying notes form part of and should be read in conjunction with the Financial Statements.

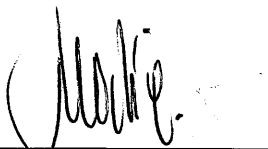


GENERAL FINANCE LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER 2011

	Note	Sep 11 \$	Mar 11 \$	Sep 10 \$
Shares		2,800,000	2,800,000	2,800,000
Retained Earnings		353,227	213,105	144,092
Total Equity Attributable to the Shareholder		<u>3,153,227</u>	<u>3,013,105</u>	<u>2,944,092</u>
CURRENT ASSETS				
Cash & Cash Equivalents	5	1,778,683	1,474,022	1,342,420
Accounts Receivable		1,537	3,552	5,214
Taxation Refundable	7	4,896	8,363	624
Mortgage Advances – Current Portion	6	<u>4,642,577</u>	<u>4,636,121</u>	<u>3,634,686</u>
Total Current Assets		<u>6,427,693</u>	<u>6,122,058</u>	<u>4,982,944</u>
CURRENT LIABILITIES				
Accounts Payable		64,999	51,371	49,632
Debenture Stock Investors - Current Portion	8	1,248,427	776,120	715,207
Deferred Income – Current Portion		<u>59,783</u>	<u>47,484</u>	<u>61,583</u>
Total Current Liabilities		<u>1,373,209</u>	<u>874,975</u>	<u>826,422</u>
Working Capital		5,054,484	5,247,083	4,156,522
NON-CURRENT ASSETS				
Mortgage Advances – Term Portion	6	312,653	101,179	94,186
Deferred Tax Asset	7	<u>29,538</u>	<u>91,808</u>	<u>123,259</u>
Total Non-Current Assets		<u>342,191</u>	<u>192,987</u>	<u>217,445</u>
NON-CURRENT LIABILITIES				
Debenture Stock Investors – Term Portion	8	2,238,716	2,424,017	1,427,673
Deferred Income – Term Portion		<u>4,732</u>	<u>2,948</u>	<u>2,202</u>
Total Non-Current Liabilities		<u>2,243,448</u>	<u>2,426,965</u>	<u>1,429,875</u>
NET ASSETS		<u>3,153,227</u>	<u>3,013,105</u>	<u>2,944,092</u>

Authorised for issue on behalf of the Board:



Director



Director

Date: 1 December 2011



The accompanying notes form part of and should be read in conjunction with the Financial Statements.

GENERAL FINANCE LIMITED

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Commission & Other Income	35,157	112,737	160,184
Interest & Fees Received	513,156	661,273	261,432
Income Tax Refund	<u>3,468</u>	<u>16,531</u>	<u>24,269</u>
	551,781	790,541	445,885
Cash was applied to			
Payment to suppliers	(107,968)	(225,206)	(126,001)
Interest paid	<u>(126,510)</u>	<u>(184,715)</u>	<u>(88,387)</u>
	<u>(234,478)</u>	<u>(409,921)</u>	<u>(214,388)</u>
Net cash inflow from Operating Activities (Note 20)	317,303	380,619	231,497
CASH FLOWS FROM / (TO) INVESTING ACTIVITIES			
Cash was applied from / (to)			
Net Mortgage Advances	<u>(286,892)</u>	<u>(1,200,292)</u>	<u>(125,516)</u>
Net cash inflow / (outflow) from Investing Activities	(286,892)	(1,200,292)	(125,516)
CASH FLOWS FROM / (TO) FINANCING ACTIVITIES			
Cash was applied from / (to)			
Dividends Paid	-	-	-
Capital Receipts / (Payments)	-	-	-
Net Receipts / (Repayments) of Debenture Stocks	<u>274,251</u>	<u>701,109</u>	<u>(356,147)</u>
Net cash inflow (outflow) from Financing Activities	274,251	701,109	(356,147)
NET CASH MOVEMENT FOR PERIOD	304,661	(118,564)	(250,167)
OPENING CASH BALANCE	1,474,022	1,592,586	1,592,586
CLOSING CASH BALANCE	<u><u>1,778,683</u></u>	<u><u>1,474,022</u></u>	<u><u>1,342,420</u></u>
COMPOSITION OF CASH			
Bank Deposits	<u>1,778,683</u>	<u>1,474,022</u>	<u>1,342,420</u>
Closing Cash Balance	<u><u>1,778,683</u></u>	<u><u>1,474,022</u></u>	<u><u>1,342,420</u></u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

1. Statement of Accounting Policies

General Information

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

General Finance Limited (the "Company") is a finance and mortgage lending company. It is a wholly owned subsidiary of Cairns Lockie Holdings Limited, an established New Zealand owned and operated mortgage banking company. The results of the Company are reported herein as an individual entity.

The Company, a profit-oriented entity, is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 1, 638 Great South Rd, Ellerslie, Auckland

The presentation 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.

