

GENEVA FINANCE LIMITED

CAPITAL RECONSTRUCTION EXPLANATORY MEMORANDUM - 11 APRIL 2008

1. INTRODUCTION

On 5 November 2007 the holders of secured Debenture Stock, Subordinated Notes and Unsecured Deposits in Geneva Finance Limited (**Geneva or the Company**) voted by a 99% majority in favour of implementing a moratorium on the repayment of all of these investments for the period through to 30 April 2008. The moratorium was put in place to enable Geneva to take steps to strengthen its capital position in the face of a significant deterioration in investor confidence in the finance company sector following a series of finance company collapses. Geneva faced a potential liquidity problem as a result of these market circumstances.

During the moratorium period Geneva has not issued any new debenture or note securities and continues to rely on the support of existing funding lines. The Company has built up cash reserves, paid interest in full on all investments, made changes to lending criteria that should significantly improve asset quality, wound down the amount of new lending to customers to much lower levels and has taken steps to reduce its overhead by the closure of 21 retail branches and the laying off of nearly 150 employees.

2. REASONS FOR THE CAPITAL RECONSTRUCTION

The moratorium approved by Geneva investors in November 2007 arose out of pressure placed on the Company's liquidity as a result of declining debenture reinvestment levels across the finance company sector in New Zealand following the failure of a number of finance companies. Since then a severe credit squeeze has occurred in the USA and European markets adding to interest rate pressures in the New Zealand market. Several more local finance companies have failed, and this coupled with the prospect of the USA economy going into recession and tightening domestic economic conditions, has meant that investor confidence and sentiment remains very low. This has had follow on implications for Geneva's efforts to secure third party equity and debt funding that the directors planned to raise during the time allowed by the moratorium.

Geneva remains in a position where, it faces a potential liquidity crisis following the expiry of the moratorium period on 30 April 2008. This is primarily due to there being a mismatch between the timing of loan principal and interest payments being received from borrowers and the timing of debenture and subordinated note repayments required to be made to investors. This reflects the situation the Company faced prior to the moratorium being voted in by investors last year. As was the case then, the directors believe that Geneva cannot withstand the run on funds that will occur if reinvestment rates for maturing debentures and subordinated notes do not return to the higher levels enjoyed in the early part of 2007, as seems likely given current market conditions.

Given these circumstances, Geneva's directors are putting forward the capital reconstruction proposal as a means of addressing the current difficulties in accessing new equity from external parties. The directors believe that, after considering all other options, the reconstruction provides the best means of investors maximising the ongoing value of their investments.

3. THE POSITION OF GENEVA FINANCE

The Board of Geneva has used the period since the 5th November 2007 meeting to continue negotiations with parties that were interested in taking an equity position in the Company. Negotiations have been time-consuming and not helped by the global credit crunch and fears of recession plus continuing general uncertainty in the domestic market place. Several investors have declined to take up the opportunity for this reason and negotiations with a remaining investor are continuing.

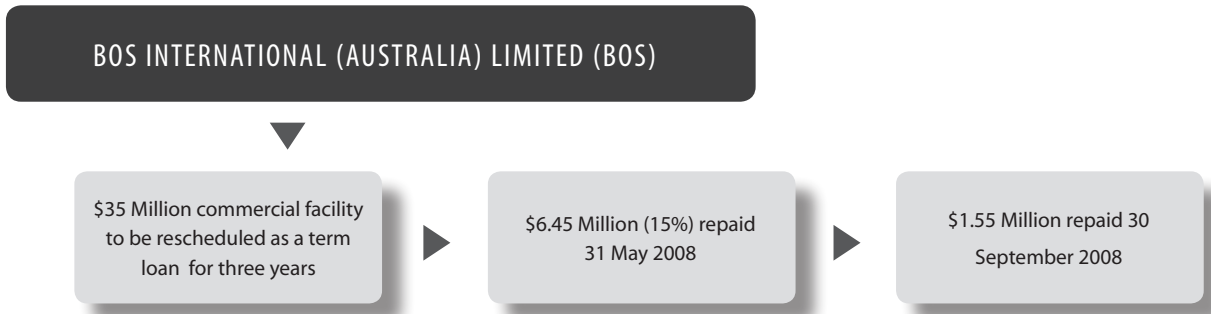
Following the introduction of the moratorium Geneva has undertaken a business reorganisation to cut costs and reduce the scale of the business. The main component of this was the closure of the branch network across the country, with the exception of the Manukau branch. This acknowledged the fact that until market conditions improved Geneva would not have the new funds needed to continue the growth in its loan book that had been experienced since the Company's inception. Geneva has continued to write new loans through a centralised direct lending centre and this has performed above our expectations to date.

