
**MIDLANDS MORTGAGE TRUST
GROUP INVESTMENT FUND**

**FINANCIAL ACCOUNTS
FOR THE YEAR ENDED
31 March 2018**

CONTENTS

Table of Contents	2
Business Directory	3
Statement of Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Financial Position	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-28
Auditors Report	29

BUSINESS DIRECTORY

NATURE OF BUSINESS

Midlands Mortgage Trust is a Group Investment Fund which aims to provide a competitive return to its stakeholders by investing in first ranking mortgage securities over New Zealand land and buildings.

THE BUSINESS ADDRESS & CONTACT DETAILS OF THE FUND MANAGER

Fund Managers Central Limited
120 Karamu Road
PO Box 609
Hastings 4156
General Manager: Peter Charles Harrison
Toll free: 0800 870 326
Fax: (06) 870 3261

DIRECTORS OF THE MANAGER

Peter James Ellis (Chairman)
John Baird Campbell
Steven Wyn-Harris
Graham Hunter Throp
Kenneth Alan Horner
Peter James Hutchison
Dinah Mary Clifford Kennedy (From 18 April 2018)

SUPERVISOR

Trustees Executors Limited
Level 5
10 Customhouse Quay
WELLINGTON

AUDITORS

Staples Rodway Audit Limited
PO Box 46
Hastings 4156

ACCOUNTANTS

Brown Webb Richardson Ltd
PO Box 146
Hastings 4156

BANKERS

ASB Bank Limited
Cnr Hastings and Emerson Streets
Napier

ANZ Bank NZ Limited
Level 10, Featherston St
Wellington

Westpac NZ Limited
16 Takutai Square
Auckland

SOLICITORS TO THE SUPERVISOR

D L A Piper
50-64 Customhouse Quay
Wellington

SOLICITORS TO THE MANAGER

Anthony Harper Lawyers
Level 8, Chorus House, 66 Wyndham Street
Auckland

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	<i>Notes</i>	
	2018	2017
	\$	\$
Interest revenue – Advances	2,714,448	1,986,116
Interest revenue – Impaired advances	-	5,881
Interest revenue – Bank deposits	127,731	167,806
Bad debts recovered	6,250	20,250
Total Income	<u>2,848,429</u>	<u>2,180,053</u>
Fees paid to auditors		
– Audit of financial statements	31,787	34,963
– Other	2,530	4,349
Bad debt write-offs	2	454,473
Individual impairment provision movement	7 69,402	(470,072)
Collective impairment provision movement	7 30,000	-
Management fees	4 683,053	487,772
Supervisor fees	4 66,334	43,586
Administration expenses	81,724	81,863
Total Expenditure	<u>964,832</u>	<u>636,933</u>
Surplus Before Taxation	1,883,597	1,543,120
Taxation expense/(credit)	6 -	17,611
SURPLUS AFTER TAX	<u>1,883,597</u>	<u>1,525,509</u>
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	<u><u>1,883,597</u></u>	<u><u>1,525,509</u></u>

The notes on pages 8 to 28 form an integral part of, and are to be read in conjunction with, these financial statements

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

	<i>Unitholder Funds</i>	<i>Accumulated Funds</i>	<i>Total Equity</i>
	\$	\$	\$
Balance at 1 April 2016	32,411,405	(3,674,429)	28,736,976
Unitholder Funds invested	10,202,024	-	10,202,024
Unitholder Funds withdrawn	(3,018,073)	-	(3,018,073)
Net Surplus/ Total Comprehensive Income	-	1,525,509	1,525,509
Distributions	-	(1,480,223)	(1,480,223)
Balance at 31 March 2017	<u>39,595,356</u>	<u>(3,629,143)</u>	<u>35,966,213</u>
Distribution per unit = 4.24c			
Balance at 1 April 2017	39,595,356	(3,629,143)	35,966,213
Unitholder Funds invested	10,044,358	-	10,044,358
Unitholder Funds withdrawn	(3,610,900)	-	(3,610,900)
Net Surplus/ Total Comprehensive Income	-	1,883,597	1,883,597
Distributions	-	(1,915,378)	(1,915,378)
Balance at 31 March 2018	<u>46,028,814</u>	<u>(3,660,924)</u>	<u>42,367,890</u>

Distribution per unit = 4.59c

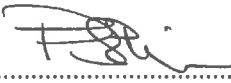
STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

Notes

		<i>2018</i>	<i>2017</i>
		\$	\$
ASSETS			
Cash and Cash Equivalents	5	4,053,192	5,636,343
Advances on Mortgages	7	38,441,222	30,405,130
Deferred Tax Asset	6	34,061	34,061
TOTAL ASSETS		<u>42,528,475</u>	<u>36,075,533</u>
LIABILITIES			
Trade and Other Payables		160,585	109,320
TOTAL LIABILITIES		<u>160,585</u>	<u>109,320</u>
EQUITY			
Unitholders' Funds	8	46,028,814	39,595,356
Accumulated Funds	9	(3,660,924)	(3,629,143)
TOTAL EQUITY		<u>42,367,890</u>	<u>35,966,213</u>
TOTAL LIABILITIES AND EQUITY		<u>42,528,475</u>	<u>36,075,533</u>

