Results announcement

Results for announcement to the market	
Name of issuer	General Capital Limited
Reporting Period	12 months to 31 March 2020
Previous Reporting Period	12 months to 31 March 2019
Currency	New Zealand Dollars ($)

	Amount (000s)	Percentage change
Revenue from continuing operations	$3,641	70%
Total Revenue	$3,641	70%
Net profit/(loss) from continuing operations	$130	128%
Total net profit/(loss)	$130	128%
Interim/Final Dividend		
Amount per Quoted Equity Security	It is not proposed to pay dividends.	
Imputed amount per Quoted Equity Security	Not applicable	
Record Date	Not applicable	
Dividend Payment Date	Not applicable	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$0.0386	$0.0354
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer to Directors' Report	
Authority for this announcement		
Name of person authorised to make this announcement	Jonathan Clark Chief Financial Officer	
Contact person for this announcement	Brent King Managing Director	
Contact phone number	+64 21 632 660	
Contact email address	Brent.King@gencap.co.nz	
Date of release through MAP	29/06/2020	

DIRECTORS' REPORT

BACKGROUND

General Capital Limited ("the Company") acquired Corporate Holdings Limited ("CHL") and subsidiaries on 3 August 2018. As the acquisition of CHL was deemed to be a reverse acquisition for accounting purposes, the attached financial statements and results represent a continuation of the consolidated financial statements of Corporate Holdings Limited.

The financial information presented up to 3 August 2019 comprises Corporate Holdings Limited and its two subsidiaries (General Finance Limited and Investment Research Group Limited). From 3 August 2018, the financial information comprises the consolidated results of the Company, Corporate Holdings Limited, and the two subsidiaries of Corporate Holdings Limited.

AUDIT

The attached financial information has been audited and has been qualified by the auditor (Baker Tilly Staples Rodway) with respect to the following items:

- The carrying value of goodwill and other indefinite life intangible assets allocated to the research and advisory cash generating unit totalling $1.1 million at 31 March 2020.

Baker Tilly Staples Rodway was unable to obtain sufficient evidence to support the forecasted cash flows and other assumptions that underly the impairment testing done by the Group for the research and advisory CGU.

The Group’s Annual Report for the year ended 31 March 2020 is in the process of being completed and audited.

FINANCIAL PERFORMANCE

	Year ended 31 Mar 2020	**Year ended 31 Mar 2019**	**Var**	**% Change**
Net profit / (loss) after tax	$129,556	($458,088)	$587,644	128%
Earnings / (loss) per share	0.08	(0.46)	0.54	117%

	31 Mar 2020	**31 Mar 2019**	**Var**	**% Change**
Total assets	$51,163,507	$23,907,684	$27,255,823	114%
Total liabilities	$41,781,500	$15,155,024	$26,626,476	176%
Total equity	$9,382,007	$8,752,660	$629,347	7%
Net tangible assets (NTA) per share (cents per share)	3.86	3.54	0.32	9%
Net assets (NA) per share (cents per share)	5.80	5.69	0.11	2%

DIRECTORS' REPORT (CONTINUED)

The Group made a profit before tax of $129,556 for the year ended 31 March 2020. This can be broken down as follows:

	31 Mar 2020	31 Mar 2019	Var	% Change
Finance Segment	$441,716	$124,765	$316,951	254%
Research and Advisory Segment	($15,903)	$93,971	($109,874)	-117%
Corporate and Other Segment	($296,257)	($676,824)	$380,567	56%
Group	$129,556	($458,088)	$587,644	128%

Refer to the attached financial information for detailed segmental results.

Finance Segment

It has been a very positive year in the finance segment with a year on year growth of 102% in loan receivables and 178% in term deposit liability, which were the key drivers of the 71% year on year increase in net revenue and 254% year on year increase in net profit generated from the segment.

Wholly owned subsidiary General Finance Limited, a Non-bank Deposit Taker licenced by the Reserve Bank of New Zealand, obtained a credit rating during the year and added additional staff resourcing to allow for the growth. Further information on General Finance Limited's credit rating can be found on its website at www.generalfinance.co.nz.

Research and Advisory Segment

The research and advisory segment was awarded two significant investment banking advisory contracts in the second half of the financial year. Both of these contracts related to early stage entities in the healthcare and biotechnology sectors. Unfortunately, due to the COVID-19 pandemic, expected capital raising activity as well as progress on project milestones was delayed. This meant that the segment was not able to generate as much revenue from these projects during the 2020 financial year as anticipated (total segment revenue of $165,000 compared to budget of $337,000). Further revenue is expected to be generated from these projects in the 2021 financial year.

