



CAPITAL
● MORTGAGE INCOME TRUST

Financial Statements
For the Year ended 31 March 2011

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THE MANAGER: Mortgage Fund Managers Limited
 Level 1, BERL House
 108 The Terrace
 Wellington

DIRECTORS OF THE MANAGER: Donald Eric Forsyth
 Nicholas Peter Moore
 Stuart Alexander McCrae Perry
 Bruce Robert Fraser
 Peter James Hutchison

THE TRUSTEE: Trustees Executors Limited
 Level 5, 10 Customhouse Quay
 Wellington

BANKERS: The National Bank of New Zealand
 part of the ANZ National Bank Ltd
 Wellington Branch
 170-186 Featherston Street
 Wellington

ACCOUNTANTS: Deloitte
 Levels 11-16, 10 Brandon Street
 Wellington

AUDITORS: PricewaterhouseCoopers
 Forsyth Barr House
 Dunedin



APPROVAL BY DIRECTORS
 FOR THE YEAR ENDED 31 MARCH 2011

Authorisation for Issue

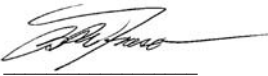
The Directors of Mortgage Fund Managers Limited (as Manager) and the Directors of Trustees Executors Limited (as Trustee) authorised the issue of these financial statements on 5 May 2011.

The Directors do have the power to amend these financial statements after they are authorised for issue.

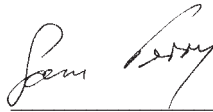
Approval by Directors

The Directors of Mortgage Fund Managers Limited and the Directors of Trustees Executors Limited are pleased to present the financial statements of Capital Mortgage Income Trust for the year ended 31 March 2011.

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




Director
 Mortgage Fund Managers
 Limited

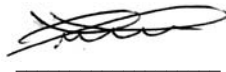


Director
 Mortgage Fund Managers
 Limited

Signed for and on behalf of the Trustee,
 Trustees Executors Limited



Director
 Trustees Executors Limited



Director
 Trustees Executors Limited

STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 MARCH 2011

	NOTES	31 Mar 11 \$	31 Mar 10 \$
INCOME			
Interest – mortgages		2,656,147	2,885,839
Less interest written off impaired loans		-	(218,574)
		2,656,147	2,667,265
Interest – bank balances		41,601	129,826
Other income		5,046	3,749
TOTAL INCOME		2,702,794	2,800,840
LESS EXPENSES			
Accountancy fees		28,212	24,631
Auditor's remuneration – financial statements		19,282	18,500
Auditor's remuneration – prospectus		1,800	1,406
Auditor's remuneration – trust deed		270	281
Bad loans written off	8	930,003	153,297
Bank charges		1,423	1,558
Computer costs		14,141	13,500
Legal fees		48,184	9,652
Management fees	9	429,473	480,706
Printing and stationery		7,447	10,093
Provision for impaired loans (released)	8	(592,855)	890,867
Trustee fees	9	31,141	34,619
TOTAL EXPENSES		918,521	1,639,110
TOTAL COMPREHENSIVE INCOME - PROFIT ATTRIBUTABLE TO UNITHOLDERS		1,784,273	1,161,730



The above statement is to be read in conjunction with the accompanying policies and notes on pages 8 - 30 and the audit report.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2011

	31 Mar 11	31 Mar 10
	\$	\$
UNITHOLDERS' EQUITY AT THE START OF THE YEAR	30,039,669	31,581,057
Net profit for the period	1,784,273	1,161,730
Total comprehensive income	1,784,273	1,161,730
Less: Distributions to unitholders (5.49 cents/unit, 2010: 6.06 cents/unit)	(1,438,191)	(2,000,249)
	346,082	(838,519)
Contributions from unitholders	2,883,293	5,538,523
Redemptions to unitholders	(7,848,855)	(6,241,392)
UNITHOLDERS' EQUITY AT THE END OF THE YEAR	25,420,189	30,039,669



The above statement is to be read in conjunction with the accompanying policies and notes on pages 8 - 30 and the audit report.

BALANCE SHEET
 AS AT 31 MARCH 2011

	NOTES	31 Mar 11 \$	31 Mar 10 \$
EQUITY			
Trust Capital	3	25,420,189	30,039,669
Represented by:			
ASSETS			
Cash & Cash Equivalents			
- ANZ National money market call account		862,150	962,719
- ANZ National cheque account		4,974	3,987
Bank Term deposits	2	-	750,000
Interest receivable		304,812	302,516
Loans secured by mortgage	8	24,764,462	28,649,775
TOTAL ASSETS		25,936,398	30,668,997
LESS CURRENT LIABILITIES			
Trade payables		133,889	145,310
Distributions payable to unitholders		357,217	478,384
Income in advance		10,103	4,204
Contributions received in advance	7	15,000	1,430
TOTAL CURRENT LIABILITIES		516,209	629,328
NET ASSETS		25,420,189	30,039,669



The above statement is to be read in conjunction with the accompanying policies and notes on pages 8 - 30 and the audit report.