Signed for and on behalf of the Manager, Fund Managers Central Limited


.....
Director

Date: 30 July 2018


.....
Director

Date: 30 July 2018

The notes on pages 8 to 28 form an integral part of, and are to be read in conjunction with, these financial statements

STATEMENT OF CASH FLOWS*For the year ended 31 March 2018*

	<i>Notes</i>	2018	2017
		\$	\$
Cashflows From Operating Activities			
<i>Cash was provided from:</i>			
Bad Debts Recovered		6,250	20,250
Interest Received		2,774,073	2,093,337
		<u>2,780,323</u>	<u>2,113,587</u>
<i>Cash was applied to:</i>			
Payments to Suppliers		(814,163)	(639,031)
		<u>(814,163)</u>	<u>(639,031)</u>
Net Cash From Operating Activities Before Changes In Operating Assets		<u>1,966,160</u>	<u>1,474,556</u>
Changes In Operating Assets			
<i>Cash was provided from:</i>			
Mortgage Advances Repaid		12,850,804	12,090,568
<i>Cash was applied to:</i>			
Mortgage Advances		(20,918,195)	(20,080,642)
Net cash inflow/(outflow) from operating activities	10	<u>(6,101,231)</u>	<u>(6,515,517)</u>
Cashflows From Financing Activities			
<i>Cash was provided from:</i>			
Unitholder Funds Invested		10,044,358	10,202,024
<i>Cash was applied to:</i>			
Unitholders Funds Withdrawals		(3,610,900)	(3,018,073)
Distributions to Unitholders		(1,915,378)	(1,480,223)
Net cash (outflow)/ inflow from financing activities		<u>4,518,080</u>	<u>5,703,729</u>
Net (decrease)/increase in Cash and Cash Equivalents held		(1,583,151)	(811,789)
Plus Opening Cash and Cash Equivalents		<u>5,636,343</u>	<u>6,448,133</u>
Closing Cash and Cash Equivalents	5	<u>4,053,192</u>	<u>5,636,343</u>

The notes on pages 8 to 28 form an integral part of, and are to be read in conjunction with, these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. REPORTING ENTITY

Midlands Mortgage Trust Group Investment Fund (the Fund) is a group investment fund which was formed on October 1, 2004 and commenced operation on November 1, 2004. It is incorporated in New Zealand under the Trustee Companies Act 1967 and domiciled in New Zealand. The principal place of business is 120 Karamu Road North, Hastings.

The Fund is an issuer for the purposes of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

The financial statements of the Fund, as an individual entity, have been prepared by the Manager (Fund Managers Central Limited) on behalf of the Supervisor (Trustees Executors Limited) in accordance with the Financial Markets Conduct Act 2013, the Trustee Companies Act 1967 and the provisions of the Trust Deed.

The principal activity of the Fund is to facilitate collective investment secured by registered first mortgages over land.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements comply with generally accepted accounting practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP, the Fund is a for-profit entity. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").

Measurement Basis

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars which is the functional currency of the Fund. All values are rounded to the nearest dollar, unless otherwise stated.

Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the use of management estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable.

Accounting policies requiring estimates subject to significant uncertainty relate to the determination of provisions for the impairment of advances (refer note 7) and the probability of recovery of deferred tax assets (refer note 6).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of financial performance and financial position have been applied to all periods presented in these financial statements.

a) *Revenue*

Revenue comprises the fair value of the consideration received or receivable for interest income in the ordinary course of the Fund's activities.

The Fund recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Fund and when specific criteria have been met for each of the Fund's activities, as described below.

Interest income is recognised on a time-proportion basis using the effective interest method.

b) *Finance Expenses*

Finance expenses comprise interest expense and bank charges. Interest expenses are recognised in profit or loss using effective interest method. Bank charges are recognised as they are paid.

c) *Taxation*

The entity is a widely-held group investment fund and derives Category B income for the purposes of section HR 2(3) of the Income Tax Act 2007. Usually all income of the Fund will be allocated to unitholders throughout the income year, or is paid and applied within six months of the year end. In these circumstances the Fund will have no liability for income tax. To the extent income is retained by the Fund it will be taxable to the Fund at 28%.

Income tax expense

Income tax on profits for the period comprises current tax, deferred tax and any adjustment for tax payable in previous periods. Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

Current tax

Current tax is the expected tax payable on the income for the period, based on tax rates and tax laws which are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised in the foreseeable future.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

3. SIGNIFICANT ACCOUNTING POLICIES *CONTINUED*

d) *Financial Assets*

Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The Fund only has financial assets classified as loans and receivables.

Initial recognition and derecognition

Purchases and sales of investments are recognised on trade date – the date on which the Fund commits to purchase or sell the asset. Loan and receivable financial instruments are initially measured at fair value plus transactions costs. A financial instrument is recognised only when the Fund becomes a party to the contractual provisions of the financial instrument.

Subsequent to initial recognition these instruments are measured as set out below.

Financial instruments are derecognised when the rights to receive cash flows from the instruments have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money directly to a debtor with no intention of selling the receivable.