Corporate and Other Segment

A large majority of the loss incurred in the the prior year ended 31 March 2019 was in relation to the acquisition expenses and cost of acquiring the listed shell company totalling $509,207. The remainder of the costs in this segment relate to the costs of operating a listed entity, including compliance and other costs.

As described in the background information above, the listed entity was only part of the prior year Group financial information from 3 August 2018. The predominant reason for the increase in costs between 2019 and 2020 (excluding the costs of acquisition) was the extra four months of expenses.

COMPARISON TO 31 MARCH 2020 PROSPECTIVE INFORMATION ("FORECAST")

Refer to the attached financial information for detailed comparison to prospective financial information

Highlights:	2020 Actual $	2020 Forecast $	Variance $
Net revenue	2,038,144	3,534,877	(1,496,733)
Net profit after income tax expense	129,556	1,313,112	(1,183,556)
Total Assets	51,163,507	58,202,639	(7,039,132)
Total Liabilities	41,781,500	47,810,153	(6,028,653)
Total Equity	9,382,007	10,392,486	(1,010,479)

Key drivers of variances:

As noted in the Group's 31 March 2019 annual report which compared the 2019 results to the 2019 prospective financial information, the growth in the finance receivables book and term deposit liabilities was not as fast as was originally anticipated. Whilst the balance sheet growth has been significant in the year ended 31 March 2020, due to delayed growth, the loan receivable book is $15.8m behind forecast as at 31 March 2020 and the term deposit liabilities are $5.9m behind forecast as at 31 March 2020. This, combined with a higher proportion of assets held in cash and cash equivalents at 31 March 2020 than forecasted, represents the majority of the variance in total assets and total liabilities.

The slower than anticipated growth and high proportion of cash and cash equivalents in the balance sheet resulted in a lower net interest margin ($1.1 million lower than forecast) and lower net fee and commission income ($0.2 million lower than forecast). This, combined with less revenue than forecasted from the research and advisory segment resulted in net profit after tax of approximately $1.2m behind forecast.

GENERAL CAPITAL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	2020	2019
	$	$
Interest income	2,846,439	1,479,226
Interest expense	(1,441,213)	(640,270)
Net interest income	1,405,226	838,956
Fee and commission income	553,686	281,176
Fee and commission expense	(128,699)	(92,332)
Net fee and commission income	424,987	188,844
Revenue from contracts with customers	227,715	347,702
Cost of sales	(32,545)	(24,368)
Gross profit from contracts with customers	195,170	323,334
Other income	12,761	28,163
Net revenue	2,038,144	1,379,297
Release / (increase) in allowance for expected credit losses	(54,999)	19,456
Personnel expenses	(746,680)	(603,011)
Occupancy expenses	(117,373)	(90,176)
Depreciation	(4,444)	(3,493)
Amortisation of intangible assets	(22,793)	(18,201)
Other expenses	(901,392)	(603,152)
Acquisition expenses	-	(103,927)
Loss on acquiring listed shell	-	(405,280)
	(1,847,681)	(1,807,784)
Profit / (loss) before income tax expense	190,463	(428,487)
Income tax (expense) / benefit	(60,907)	(29,601)
Net profit / (loss) after income tax expense	129,556	(458,088)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	(153,094)	(14,862)
Income tax on these items	43,273	-
Other comprehensive income / (loss) for the year, net of tax	(109,821)	(14,862)
Total comprehensive income / (loss)	19,735	(472,950)
Earnings per share (cents per share)	0.08	(0.46)
Diluted earnings per share (cents per share)	0.08	(0.36)

GENERAL CAPITAL LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	2020	2019
	$	$
Equity		
Share capital	10,176,204	9,573,495
Accumulated losses	(676,417)	(805,973)
Reserves	(117,780)	(14,862)
Total equity	9,382,007	8,752,660
Assets		
Cash and cash equivalents	12,562,241	2,949,317
Accounts receivables	10,859	19,246
Related party receivables	79,823	-
Loan receivables	34,855,849	17,277,204
Other current assets	266,523	114,844
Income tax receivable	-	45,450
Deferred tax asset	96,004	38,408
Property, plant and equipment	8,008	6,176
Investments	237,389	190,483
Intangible assets and goodwill	3,046,811	3,266,556
Total assets	51,163,507	23,907,684
Liabilities		
Accounts payable and other payables	319,381	246,624
Related party payables	2,925	7,942
Income tax payable	8,697	-
Term deposits	41,450,497	14,900,458
Total liabilities	41,781,500	15,155,024
Net assets	9,382,007	8,752,660
Net tangible assets (NTA) per share (cents per share)	3.86	3.54
Net assets (NA) per share (cents per share)	5.80	5.69

