CAPITAL
MORTGAGE INCOME TRUST

P.I.E Registered

GROUP INVESTMENT FUND

ANNUAL REPORT

2019

Contents

Chairman's Statement

Dear Investor

The Directors of Fund Managers Otago Limited present the Annual Report of the Capital Mortgage Income Trust Group Investment Fund (the Fund) for the year ended 31 March 2019. As at 31 March 2018 the Manager, in accordance with the Trust Deed, resolved to wind up the Fund and over the past 12 months has been full occupied in the task of the windup which includes realisation of the remaining mortgages.

The Fund recorded an operating surplus of $263,243 before the impairment of mortgage receivables which amounted to ($1,294,661) resulting a loss of ($1,031,418) for the full year. It must be remembered that the impairments are required to meet current accounting standards and as we have previously stated on many occasions does not necessarily reflect the current market value of the underlying security involved.

Last year we indicated that we expected to sell the securities that make up the impaired mortgage receivables within the next financial year. This did not eventuate as lawsuits and unforeseen Resource Management Act issues prevented real progress. This and the nuisance actions of some borrowers and guarantors has added to the delays in realisation.

It has been a very trying year in terms of preparing the last of the assets for sale and the Directors sincerely appreciate your continuing support.

For and on behalf of the Board of
FUND MANAGERS OTAGO LIMITED

JOHN GALLAHER
Chairman

Directory

As at 31 March 2019

Nature of Business	Capital Mortgage Income Trust is a Group Investment Fund tailored to meet investment needs
Address	Fund Managers Otago Limited Level 8, ASB House, 248 Cumberland St, DUNEDIN
Address for Service	Fund Managers Otago Ltd PO Box 5741, DUNEDIN 9054
Directors of the Manager	John Edward Farry (resigned 31 October 2018) David Joseph Ehlers John Francis Gallaher Donald Eric Forsyth Nicholas Peter Moore Kevin John Whitley (appointed 24 May 2019) Peter James Hutchison
Supervisor	Trustees Executors Limited Level 5, 10 Customhouse Quay, WELLINGTON
Accountants	Deloitte Limited (as trustee for the Deloitte Trading Trust) Level 13, Otago House, 481 Moray Place, DUNEDIN 9016
Auditor	PricewaterhouseCoopers Chartered Accountants PO Box 5848, DUNEDIN 9054
Bankers	ANZ Banking Group New Zealand Ltd
Solicitors to the Manager	Anderson Lloyd Lawyers Level 9, Otago House, 481 Moray Place, DUNEDIN

Statement of Comprehensive Income

For the year ended 31 March 2019

Operating Income

Interest - Mortgages
Interest - Bank Deposits
Interest - IRD Use of Money
Interest - Impaired Mortgages

Less Expenses

Accounting Fees
Allowance for Impairment of Mortgage Receivables
Audit Fees
Bank Charges
Computer Service Charge
General Expenses
Legal Expenses
Loan Expenses
Loss on Realisation of Mortgage Receivables
Management Fees
Supervisor's Fees
Total Expenses

Surplus / (Loss) before Income Tax

Income Tax Expense

Surplus / (Loss) after Income Tax

Other Comprehensive Income

Net Surplus / Loss

Statement of Changes in Unitholders' Funds

For the year ended 31 March 2019

Net Surplus / (Loss)

Transactions With Unitholders

Net Repayment to Unitholders
Redemptions from Unitholders
Unit valuation adjustment
Distributions to Unitholders

Other Transactions

PIE Tax Refund Receivable
PIE Tax Refund Received

Unitholders' Funds at the Beginning of the Year

Unitholders' Funds at the End of the Year

Note	March 2019 $	March 2018 $
	128,882	285,332
	3,693	4,682
	74	8
	333,213	192,659
	465,862	**482,681**
	2,239	13,894
11	1,294,661	629,860
9	36,376	32,199
	363	672
	15,000	15,000
	13,941	29,002
	8,867	3,154
	21,090	5,878
	-	-
4	70,243	85,385
4	34,500	34,500
	1,497,280	**849,544**
	(1,031,418)	**(366,863)**
10	-	-
	(1,031,418)	**(366,863)**
	-	-
	(1,031,418)	**(366,863)**