Subsequent to initial recognition they are stated at amortised cost using the effective interest rate method less accumulated impairment losses. Cash and cash equivalents and advances on mortgages listed in the Fund's statement of financial position are classified as loans and receivables.

e) *Trade and other payables*

These amounts represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method on financial instruments. As trade and other payables are usually paid within 30 days, they are carried at face value.

f) *Impairment of Financial Assets*

The Manager regularly assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. The advances are individually assessed.

The carrying amount is reduced through the use of an allowance account. When advances and receivables are considered uncollectible, they are written off against the allowance account.

A provision for impairment of advances is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the advances. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

3. SIGNIFICANT ACCOUNTING POLICIES *CONTINUED*

- f) *Impairment of Financial Assets cont'd*
days overdue) are considered objective evidence of impairment.

The amount of the provision is the difference between the advances carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in the profit or loss.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to an advance, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in the profit or loss. If advances previously written off are collected, they are recognised as revenue in the profit or loss.

All loans not individually impaired are then assessed collectively in loan portfolios with similar risk characteristics, to determine whether provision should be made due to incurred loss events where there is objective evidence but whose effects are not yet evident. The collective assessment from the loan portfolio (such as credit quality, levels of arrears and collateral type) uses historical loss information adjusted on the basis of current observable data.

Advances past due but not impaired are classified as follows:

“Past-due advances” means an advance or similar facility in arrears which has not been operated within its key terms by the borrower for at least 1 day and which is not an impaired loan.

“90 day past due advances” means an advance or similar facility in arrears which has not been operated within its key terms by the borrower for at least 90 days and which is not an impaired loan.

Impaired advances are classified into one of the following categories:

“Restructured advances” being advances where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the borrower and the yield on the asset following restructuring is equal to, or greater than, the Fund’s average cost of funds.

“Financial assets acquired through the enforcement of security” being financial assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements. The Fund does not have any financial assets acquired through the enforcement of security.

“Other impaired advances” being advances that are individually determined to be impaired, but are not restructured, nor financial assets acquired through the enforcement of security.

- g) *Statement of Cash flows*

The statement of cash flows has been prepared using the direct method and is inclusive of GST, which is consistent with the method used in the statement of comprehensive income and the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

3. SIGNIFICANT ACCOUNTING POLICIES *CONTINUED*

h) Goods and Services Tax

The Fund provides financial services. As such it cannot recover any GST incurred on expenditure. The non-recoverable GST is therefore included in the amounts recognised as expenses, liabilities and assets. There is no GST charged on revenue.

i) Current and Non-Current Assets and Liabilities

With the exception of Advances on Mortgages and Deferred Tax Asset, all assets and liabilities are current. The split of Advances on Mortgages between current and non-current is detailed in note 7.

j) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

k) NZ IFRS issued but not yet effective

The following NZ IFRS have been issued but are not yet effective. There are no further standards or amendments to standards that have been issued but are not yet effective, that are materially relevant to the Fund.

<i>Standard</i>	<i>Effective for periods beginning on or after</i>	<i>Initial Application in year ending</i>
NZ IFRS 9 Financial instruments	1 January 2018	31 March 2019
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018	31 March 2019

NZ IFRS 9 *Financial instruments* simplifies the classification and recognition of financial assets and financial liabilities, introduces a new impairment model and aligns hedge accounting more closely with business risk management practices. It replaces the guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The impairment model in NZ IFRS 9 now focusses on an expected credit loss model that replaces the incurred loss model under NZ IAS 39. Management have assessed that this may result in an increase in impairment provisions and more timely recognition of impairment losses.

The NZIFRS 15 standard provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers including some new disclosures about revenue. Management have assessed that due to the Fund's revenue being predominantly from interest and bad debts recovered, NZIFRS 15 will not have an impact on the Fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

4. RELATED PARTY TRANSACTIONS

The related parties are Trustees Executors Limited (related by virtue of having influence over the Fund in its role as Supervisor), who provide Supervisor services to the Fund, Fund Managers Central Limited (related by virtue of having significant influence over the Fund in its role as Manager), who provide management services to the Fund and the Directors and senior management of Fund Managers Central Limited and their close family members. Transactions during the period under review in regard to parties directly related to the Fund:

Transactions with related parties:

	2018	2017
Supervisor Fees to Trustees Executors Ltd	\$66,334	\$43,586
Management Fees to Fund Managers Central Ltd	\$683,053	\$487,772
Fund Managers Central Ltd Directors' & Officers' net (withdrawals)/investments of unitholders' funds	668,707 Units	30,515 Units
Balances of related parties as at 31 March:	2018	2017
Fund Managers Central Ltd Directors' & Officers' Investments of unitholders' funds	1,537,380 Units	868,673 Units
Balances owed to Fund Managers Central Ltd	\$21,133	\$100

Related party investments and balances are on normal commercial terms. The balances are unsecured and the Fund has given no guarantees to related parties. Management fees are payable on demand and management and Supervisor fees are expected to be paid within one month of being invoiced. The management fee charge during the period was 1.75% (2017; 1.50%) per annum of unitholders funds at the prevailing unit price. The Manager is entitled to on-charge certain loan management costs at its discretion but does not on-charge all allowable costs. The Supervisor fee charge during the period was 0.15% (2017: 0.10% to 31 December 2016 and 0.15% subsequent to that date) of the value of the Fund for the year. Investments are redeemable within 90 days of notification of withdrawal. During the year to 31 March 2017 the Fund took assignment of securities from related parties in respect of loans to the value of \$7,202,250. All loans secured by these securities comply with Fund lending criteria. The related party relationship arises due to common Directorships in the manager and the assignors.