GENERAL CAPITAL LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Share capital	Redeemable Preference Shares	Reserves	Accumulated losses	Total equity
	$	$	$	$	$
Balance at 31 March 2018 as originally presented	1,448,503	4,747,418	-	(280,728)	5,915,193
- Change in accounting policy	-	-	-	(19,119)	(19,119)
- Impact of finalisation of acquisition accounting	-	(1,167,314)	-	(48,038)	(1,215,352)
Restated total equity as at 1 April 2018	**1,448,503**	**3,580,104**	**-**	**(347,885)**	**4,680,722**
Loss for the year	-	-	-	(458,088)	(458,088)
Other comprehensive income for the year	-	-	(14,862)	-	(14,862)
Total comprehensive income for the year	-	-	(14,862)	(458,088)	(472,950)
Transactions with owners in their capacity as owners:					
Conversion of redeemable preference shares	5,080,104	(3,580,104)	-	-	1,500,000
Issue of shares on acquisition of subsidiary	1,121,259	-	-	-	1,121,259
Contributions of equity net of transaction costs	1,923,629	-	-	-	1,923,629
Total transactions with owners in their capacity as owners	8,124,992	(3,580,104)	-	-	4,544,888
Balance at 31 March 2019	9,573,495	-	(14,862)	(805,973)	8,752,660
Profit for the year	-	-	-	129,556	129,556
Other comprehensive income for the year	-	-	(109,821)	-	(109,821)
Total comprehensive income for the year	-	-	(109,821)	129,556	19,735
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs	602,709	-	-	-	602,709
Issue of warrants to directors and senior managers	-	-	6,903	-	6,903
Total transactions with owners in their capacity as owners	602,709	-	6,903	-	609,612
Balance at 31 March 2020	10,176,204	-	(117,780)	(676,417)	9,382,007

GENERAL CAPITAL LIMITED

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MARCH 2020

	2020	2019
	$	**$**
Cash flow from operating activities		
Interest received	2,520,543	1,376,467
Receipts from customers	491,332	393,838
Other income	12,761	27,783
Payments to suppliers and employees	(2,041,737)	(1,587,300)
Interest paid	(1,242,655)	(585,614)
Income tax paid	(21,083)	(142,421)
Finance receivables (net advances)	(17,091,608)	(8,516,032)
Net cash (used in) / provided by operating activities	(17,372,447)	(9,033,279)
Cash flow from investing activities		
Acquisition of subsidiaries (net of cash acquired)	-	85,736
Purchase of property, plant and equipment	(6,276)	(2,629)
Purchase of software	(4,444)	(32,742)
Net cash provided by / (used in) investing activities	(10,720)	50,365
Cash flow from financing activities		
Issue of ordinary shares	602,709	1,923,628
Term deposits (net receipts)	26,393,382	5,058,474
Net cash provided by financing activities	26,996,091	6,982,102
Reconciliation of cash and cash equivalents		
Cash and cash equivalents at beginning of the reporting period	2,949,317	4,950,129
Net (decrease) / increase in cash and cash equivalents held during the reporting period	9,612,924	(2,000,812)
Cash and cash equivalents at end of the reporting period	12,562,241	2,949,317

SEGMENT REPORTING

Management has determined the operating segments based on the components of the Group that engage in business activities, which have discrete financial information available and whose operating results are regularly reviewed by the Group's chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The Board of Directors makes decisions about how resources are allocated to the segments and assesses their performance.

Three reportable segments have been identified as follows:

- Finance
Deposit taking and residential mortgage lending (reportable segment commenced on 19 December 2017 following the acquisition of General Finance Limited).
- Research and Advisory
Provides investment advisory services and produces and sells investment research and publications (reportable segment commenced on 19 December 2017 following the acquisition of Investment Research Group Limited).
- Corporate and Other
Corporate function and investment activities (the business of the Company was allocated to this reporting segment following the reverse takeover transaction on 3 August 2018).