2. Summary of Significant Accounting Policies

Basis of Preparation

The company is registered under the Companies Act 1993 and is an issuer and reporting entity for the purpose of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Securities Regulations 2009.

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-orientated entities. They comply with the International Financial Reporting Standards (IFRS).

Historical cost convention

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 as identified in specific accounting policies below.

3. Specific Accounting Policies

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 that revenue can be measured reliably. Expenses are recognised in the Statement of Comprehensive Income on an accrual basis. Interest revenue, fee income and interest expense are recognised using the effective interest method.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the term of the loan.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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.

Deferred tax is recognised using the balance sheet 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.

Foreign Currency

There are no foreign currency transactions.

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.

Borrowing Costs

All borrowing costs are expensed.

Financial Instruments

Financial instruments are recognised in the balance sheet when the Company becomes party to a financial contract. The Company derecognises a financial asset from its balance sheet 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. The Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

All the Company's financial instruments are initially recorded at fair value plus transaction costs. Due allowance is made for impaired receivables (provision for impairment losses).



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Receivables

Receivables are stated at expected realisable value. Bad debts are written off during the period in which they are identified.

Liabilities

Liabilities are stated at the estimated amounts payable and include all obligations that can be reliably estimated. Current liabilities include the amounts payable within twelve months of these financial statements.

Goods and Services Tax (GST)

The company is involved in both exempt and taxable activities for Goods and Services Tax purposes. Accordingly these Financial Statements are prepared on a GST exclusive and inclusive basis depending on the type of transaction. The company registered for GST on 1 March 2003 and deregistered from GST on 31 March 2008.

Impairment of loans and advances

Loans and advances are regularly reviewed for impairment loss. Credit impairment provisions are raised for exposures that are known to be impaired. Loans are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred 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 of the individual 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 for assets that are individually significant.

Past Due Assets are any financial assets in which the counterparty has failed to make a payment when contractually due.

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 would not otherwise consider. Once a financial asset is restructured it remains in this category independent of satisfactory performance after restructuring. A restructured asset may also be represented as an impaired asset or a past due asset.

Notes 6 and 14 discloses impaired assets, past due assets and restructured assets.

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 advance to and repayment received from borrowers in relation to mortgages are considered investing activities and are reported as a net item in the Statement of Cash Flows.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Proceeds from debentures issued and repayments to debenture investors are considered financing activities and are also reported as a net item in the Statement of Cash Flows.

Management of Capital

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

The Group'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 Group has minimum capital requirements 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.

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

Comparative Figures

Comparative figures for the year ended 31 March 2011 and six months ended 30 September 2010 are audited.

Comparative figures included in the Statement of Cash Flows related to the financial year ended 31 March 2011, where necessary these figures have been reclassified on a basis consistent with current disclosure for the six months ended 30 September 2011.

Changes in Accounting Policies

There have been no changes in accounting policies in the six months ended 30 September 2011.

4. Subclasses of Interest Income and Loan Fee Income

	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
Loan advances	342,256	462,135	229,110
Interest on impaired advances:			
Restructured assets	-	64,657	14,000
Other impaired assets	10,472	13,590	-
Cash and cash equivalent	22,570	45,115	21,254
Fee Charges	<u>78,346</u>	<u>120,959</u>	<u>-</u>
Total Interest and Loan Fee Income	<u>453,644</u>	<u>706,456</u>	<u>264,364</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

5. Current Assets – Cash & Cash Equivalent

	Sep 11 \$	Mar 11 \$	Sep 10 \$
Cash on Hand	1,778,683	1,474,022	1,342,420
	<u>1,778,683</u>	<u>1,474,022</u>	<u>1,342,420</u>

Cash on Hand Interest Rate: Between 0% and 3.15% (on call)

6. Loan Advances

	Sep 11 \$	Mar 11 \$	Sep 10 \$
First Mortgage Advances	4,625,725	4,314,063	3,326,124
Second Mortgage Advances	310,689	455,476	537,918
Unsecured Advances	91,513	95,612	127,150
	<u>5,027,927</u>	<u>4,865,151</u>	<u>3,991,192</u>
Undrawn Loan Commitments	-	-	-
Impairment Losses Provision	(72,697)	(127,852)	(262,320)
Net Mortgage Advances	<u>4,955,230</u>	<u>4,737,299</u>	<u>3,728,872</u>
Mortgage Advances – Current Portion	4,642,577	4,636,121	3,634,686
Mortgage Advances – Non-Current Portion	312,653	101,178	94,186
	<u>4,955,230</u>	<u>4,737,299</u>	<u>3,728,872</u>

Loan advances represent mortgages to unrelated parties at commercial interest rates. Current loan advances are contractually repayable within 12 months. Term loan advances are contractually repayable within 12 months to 3 years. Capitalised interest loans are 2.19% of total advances (March 2011: 3.76% and September 2010: 4.0%)