5. CASH AND CASH EQUIVALENTS

	2018	2017
Current Accounts	1,031,004	3,022,032
Term Deposits	<u>3,022,188</u>	<u>2,614,312</u>
	<u>4,053,192</u>	<u>5,636,343</u>

Term deposits with maturity greater than 90 days are considered cash and cash equivalents as they are held for liquidity purposes. The effective interest rates on term deposits held with financial institutions as at 31 March 2018 were in the range of 2.13% - 3.25% with a weighted average of 2.98%. (March 2017 range of 3.10% - 3.55% with a weighted average of 3.30%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

6. TAXATION

	2018	2017
a) CURRENT PERIOD TAX	\$	\$
Surplus/(Deficit) for the period	1,883,597	1,543,120
Distribution to unitholders	(1,915,378)	(1,480,223)
Temporary difference not recognised		
- Impairment provision movement	99,402	-
- Tax losses utilised	(67,621)	-
Taxable Surplus	<u>-</u>	<u>62,897</u>
Tax Expense/(Credit) at 28%	-	17,611
Effective Tax Rate	28%	28%
Comprising: Current Tax Payable	-	-
Deferred Tax	-	17,611
Total Tax Expense/(Credit)	<u>-</u>	<u>17,611</u>
b) DEFERRED TAX		
31 March 2018	Impairment	Total
Balance at 1 April 2017	34,061	34,061
Current year movement	-	-
Balance at 31 March 2018	<u>34,061</u>	<u>34,061</u>
31 March 2017	Impairment	Total
Balance at 1 April 2016	51,671	51,671
Current year movement	(17,611)	(17,611)
Balance at 31 March 2017	<u>34,061</u>	<u>34,061</u>

The deferred tax asset arising in respect of impairment losses will be realised from reversals of impairment provisions on realisation of impaired loans. The critical judgment in determining deferred tax asset recovery involves assessment of the probability of reduction of impairment provisions and estimating future taxable profits of the Fund.

The Fund has estimated tax losses to carry forward of \$4,189,886 (March 2017: \$4,257,506). Deferred tax on tax losses carried forward has not been recognised. The deferred tax asset is a non-current asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

7. ADVANCES

Analysis of advances

(excluding accrued interest & provisions)

2018

2017

(i) Security property classification

\$

\$

Residential - owner occupied	12,976,551	7,032,807
– development	1,282,424	2,451,270
– property for sale	198,750	1,277,261
– rental	5,577,870	4,594,500
Commercial – accommodation	390,000	390,000
– industrial	1,927,325	2,330,070
– office/retail	4,940,220	3,640,497
– other	3,313,000	2,683,000
Rural – farming/horticulture	1,046,910	389,434
– other	6,772,996	5,569,818
Total	38,426,046	30,358,658

(ii) Geographic region

Auckland	7,900,035	6,550,742
Hawke's Bay	10,259,093	7,757,712
Wellington/Kapiti	2,900,633	2,650,064
Wairarapa	2,637,670	2,538,001
Taranaki/Manawatu	3,244,800	3,274,800
Canterbury	3,568,000	2,878,992
Other	7,915,815	4,708,346
Total	38,426,046	30,358,658

(iii) Maturity

Current	19,889,507	16,927,708
Non Current	18,536,539	13,430,950
Total	38,426,046	30,358,658

(iv) Reconciliation of gross advances to carrying value

Loan principal	38,426,046	30,358,658
Accrued interest	264,578	196,472
Provision for impairment	(249,402)	(150,000)
	38,441,222	30,405,130

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

7. ADVANCES CONTINUED

Credit Quality – Concentration

Lending policy prohibits advances to individuals, entities or related groups in excess of 5% of unitholders funds. There is no exposure to a single counterparty with loan principal values above this threshold. (March 2017: None.)

Credit Quality – Loan to Security Value

All advances are secured by first registered mortgage at the inception of the loan in accordance with the lending policy outlined in note 11. It is impracticable to provide a current valuation of the collateral security held against the loans in all instances because this information is not regularly updated and because of the complexity and potential volatility of the security values. A breakdown of the current loan to security value ratio, including where new valuations have been undertaken, is as follows. It should be noted that in some cases, where valuations have decreased, Loan to Security Values now exceed lending policy guidelines. In these circumstances, the loan is not renewed and recovery action taken:

Residential	LVR ≤ 75%	LVR > 75%	Total
Commercial	LVR ≤ 66.67%	LVR > 66.67%	
Rural	LVR ≤ 60%	LVR > 60%	
March 2018	\$	\$	\$
Residential	20,035,595	-	20,035,595
Commercial	7,543,917	3,026,628	10,570,545
Rural	7,375,682	444,225	7,819,906
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	34,955,193	3,470,853	38,426,046