All interest payments and other obligations have been met on time by the Company. The moratorium has allowed the company to build up cash reserves to the current level of approximately \$22.8 million.

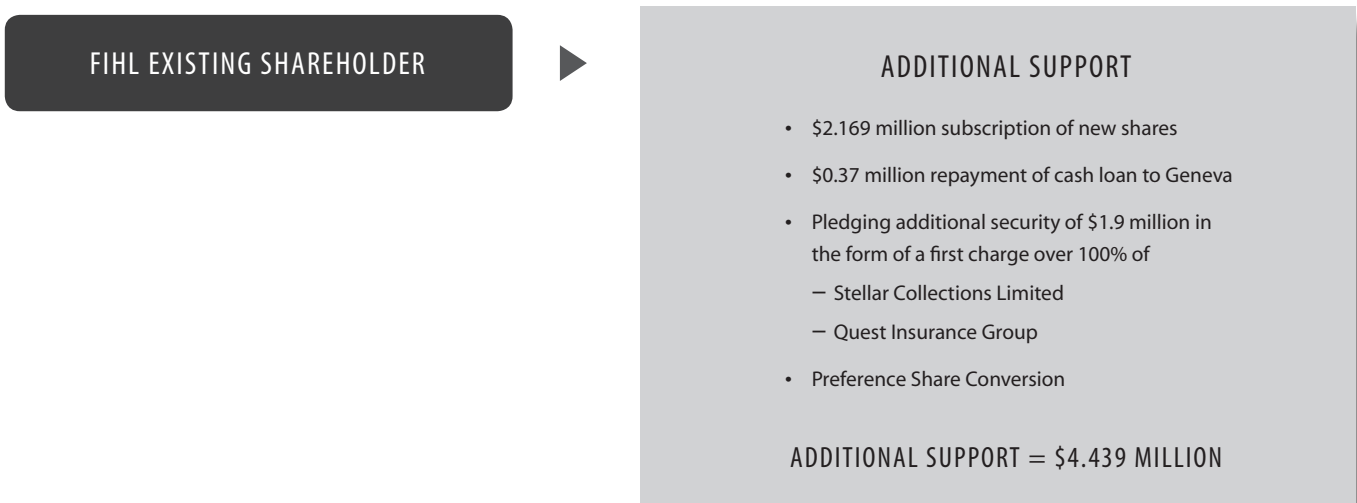
Geneva's Board of Directors has considered the timing around reaching a satisfactory conclusion to negotiations with investors relative to the time remaining until the end of the moratorium. The Board is reluctant to risk the prospect of the Company being placed in receivership at the end of the moratorium because negotiations with investors have not reached a timely conclusion. The Directors have decided to enter into a reconstruction of existing capital that is intended to be finalised prior to the moratorium ending on 30 April 2008. The Board believes that the alternative of receivership is not in the best interests of debenture and subordinated note holders.

4. CAPITAL RECONSTRUCTION

The Directors' proposal for reconstructing existing capital has the following components:



BOS is a wholly owned subsidiary of HBOS Australia Pty Ltd, which in turn is a subsidiary of HBOS plc, the largest mortgage and savings provider in the United Kingdom. It is the Company's bank debt provider and currently has a term debt facility of \$43 million in place. This facility was due to be repaid at the end of the moratorium. BOS who are fully supportive of this proposal have agreed to a repayment of \$8 million over a period of five months from 1 May 2008. The balance of \$35 million is to be rescheduled as a term loan on normal commercial terms, unless renewed by agreement with BOS, repayable in a lump sum no earlier than 30 April 2011.