Year ended 31 Mar 2020	Finance	Research and Advisory	Corporate and Other	Total Segments	Eliminations	Consolidated
	$	$	$	$	$	$
Revenue - interest income	2,842,352	4,025	62	2,846,439	-	2,846,439
Revenue - fee income (finance receivables)	552,225	1,461	-	553,686	-	553,686
Revenue from contracts with customers						
- Advisory fee revenue	-	91,151	-	91,151	-	91,151
- Yearbook and research sales	-	50,633	-	50,633	-	50,633
- Other fee income	85,931	15,579	-	101,510	(15,579)	85,931
Other income	12,761	2,249	111,091	126,101	(113,340)	12,761
Total revenue	3,493,269	165,098	111,153	3,769,520	(128,919)	3,640,601
Interest expense	(1,440,704)	(491)	(18)	(1,441,213)	-	(1,441,213)
Fee and commission expense	(128,699)	-	-	(128,699)	-	(128,699)
Cost of sales	-	(32,545)	-	(32,545)	-	(32,545)
Net revenue	1,923,866	132,062	111,135	2,167,063	(128,919)	2,038,144
Release / (increase) in allowance for expected credit	(54,999)	-	-	(54,999)	-	(54,999)
Personnel expenses	(603,058)	(71,444)	(72,178)	(746,680)	-	(746,680)
Depreciation and amortisation	(26,303)	-	(934)	(27,237)	-	(27,237)
Income tax (expense) /	(60,892)	2,372	(2,387)	(60,907)	-	(60,907)
Net Profit After Tax	441,716	(15,903)	(296,257)	129,556	-	129,556
Total Assets	49,138,302	1,301,131	989,136	51,428,569	(265,062)	51,163,507
Total Liabilities	41,734,879	199,152	112,531	42,046,562	(265,062)	41,781,500

Acquisition of property, plant and equipment, intangible assets, and other non-current assets (excluding non-current finance receivables):

Year ended 31 Mar 2020	Finance	Research and Advisory	Corporate and Other	Total Segments	Eliminations	Consolidated
	$	$	$	$	$	$
Acquired through settlement of transactions / balances	-	13,108	-	13,108	-	13,108
Other	4,444	-	206,276	210,720	-	210,720
Transfers / reallocations between segments	-	(13,108)	13,108	-	-	-
	4,444	-	219,384	223,828	-	223,828

SEGMENT REPORTING (CONTINUED)

Year ended 31 Mar 2019	Finance	Research and Advisory	Corporate and Other	Total Segments	Eliminations	Consolidated
	$	$	$	$	$	$
Revenue - interest income	1,475,752	936	2,538	1,479,226	-	1,479,226
Revenue - fee income (finance receivables)	281,176	-	-	281,176	-	281,176
Revenue from contracts with customers						
- Advisory fee revenue	-	280,320	-	280,320	-	280,320
- Yearbook and research sales	-	43,967	-	43,967	-	43,967
- Other fee income	23,415	-	-	23,415	-	23,415
Other income	28,163	11,781	-	39,944	(11,781)	28,163
Total revenue	1,808,506	337,004	2,538	2,148,048	(11,781)	2,136,267
Interest expense	(592,791)	-	(47,479)	(640,270)	-	(640,270)
Fee and commission expense	(92,332)	-	-	(92,332)	-	(92,332)
Cost of sales	-	(24,368)	-	(24,368)	-	(24,368)
Net revenue	1,123,383	312,636	(44,941)	1,391,078	(11,781)	1,379,297
Release / (increase) in allowance for expected credit	19,456	-	-	19,456	-	19,456
Personnel expenses	(486,670)	(97,207)	(19,133)	(603,010)	-	(603,010)
Depreciation and amortisation	(21,419)	(275)	-	(21,694)	-	(21,694)
Acquisition expenses	-	-	(103,927)	(103,927)	-	(103,927)
Cost of acquiring listed shell	-	-	(405,280)	(405,280)	-	(405,280)
Income tax (expense) /	(34,705)	-	5,103	(29,602)	-	(29,602)
Net Profit After Tax	124,765	93,971	(676,824)	(458,088)	-	(458,088)
Total Assets	21,808,422	1,154,633	997,919	23,960,974	(53,290)	23,907,684
Total Liabilities	15,065,715	104,822	37,777	15,208,314	(53,290)	15,155,024

Acquisition of property, plant and equipment, intangible assets, and other non-current assets (excluding non-current finance receivables):

Year ended 31 Mar 2019	Finance	Research and Advisory	Corporate and Other	Total Segments	Eliminations	Consolidated
	$	$	$	$	$	$
Business combinations	-	-	696,928	696,928	-	696,928
Acquired through settlement of transactions / balances	-	255,875	-	255,875	-	255,875
Other	35,212	-	-	35,212	-	35,212
Transfers / reallocations between segments	6,924	(262,799)	255,875	-	-	-
	42,136	(6,924)	952,803	988,015	-	988,015

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

There are a number of significant accounting treatments which include complex or subjective judgments and estimates that may affect the reported amounts of assets in these financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgments and estimates made by the Group 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.