Residential	LVR ≤ 75%	LVR > 75%	
Commercial	LVR ≤ 66.67%	LVR > 66.67%	
Rural	LVR ≤ 60%	LVR > 60%	Total
March 2017			
Residential	14,204,794	1,151,044	15,355,838
Commercial	7,718,710	1,324,857	9,073,567
Rural	5,472,502	486,750	5,959,252
	<hr/>	<hr/>	<hr/>
	27,396,006	2,962,651	30,358,657

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

7. ADVANCES CONTINUED

Credit Quality – Ageing Analysis

Residential	LVR ≤ 75%	LVR > 75%	
Commercial	LVR ≤ 66.67%	LVR > 66.67%	
Rural	LVR ≤ 60%	LVR > 60%	Total
March 2018	\$	\$	\$
Fully compliant loan principal	32,966,393	3,470,853	36,437,246
Renegotiated loan principal	-	-	-
Past due but not impaired principal			
0 – 89 days	1,406,800	-	1,406,800
90 days – 6 months	-	-	-
6 – 12 months	-	-	-
Over 12 months	-	-	-
Impaired loan principal	582,000	-	582,000
	<u>34,955,193</u>	<u>3,470,853</u>	<u>38,426,046</u>
Accrued interest unimpaired loans			264,578
Accrued interest impaired loans			-
			<u>38,690,624</u>
Less:			
Individual provision for impairment			(69,402)
Collective provision for impairment			(180,000)
			<u>38,441,222</u>

Credit Quality – Ageing Analysis

Residential	LVR ≤ 75%	LVR > 75%	
Commercial	LVR ≤ 66.67%	LVR > 66.67%	
Rural	LVR ≤ 60%	LVR > 60%	Total
March 2017	\$	\$	\$
Fully compliant loan principal	24,878,808	2,962,651	27,841,460
Renegotiated loan principal	-	-	-
Past due but not impaired principal			
0 – 89 days	1,317,197	-	1,317,197
90 days – 6 months	-	-	-
6 – 12 months	1,200,000	-	1,200,000
Over 12 months	-	-	-
Impaired loan principal	-	-	-
	<u>27,396,006</u>	<u>2,962,651</u>	<u>30,358,657</u>
Accrued interest unimpaired loans			196,742
Accrued interest impaired loans			-
			<u>30,555,129</u>
Less			
Individual provision for impairment			-
Collective provision for impairment			(150,000)
			<u>30,405,129</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

7. ADVANCES CONTINUED

Individually impaired loan reconciliation

	March 2018		
	Gross loans \$	Provision \$	Carrying value \$
Opening balance	-	-	-
New/Increased impaired loans	582,000	69,402	512,598
Repayments/impairment reduction	-	-	-
Written off	-	-	-
Net Movement	582,000	69,402	512,598
Closing balance	582,000	69,402	512,598

	March 2017		
	Gross loans \$	Provision \$	Carrying value \$
Opening balance	689,192	470,072	219,120
New/Increased impaired loans	-	-	-
Repayments/impairment reduction	(240,601)	(470,072)	229,472
Written off	(448,592)	-	(448,592)
Net Movement	(689,192)	(470,072)	(219,120)
Closing balance	-	-	-

Uncertainty factors

Volatility in property market prices could materially affect potential recoveries of overdue loans and the time taken to realise securities.

The critical estimates in determining specific loan impairment provisions involve estimating the amounts and timing of future cash flows for security realisations. Amounts are based on valuations or agents' estimates of security properties or recent realisations of similar properties. Timing of future cash flows is based on historical sales patterns or expected activity based on recent interest. The actual cashflows could range from full collection of all gross impaired loans and interest through to not receiving any cashflows.

The collective provision is assessed on all loans that are not individually impaired.

Effective interest rates

The weighted average effective interest rates on the first mortgage investments as at balance date were as follows: -

	31 Mar 2018	31 Mar 2017
Residential Mortgages	8.42%	7.89%
Commercial Mortgages	7.57%	6.80%
Rural Mortgages	8.38%	7.70%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

8. UNITHOLDERS' FUNDS

Deposits not in whole dollars are deemed to be advance subscriptions for units. Distributions not paid in cash (i.e. reinvested by members) are deemed to be subscriptions for units and add to the unitholders' unit balance in the Fund.

The assets of the Fund are held in the name of the Supervisor on behalf of the unitholders, in accordance with the Trust Deed. Unitholder funds are classified as equity as they meet the definition of equity in NZ IAS 32 Financial Instruments: Presentation, in that they are puttable financial instruments, the unitholders are entitled to receive a pro-rata share of the Fund's net assets on winding up, unitholders' funds are subordinate to all liabilities of the Fund, units have identical features, apart from the contractual obligation for the Fund to redeem the units for cash the units do not include any contractual obligation to deliver cash and the total expected cash flows over the life of the units are substantially based on the profit or loss of the Fund.

Each unitholder is entitled to one vote (irrespective of the number of units held) on matters concerning the Fund, but the Manager and Supervisor are not bound to follow the directions of the unitholders. The Manager and Supervisor can be removed by an extraordinary resolution of unitholders. The Trust Deed requires that withdrawals are paid out within 90 days of notification. The Manager generally processes withdrawals in a timely manner. The Trust Deed also provides for the suspension of withdrawals for 90 days or longer in certain circumstances.