Interest Rate: Between 11.95% and 18.50%

Effective Interest Rate: Between 12.63% and 20.15%

Reconciliation of Movement in Impairment Provision Account

	Sep 11 \$	Mar 11 \$	Sep 10 \$
Balance at beginning of period	127,852	225,337	225,337
Movement in collective provision for impairment losses	-	-	-
Bad Debts Written Off	(71,406)	(243,066)	-
Additional provision for impairment losses	16,251	145,581	36,983
Balance at end of period	<u>72,697</u>	<u>127,852</u>	<u>262,320</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Reconciliation of Movement in Past Due and Impaired Assets

	Sep 11 \$	Mar 11 \$	Sep 10 \$
Balance of past due assets at beginning of period	1,375,087	1,515,137	1,515,137
New loans entered into	(545,800)	-	(70,127)
Additions to past due	937,680	1,120,445	84,721
Repayments	(661,302)	(1,017,429)	(986,309)
Bad Debts Written Off	(71,406)	(243,066)	-
Balance of past due assets at end of period	<u>1,034,259</u>	<u>1,375,087</u>	<u>543,422</u>
Balance of impaired assets at beginning of period	414,029	451,444	451,444
New loans entered into	(109,465)	-	-
Additions to impaired assets	40	239,573	33,650
Repayments	(141,685)	(33,921)	(6,802)
Bad Debts Written Off	(71,406)	(243,066)	-
Reassessed impairment	-	-	-
Balance of impaired assets at end of period	<u>91,513</u>	<u>414,029</u>	<u>478,292</u>
Balance of restructured assets at beginning of period	167,699	316,663	316,663
Additions to restructured assets	40	128,024	32,279
Repayments	(4,820)	(33,921)	(6,802)
Bad Debts Written Off	(71,406)	(243,066)	-
Balance of restructured assets at end of period	<u>91,513</u>	<u>167,699</u>	<u>342,140</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

7. Income Tax

	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
Profit Reconciliation			
Operating Surplus / (Deficit) before Income Tax	202,391	189,488	89,025
Non Deductible Expenses	20,000	-	-
Add back Prior period Over Accrued	-	-	-
Taxable Income / (Loss)	<u>222,391</u>	<u>189,488</u>	<u>89,025</u>
Prima Facie Tax – 28% (March 2011 and Sept 2010: 30%)	62,269	56,847	26,708
Tax Effect on Deferred Tax of change in Tax Rate to 28%	-	6,557	5,246
	<u>62,269</u>	<u>63,404</u>	<u>31,954</u>
Current Tax	-	-	-
Deferred Tax	<u>62,269</u>	<u>63,404</u>	<u>31,954</u>
Income Tax Expense	<u>62,269</u>	<u>63,404</u>	<u>31,954</u>
Taxable Income @ 28% (March 2011 and Sept 2010: 30%)	-	-	-
Less Tax paid relating to current year	-	-	-
RWT Paid	4,896	8,363	624
Provisional Tax Payments	-	-	-
Taxation Payable (refundable) for current period	<u>(4,896)</u>	<u>(8,363)</u>	<u>(624)</u>
Prior period tax payable	-	-	-
Taxation Payable (refundable)	<u>(4,896)</u>	<u>(8,363)</u>	<u>(624)</u>

Imputation Credits

As at balance date imputation credits totaled \$136,747 (March 2011: \$140,214 and September 2010: \$132,476). 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:

	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sep 10 \$
Balance at beginning of year	140,214	156,746	156,746
Income tax payments / (refunds)	(8,363)	(24,895)	(24,894)
RWT Credits received	4,896	8,363	624
ICA Credits attached to dividends paid	-	-	-
Balance at end of period	<u>136,747</u>	<u>140,214</u>	<u>132,476</u>

Tax Losses

There was a \$32,795 income tax loss (March 2011: \$200,032 and September 2010: \$166,029) and no unrecognised temporary differences carried forward.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Deferred Tax Reconciliation

	Sep 11 \$	Mar 11 \$	Sep 10 \$
Deferred Tax attributed to:			
Balance at beginning of year	91,808	155,212	155,212
Increase / (Decrease) in impairment loss provision	(15,443)	(29,246)	11,095
Increase / (Decrease) in losses carried forward	(46,827)	(27,601)	(37,802)
Tax Effect on Deferred Tax of change in Tax Rate to 28%	-	(6,557)	(5,246)
Balance at end of period	<u>29,538</u>	<u>91,808</u>	<u>123,259</u>
Impairment Loss Provision	20,355	35,799	73,450
Tax Losses	<u>9,183</u>	<u>56,009</u>	<u>49,809</u>
	<u>29,538</u>	<u>91,808</u>	<u>123,259</u>

The Company tax rate reduced from 30% to 28% effective from 1 April 2011.