(a) Increased level of inherent uncertainty in the significant accounting estimates and judgments arising from the ongoing global pandemic of coronavirus disease 2019

On 11 March 2020 the World Health Organization declared an ongoing global outbreak of a novel coronavirus, known as 'coronavirus disease 2019' ('COVID-19'), a pandemic.

In response the New Zealand Government has implemented a range of:
- public health and social measures to prevent and contain the transmission of COVID-19; and
- economic responses to provide financial stimulus and welfare support to mitigate the economic impacts of the pandemic.

The public health and social measures implemented included restrictions on travel / non-essential movement, entry bans/closure of borders, quarantines, temporary closure of non-essential businesses and schools, and the cancellation of gatherings and events.

These public health and social measures have lowered overall economic activity and confidence, due to a reduced ability for many businesses to operate, reduced demand for many goods and services, and resulted in significant volatility and instability in financial markets.

The New Zealand Government implemented a four-level COVID-19 alert system which specifies public health and social measures to be taken in response to the pandemic. With Alert Level 1 being the least restrictive and onerous and Alert Level 4 being the most. Under these measures, the Group was classified as a provider of essential services and was able to undertake its normal business activities in the ordinary course of business.

The economic responses implemented by the New Zealand Government have mitigated some of the economic impacts. These responses range from quantitative easing and reductions in official interest rates by the central banks to the release of significant government financial stimulus and welfare support packages.

As a result of the pandemic, the Group anticipates that the lowered levels of economic activity and confidence will continue for at least the short to medium term and will likely result in increased business failures and unemployment levels in New Zealand. Consequently, the Group has concluded there been an increase in the level of inherent uncertainty in the significant accounting estimates and judgements applied by Management in the preparation of these financial statements.

These financial statements have been prepared based upon conditions existing as at 31 March 2020 and consider those events occurring subsequent to that date that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of the COVID-19 pandemic occurred before 31 March 2020 its impacts are considered an event that is indicative of conditions that arose prior to reporting period. Accordingly, all reasonably known and available information with respect to the COVID-19 pandemic has been taken into consideration in the critical accounting estimates and judgements applied by Management and all reasonably determinable adjustments have been made in preparing these financial statements.

(b) Applicability of the going concern basis of accounting

Whilst the COVID-19 pandemic and measures implemented have lowered overall economic activity and confidence (described above), Management have assessed and determined that the Group's application of the going concern basis of accounting remains appropriate.

The Group has responded to the pandemic in the following ways:
- Undertook an analysis of its forecast cashflows to evaluate of the appropriateness of the Group's continued application of the going concern basis of accounting. This forecast cashflows took into consideration the Group's expectation of the impact of the pandemic on its earnings, cash flow and financial position.
- Assessed the direct and indirect financial impacts of the pandemic on the carrying value of reported amounts of assets, liabilities, revenues and expenses.
- Implemented and enacted appropriate Health and Safety responses.
- Implemented cost saving measures and actively seeking further cost saving measures where possible.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Cashflow forecast and going concern

Whilst the COVID-19 pandemic and measures implemented have lowered overall economic activity and confidence (described above), the Group's earnings, cash flow and financial position have not been significantly adversely impacted since the outbreak began.

The Group has determined that the main potential downside impacts of the pandemic on the Group’s earnings, cash flows, financial position and application of the going concern basis of accounting as at 31 March 2020 to be the following:
1) A reduction in term deposit reinvestment rates.
2) A reduction in new term deposit investments.
3) The inability for borrowers to make loan payments on their contractual repayment dates.
4) A reduction in loan security values (residential property values).
5) Reduced net cash flows from the research and advisory cash generating unit.

At the end of March 2020, the Group prepared revised forecast cashflows taking into consideration the Group’s expectation of the impact of the pandemic for the period up to 30 June 2021 which incorporate highly stressed scenarios of reduced reinvestment rates, reduced new term deposit investments and extensions of loan settlement dates.

Under the most stressed scenario the Group assumed:
1) A reduction in term deposit reinvestment rates from 79% actual for the 2020 financial year to 25%.
2) A reduction in new term deposit investments from an average of $2.4 million actual per month for the 2020 financial year to $Nil.
3) An assumption that 50% of loans that mature are not repaid on their expected repayment date. The expected repayment dates already factored in expected delays due to the Covid-19 government restrictions.
4) A reduction in loan security values (residential property values) by 25%.
5) No cash inflows from the research and advisory cash generating unit.