Note	March 2019 $	March 2018 $
	(1,031,418)	(366,863)
3	(2,831,673)	-
3	-	(558,702)
7	1,330,035	162,812
7	-	(81,640)
	(1,501,638)	**(477,530)**
3	193,057	126,186
	(126,186)	(134,943)
	4,283,881	5,137,031
	1,817,696	**4,283,881**

These financial statements are to be read in conjunction with the accompanying Notes.

Statement of Financial Position

As at 31 March 2019

Assets

Cash & Cash Equivalents

Accounts Receivable

Mortgage Interest Due

Current Portion of Mortgage Receivables

Non Current Portion of Mortgage Receivables

Total Assets

Liabilities Excluding Unitholders' Funds

Payables & Accruals

Net Assets

Unitholders' Funds

Unitholders' Funds

Accumulated Losses

Total Unitholders' Funds

Signed for on behalf of the Manager,
Fund Managers Otago Limited

Director ....
Fund Managers Otago Limited

Date: 31 July 2019

Note	March 2019 $	March 2018 $
	621,770	845,065
	193,058	126,186
8	4,876	13,007
11	828,327	2,405,913
11	210,329	944,400
	1,858,360	**4,334,571**
12	40,664	50,690
	1,817,696	**4,283,881**
3	4,285,224	7,050,026
7	(2,467,528)	(2,766,145)
	1,817,696	**4,283,881**

Director ....
Fund Managers Otago Limited

Statement of Cash Flows
For the year ended 31 March 2019

Cash Flows from Operating Activities

Cash was provided from:

Interest received

Other income

Repayment of loans secured by first mortgage

Loss on mortgage receivables recovered

Cash was disbursed to:

Payments to suppliers

New loans secured by first mortgage

Net Cash Flows from Operating Activities

Cash Flows from Financing Activities

Cash was provided from:

Contributions from unitholders

Unitholder PIE tax refunds

Cash was disbursed to:

Redemptions to unitholders

Distributions to unitholders

Net Cash Flows from Financing Activities

Net Increase/(Decrease) in Cash Held

Cash at the Beginning of the Year

Cash at the End of the Year

March 2019 $	March 2018 $
140,780	339,346
-	-
1,350,209	1,096,147
-	-
1,490,989	**1,435,493**
212,646	203,295
-	1,203,883
212,646	**1,407,178**
1,278,343	**28,315**
-	-
-	-
1,501,638	395,890
-	123,706
1,501,638	**519,596**
(1,501,638)	**(519,596)**
(223,295)	(491,281)
845,065	1,336,346
621,770	**845,065**

These financial statements are to be read in conjunction with the accompanying Notes.

Reconciliation of Net Surplus after Tax with Net Cashflow from Operations

Surplus / (Loss) after tax

Add (less) non cash items:

Loss on impairment of mortgage receivables

Loss on realisation of mortgage receivables

Interest capitalised on impaired mortgage receivables

Add (less) movements in working capital items:

(Increase)/Decrease in accrued interest

Increase/(Decrease) in accounts payable

(Increase)/Decrease in accounts receivable

(Increase)/Decrease in income in prepayments

(Increase)/Decrease in mortgage receivables

Accounts payable cash flow not relating to operating activities

Accounts receivable cash flow not relating to operating activities

Net Cash Flows from Operating Activities

	March 2019 $	March 2018 $
	(1,031,418)	(366,863)
	1,294,661	629,860
	-	-
	(333,213)	(192,659)
	961,448	**437,201**
	8,131	49,324
	(10,026)	12,058
	(66,872)	8,761
	-	4,331
	1,350,208	(107,736)
	-	-
	66,872	(8,761)
	1,348,313	**(42,023)**
	1,278,343	**28,315**