8. Debenture Stock Investors

	Sep 11 \$	Mar 11 \$	Sep 10 \$
Current - On Call	26,951	104,716	120,610
- Current	1,221,476	671,404	594,597
Non-Current	<u>2,238,716</u>	<u>2,424,017</u>	<u>1,427,673</u>
	<u>3,487,143</u>	<u>3,200,137</u>	<u>2,142,880</u>

Repayment Terms: On call up to 5 years

Effective Interest Rate: 2.02% - 10.52%

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).

Concentration of Funding

	30 Sep 2011	31 March 2011	30 Sep 2010
Auckland	43%	42%	58%
Wellington	16%	16%	11%
Other North Island	30%	32%	22%
South Island	9%	8%	6%
Overseas	2%	2%	3%

The Company has a total of 89 depositors as at 30 September 2011 (March 2011: 84 and September 2010: 82). As at balance date, the largest deposits the Company has are three deposits at \$200,000 each. Each of them represents 5.74% of total deposits. One of the \$200,000 deposits was received from a related party, with the total deposits from related parties of \$527,225 (March 2011: \$657,683 and September 2010: \$355,130) as at balance date. Refer to Note 12.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

9. Share Capital

	Sep 11	Mar 11	Sep 10
	\$	\$	\$
Issued and Paid Up Capital			
2,800,000 Ordinary Shares	<u>2,800,000</u>	<u>2,800,000</u>	<u>2,800,000</u>

All ordinary shares rank pari passu (equally) in all respects. An ordinary share confers on the holder the right to one vote on a poll.

10. Commitments for Expenditure

Capital Commitments

There were no material commitments for capital expenditure outstanding at 30 September 2011 (March 2011: Nil and September 2010: Nil)

11. Contingent Liabilities

There were no material contingent liabilities at 30 September 2011 (March 2011: Nil and September 2010: Nil)

12. Related Party Transactions

General Finance Limited is 100% owned by Cairns Lockie Holdings Limited which is under the ultimate control of the Ilam Trust (in which the director, W A A Cairns is a trustee) and Forthbank Trustees Limited (a corporate trustee for the James Lockie Family Trust and Debra Lockie Family Trust. The director, J R Lockie is a director of Forthbank Trustees Limited). W A A Cairns and J R Lockie are the directors of Cairns Lockie Holdings Limited.

During the six months period the company paid a total of \$13,500 in Directors Fees to 4 Directors, Chairperson \$4,500 and the other Directors, \$3,000 each (March 2011: Nil and September 2010: Nil).

Closely related family members of the directors have invested on aggregate \$527,225 (March 2011: \$657,683 and September 2010: \$355,130) in debenture stocks of the company on normal terms. Total interest paid to related parties on their debenture stocks during the period were \$22,164 (March 2011: \$8,672 and September 2010: \$4,319).

Emortgage Limited (a related company with common directorship), has agreed to provide a standby credit facility to General Finance Limited up to a level of \$585,000. The facility can be drawn on notice by the company and interest is payable at normal commercial rates. During the 6 month period no drawings were made under this facility. (March 2011: Nil and September 2010: Nil)

13. Lending Industry Segments and Concentration of Credit

The company provides mortgage advances, which we record in the Balance Sheet, through a broker network to the customer. The mortgage advances held in the company name are written over 6 to 30 month periods, with various priority security over property.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Credit exposures are concentrated in the residential property sector, particularly in the North Island and the Auckland Market. As at 30 September 2011, advances by General Finance in the North Island residential property sector represented 76% of its total exposure, with 23% being in the Auckland market. This geographical concentration reflects the Company's current focus on the North Island and the Auckland market.

As at 30 September 2011 the Company's loan advances are secured as follows: first mortgages 92% (March 2011: 88.7% and September 2010: 84.1%); second mortgages 6.2% (March 2011: 9.4% and September 2010: 13.5%); and unsecured 1.8% (March 2011: 1.9% and September 2010: 2.4%)

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 41.0% of total equity) and Kiwi Bank (representing 15.4% of total equity) who have AA and AA- credit rating respectively from Standard & Poor's.

The maximum credit exposure of the company, assuming a zero value for collateral is \$6,808,147 (March 2011: \$6,342,725 and September 2010: \$5,338,826).

The company has no foreign exchange exposure.

Concentration of Credit Exposures

As at 30 September 2011 the company had the following concentration of credit exposures (mortgage advances) as a percentage of equity.

Equity Percentage	No of Loans	Average Loan Size \$
0% to 5%	26	72,519
5% to 10%	13	212,110
10% to 15%	1	385,000
15% to 20%	-	-
20% to 25%	-	-
25% to 30%	-	-
30% to 35%	-	-

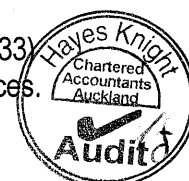
The majority of lending is to private individuals and trusts in the North Island. The concentration of the credit exposure to the six largest loans is 35.2% (March 2011: 38.8% and September 2010: 41.4%) of the total loan portfolio.