STATEMENT OF CASHFLOWS
 FOR THE YEAR ENDED 31 MARCH 2011

	Notes	31 Mar 11 \$	31 Mar 10 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received		1,866,265	2,279,645
Other income		5,046	3,749
		<u>1,871,311</u>	<u>2,283,394</u>
Cash was applied to:			
Payments to suppliers		(592,794)	(592,910)
		<u>(592,794)</u>	<u>(592,910)</u>
Net cash inflow from operating activities	10	1,278,517	1,690,484
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Repayment of loans secured by mortgages	13	7,488,725	9,984,420
Loans sold		940,000	-
Repayment of term bank deposits		750,000	2,450,000
Cash was applied to:			
New loans secured by mortgages	13	(4,045,474)	(12,101,771)
Net cash inflow from investing activities		<u>5,133,251</u>	<u>332,649</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Contributions from unitholders		2,896,863	5,532,247
Cash was applied to:			
Redemptions to unitholders		(7,848,855)	(6,241,392)
Distributions to unitholders		(1,559,358)	(2,155,398)
Net cash outflow to financing activities		<u>(6,511,350)</u>	<u>(2,864,543)</u>
Net decrease in cash held		(99,582)	(841,410)
Add cash at start of period		966,706	1,808,116
BALANCE AT END OF PERIOD		<u>867,124</u>	<u>966,706</u>
REPRESENTED BY:			
Money market call account		862,150	962,719
National Bank cheque account		4,974	3,987
BALANCE AT END OF PERIOD		<u>867,124</u>	<u>966,706</u>

The above statement is to be read in conjunction with the accompanying policies and notes on pages 8 - 30 and the audit report.

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Capital Mortgage Income Trust is a group investment fund, a profit-orientated entity, which was formed in New Zealand on 18 September 2003 and commenced operation on 1 December 2003. It is registered under the Trustee Companies Act 1967. The Manager has its registered office in Wellington and operates in New Zealand.

The principal activity of the Fund is to provide investment in a diversified portfolio of nationwide first registered mortgages, to provide regular income to unitholders.

These financial statements have been prepared for Capital Mortgage Income Trust (the Fund) by Mortgage Fund Managers Limited (The Manager), on behalf of Trustees Executors Limited (the Trustee), in accordance with the Trustee Companies Act 1967, the Financial Reporting Act 1993 and the provisions of the Trust Deed.

The financial statements were authorised for issue by the directors of the Manager and Trustee on 5 May 2011.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS'). The comparative figures are audited.

BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the revaluation of certain items for which accounting policies are stated below.

Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in New Zealand dollars, rounded to the nearest one dollar.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 March 2011 and in the comparative information presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

CRITICAL JUDGEMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the application of NZ IFRS, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The most significant of these is the estimation for bad loans written off or provided for as impaired which is set out in note 8.

SPECIFIC ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

Income Recognition

Income comprises the fair value of the consideration received or receivable.

Interest revenue is recognised using the effective interest method.

Financial Instruments

Financial Instruments carried on the Balance Sheet include cash and bank balances, receivables, secured loans, and payables. The particular recognition methods are disclosed in individual policy statements associated with each item. Capital Mortgage Income Trust has not entered into any off-balance sheet financial instruments. Full disclosure of information about financial instruments to which the Fund is a part is provided in Note 13.

Financial Assets***Cash & cash equivalents***

Cash and cash equivalents comprise cash on hand, cash in banks, other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of receivables 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 receivables.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

Secured Loans

Loans are secured by first mortgages over residential, commercial, industrial or farm properties in New Zealand. These mortgage loans are recognised in the Balance Sheet at amortised cost less impairment.

A specific provision for impaired loan assets is created when there is objective evidence that an amount of principal and/or interest will not be recovered.

Impairment

At each reporting date, the Fund reviews the carrying amount of the assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount. The impairment loss is recognised as an expense in the Statement of Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Assets that are in arrears are reported separately as past due assets. Past due assets are assets when a counterparty has failed to make payment when contractually due. Restructured assets are impaired assets where the original loan terms have been amended to grant a concession to the counterparty due to difficulty in complying with the original terms. 90-days past due assets are loans which have not been operated by the counterparties within their key terms for at least 90 days and which are not impaired assets.

Income Recognition on Impaired Assets

When an asset becomes impaired, interest ceases to be recognised in the Statement of Comprehensive Income and instead the difference in fair values of the impaired assets is recognised in the Statement of Comprehensive Income.

Financial Liabilities

Payables

Accounts payable, comprising trade payables and other accounts payable, are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

Distributions

In accordance with the Fund's constitution, distributable income is distributed to unitholders by way of cash or re-investment into the Fund. A small percentage of income is retained each quarter, which equates to a minimum of 0.1% p.a of mortgages. This remains as undistributed income, and is recorded in unitholders' equity.

Distributions to unitholders comprise the income of the Fund to which unitholders are presently entitled. Distributions are payable on a quarterly basis.

Distributions are payable at the end of June, September, December and March of each financial year.

Unitholders' Funds

Unitholders' funds are recognised on the Balance Sheet at amortised cost. Funds are repayable on request in accordance with the Trust Deed, and therefore the carrying value is the amortised cost.

Application and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for estimated transaction costs, divided by the number of units on issue on the date of application or redemption.

Income Tax

The Fund elected to be taxed as a PIE from 1 October 2007. As a PIE, the Fund allocates income on a quarterly basis to each investor and deducts tax from that allocated income at the prescribed investor rate for each investor. The tax that is deducted and paid to the Inland Revenue is not shown as income tax in the Statement of Comprehensive Income, rather it is shown as part of the distributions to unitholders.