1. Statement of Accounting Policies

Reporting Entity

Capital Mortgage Income Trust Group Investment Fund ("the Fund") is a Group Investment Fund. The Fund is a profit-orientated entity, which was formed on 18 September, 2003 and commenced operation on 1 December, 2003. The Fund is registered under the Trustee Companies Act 1967. Capital Mortgage Income Trust Group Investment Fund is a Financial Market Conduct ("FMC") reporting entity under the Financial Markets Conduct Act 2013 that registered on 1 December 2016.

The Fund has suspended redemptions. As at 31 March 2018 the manager, Fund Managers Otago Limited (the "Manager"), in accordance with the provisions of the Trust Deed resolved to wind up the Fund and realise the assets. The Manager will continue this process with capital repayments being made to unitholders as mortgages are repaid.

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

These financial statements have been prepared for Capital Mortgage Income Trust Group Investment Fund by Fund Managers Otago Limited (the Manager), in accordance with the Financial Reporting Act 2013 and the provisions of the Trust Deed.

The Supervisor of the Fund is Trustees Executors Limited (the "Supervisor")

The financial statements were authorised for issue by the Directors on 31 July, 2019.

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") on a realisation basis (as discussed below). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements comply with IFRS.

Basis of Preparation

The financial statements have been prepared on a realisation basis due to the Manager's resolution to wind up the Fund made on 31 March, 2018. As a result of the Fund ceasing to be a going concern the Fund has recognised liquidation accruals in these financial statements in respect of any legal, valuation and Supervisor fees to be incurred due to the wind up until the date of final liquidation. Costs incurred in the ordinary course of business, including management, Supervisor, accounting and audit fees have not been accrued for in these financial statements, however, they will continue to be incurred until liquidation is finalised.

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.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 March, 2019 and the corresponding information presented in these financial statements for the year ended 31 March, 2018.

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 2019 and in the corresponding information presented in these financial statements. There have been no changes in accounting policies, unless otherwise stated.

Critical Judgements in Applying Accounting Policies

In the application of NZ IFRS management is required to make judgements, 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 circumstance, the results of which form the basis of making the judgements. 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.

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liability within the next financial year are discussed below;

The Fund makes estimates surrounding the collectability of amounts owing for impaired and past due mortgages receivable and accounts for the expected loss. The Manager continually monitors and assesses the collectability of amounts owing by borrowers, including those loans which are classified as past due or impaired. Should the Manager's assessment of the likelihood of payment be incorrect, notwithstanding the fact that all lending by the Fund is secured by registered first mortgage and is subject to the prudent lending policies adopted by the Manager, there remains a risk that further, possibly significant, adjustments may be required to the carrying amounts of assets within the next financial year.

Judgements 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 period are disclosed, where applicable, in the relevant notes to the financial statements. The most significant of these is the estimation for realisable value of impaired and past due loans which is set out in note 15.

2. Summary of Specific Accounting Policies

The principal accounting policies applied in the preparation of the financial report are set out below. These policies have been consistently applied unless otherwise stated.

a) Goods & Services Tax

The Fund is GST registered for the purposes of returning GST on rental income received on repossessed properties, being rental income received between repossession and sale by the Fund, and the sale of any repossessed properties when GST is payable.

b) Income Tax

The Fund elected to be taxed as a Portfolio Investment Entity ("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.

c) Mortgage Receivables

The mortgage portfolio is initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any losses due to impairment. The recovery of mortgage receivables is reviewed on an ongoing basis and debts which are determined to be unrecoverable are written off. A provision for expected credit loss is recorded where there is information available to the Fund that recovery of all amounts as specified under the original terms of the mortgage agreement is not likely. Any difference between the assets carrying amount and the present value of discounted cashflows at the effective interest rate, represents the provision for expected credit loss. The amount of this provision is recognised in the Statement of Comprehensive Income.