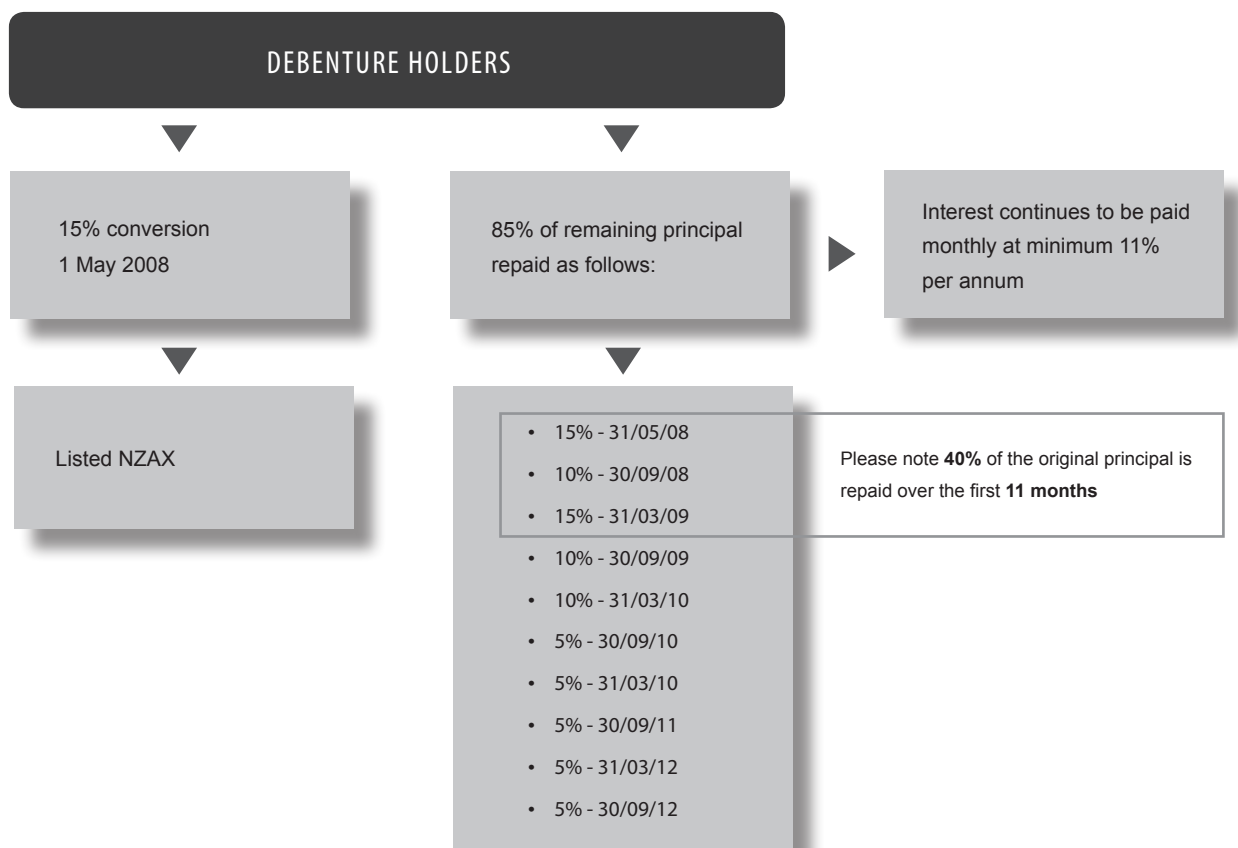


Financial Investment Holdings Limited (**FIHL**), Geneva Finance's holding company, has agreed to provide additional support to Geneva totalling \$4.439 million. This is made up of:

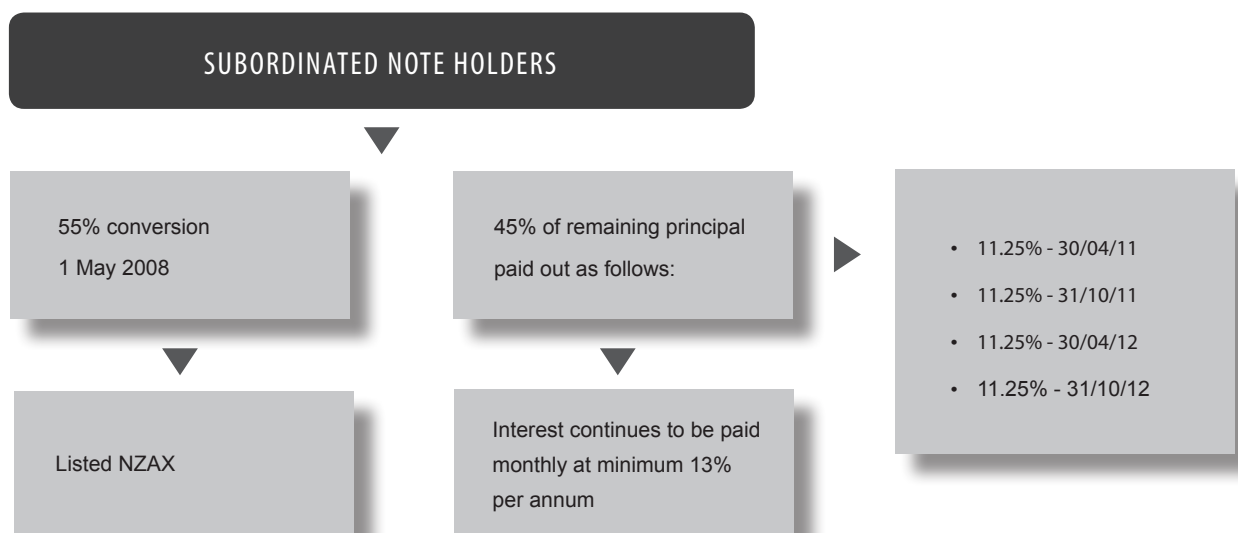
- subscription for new ordinary shares to the value of \$2.169 million;
- repayment of a cash loan from Geneva of \$0.37 million; and
- the pledging of an additional \$1.9 million of security in favour of debenture and subordinated note holders in the form of the granting of a first charge over 100% of the shares in two other wholly owned subsidiaries of FIHL – Stellar Collections Limited and Quest Insurance Group Limited.

This value is based on a liquidation value for the shares in both companies and has been assessed as fair in Northington Partners independent report on the merits of the capital reconstruction. Neither FIHL nor Stellar Collections Limited nor Quest Insurance Group Limited guarantees Geneva's securities, or any securities to be issued under the proposal.

In addition to this contribution, FIHL has undertaken a conversion of \$7.67 million of preference shares it owns in Geneva Finance into ordinary shares in Geneva Finance at a price of \$1 per share. In doing so FIHL has foregone the priority to dividends and preference on winding up over ordinary shares that the preference shares provided, thereby enhancing the position of ordinary shareholders.



- Conversion of 15% of the existing principal amount of debentures into ordinary shares in Geneva Finance, for which listing on the NZAX has been applied for; and
- Repayment of 85% of the principal amount of debentures over a period of four years and five months commencing with an initial payment on 31 May 2008 followed by six monthly instalments on 31 March and 30 September in each year until a final payment on 30 September 2012. The amount of the instalments varies from 15% to 5% of the current principal amount of debentures held. Interest will continue to be paid monthly in arrears on the balance of principal held at a rate equal to the existing rate or a minimum rate of 11% per annum.



- Conversion of 55% of the existing principal amount of subordinated notes into ordinary shares in Geneva, for which listing on the NZAX has been applied for; and
- Repayment of 45% of the principal amount of the subordinated notes over a period of two years commencing on 30 April 2011 by four equal semi-annual instalments on 30 April and 31 October in each year with a final payment on 31 October 2012. Interest will continue to be paid monthly in arrears on the balance of principal held at a rate equal to the existing rate or a minimum rate of 13% per annum.

Both debenture and subordinated note holders will have the opportunity to convert a greater proportion of their debt securities to ordinary shares than the 15% and 55% respectively proposed above, if they so wish.

5. ADDITIONAL FUNDING

Geneva has entered into negotiations with a structured finance and securitisation house regarding arrangement of a structured debt programme that could provide an initial tranche of \$25 million of new funding. This programme would allow Geneva to expand its lending business back closer to the level experienced prior to the moratorium, and reduce the Company's historic reliance on debentures for funding.