The average annualised income distribution per unit for the relevant accounting period is 4.59c/unit (March 2017: 4.24c/unit).

The current price of units in the Fund is \$0.92 (2017: \$0.92). All units issued are fully paid. The price of units in the Fund is determined by the net asset value of the Fund divided by the total units in the Fund.

	2018	2017
Opening Units	39,044,478	31,235,835
Units Issued	10,917,781	11,089,156
Units Redeemed	(3,924,891)	(3,280,514)
Closing Units	<u>46,037,368</u>	<u>39,044,478</u>
Unitholder funds	\$46,028,814	\$39,595,356

9. ACCUMULATED FUNDS

The Trust Deed allows the Manager to establish a reserve to meet losses on individual loans by setting aside a part of the Fund's income for that purpose. The amount to be set aside is at the discretion of the Manager and Supervisor and will be reviewed from time to time. Cumulative distributions have exceeded cumulative net surpluses due to losses on loan realisations and as a result there is an accumulated deficit. Distributions are determined by consideration of the surplus income in the Fund for a period and market rates of return for similar instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

10. RECONCILIATION OF SURPLUS AFTER TAX WITH NET CASH FROM OPERATIONS

	2018	2017
	\$	\$
Surplus after tax	1,883,597	1,525,509
<i>Plus/(less) non-cash items</i>		
Bad debts	2	454,473
Impairment Provision movement	99,402	(470,072)
Interest on impaired advances	-	(5,881)
Deferred tax movement	-	17,610
	<hr/> 1,983,001	<hr/> 1,521,639
<i>Plus/(less) cash flow effect of movement in working capital items</i>		
Trade and other payables	51,265	13,502
Mortgage interest accrued	(15,098)	(60,585)
Mortgage advances	(8,120,399)	(7,990,073)
	<hr/>	<hr/>
Net cash inflow/(outflows) from operating activities	(6,101,231)	(6,515,518)

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Manager has a policy of compliance and risk management to suit the risk profile of the Fund. Key risk management policies encompassed in the overall risk management framework include:

- Market risk policy management
- Credit risk management
- Liquidity risk management

The Manager has undertaken the following strategies to minimise the risks arising from financial instruments:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *CONTINUED*

Market Risk Policy

The Fund is exposed to interest rate risk arising from changes in market interest rates. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The policy of the Manager is to manage the risk by placing loans at variable interest rates reviewable at short periods of notice (7 days minimum). Interest rate risk is minimised because returns to unitholders are determined by the Fund's net income for the period.

Interest rate re-pricing

The contractual re-pricing or maturity information for financial assets is as follows. The Fund does not have liabilities subject to interest rate re-pricing.

- Advances on Mortgages are re-priced at the Fund's discretion with a minimum of 7 days' notice.
- Cash and Cash equivalents maturities do not exceed 4 months.

There has been no significant change to the Fund's exposure to market risk or the way the Manager manages and measures market risk in the reporting period.

The Fund is not exposed to currency risk and other price risk. The Fund does not trade in the financial instruments it holds on its books.

Sensitivity Analysis

The distributions to unitholders are determined by the return of the invested Fund. The financial position of the Fund itself is therefore not materially sensitive to interest rate changes. If interest rates were to increase/decrease by 1%, the net surplus of the Fund would increase/decrease by approximately \$415,255 (March 2017: \$359,950). This would be offset to a large extent by an increased/decreased distribution to unitholders, therefore the impact on equity would be minimal. The following table summarises the sensitivity of the Fund's profit to 1% movement in interest rates assuming all net profit is paid out in distributions. The Fund does not have any interest sensitive liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *CONTINUED*

31 March 2018

	Carrying Amount	-1% Net surplus	-1% Equity	+1% Net surplus	+1% Equity
Financial Assets (principal value)	\$	\$	\$	\$	\$
Cash & Cash Equivalents	4,053,192	(36,814)	-	36,814	-
Advances on Mortgages (not impaired)	37,844,046	(378,441)	-	378,441	-
Total (Decrease)/Increase	-	(415,255)	-	415,255	-

31 March 2017

	Carrying Amount	-1% Net surplus	-1% Equity	+1% Net surplus	+1% Equity
Financial Assets (principal value)	\$	\$	\$	\$	\$
Cash & Cash Equivalents	5,636,343	(51,356)	-	51,356	-
Advances on Mortgages (not impaired)	30,358,657	(303,587)	-	303,587	-
Total (Decrease)/Increase		(354,943)	-	354,943	-

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on advances on mortgages and cash and cash equivalents for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over the advances on mortgages and cash and cash equivalents.
- Advances on mortgage rate change would be as at the beginning of the 12-month period and no other rate changes would be effective during the year.
- Cash and cash equivalents would all reprice to the new interest rate at the term maturity and be re-invested for a similar term.
- The value and mix of advances on mortgages will be unchanged.
- Impaired loans would not generate a profit effect from interest rate changes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *CONTINUED*

Credit Risk – Advances on Mortgages

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Fund incurring a financial loss. This could occur when debtors fail to settle their obligations owing to the Fund. There is no geographical concentration of credit risk with respect to loans and receivables as the Fund has a large number of customers dispersed over all areas of New Zealand (see Note 7 (ii)). The credit policy is that loans are only made to borrowers that are credit worthy and against the security of a first registered mortgage over land.