Due to the Group’s significant levels of cash and cash equivalents at 31 March 2020 ($12.6 million), and its well secured loan book, under the revised cashflow forecasts and the stressed scenarios, show that the Group will be able to continue its normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Since 31 March 2020 up to the date of writing (26 June 2020), the Group has performed better than its base revised forecast cashflows. The Group initially saw a reduction in term deposit reinvestment rates, new term deposit investments and an increase in loan arrears, in line with expectations. There has not yet been any notable adverse impact on residential property prices, however it is anticipated to occur in the next 12 months by various New Zealand economists. Performance since Alert level 2 has been significantly better than expected with cash and cash equivalents further increasing as a result of loan repayments and new term deposit investments.

Accordingly, Management have assessed and determined that the Group’s application of the going concern basis of accounting remains appropriate.

(c) Allowance for expected credit losses

Significant increase in credit risk
Expected credit losses (‘ECL’) are measured as an allowance equal to 12 month ECL, or lifetime ECL for assets with a significant increase in credit risk or in default or otherwise credit impaired. An asset moves to doubtful when its credit risk has increased significantly since initial recognition. NZ IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Calculation of loss allowance
When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

The ECL is calculated on an individual loan basis by applying an expected loss factor to the loan balance. The expected loss factor is determined from the Group historical loss experience data.

Historical loss experience data is reviewed by management and adjustments made to reflect current and forward looking economic and credit conditions. In addition, management recognise that a certain level of imprecision exists in any model used to generate risk grading and provisioning levels. As such an adjustment is applied for model risk.

In instances where the probability of default has increased significantly (a significant increase in credit risk), or where the loan is in default, the expected credit loss (or loss given default) may not increase significantly due to the Group's lending criteria which prohibits lending when the loan to valuation ratio (LVR) exceeds 75%. This means in general that the Group expects that the present value of expected cash flows from a loan in default to approximate the carrying value of the loan prior to the default event, except in cases where the LVR has increased considerably due to a reduction in the security property valuation or a significant increase in the loan balance.

Management regularly reviews and adjusts its ECL estimates, judgements, assumptions, and methodologies as data becomes available. Changes in these estimates, judgements, assumptions, and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements.

If the 12-month ECL rate for loans without a significant increase in credit risk increased/(decreased) by 0.2% higher/(lower) as at 31 March 2020, the loss allowance on finance receivables would have been $67,347 higher/(lower).

If the lifetime ECL rate for loans with a significant increase in credit risk and credit impaired loans increased/(decreased) by 1.0% higher/(lower) as at 31 March 2020, the loss allowance on finance receivables would have been $15,163 higher/(lower).

Impact of COVID-19 on loan receivables / expected credit losses
The COVID-19 Alert Level 4 restrictions impacted negatively on borrowers' ability to pay monthly interest and/or to repay their loans by the due date because of the following:
1) Delays by banks in processing refinancing applications from our borrowers.
2) Borrowers were unable to effectively market their properties for sale.
3) In some cases, borrower income had reduced and impacted on their ability to service their loans.

These factors have improved since COVID-19 restrictions reduced to Alert Level 2 and 1 and are expected to continue to improve as restrictions are further relaxed.

The income of several borrowers and their ability to pay interest may continue to be adversely affected. However only a small number of loans are likely to be affected and no significant impact of cash flows is expected.

Repayment may be delayed for some borrowers; however, the delays are not expected to exceed 1-3 months. These delays were further stressed in the going concern cash flow forecast described above.

The highest loan to valuation ratio (LVR) of the Group's loan book as at 31 March 2020 was 77.0% (2019: 74.1%) and the weighted average LVR of the loan book was 58.5% (2019: 55.2%), based on loan security valuations on origination of the loan. As at 31 March 2020, approximately 90% of the Group's loans receivables (both in number and dollar value terms) had security valuations with valuation dates being less than 12 months old. The remaining loans receivable security valuations were individually assessed and determined as materially in line with current property values.

There has been no measurable effect on LVRs so far. Now that the property market is able to function normally again the effect on property values and LVRs will be able to be assessed in coming months. It is possible that there will be a softening in property values but the Group does not expect it to exceed a range of 5-12%.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Since 31 March 2020 and up to the date of writing (26 June 2020), there has been no evidence which indicates a softening of the residential property values in New Zealand that would have a material impact on the Group’s expected credit losses.