Goods and Services Taxation

This Fund is not registered for GST. All items in these financial statements are inclusive of GST.

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method. Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the entity.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

Definition of terms used in the cash flow statement:

“Cash” includes cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

“Operating activities” include all transactions and other events that are not investing or financing activities.

“Investing activities” are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

“Financing activities” are those activities relating to changes in the equity and debt capital structure of the Fund.

STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE

Various standards, amendments and interpretations have been issued by the Accounting Standards Review Board but have not been adopted by the Fund as they are not yet effective and the Fund has not chosen to early adopt them.

New and amended financial reporting standards that have not been early adopted by the Fund

NZ IAS 24: Related Party Disclosures (revised 2009)

NZ IAS 24 was revised in November 2009 and is effective for the financial statements issued for the fiscal years beginning on or after 1 July 2011.

The amendment to the standard affected primarily the definition of a related party. Whilst the change to that definition is significant, application of the amended criteria would not have resulted in the identification of any further parties related to the Fund. The amended disclosure requirements also include related party “commitments”. The existing process of identification of related party transactions within the Fund has not included a review of commitments. The frequency of such transactions occurring is likely to be low. All the other disclosures required in the amended standard are already being made by the Fund.

NZ IFRS 9: Financial Instruments – Phase 1: Classification and Measurement

NZ IFRS 9 Phase 1 was issued in November 2009 and is effective for the financial statements issued for the fiscal years beginning on or after January 2013.

The new standard simplifies the classification criteria for financial assets, comparing to the current requirements of IAS 39, which results in a reduced number of categories of financial assets and some consequential amendments to disclosure required by IAS 1 “Presentation of Financial Statements” and IFRS 7 “Financial Instruments: Disclosures”. The Fund’s financial assets currently fall into the category of “Loan receivables” within IAS 39 classification. If IFRS 9 was adopted, these assets would have met the definition of the category of “Financial assets measured at amortized cost”. However, their measurement and disclosure would not have been affected. The Fund would not have any transactions to disclose under the new IAS 1

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

and IFRS 7 disclosure requirements relating to gain or loss arising on derecognition of financial assets measured at amortized cost.

Other standards amendments and interpretations to existing standards have been published and are mandatory for the Fund's accounting periods beginning on or after 1 January 2010 or later, but the Fund has not early adopted them as they are not applicable to the Fund or the interpretation of the standards as clarified by amendments was the same as already applied by the Fund.

NZ IFRS 7: Financial Instruments: Disclosures (amendment from July 2010)

The amendment to NZ IFRS 7 from July 2010 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2011.

The amendment affects the disclosures concerning credit risk, including the maximum value exposure to credit risk, various aspects of disclosure of collateral and the disclosure of renegotiated loans.

The amendment removes the requirement to disclose the maximum exposure to credit risk at the end of accounting period if the carrying value of the financial instruments involved best represents the risk exposure. However, even if the maximum exposure to credit risk is not shown separately, any related collateral or other credit enhancements and their financial effect on credit risk needs to be disclosed.

As a result of the amendment the Trust did not need to disclose separately the financial instruments constituting its highest credit exposure. A disclosure of the collateral and credit enhancements relating to the loan receivable constituting the highest credit exposure in March 2011 and in September 2010, and their effect on mitigating credit risk, is made in note 13.

The amendment removes the disclosure of the carrying value of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. Details of restructured loans continue to be disclosed in note 8.

NZ IFRS 34: Interim Financial Reporting (amendment from July 2010)

The amendment to NZ IFRS 34 from July 2010 is effective for the financial statements issued for the accounting periods beginning on or after January 2011.

The amendment expanded the list of examples which required disclosure and removed materiality criteria from those disclosures and from the disclosure of subsequent events. All the disclosures required, including the new explicit requirement to disclose losses from impairment of financial assets, have already been included in the appropriate Notes to Financial Statements. The review of the subsequent events has been conducted in accordance with the amended requirement.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

2. BANK TERM DEPOSITS	31 Mar 11	31 Mar 10
	\$	\$
Deposits at ASB bank	-	750,000
	-	750,000

Deposits are for terms between 3 and 12 months.

3. UNITHOLDERS' EQUITY	31 Mar 11	31 Mar 10
	\$	\$
Accumulated (deficit) (Note 4)	(489,456)	(1,071,930)
Unitholder issue expenses	(25,526)	(25,526)
Undistributed income reserve (Note 5)	62,540	298,932
Unitholders' funds (Note 6)	25,872,631	30,838,193
	25,420,189	30,039,669

The Fund has no issued capital.