14. Asset Quality

Gross past due accounts total to \$1,034,259 (March 2011: \$1,375,087 and September 2010: \$543,433) which equates to 20.6% (March 2011: 28.3% and September 2010: 13.6%) of total Mortgage Advances. This balance comprises:

Past due but not impaired assets total to \$942,746 (March 2011: \$961,058 and September 2010: \$65,130) which equates to 18.7% (March 2011: 19.8% and September 2010: 1.6%) of total mortgage advances.

Impaired assets total to \$91,513 (March 2011: \$414,029 and September 2010: \$478,292) which equates to



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

1.8% (March 2011: 8.5% and September 2010: 12.0%) of total Mortgage Advances. Any interest accrued or capitalised on impaired assets has been provided for in the period it was accrued.

As at 30 September 2011 the total provision for credit impairment was \$72,697 (March 2011: \$127,852 and September 2010: \$262,320). The total provision at 30 September 2011 and March 2011 and 30 September 2010 represented individual impairment provisions.

Security held over the past due and impaired assets was first and second mortgages over residential properties in the North Island. Loans now unsecured as a result of security enforcement total \$91,513 (March 2011: \$95,612 and September 2010: \$127,150) which equates to 1.8% (March 2011: 2% and September 2010: 3.2%) of total Mortgage Advances.

As at 30 September 2011, the Company has a total of \$97,273 in 90-day past due assets (March 2011: \$229,920 and September 2010: Nil)

Aging Analysis – Past Due but Not Impaired	Sep 11 \$	Mar 11 \$	Sep 10 \$
Current	622,693	60,546	65,130
30 Days	311,497	209,826	-
60 Days	1,500	5,330	-
90 Days	7,055	685,355	-
90+ Days	-	-	-
Total	<u>942,746</u>	<u>961,057</u>	<u>65,130</u>

Expected Cashflows – September 2011	Total	0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
Past Due Assets (Not Impaired)	\$	\$	\$	\$	\$
Restructured Finance Receivables	-	-	-	-	-
Otherwise Past Due Finance Receivables	<u>986,689</u>	<u>750,517</u>	<u>222,785</u>	<u>7,083</u>	<u>6,304</u>
Totals	<u>986,689</u>	<u>750,517</u>	<u>222,785</u>	<u>7,083</u>	<u>6,304</u>
Impaired Assets					
Restructured Finance Receivables	42,916	5,000	5,000	10,000	22,916
Other Impaired Finance Receivables	-	-	-	-	-
Totals	<u>42,916</u>	<u>5,000</u>	<u>5,000</u>	<u>10,000</u>	<u>22,916</u>
Total Past Due Assets	<u>1,029,604</u>	<u>755,517</u>	<u>227,785</u>	<u>17,083</u>	<u>29,220</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Expected Cashflows – March 2011	Total	0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
Past Due Assets (Not Impaired)	\$	\$	\$	\$	\$
Restructured Finance Receivables	-	-	-	-	-
Otherwise Past Due Finance Receivables	967,884	924,396	3,300	40,188	-
Totals	967,884	924,396	3,300	40,188	-
Impaired Assets					
Restructured Finance Receivables	113,638	39,200	9,200	18,400	46,838
Other Impaired Finance Receivables	214,388	111,855	-	102,533	-
Totals	328,026	151,055	9,200	120,933	46,838
Total Past Due Assets	1,295,910	1,075,451	12,500	161,121	46,838

Expected Cashflows – September 2010	Total	0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
Past Due Assets (Not Impaired)	\$	\$	\$	\$	\$
Restructured Finance Receivables	-	-	-	-	-
Otherwise Past Due Finance Receivables	65,130	65,130	-	-	-
Totals	65,130	65,130	-	-	-
Impaired Assets					
Restructured Finance Receivables	135,352	20,585	6,300	48,942	59,525
Other Impaired Finance Receivables	111,820	-	-	111,820	-
Totals	247,172	20,585	6,300	160,762	59,525
Total Past Due Assets	312,302	85,715	6,300	160,762	59,525

The estimated recoverable value of the impaired assets is \$18,816 comprising the book value of \$91,513, less specific provisions for impairment of \$72,697 (March 2011: \$286,177, comprising the book value of \$414,029, less specific provisions for impairment of \$127,852 and September 2010: \$215,972, comprising the book value of \$478,292, less specific provisions for impairment of \$262,320). 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 the period end.