While discussions have been positive and are well advanced, it is too early to say with certainty that the programme will go ahead. It is also important to note that the business forecast does not include the revenue and cash flow benefits accruing to the Company from this opportunity.

6. ORDINARY SHARES IN GENEVA

The ordinary shares in Geneva issued to debenture and subordinated note holders as a result of conversion of a portion of their debt securities will rank equally with existing ordinary shares held by the founders and management of Geneva. They will carry voting rights and will be eligible to receive dividends.

The proposal anticipates debenture and subordinated note holders will collectively own approximately 74.6% of the shares in Geneva Finance. Accordingly and subject to a positive outcome of the vote on the proposed capital reconstruction, the Board of Directors will be expanded by two seats to allow for new independent directors representing investors to be appointed. Discussions with a number of candidates with excellent credentials for the new seats are under way and appointments will be made on the conclusion of the moratorium. These new directors and those directors due for rotation will vacate their seats and offer themselves for re-election at the next AGM of Geneva.

The new ordinary shares will be issued at \$0.36492 each which is the forecast net asset backing of the existing ordinary shares at 1 May 2008. This figure has been arrived at following a thorough review of Geneva's loan receivables and a subsequent writing off and provisioning of non-performing loans. The independent expert's report on the proposed capital reconstruction from Northington Partners states that, in their opinion, net asset backing is a fair basis for assessing the issue price of the shares.

Application has been made to NZAX for permission to list the ordinary shares in Geneva and all the requirements of NZAX relating thereto that can be complied with on or before the date of the prospectus have been duly complied with. However, NZAX accepts no responsibility for any statement in the prospectus or this explanatory memorandum.

Listing of the ordinary shares on NZAX will provide a means for investors receiving shares under the capital reconstruction to sell their shares should they so wish. This can be achieved by contacting a share-broking firm, either directly or through an on-line broker's website. The price at which the shares could be sold at will vary according to supply and demand and there is no certainty that the shares will trade at or above the issue price of \$0.36492 upon listing on NZAX.

7. IMPACT OF THE RECONSTRUCTION ON THE COMPANY

The financial impact of the capital reconstruction on Geneva is shown in the forecasts included in the prospectus. In commercial terms the objects of the proposal are to:

- provide the Company with a very strong equity ratio of approximately 18% at 1 May 2008 rising to 23% and then 28% by September 2008 and March 2009 respectively;
- allow BOS to renew the majority of its debt facility to Geneva for a further 3 years;
- allow the directors to continue to seek alternative term debt funding structures to enable increased lending volumes and subsequent greater profitability.
- allow the Company to continue with its core business of consumer lending
- allow the Company to build shareholders funds.

8. IMPACT ON THE RECONSTRUCTION ON INVESTORS

Debenture holders will:

- receive 85% of their original investment back over a period of four years and five months in a series of semi-annual instalments commencing 31 May 2008. Interest payments will continue to be paid monthly in arrears at the higher of their existing rate or 11% per annum. All debenture holders will effectively move onto common maturity dates for each instalment and a common interest rate. Thus all debenture holders are treated equally vis a vis each other; and
- receive ordinary shares in Geneva to the value of the remaining 15% of their original investment. The shares will be issued at a price of \$0.36492 per share meaning that for every \$1,000 of debentures currently held, an investor will retain \$850 in debentures and receive 411 Geneva ordinary shares for the balance of \$150.

Subordinated note holders will:

- receive 45% of their original investment back over a period of four years and five months in four equal semi-annual instalments commencing on 30 April 2011. Interest payments will continue to be paid monthly in arrears at the higher of their existing rate or 13% per annum. All note holders will effectively move onto common maturity dates for each instalment and a common interest rate. Thus all subordinated note holders are thus treated equally vis a vis each other; and
- receive ordinary shares in Geneva to the value of their remaining 55% of their original investment. The shares will be issued at a price of \$0.36492 per share, meaning that for every \$1,000 of subordinated notes held, an investor will retain \$450 in subordinated.

9. ROLE OF THE TRUSTEE

Following the capital reconstruction the Trustee will continue to have all the supervision powers that exist under the existing Trust Deeds. Geneva will continue to report to the Trustee monthly.