4. ACCUMULATED (DEFICIT)	31 Mar 11	31 Mar 10
	\$	\$
Opening accumulated (deficit)	(1,071,930)	(109,843)
Comprehensive income for the year after distributions	346,082	(838,519)
Transfer from/(to) undistributed income	236,392	(123,568)
Total accumulated (deficit)	(489,456)	(1,071,930)

5. UNDISTRIBUTED INCOME RESERVE	31 Mar 11	31 Mar 10
	\$	\$
Balance at start of year	298,932	175,364
Less: Released to accumulated (deficit)/surplus - during period	(236,392)	123,568
Balance at end of year	62,540	298,932

The Trust Deed allows the Manager to retain a very small part of the Fund's income for the purpose of meeting losses on individual loans. The Manager's policy is to build up the fund gradually to a level it considers appropriate. Undistributed income will not have a material effect on the level of income distributed to unitholders.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

6. UNITHOLDERS' FUNDS	31 Mar 11	31 Mar 10
	\$	\$
Unitholder funds at beginning of the year	30,838,193	31,541,062
Contributions from unitholders	2,883,293	5,538,523
Redemptions to unitholders	(7,848,855)	(6,241,392)
Total unitholders' funds	25,872,631	30,838,193

Funds are from Individuals, Trusts, Companies and Estates from within New Zealand. 99.79% are residents, and 0.21% are from non-residents. There is no significant concentration of funding with the largest investment being 4.13% of unitholders' funds. 46.37% of funds are from the Wellington/Kapiti region, 49.38% are from the Nelson/Marlborough region, and 4.25% are from other regions within New Zealand.

There are 25,872,631 units on issue at 31 March 2011 (31 March 2010: 30,838,193), where each unit represents a right to an individual share in the Fund per the Trust Deed. There are no separate classes of units and all other units have the same rights attaching to it as all other units in the Fund.

Unitholders' funds are disclosed as equity as in prior years consistent with the accounting standard, NZ IAS 32, because, with the exception of a small amount retained for meeting potential losses on individual loans in an Undistributed Income Reserve, all profits are distributed to unitholders. The expected cash flows for the repayment of unitholders' funds depends on circumstances of each of the unitholders and cannot be determined precisely. All unitholders' funds are repayable on request in accordance with the Trust Deed and the Trust Deed permits the Manager to arrange repayment of unitholders' funds over, or at the end of a period of up to, 90 business days. The Trust Deed further permits the Manager, in certain circumstances, to suspend all withdrawals until such time as the Manager so determines. Such suspension notices generally operate for a term of 90 business days, however further suspensions beyond 90 business days are permitted. All unitholders are repaid in cash.

The expected cash flows for the repayment of unitholders' funds depends upon the circumstances of each of the unitholders and cannot be precisely determined. The amendment to the accounting standard IAS 32 requires the directors to disclose the expected cash outflow on redemption or repurchase of the financial instrument, and information on how that has been determined.

The directors of the Manager, in arriving at the projected cash flows of unitholders' funds have made the following assumptions:

- There will be no significant financial market shocks that further undermine confidence, and consequently causes a protracted run on funds. (Note: In the event that such an occurrence was to occur, the

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

directors, in addition to the standard 90 business day repayment period, could invoke their rights to suspend repayments, initially for up to a 90 business day period, and then if further required indefinitely, to ensure that the financial stability of the Fund was not put at risk).

- The Fund is expecting to remain of a similar size for the foreseeable future, before increasing again in size once financial markets globally and nationally settle down.
- In any month there is a change of individual investors, with investments being redeemed, and new investments being made. Over the last twelve months, approximately 25.31% of the units on issue were redeemed with new investment funds of 9.18% being received over the same period (31 March 2010: 19.6% and 17.3% respectively).

While the directors of the Manager have based their views on the above assumptions, they nevertheless recognise that actual results are likely to be different from their assumptions since anticipated events frequently do not occur as expected and the variation could be material. However, there are measures that can be taken by the directors of the Manager as noted above, to help control liquidity for the Fund.

7. CONTRIBUTIONS RECEIVED IN ADVANCE

As at 31 March 2011, there was \$15,000 received applying for units which were yet to be issued (31 March 2010: \$1,430).

8. LOANS SECURED BY MORTGAGE	31 Mar 11	31 Mar 10
	\$	\$
Loans at beginning of the year	28,649,775	26,960,063
Loans drawdown	4,880,560	12,718,296
Loan repayments made	(8,428,725)	(9,984,420)
Sub-total	25,101,610	29,693,939
Release of/(provision for) impaired loans during the period	592,855	(890,867)
Loans written off during the period	(930,003)	(153,297)
Total loans	24,764,462	28,649,775

Mortgage loans are repayable at any time on demand by the Fund and pending demand have an agreed loan term. This provides flexibility to the Fund to assist in the management of liquidity. Pending demand the average loan term is 15 months (31 March 2010: 19 months).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

Past Due Assets	31 Mar 11	31 Mar 10
	\$	\$
Opening balance	2,409,218	5,551,649
New past due assets	2,862,664	1,489,873
No longer classified as past due assets	(2,409,218)	(4,632,304)
Closing balance	2,862,664	2,409,218

The past due assets are the total amounts owing by the borrowers who are in arrears. As at 31 March 2011 the past due portion was \$126,197 (31 March 2010: \$137,603).

The age analysis of the past due assets and past due portion at 31 March 2011 and 31 March 2010 is as follows:

31 March 2011	0-3 Months	3-12 Months	Total
	\$	\$	\$
Past due assets	209,549	2,653,115	2,862,664
Past due portion	6,080	120,117	126,197
31 March 2010	0-3 Months	3-12 Months	Total
	\$	\$	\$
Past due assets	819,361	1,589,857	2,409,218
Past due portion	15,195	122,408	137,603

Impaired Assets

During the period, two new impaired loans arose. The carrying value of these loans is \$793,694. No further interest is accruing on the remaining impaired loans however it is anticipated no further loss will be incurred when these loans are repaid, after taking account of the provision for impaired loans created.