15. 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 5, 6 and 8 for respective interest rates. No other monetary assets and liabilities attract interest charges.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

September 2011	Weighted Average Int. Rate	Total \$	Contractual Cash Flows			
			0 - 6 Months \$	7 - 12 Months \$	13 - 24 Months \$	24+ Months \$
Financial Assets						
Bank Deposits	3.01%	1,778,683	1,778,683	-	-	-
Other Monetary Assets	0%	1,537	1,537	-	-	-
Finance Receivables	13.54%	5,394,171	2,645,704	2,420,200	320,072	8,194
Totals		<u>7,174,391</u>	<u>4,425,925</u>	<u>2,420,200</u>	<u>320,072</u>	<u>8,194</u>
Financial Liabilities						
Debenture Stock	8.57%	3,936,927	588,451	916,839	1,353,414	1,078,223
Totals		<u>3,936,927</u>	<u>588,451</u>	<u>916,839</u>	<u>1,353,414</u>	<u>1,078,223</u>
Net Cashflow		<u>3,237,464</u>	<u>3,837,474</u>	<u>1,503,362</u>	<u>(1,033,342)</u>	<u>(1,070,029)</u>

March 2011	Weighted Average Int. Rate	Total \$	Contractual Cash Flows			
			0 - 6 Months \$	7 - 12 Months \$	13 - 24 Months \$	24+ Months \$
Financial Assets						
Bank Deposits	3.04%	1,474,022	1,474,022	-	-	-
Other Monetary Assets	0%	3,552	3,552	-	-	-
Finance Receivables	13.93%	5,140,830	3,430,205	1,623,545	67,694	19,386
Totals		<u>6,618,404</u>	<u>4,907,779</u>	<u>1,623,545</u>	<u>67,694</u>	<u>19,386</u>
Financial Liabilities						
Debenture Stock	8.31%	3,666,474	527,265	488,642	1,473,685	1,176,882
Totals		<u>3,666,474</u>	<u>527,265</u>	<u>488,642</u>	<u>1,473,685</u>	<u>1,176,882</u>
Net Cashflow		<u>2,951,930</u>	<u>4,380,514</u>	<u>1,134,903</u>	<u>(1,405,991)</u>	<u>(1,157,496)</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

September 2010	Weighted Average Int. Rate	Total \$	Contractual Cash Flows			
			0 - 6 Months \$	7 - 12 Months \$	13 - 24 Months \$	24+ Months \$
Financial Assets						
Bank Deposits	3.48%	1,342,420	1,342,420	-	-	-
Other Monetary Assets	0%	5,214	5,214	-	-	-
Finance Receivables	14.29%	4,283,289	2,366,002	1,824,947	68,401	23,939
Totals		<u>5,630,923</u>	<u>3,713,636</u>	<u>1,824,947</u>	<u>68,401</u>	<u>23,939</u>
Financial Liabilities						
Debenture Stock	7.87%	2,382,563	527,032	328,245	884,036	643,250
Totals		<u>2,382,563</u>	<u>527,032</u>	<u>328,245</u>	<u>884,036</u>	<u>643,250</u>
Net Cashflow		<u>3,248,360</u>	<u>3,186,604</u>	<u>1,496,702</u>	<u>(815,635)</u>	<u>(619,311)</u>

September 2011	Total \$	Expected Cash Flows			
		0 - 6 Months \$	7 - 12 Months \$	13 - 24 Months \$	24+ Months \$
Financial Assets					
Bank Deposits	1,805,447	1,805,447	-	-	-
Other Monetary Assets	1,537	1,537	-	-	-
Finance Receivables	5,341,474	2,558,922	2,425,450	330,072	27,030
Totals	<u>7,148,458</u>	<u>4,365,906</u>	<u>2,425,450</u>	<u>330,072</u>	<u>27,030</u>
Financial Liabilities					
Debenture Stock	4,128,155	168,234	262,118	386,932	3,310,871
Totals	<u>4,128,155</u>	<u>168,234</u>	<u>262,118</u>	<u>386,932</u>	<u>3,310,871</u>
Net Cashflow	<u>3,020,304</u>	<u>4,197,672</u>	<u>2,163,332</u>	<u>(56,860)</u>	<u>(3,283,841)</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

March 2011	Total	Expected Cash Flows			
		0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
	\$	\$	\$	\$	\$
Financial Assets					
Bank Deposits	1,496,441	1,496,441	-	-	-
Other Monetary Assets	3,552	3,552	-	-	-
Finance Receivables	5,049,778	3,161,818	1,632,993	188,674	66,293
Totals	<u>6,549,771</u>	<u>4,661,811</u>	<u>1,632,993</u>	<u>188,674</u>	<u>66,293</u>
Financial Liabilities					
Debenture Stock	1,875,199	278,661	279,502	704,214	612,821
Totals	<u>1,875,199</u>	<u>278,661</u>	<u>279,502</u>	<u>704,214</u>	<u>612,821</u>
Net Cashflow	<u>4,674,572</u>	<u>4,383,150</u>	<u>1,353,491</u>	<u>(515,540)</u>	<u>(546,528)</u>

September 2010	Total	Expected Cash Flows			
		0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
	\$	\$	\$	\$	\$
Financial Assets					
Bank Deposits	1,365,761	1,365,761	-	-	-
Other Monetary Assets	5,214	5,214	-	-	-
Finance Receivables	4,052,153	1,908,296	1,831,230	229,163	83,464
Totals	<u>5,423,128</u>	<u>3,279,271</u>	<u>1,831,230</u>	<u>229,163</u>	<u>83,464</u>
Financial Liabilities					
Debenture Stock	1,481,044	316,219	205,643	544,534	414,648
Totals	<u>1,481,044</u>	<u>316,219</u>	<u>205,643</u>	<u>544,534</u>	<u>414,648</u>
Net Cashflow	<u>3,942,084</u>	<u>2,963,052</u>	<u>1,625,587</u>	<u>(315,371)</u>	<u>(331,184)</u>