The Manager has established policies or procedures over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements.
- reassessing and review of the credit exposures on loans and facilities.
- establishing appropriate provisions to recognise the impairment of loans.
- debt recovery procedures.
- review of compliance with the above policies.

There has been no significant change to the Fund's exposure to credit risk with respect to loans and receivables or the way the Manager manages and measures credit risk in the reporting period. Daily reports monitor loan repayments to detect delays in repayments and recovery action is undertaken after 14 days if not rectified. The historic economic environment of 2008 to 2012 resulted in an unusually high level of defaults which have now worked through the financial statements.

Regular review of compliance is conducted by the Manager. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The policy followed is that all loans, when advanced, comply with the following lending limits:-

- 75% of a registered valuation for owner occupied dwellings, residential investment properties and developed land in fee simple or 50% of the value of a lessee's interest and 50% of the value of vacant land;
- 60% of a registered valuation for farming properties in fee simple but in certain circumstances 66.67% of a registered valuation for farming land used for dairy purposes, or 50% of the value of a lessee's interest. However, advances to farming clients operating solely on leasehold land would be exceptions rather than the rule, and the borrower would need to have substantial financial assets;
- 66.67% of a registered valuation for other commercial properties or 50% of the value of the lessee's interest in the case of a leasehold property.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *CONTINUED*

Credit Risk - Cash and Cash Equivalents

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Fund incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Fund.

There is a concentration of credit risk with respect to cash and cash equivalents with the placement of investments in reputable commercial banks. The credit policy is that investments are only made to credit worthy commercial banks. ANZ Bank NZ Limited is rated AA - by Standard and Poors. The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of these banks.

There has been no significant change to the Fund's exposure to credit risk with respect to cash and cash equivalents or the way the Manager manages and measures credit risk in the reporting period.

Maximum Credit Risk

The maximum credit risk is the carrying value of financial assets as detailed in the Statement of Financial Position.

	<i>31 Mar 2018</i>	<i>31 Mar 2017</i>
Cash and cash equivalents	\$	\$
Cheque Account	1,031,004	3,022,032
Bank Deposits	3,022,188	2,614,312
Advances on Mortgages	38,441,222	30,405,130
Maximum Credit Risk	<u>42,494,414</u>	<u>36,041,473</u>

The fund has exposure to counterparties in respect of advances on mortgages and cash and cash equivalents in bands of 10% of equity as follows.

% of Equity	<i>31 Mar 2018 Advances</i>	<i>31 Mar 2018 Cash</i>	<i>31 Mar 2017 Advances</i>	<i>31 Mar 2017 Cash</i>
0% to 10%	101	1	80	-
10% to 20%	-	-	-	1
20% to 30%	-	-	-	-

In respect of cash and cash equivalents exposure greater than 10% equity, there no counterparties this year. (2017: ANZ Bank NZ Limited).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *CONTINUED*

Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. debt repayments, or unitholder withdrawals. It is the policy of the Manager to maintain cash reserves so as to meet the anticipated withdrawal demands when requested. A minimum of 5% of the total gross asset value of the Fund is to be held in accessible liquid assets as a requirement of the Supervisor (actual March 2018: 9.53%, March 2017: 15.6%). The Manager's current policy is to maintain liquidity at 7.5% of unitholder funds (actual March 2018: 8.81%, March 2017: 14.2%). The funds are held with New Zealand registered trading banks.

The Manager manages liquidity risk by:

- Monitoring forecast and actual daily cash flows
- Monitoring unitholder requests for withdrawals
- Reviewing the maturities of financial assets and liabilities
- Maintaining adequate cash reserves.

The maturity profile of the financial assets and financial liabilities are set out in note 12.

Funding Concentration

There is a concentration of unitholders in Hawkes Bay 56% (March 2017: 52%), and Taranaki/Manawatu 21% (March 2017: 26%), with the remainder spread throughout other areas of New Zealand. 2.36% are based overseas (March 2017: 0.38%).

There has been no significant change to the Fund's exposure to liquidity risk or the way the Manager manages and measures liquidity risk, in the reporting period.

Capital Management

The Fund has no externally imposed capital requirements and distributions must be approved by the Supervisor. Capital includes unitholder funds and accumulated income. Any undistributed income forms part of the Fund's accumulated income. (Refer also note 9). Unitholders ordinarily have the right to redeem their assets at their discretion therefore the Manager cannot directly manage the capital. However the Manager may under the Trust Deed suspend withdrawals for 90 days or longer in certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12. MATURITY PROFILE

The following tables are based on contractual maturities.

Advances of \$5,846,490 (March 2017: \$7,702,106) have matured. This amount includes accrued interest and other fees due less each loan's individual provision, however excludes the collective provision for impairment (\$180,000).