	31 Mar 11	31 Mar 10
	\$	\$
Opening balance	2,202,657	889,746
New impaired assets	793,694	2,209,576
No longer classified as impaired assets	(846,642)	(896,665)
Closing balance	2,149,709	2,202,657

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

Restructured Assets	31 Mar 11	31 Mar 10
	\$	\$
Opening balance	1,345,459	910,000
Repayments	18,585	(39,121)
New restructured asset (on a principal reducing basis)	1,212,477	474,580
Closing balance	2,576,521	1,345,459

Interest earned on the restructured loans in the twelve months to 31 March 2011 was \$149,594 (31 March 2010: \$8,177).

Provision for Impaired Loans	31 Mar 11	31 Mar 10
	\$	\$
Opening provision for impaired loans	890,867	-
Movement in impairment during the period	(592,855)	890,867
Closing provision for impaired loans	298,012	890,867

The provision for impairment recognises potential losses on seven existing loans. If the losses are realised they will be written off as bad loans in future periods with future distributions adjusted accordingly. The provision at 31 March 2010 included one item for \$835,537, which was based on an updated independent valuation of a property in Martinborough of \$875,000 and was previously independently valued at \$3,800,000 at the time the Fund provided first mortgage finance in 2006. This loan was written down to its expected recoverable amount in the year to 31 March 2011. The Manager is taking legal action against the valuer.

The Fund has not provided for any collective impairment. In the opinion of the Manager, a collective impairment is not required as the estimated decrease in future cash flows from the mortgage receivables is provided for by the specific impairment provision.

As explained in Note 5, the Trust Deed allows the Manager to retain a very small part of the Fund's income each quarter for the purpose of meeting losses on individual loans. The loss of capital to the Fund has been covered by the undistributed income reserve and a reduction in the income distribution.

The 6 largest loans represent 28.65% of total assets (31 March 2010: 23.06%) against an allowable internal policy limit of 20%. This limit has been exceeded as a result of the rapid decline in the Fund value resulting from a large number of redemptions caused by investors who became nervous as a result of failing finance companies and the government guarantee for bank and finance companies investors.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

9. RELATED PARTIES

The related parties are Trustees Executors Limited, who provide trustee services to the Fund, and Mortgage Fund Managers Limited, who provide management services to the Fund. The annual fee for the Manager is 1.5% per annum of the gross value of the Fund. The following transactions occurred during the period under review in regard to parties directly related to the Fund. These transactions have taken place at arms length and in the ordinary course of business.

	31 Mar 11	31 Mar 10
	\$	\$
Trustee Fees	31,141	34,619
Management Fees	429,473	480,706

Fees are assessed and payable on a quarterly basis. At 31 March 2011, \$7,143 was payable to the Trustee (31 March 2010: \$8,413), and \$97,756 was payable to the Manager (31 March 2010: \$116,817).

There have been no loans to related parties.

Directors hold the following investments in the Fund as at 31 March 2011:

DE Forsyth	\$13,112
NP Moore	\$293,494

Messrs Forsyth, Perry, Fraser and Moore are trustees of trusts who have investments in the Fund some of which relate to their professional capacity as lawyers.

10. RECONCILIATION OF NET PROFIT WITH NET CASH FLOW FROM OPERATIONS

	31 Mar 11	31 Mar 10
	\$	\$
Total comprehensive income – profit for period	1,784,273	1,161,730
Add/(less) non-cash items:		
Bad loans written off	930,003	153,297
Provision for impaired loans/(released)	(592,855)	890,867
Interest capitalised	(835,086)	(616,525)
Total non-cash items	1,286,335	427,639
Movements in Working Capital Items:		
(Increase)/Decrease in accrued interest	(2,296)	94,875
Increase/(Decrease) in accounts payable	(11,421)	2,036
Increase in income in advance	5,899	4,204
Net Movements in Working Capital	(7,818)	101,115
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,278,517	1,690,484

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

11. SEGMENT REPORTING

The Fund is a financial institution lending into and operating in the New Zealand market, with all lending secured by first mortgage securities over property. The Fund therefore, operates in a single operating and geographical segment.

12. COMMITMENTS

At 31 March 2011 the Fund had \$Nil commitments to lend and \$Nil commitments to repay unitholders (31 March 2010: \$Nil & \$Nil respectively).



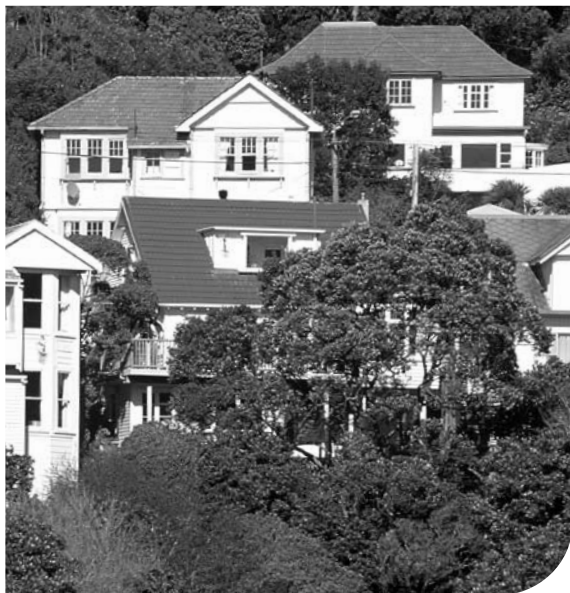
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011**13. FINANCIAL INSTRUMENTS****Interest Rate Risk**

The majority of mortgages are subject to interest receivable at floating interest rates. Interest rates on mortgages are continually reviewed by the Manager and these rates are varied in accordance with movements in the market. Floating interest rates range from 7.0% to 18.50% per annum. Fixed interest rates range from 5.0% to 10.50% per annum. Fixed interest rates represent 14.68% of the total loan portfolio and are fixed for a period up to 12 months. These are also the effective interest rates.