According to sensitivity analysis performed on the residential property security valuations underlying the Group’s loan receivables as at 31 March 2020:
1) A 10% drop in property market values would result in no loan losses.
2) A 20% drop in property values would result in a loss in the range of $10,000 – $20,000.
3) A 25% drop in property values would result in a loss in the range of $200,000 – $250,000.

The above sensitivity analysis factors in the expected selling costs of the property as well as the time value of money over the expected time to sell (or to refinance) the property.

Expected credit losses:

1) Based on the history of the Group loan book over the last 7 years, the average annual write-offs as a percentage of the average loan receivable balance over the same period was 0.15%. This would be an appropriate basis for 12-month expected credit losses in ‘normal’ economic conditions.
2) The Group recognises that New Zealand’s economic forecast for the next 12 months is unfavourable due to the impacts of the COVID-19 pandemic as described above. As a result, the Group has concluded that the probability of default has increased. However due to the Group’s well secured loan book (as described above), the loss given default and expected credit losses have increased but not by a material amount. As such, the Group has determined that 0.31% of the gross loan balance is a more appropriate expectation of losses for the next 12 months.
3) Lifetime ECL’s for loans with a significant increase in credit risk and for loans in default have been calculated based on the Group’s expectations for discounted net cash flows from the respective loan receivables over the expected remaining life of the loans in light of COVID-19.

(d) Impairment analysis of goodwill and other indefinite life intangible assets

The carrying value of goodwill and indefinite life intangible assets (including licences and bartercard trade dollars) is assessed at least annually to ensure that it is not impaired.

With regard to Goodwill and Licences, performing this analysis requires management to estimate future cash flows to be generated by the cash-generating unit, which entails making judgements, including the expected rate of growth of revenues and expenditures, assets and liabilities, and the resulting cashflows. Judgements also need to be made about the appropriate discount rate to apply when valuing future cash flows.

A sensitivity analysis performed by Management has highlighted that the carrying value of the Goodwill and other assets in the research and advisory cash generating unit ("CGU") are highly reliant on the achievement of revenue forecasts from advisory projects.

Management have performed a fair value less costs of disposal impairment test in relation to the carrying value of the bartercard trade dollars asset at 31 March 2020.

Impact of COVID-19 on impairment analysis of goodwill and other indefinite life intangible assets
When completing the impairment analysis of goodwill and other indefinite life intangible assets, the Group has taken into consideration all reasonably known and available information with respect to the COVID-19 pandemic.
1. Finance CGU - The forecasted cash flows used in the impairment analysis factor in the expected impacts of COVID-19. In particular the Growth path that General Finance originally forecasted is now expected to be significantly delayed as a result of the pandemic and the economic impact. Notwithstanding the impacts of the above, the results of the model show that there is still significant headroom in the unit.
2. Research and Advisory CGU - In the forecasted cash flows used in the CGU impairment analysis, the Group has factored in the expected impacts on COVID-19 on the probability of sourcing advisory projects, the project milestones and the impact on timing of cashflows. Notwithstanding the impacts of the above, the results of the impairment testing resulted in no impairment to the CGU.

COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION

Prospective consolidated financial statements were prepared for the Group within the disclosure document dated 16 July 2018 as part of the special meeting dated 31 July 2018. The prospective financial statements for the year ended 31 March 2020 are compared to the actual results achieved for that year.

Consolidated statement of comprehensive income

	Actual Year ended 31 March 2020 $	Unaudited prospective information* Year ended 31 March 2020 $	Variance $
Interest income	2,846,439	4,363,475	(1,517,036)
Interest expense	(1,441,213)	(1,860,370)	419,157
Net interest income	1,405,226	2,503,105	(1,097,879)
Fee and commission income	553,686	696,772	(143,086)
Fee and commission expense	(128,699)	(50,000)	(78,699)
Net fee and commission income	424,987	646,772	(221,785)
Revenue from contracts with customers	227,715	385,000	(157,285)
Cost of sales	(32,545)	(25,000)	(7,545)
Gross profit from contracts with customers	195,170	360,000	(164,830)
Other income	12,761	25,000	(12,239)
Net revenue	2,038,144	3,534,877	(1,496,733)
Release / (increase) in allowance for expected credit losses	(54,999)	(100,000)	45,001
Personnel expenses	(746,680)	(470,000)	(276,680)
Occupancy expenses	(117,373)	(90,000)	(27,373)
Depreciation	(4,444)	-	(4,444)
Amortisation of intangibles	(22,793)	-	(22,793)
Other expenses	(901,392)	(1,044,000)	142,608
	(1,847,681)	(1,704,000)	(143,681)
Profit before income tax expense	190,463	1,830,877	(1,640,414)
Income tax (expense) / benefit	(60,907)	(517,765)	456,858
Net profit after income tax expense	129,556	1,313,112	(1,183,556)
Other comprehensive income			
Changes in the fair value of equity investments at fair value	(153,094)	-	(153,094)
Income tax on these items	43,273	-	43,273
Other comprehensive income for the year	(109,821)	-	(109,821)
Total comprehensive income	19,735	1,313,112	(1,293,377)