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:

- Debentures are repaid as they fall due
- 78% of maturing debenture holders reinvest (March 2011: 68% and September 2010: 40%)
- Reinvestments are made for a 24 month term (March 2011: 30 months and September 2010: 24 months)
- Performing loans repay on existing contractual maturity date
- Past due loans repayment is net of any impairment with timing estimated on a case by case basis.
- The above does not reflect a forward looking view of how the Company expects actual financial assets and liabilities.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

16. Fair Value

The following tables set out the fair value of the Company's financial assets and liabilities. The fair value of finance receivables and debenture stock is estimated at the present value of contractual principal and interest cash flows. The interest rate used to discount estimated cash flows is 13.54% (March 2011: 13.93% and September 2010: 14.29%) for loan advances and 8.57% (March 2011: 8.31% and September 2010: 7.87%) for debentures, being market rates of interest at the reporting date.

Fair Value September 2011	Total Carrying Value \$	Total Fair Value \$
Financial Assets		
Bank Deposits	1,778,683	1,778,683
Other Monetary Assets	1,537	1,537
Finance Receivables	<u>4,955,230</u>	<u>4,929,980</u>
Totals	<u>6,735,450</u>	<u>6,710,200</u>
Financial Liabilities		
Debenture Stock	<u>3,487,143</u>	<u>3,566,743</u>
Totals	<u>3,487,143</u>	<u>3,566,743</u>
Net Asset Value	<u>3,248,307</u>	<u>3,143,458</u>

Fair Value March 2011	Total Carrying Value \$	Total Fair Value \$
Financial Assets		
Bank Deposits	1,474,022	1,474,022
Other Monetary Assets	3,552	3,552
Finance Receivables	<u>4,737,299</u>	<u>4,725,077</u>
Totals	<u>6,214,873</u>	<u>6,202,651</u>
Financial Liabilities		
Debenture Stock	<u>3,200,137</u>	<u>3,184,138</u>
Totals	<u>3,200,137</u>	<u>3,184,138</u>
Net Asset Value	<u>3,014,736</u>	<u>3,018,513</u>



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Fair Value – September 2010	Total Carrying Value \$	Total Fair Value \$
Financial Assets		
Bank Deposits	1,342,420	1,342,420
Other Monetary Assets	5,214	5,214
Finance Receivables	<u>3,728,872</u>	<u>3,706,204</u>
Totals	<u>5,076,506</u>	<u>5,053,838</u>
Financial Liabilities		
Debenture Stock	<u>2,142,880</u>	<u>2,130,358</u>
Totals	<u>2,142,880</u>	<u>2,130,358</u>
Net Asset Value	<u>2,933,626</u>	<u>2,923,480</u>

17. Critical Estimates and Judgments Used in Applying Accounting Policies

These financial statements are prepared in accordance with New Zealand equivalents of the International Financial Reporting Standards and other authoritative accounting pronouncements. Notwithstanding the existence 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 and liabilities in the 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.

Deferred Tax Assets

The company believes that sufficient income will be generated over the next 6 months to fully utilise the tax losses. Deferred tax asset raised from impairment loss provision is expected to be utilised in the next 18 months.

Deferred tax assets have been calculated based on 28% tax rate.

Credit Provisioning

Provisions for impairment in customer loans and advances 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 or portfolio of loans has occurred. Impairment losses are calculated on individual loans. 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 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 and interest and takes into account any costs expected to be incurred, including security realisation costs, legal and administration costs.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

Individual provisions

An individual provision is raised where there is an expectation of a loss of principal, interest and/or fees and there is objective evidence of impairment.

At each balance date, the Company reviews individually significant 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.

The long-term historical loss experience is reviewed by management and adjustments made to reflect current economic and credit conditions as well as taking into account such factors as concentration risk in an individual portfolio. In addition, management recognise that a certain level of imprecision exists in any model used to generate risk grading and provisioning levels.

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of credit provisions and credit impairment charge recorded in the financial statements.

Credit Assessment

All loans are subject to regular scrutiny. 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.

18. 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.

In November 2010 the Company revised its Risk Management Programme pursuant to the requirements of the Reserve Bank of New Zealand Act 1989. The Risk Management Programme identifies risks to be managed and describes the processes to measure, monitor and control those risks.

* *Credit risk*, including concentrations of credit risk, to bank counterparties and related party credit risk is the 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.

Balance Sheet Risk Management embraces the management of non-traded interest rate risk liquidity and the risk to capital and earnings as a result of exchange rate movements. This risk is overseen by the central credit administration function.