It is the policy of the Fund to ensure that interest rate exposure is minimised by the majority of loans being on a floating rate basis. Rates are adjusted in line with market movements in interest rates.

The carrying value of total loans and receivables (including all bank balances) as at 31 March 2011 is \$25,936,398 (31 March 2010: \$30,668,997). The total of financial liabilities recognised at amortised cost as at 31 March 2011 is \$516,209 (31 March 2010: \$629,328).

The following tables detail the Fund's exposure to interest rate risk as at 31 March 2011 and 31 March 2010. The tables include the Fund's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

13. FINANCIAL INSTRUMENTS (CONT'D)

31 March 2011

	Weighted average effective interest rate %	Variable interest rate \$
--	---	------------------------------------

Financial Assets:

Cash and cash equivalents	2.73	862,150
Accrued interest	-	-
Loans secured by mortgage	9.02	21,129,039
		21,991,189

Financial Liabilities:

Accounts payable	-	-
Distribution payable	-	-
Income in advance	-	-
Investors contributions received in advance	-	-
		-

Accrued interest relates to the 31 March 2011 quarterly distribution, and term deposits. Interest on quarterly distribution is due and chargeable 1 April 2011.

31 March 2010

	Weighted average effective interest rate %	Variable interest rate \$
--	---	------------------------------------

Financial Assets:

Cash and cash equivalents	2.99	962,719
Bank term deposits	4.84	-
Accrued interest	-	-
Loans secured by mortgage	10.08	25,451,348
		26,414,067

Financial Liabilities:

Accounts payable	-	-
Distribution payable	-	-
Income in advance	-	-
Investors contributions received in advance	-	-
		-

Accrued interest relates to the 31 March 2010 quarterly distribution, and term deposits. Interest on quarterly distribution is due and chargeable 1 April 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

Fixed interest rate Less than 1 Year \$	Non interest bearing \$	Total \$
-	4,974	867,124
-	304,812	304,812
3,635,423	-	24,764,462
3,635,423	309,786	25,936,398

-	133,889	133,889
-	357,217	357,217
-	10,103	10,103
-	15,000	15,000
-	516,209	516,209

Fixed interest rate Less than 1 Year \$	Non interest bearing \$	Total \$
-	3,987	966,706
750,000	-	750,000
-	302,516	302,516
3,198,427	-	28,649,775
3,948,427	306,503	30,668,997

-	145,310	145,310
-	478,384	478,384
-	4,204	4,204
-	1,430	1,430
-	629,328	629,328

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

13. FINANCIAL INSTRUMENTS (CONT'D)

Concentration of Credit Risk

In the normal course of business the Fund has a credit risk on investments. The Fund has a credit policy, which is used to manage this credit risk. As part of this policy, the Trustee has approved policies limiting exposure to any one market segment.

The Trustee has approved lending criteria limiting loans to maximum levels of the mortgage security obtained and to the customer's serviceability of that loan. Other approved policies are also in place and are subject to annual review. The Trustee has also approved that the liquidity of the Fund must be maintained by liquid funds being at least 5% of the value of the Fund. Liquid funds were 3.32% of the total value of the Fund at 31 March 2011.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Balance Sheet. No single loan is to exceed 5% of unitholders' funds at the time of the first advance. At balance date, three loans totalling \$4,350,844 exceeded this limit due to the fall in unitholder funds as a result of market dislocation. The Trustee is aware of this exception and the Manager is taking steps to have these loans repaid.

The concentrations of loans as a percentage of total equity at balance date are as follows:

% of Equity	\$	Number of Loans
5 - 6	4,350,844	3
4 - 5	1,039,868	1
3 - 4	5,040,796	6
2 - 3	5,004,616	9
1 - 2	5,768,629	17
0 - 1	3,559,709	40
	24,764,462	76

No loans exceed 10% of the total equity at balance date (31 March 2010: Nil).

Lending limits - there are limits on the maximum size of any mortgage in relation to both the value of the property provided as security and to the total funds of the Fund. As at 31 March 2011 the limits are:

- 75% of registered valuers report for residential properties, 60% of registered valuers report for farming properties and 66.7% of registered valuers report for other commercial properties;
- in the case of leasehold property the limits are set at 50% of the value of the leasee's interest, and
- at the time of the first advance, no more than 5% of the funds of the Fund will be invested in any one mortgage or advance to any one borrower.

There is a concentration of credit exposure with 60.51% of loans to borrowers in the residential sector, 37.87% in the commercial sector. In terms of geographical

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

areas, 54.96% of borrowers are in the Wellington area, and 18.93% in the Nelson / Marlborough area. Credit exposure is also concentrated with 28.65% of loans granted to six borrowers (refer to Note 8).