*Where applicable, amounts have been reclassified for consistency with 31 March 2020 consolidated financial statements.

COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION (CONTINUED)

Consolidated statement of financial position

	Actual as at 31 March 2020 $	Unaudited prospective information* as at 31 March 2020 $	Variance $
Equity			
Share capital	10,176,204	8,282,353	1,893,851
Accumulated losses	(676,417)	2,110,133	(2,786,550)
Other reserves	(117,780)	-	(117,780)
Total equity	9,382,007	10,392,486	(1,010,479)
Assets			
Cash and cash equivalents	12,562,241	4,106,490	8,455,751
Accounts receivables	10,859	152,215	(141,356)
Related party receivables	79,823	-	79,823
Finance receivables	34,855,849	50,642,044	(15,786,195)
Other current assets	266,523	25,000	241,523
Property, plant and equipment	8,008	-	8,008
Deferred tax asset	96,004	49,813	46,191
Financial assets at fair value through other	237,389	-	237,389
Intangible assets and goodwill	3,046,811	3,227,077	(180,266)
Total assets	51,163,507	58,202,639	(7,039,132)
Liabilities			
Accounts and other payables	319,381	215,683	103,698
Related party payables	2,925	-	2,925
Income taxation payable	8,697	220,000	(211,303)
Term deposits	41,450,497	47,374,470	(5,923,973)
Total liabilities	41,781,500	47,810,153	(6,028,653)
Net assets	9,382,007	10,392,486	(1,010,479)

Consolidated summarised statement of changes in equity

	Actual Year ended 31 March 2020 $	Unaudited prospective information* Year ended 31 March 2020 $	Variance $
Total equity as at 1 April 2019	8,752,660	9,079,374	(326,714)
Total comprehensive income for the year	19,735	1,313,112	(1,293,377)
Transactions with owners	609,612	-	609,612
Balance at 31 March 2020	9,382,007	10,392,486	(1,010,479)

*Where applicable, amounts have been reclassified for consistency with 31 March 2020 consolidated financial statements.

COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION (CONTINUED)

Consolidated statement of cash flows

	Actual as at 31 March 2020 $	Unaudited prospective information* as at 31 March 2020 $	Variance $
Cash flow from operating activities			
Interest received	2,520,543	4,219,480	(1,698,937)
Receipts from customers	491,332	1,315,258	(823,926)
Other income	12,761	-	12,761
Payments to suppliers and employees	(2,041,737)	(1,593,782)	(447,955)
Interest paid	(1,242,655)	(1,470,591)	227,936
Income tax paid	(21,083)	(355,165)	334,082
Finance receivables (net advances)	(17,091,608)	(27,356,005)	10,264,397
Net cash provided by operating activities	(17,372,447)	(25,240,805)	7,868,358
Cash flow from investing activities			
Purchase of property, plant and equipment	(6,276)	-	(6,276)
Purchase of software	(4,444)	-	(4,444)
Net cash provided by / (used in) investing activities	(10,720)	-	(10,720)
Cash flow from financing activities			
Issue of ordinary shares	602,709	-	602,709
Issue of redeemable preference shares	26,393,382	-	26,393,382
Term deposits (net receipts)	-	25,595,496	(25,595,496)
Net cash provided by financing activities	26,996,091	25,595,496	1,400,595
Reconciliation of cash and cash equivalents			
Cash and cash equivalents at beginning of the reporting period	2,949,317	3,751,799	(802,482)
Net (decrease) / increase in cash and cash equivalents held during the reporting period	9,612,924	354,691	9,258,233
Cash and cash equivalents at end of the reporting period	12,562,241	4,106,490	8,455,751

*Where applicable, amounts have been reclassified for consistency with 31 March 2020 consolidated financial statements.

Refer to the Directors' report for commentary on variances.