* *Interest rate risk* management's objective is to protect strong and stable net interest income over time. Interest rate risk management focuses on two principal sources of risk; 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.



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Bank deposit interest rates are fixed within the bank floating interest rates. At 30 September 2011 bank deposits attracted a weighted average interest rate of 3.01% (see Note 5 for individual interest rates). A 1% decrease in the weighted average interest rate would reduce the annual interest income from \$53,528 to \$35,741, and a 2% decrease would reduce the income to \$17,954 (based on bank deposits held at 30 September 2011). As at 30 September 2011 the weighted average interest rate on debenture stock was 8.57% (March 2011: 8.31% and September 2010: 7.87%). All debentures have fixed interest rates for their terms, as do loan advances, so the company is not exposed to interest rate cash flow risk on these items.

* *Currency risk* relates to the potential loss arising from the change in the value of foreign currency positions, due to changes in foreign exchange rates. The company does not enter into any foreign currency denominated transactions.

* *Liquidity risk* is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. The Company closely monitors and forecasts its liquidity risk, 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 exiting sufficient of the finance receivables. Refer to Note 15.

* *Market risk* relates to the risk arising from the link between the Company's mortgage portfolio 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 able to exceed 70% (first mortgages) or 65% (second mortgages) of market value. As at 30 September 2011 the weighted average loan to asset ratio was 44.47% (31 March 2011: 48.99% and 30 September 2010: 46.8%). Based on sensitivity testing of the loan portfolio at 30 September 2011 the Company estimates it has a Nil (31 March 2011: \$76,701 and 30 September 2010: \$228,948) exposure on secured mortgages to a property downturn of up to 25% from date of valuation. Of this exposure, Nil (31 March 2011: \$67,496 and 30 September 2010: \$204,991) 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 potentially 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 operations. Operating risks are managed by setting standards and policies, providing advisory and investigation services and monitoring compliance.

19. Post Balance Date Events

One of the Company's Independent Directors passed away on 6 October 2011. The Reserve Bank of New Zealand has issued a temporary waiver to the Company which allows the Company to take reasonable steps and appoint a replacement Independent Director. The Reserve Bank has requested an update as the matter progresses, but, in any event, by 31 December 2011. There are no other post balance date events.



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

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

	6 Mths Sep 11 \$	12 Mths Mar 11 \$	6 Mths Sept 10 \$
Reported Profit after Tax	140,122	126,084	57,071
Add/(Deduct) non-cash items			
Bad Debts Written Off - Principal	68,242	158,415	-
Movement in Impairment Loss Provision - Principal	(40,000)	(35,000)	36,982
Deferred Tax Movement	62,269	63,404	31,953
	<u>90,511</u>	<u>186,819</u>	<u>68,935</u>
Movements in Other Working Capital Items			
Decrease/(Increase) in Accounts Receivable	2,015	46,996	45,334
Increase/(Decrease) in Income Tax Payable	3,468	16,531	24,270
Increase/(Decrease) in Income Received in Advance	14,083	10,967	24,320
(Decrease)/Increase in Accrued Interest	40,721	(20,085)	-
(Decrease)/Increase in Interest Payable	12,755	-	-
(Decrease)/Increase in Accounts Payable	13,628	13,306	11,567
	<u>86,670</u>	<u>67,717</u>	<u>105,491</u>
Total Movement – Inflow/(Outflow)	177,181	254,536	174,425
Net cash Inflow(Outflow) from Operating Activities	<u>317,303</u>	<u>380,619</u>	<u>231,497</u>

21. Standards and Interpretations to Published Standards that are Not Yet Effective

FRS-44 New Zealand Additional Disclosures

This standard prescribes the New Zealand specific disclosures which are required in addition to those required under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs). However there will be limited impact on adopting this standard as the requirements replace existing requirements presently contained within NZ IFRS Standards. (Effective 1 July 2011)

NZ IAS 1 Presentation of Financial Statements (revised 2007)

Removes references to NZ GAAP, Differential Reporting, and the Financial Reporting Act 1993 and consolidates this into a single paragraph. (Effective 1 July 2011)

NZ IAS 7 Statement of Cash Flows

Allows the use of the 'indirect' method for the Statement of Cash Flows, which in turn removes the requirement to provide a reconciliation between the profit (loss) and the cash flow from operating activities. (Effective 1 July 2011)

NZ IAS 34 Interim Financial Reporting

Inserted wording encouraging entities to provide interim financial reports. Removed certain NZ requirements to be disclosed in interim financial reports. (Effective 1 July 2011)



GENERAL FINANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (continued)

NZ IFRS 9 *Financial Instruments*

Specifies how an entity should classify and measure financial assets and liabilities. (Effective 1 January 2013)

There are a number of further standards and interpretations issued as at 30 September 2011, but not yet effective, however the expected impact of these standards and interpretations is not expected to be significant in future reporting periods.