The estimation of the fair value of the security held for total loans at 31 March 2011 is \$50,755,471 (31 March 2010: \$59,164,444). The fair value of the security of the impaired and past due loans is \$7,259,000 (31 March 2010 \$9,107,500). These values are based on independent valuation reports. Note that the security for one borrower can only be used against the loans of that borrower.

Fair Values

The carrying value of the Balance Sheet items are, in the opinion of the directors of the Manager, equivalent to their fair value. This includes the loans secured by first mortgage because the majority of loans are subject to interest receivable at floating rates which are varied in accordance with movements in the market. Loans that are impaired and where interest has ceased to be charged are expected to be repaid in the near future and consequently, fair value is close to book value.

Market Risk

The Manager is of the opinion that Capital Mortgage Income Trust's exposure to market risk at balance date is defined as:

Risk Factor	Description	Sensitivity
(i) Currency risk	All assets and liabilities are denominated in New Zealand dollars	Nil
(ii) Interest rate risk	Floating rates for most loans - refer to the first paragraph of this note	Nil
(iii) Other price risk	No securities are bought, sold or traded	Nil

Any change in interest rates on mortgage securities is offset by an equivalent change in the amount distributed to unitholders.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011**13. FINANCIAL INSTRUMENTS (CONT'D)****Liquidity Risk**

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds at short notice to meet its commitments and arises from the mismatch of the maturity of monetary assets and liabilities. This is accentuated by the assets of the Fund being mortgages to borrowers, which while legally capable of being called for repayment at any time, nevertheless, in many instances may take some time to be recovered. Offsetting this is the fact that all unitholders' funds are on demand and may be called for repayment at any time.

Management monitors the liquidity risk on a daily basis through matching cash demands with liquid assets. In order to provide a level of short term liquidity the Fund seeks to at all times maintain liquid cash reserves of a minimum of 5% of total assets. However, this was not always achieved in the 2011 financial year.

However, in the event that calls for repayment of unitholder funds exceed the available cash resources, the Fund has the following rights to manage its liquidity position:

- The Trust Deed permits the Manager to arrange repayment of unitholders' funds over, or at the end of a period of up to 90 business days.
- The Trust Deed further permits the Manager, in certain circumstances, to suspend all withdrawals until such time as the Manager so determines. Such suspension notices generally operate for a term of 90 business days, however, further suspensions beyond 90 business days are permitted.
- Mortgage loans are repayable at any time on demand by the Fund.

During the period under review, the Manager did not use any of the additional rights to manage its liquidity position. However to manage its liquidity position, the Manager took the following actions:

- For the period under review the average cash holdings were 4.72% of total assets, although it was 3.32% at 31 March 2011.
- The Fund reviewed its mortgage lending rates regularly and as a result, some borrowers mortgage interest rates were adjusted in line with the market.
- Where possible, loans that are reviewed or renewed require repayments to cover both principal and interest (reducing balance). Currently 21.05% of all loans are on a reducing balance basis.
- The Fund sold two loans at full value to other group investment funds. These loans had a value of \$940,000.
- Many loans that were due to be repaid to the Fund during the 2011 financial year were repaid but were re advanced for a further period to the same borrowers as they continued to meet the Fund's lending criteria. The \$4,054,474 shown as new loans secured by mortgages in the Statement of Cash Flows which represents existing borrowers that have had their loans extended on this basis.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

Should market uncertainty continue, and the Fund experience further unexpected calls for repayment of unitholder funds, the Manager has the right to reimpose up to 90 business days to meet withdrawal requests, subsequent to 31 March 2011, the Manager has imposed this right (see note 16). The Manager has the additional right under the Trust Deed to extend any withdrawal suspension notice beyond 90 business days, and the Manager believes that the Fund has the ability to demand repayment of loans, and to sell further loans to assist with liquidity, if required.

The following tables classify the Fund's assets and liabilities into relevant maturity groupings as at 31 March 2011 and 31 March 2010, in accordance with their expected maturity dates in keeping with the terms set out in the loan documentation. As disclosed in Note 6, funding is provided by unitholder funds which are expected to remain at a similar or greater level over the periods set out below.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

13. FINANCIAL INSTRUMENTS (CONT'D)

31 March 2011	\$	\$
	0-3 Months	3-12Months
Monetary Assets:		
Cash and cash equivalents	867,124	-
Accrued interest	304,812	-
Future interest on loans	424,148	784,377
Mortgage advances	4,571,266	8,654,050
	<u>6,167,350</u>	<u>9,438,427</u>
Monetary Liabilities:		
Accounts payable	133,889	-
Distribution payable	357,217	-
Income in advance	10,103	-
Contributions received in advance	15,000	-
	<u>516,209</u>	<u>-</u>

While \$4,571,266 of mortgage advances are due in the 3 month period to 30 June 2011, only \$800,000 is expected to be received because borrowers may seek to renew their loans (provided they meet the Funds current lending criteria) and the Fund may approve of this so as to provide continuing income for the benefit of the Fund. This renewal process could equally apply to other periods of maturing mortgages but some borrowers may also elect to prepay their loans before maturity.