10. RECEIVERSHIP

Again, as was the case prior to the moratorium, an alternative to this proposed capital reconstruction is to invite the Trustee to appoint a receiver to take over the directors' responsibility for managing Geneva. The directors continue

to believe that it is unlikely in the present climate that a receivership would allow investors to be repaid in full. This is because of:

- the high likelihood that a sale of the Company's loan receivables, if at all achievable in the current market, would be at a substantial discount to book value. This has been the case with recent forced sales of loan receivables by other finance companies;
- the alternative of the receiver holding the loan book and investors being repaid as loans are collected will take a number of years meaning that in today's terms investors are likely to lose principal value in addition to the prospect of receiving reduced or zero interest payments from the date of receivership;
- as a result of receivership, it is likely that many of the Company's experienced collection staff will seek alternative employment. This could affect the Company's ability to collect its loans receivables, and therefore reduce the amount available to pay investors.
- the likely loss on sale of the Company's plant and equipment and other fixed assets under a receivership; and
- funds available to investors will be reduced as a result of paying the receivers fees and expenses.

For further information on the likely outcome under receivership we refer you to the Northington Partners Report included in the Prospectus.

11. MEETING PROCESS

There will be separate meetings of debenture holders and subordinated note holders on 28 April at the Ellerslie Racecourse Convention Centre, Greenlane East, Ellerslie, Auckland. The first meeting will be for debenture holders and the second meeting for subordinated note holders. The meetings will commence at the following times:

Debenture holders	2.00 p.m.
Subordinated note holders	3.00 p.m. or as soon thereafter as the meeting of debenture holders ends.

You can attend both meetings if you wish but you can only vote at the meeting called for the type of investment that you hold. ***In order to minimise repetition of information at the two meetings, you are urged to attend the debenture holders meeting at 2 p.m. even if you are the holder of subordinated notes.***

You can attend ***in person*** or by ***appointing a proxy to attend on your behalf and cast your vote***. For each meeting to commence business, it will be necessary for a quorum of at least 50% of the relevant investors (measured by the principal amount of their investments) to attend the meeting in person or by proxy.

If the quorum is not established, the meeting would be adjourned for a period not less than 14 days to such place as the chairman of the meeting determines, and the persons attending the adjourned meeting shall form a quorum. Should it be necessary to adjourn the meeting, notice of that adjourned meeting will be given.

Once the quorum is established, the extraordinary resolution can be put to a vote. It will be passed if at least 75% of the relevant investors (measured by the principal amount of their investments) at the meeting in person or represented by proxy vote in favour of the extraordinary resolution. In addition, because the proposal for BOS' Security Stock is different to the proposal for the Stockholders' Stock, the Company requires that the Extraordinary Resolution of Stockholders must also be passed by a majority consisting of not less than 75% of the votes given on the poll by the public Stockholders (ie all Stockholders excluding BOS) voting on the Extraordinary Resolution. ***BOS has confirmed they are fully supportive of this proposal.***

CONTINUED OVER

A vote approving a resolution will bind all debenture and subordinated note holders (as the case may be).

To attend the meeting by proxy you will need to complete the enclosed proxy form appointing a proxy to attend on your behalf. The proxy can be any person you nominate. It need not be another investor, although it may be another investor. If you wish, you can appoint the meeting's chairman to act as your proxy. You can direct the proxy how you wish to vote.

All proxy forms must be completed, signed and sent to the Company no later than 5 p.m. on Thursday 24 April 2008.

If you attend the meeting in person you do not have to sign a proxy form but you should bring it to the meeting as your form of identification.

12. SUMMARY

The directors believe that the proposal is the best option for investors to maximise the value of their investments, and will prevent the Company from being put into receivership. The directors believe that a receivership would likely cause interest payments to be halted immediately and that the ultimate repayment of investments could be less than the amount of investors' principal.

We encourage you to read the offer document and return the proxy form enclosed with the Notice of Meeting. In the meantime, if you have any questions please call us on 0800 800 133.

Yours Sincerely,

On behalf of the Board of Directors of Geneva Finance Limited.

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