31 March 2018 (\$000's)

Financial assets	Matured	On demand	< 1 month	1-6 months	6-12 months	1-2 years	2-5 years	>5 years	TOTAL
Cash and cash equivalents		1,031	1,500	1,500					4,031
Advances	5,846		1,153	4,687	7,725	12,916	6,294		38,621
Future interest receivable			195	899	850	958	747		3,649
Total financial assets	5,846	1,031	3,694	7,086	8,373	13,229	7,047		46,301

Financial liabilities	Matured	On demand	< 1 month	1-6 months	6-12 months	1-2 years	2-5 years	>5 years	TOTAL
Payables (excluding accruals)			124						124
Total financial liabilities			124						124
Loans approved but not disbursed			1,915	1,187					3,102
Net contractual cash flow	5,846	1,031	1,655	5,899	8,373	13,229	7,047		
Cumulative contractual cash flow	5,846	6,877	8,532	14,431	22,804	36,033	43,080	43,080	43,080

31 March 2017 (\$000's)

Financial assets	Matured	On demand	< 1 month	1-6 months	6-12 months	1-2 years	2-5 years	>5 years	TOTAL
Cash and cash equivalents		3,022	400	2,201					5,622
Advances	7,702		350	3,791	5,201	8,485	5,027		30,555
Future interest receivable			191	626	629	652	172		2,270
Total financial assets	7,702	3,022	941	6,618	5,830	9,137	5,199		38,449

Financial liabilities	Matured	On demand	< 1 month	1-6 months	6-12 months	1-2 years	2-5 years	>5 years	TOTAL
Payables (excluding accruals)			76						76
Total financial liabilities			76						76
Loans approved but not disbursed			568	2,216					2,784
Net contractual cash flow	7,702	3,022	297	4,402	5,830	9,137	5,199		
Cumulative contractual cash flow	7,702	10,724	11,021	15,423	21,253	30,390	35,589	35,589	35,589

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12. MATURITY PROFILE *CONTINUED*

Additional information regarding expected maturities of loans

Advances of \$5,846,490 at 31 March 2018 (2017: \$7,702,106) have matured comprising of loans that are past due or impaired. Based on expected future cash flows the Manager anticipates repayment/refinance of the carrying value of these loans to be as follows:

	31 Mar 2018	31 Mar 2017
0-6 months	\$1,566,741	\$3,697,227
7-12 months	\$3,213,420	\$1,794,162
1-2 years	\$1,066,328	\$ 981,505
2-5 years	-	\$1,229,212
Total	<u>\$5,846,490</u>	<u>\$7,702,106</u>

Actual results may differ materially from the above estimates.

13. OPERATIONAL RISK

Operational risks relate to those risks arising from a number of sources including from legal compliance, business continuity, data infrastructure, outsourced services failures and manager's employee errors.

These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties.
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour.
- implementation of the internal audit procedures to promote a compliant culture and awareness of the duty to report exceptions by staff.
- effective dispute resolution procedures to respond to unitholder complaints.
- effective insurance arrangements to reduce the impact of losses.
- contingency plans for dealing with the loss of functionality of systems of premises or staff.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

14. COMMITMENTS

	31 Mar 2018	31 Mar 2017
	\$	\$
Approved loans to be advanced after balance date	3,101,581	2,783,814
Withdrawal applications to hand to process after balance date	2,080	355,000

15. FAIR VALUE

The carrying value of all financial assets and liabilities approximates fair value, due to the short term nature of the financial instruments, or the fact that they have a floating interest rate and the fact that they are assessed for impairment.

Advances on mortgages are carried at amortised cost less accumulated impairment losses. Any differences between fair value and carrying value of loans is not material as the interest rate is floating and the loans can be changed to “on demand”. Additionally the loans are impaired if appropriate.

Cash and cash equivalents are available on demand or within a short period. They are at market interest rates, therefore carrying value approximates fair value.

Trade and other payables are short term, therefore carrying value approximates fair value.

16. EVENTS SUBSEQUENT TO BALANCE DATE

Dinah Mary Clifford Kennedy was appointed as a director of the manager on 18th April 2018.

17. CONTINGENT ASSETS/LIABILITIES

There are no contingent assets or liabilities (March 2017: Nil).

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Midlands Mortgage Trust Group Investment Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Midlands Mortgage Trust Group Investment Fund ('the Fund') on pages 4 to 28, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

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

Our report is made solely to the Unitholders of Midlands Mortgage Trust Group Investment Fund, in accordance with the Financial Markets Conduct Act 2013. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Unitholders of Midlands Mortgage Trust Group Investment Fund, for our audit work, for our report or for the opinions we have formed.

Basis for Opinion

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

Other than in our capacity as auditor and provider of other assurance services we have no relationship with, or interests in, Midlands Mortgage Trust Group Investment Fund. The provision of these other assurance services has not impaired our independence.

Responsibilities of the Directors of the Manager for the Financial Statements

The Directors of the Manager are responsible on behalf of the Fund for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors of the Manager determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/>

The engagement partner on the audit resulting in this independent auditor's report is Philip Pinckney.



STAPLES RODWAY AUDIT LIMITED

Hastings, New Zealand

30 July 2018