31 March 2010	\$	\$
	0-3 Months	3-12Months
Monetary Assets:		
Cash and cash equivalents	966,706	-
Bank term deposits	750,000	-
Accrued interest	302,516	-
Future interest on loans	338,067	564,183
Mortgage advances	3,354,168	5,597,607
	<u>5,711,457</u>	<u>6,161,790</u>
Monetary Liabilities:		
Accounts payable	145,310	-
Distribution payable	478,384	-
Income in advance	4,204	-
Contributions received in advance	1,430	-
	<u>629,328</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED 31 MARCH 2011

\$	\$	\$	\$
1-2 Years	2-5 Years	Over 5 Years	Total
-	-	-	867,124
-	-	-	304,812
538,367	505,402	-	2,252,294
5,937,267	5,601,879	-	24,764,462
6,475,634	6,107,281	-	28,188,692
-	-	-	133,889
-	-	-	357,217
-	-	-	10,103
-	-	-	15,000
-	-	-	516,209

\$	\$	\$	\$
1-2 Years	2-5 Years	Over 5 Years	Total
-	-	-	966,706
-	-	-	750,000
-	-	-	302,516
813,264	1,172,097	-	2,887,611
8,068,896	11,629,104	-	28,649,775
8,882,160	12,801,201	-	33,556,608
-	-	-	145,310
-	-	-	478,384
-	-	-	4,204
-	-	-	1,430
-	-	-	629,328

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2011

14. PRIORITY OF CREDITORS

All liabilities disclosed in these financial statements rank equally in priority in the event that the Fund is wound up, except for trustee fees payable (disclosed in Note 9) which have priority over other creditors, as specified under the Trust Deed.

16. CAPITAL MANAGEMENT

The Fund is required, under its Trust Deed, to hold a minimum of 0.1% of unitholder funds as a reserve for possible bad debts.

The Manager endeavours to ensure the units remain at or above \$1 in accordance with the Trust Deed, however during the year the provision for one of the impaired loans caused the unit price to fall below \$1. The Manager worked with the Trustee to rectify this by way of an underwrite from its management fee.

The Fund's policy is to hold a minimum 5% of unitholders' funds in cash to meet redemptions in the normal course of business and the Fund is also required under its Trust Deed to set aside from income 0.1% of unitholders' funds as an undistributed income reserve to meet possible bad debts. As at 31 March 2011, cash holdings equated to 3.32% and this will fluctuate, increasing due to the receipt of loan repayments and new investor monies and reducing by new lending, investors withdrawals and Fund expenses. For the year under review, the average cash holdings were 4.72%. The Trustee is aware of this exception and the Manager is taking steps to restore the liquidity to be greater than 5%.

Investments in bank deposits are maintained so as they have a duration of no more than 6 months. Investments in mortgages are actively managed and the applicable interest rates are kept under regular review to ensure an adequate return is paid to unitholders.

Mortgage investments are repayable "on demand" but in the normal course of business can be agreed for terms of up to 5 years. Currently, a 3 year term is most common.

No single loan is to exceed 5% of unitholders' funds at the time of the first advance. At balance date, three loans totalling \$4,350,844 exceeded this limit due to the fall in unitholder funds as a result of market dislocation. The Trustee is aware of this exception and the Manager is taking steps to have these loans repaid or reduced.

16. SUBSEQUENT EVENTS

Subsequent to 31 March 2011, because of the continued demand for withdrawals and the fall in the Fund's cash reserves to 1% of total assets, the Directors of the Manager agreed with the Trustee to impose the 90 business day notice period for withdrawals. Accordingly, this action has been taken, effective from 29 April 2011, as allowed for in the Trust Deed.



INDEPENDENT AUDITORS' REPORT

To the Trustee (on behalf of the Unitholders) of Capital Mortgage Income Trust Group Investment Fund

Report on the Financial Statements

We have audited the financial statements of Capital Mortgage Income Trust Group Investment Fund on pages 4 to 30, which comprise the balance sheet as at 31 March 2011, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager, on behalf of the Trustee, is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, Capital Mortgage Income Trust Group Investment Fund.

Continued next page

Opinion

In our opinion, the financial statements on pages 4 to 30:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Fund as at 31 March 2011 and its financial performance and its cash flows for the year then ended.

Emphasis of Matter

In expressing our unqualified opinion on the financial statements of the Fund, we draw your attention to the liquidity disclosures made in notes 6 and 13 to these financial statements. We note that as described in note 16, subsequent to year end, from 29th April 2011 the Fund has reimposed its right to withhold unitholders withdrawals and as set out in these notes has the additional right to extend this suspension of withdrawals beyond 90 business days. These financial statements do not contain the effect of any adjustments that may arise as a result of this suspension of withdrawals. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Section 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Fund as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Trustee on behalf of the unitholders. Our audit work has been undertaken so that we might state to the Trustee those matters which we are required to state to the Trustee in an auditors' 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 Trustee, for our audit work, for this report, or for the opinions we have formed.

5 May 2011



Chartered Accountants
Dunedin.



CAPITAL

● MORTGAGE INCOME TRUST

Registered Office of Mortgage Fund Managers Ltd
Level 1, BERL House
108 The Terrace
P O Box 10-700
Wellington
Phone (04) 473 8702
Toll free 0800 399 900
Fax (04) 473 8715

● MOR