d) Financial Assets

Financial assets comprise ANZ Bank Cheque Account, Bank Deposits on Call, Short term deposits, Accounts Receivable, Mortgage Interest Due and Mortgage Receivables. From 1 April 2018, The Fund has applied NZ IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Classification and subsequent measurement of financial assets depend on:

(i) The Fund's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Fund classifies its financial assets into one of the following three measurement categories:

<u>Amortised cost:</u>

Assets that are held for collection of contractual cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in Interest income using the effective interest rate method..

Fair value through other comprehensive income (FVOCI):

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designed at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. The Fund does not hold any of these instruments as at 31 March 2019.

Fair value through profit or loss:

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a financial instrument is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from financial assets that were designated at fair value or which are not held for trading in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. The Fund does not hold any of these instruments as at 31 March 2019.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including any fees, discounts or premiums) through the expected life of the financial assets, or where appropriate, a shorter period.

Risk

The Fund's activity exposes it to a variety of financial risks such as market risk (including interest rate risk), credit risk and liquidity risk. The Fund's management of these risks is discussed in note 15.

e) Revenue Recognition

Interest income comprises the fair value for the lending monies and is recognised on a time-proportional basis using the effective interest method.

Exit fees charged when unitholders redeem their units within two years of investing are deducted from the redemption and recognised as income when the redemption is paid.

f) Revenue Recognition of Impaired Assets

When a mortgage receivable is impaired, the Fund reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

g) Impaired Assets, Past Due Assets & Restructured Assets

"Impaired assets" are any assets where the Manager considers that there is a measurable decrease in the estimated future cash flows from the asset. Details of impaired assets are included in note 15 (l).

At each reporting date, the Manager assesses on a forward-looking basis the expected credit loss ("ECL") associated with the carrying amounts of mortgage receivables on an asset by asset basis to determine whether there is any indication that those assets will suffer an impairment loss, from past events, current conditions or forecast of future economic conditions. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the ECL (if any). A specific provision for ECL is created when recovery of principal and/or interest is not considered fully collectable in accordance with the terms of the loan contract. A collective ECL may be determined by the Manager after assessing the remaining mortgage receivables according to their credit risk characteristics and considering objective evidence of past events, current conditions and forecast of future economic conditions.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An ECL provision reduces the carrying amount of the mortgage receivable, and the amount of the estimated loss is recognised in the Statement of Comprehensive Income as an expense immediately. The measurement of the expected credit loss provision for mortgage receivables is an area that requires significant judgement. These judgements include:

- Determining criteria for significant increase in credit risk.
- Future valuations and other forward looking information.
- Determining time frame to sell and estimating future selling costs.
- Discount rate.

When a mortgage security is realised the actual realisation is first recorded against the provision with any difference being recorded in the Statement of Comprehensive Income.

Where an ECL 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 ECL loss been recognised for the asset in prior years. Any reversal of an ECL loss is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the ECL loss is treated as a revaluation increase.

"Past due assets" are any assets which have not been operated by the counterparties within their key terms and which are not considered impaired assets. Details of past due assets are included in note 15 (m).

"Restructured assets" are assets which, were it not for the Fund agreeing to vary the original terms of the asset, would have been considered impaired. These varied terms are not generally comparable with those offered to new borrowings with comparable risk. Details of restructured assets are included in note 15 (n).

If a restructured asset subsequently becomes past due or impaired it is classified accordingly and is no longer regarded as a restructured asset.

h) Accounts Payable

Accounts payable represents liabilities for goods and services provided to the Fund and that remain unpaid at the end of the period. They are initially measured at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

i) Statement of Cash Flows

The Statement of Cashflows 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. The Statement of Cashflows represents gross amounts of cash flows except where otherwise described. NZ IAS 7 allows cash flows to be presented on a net basis where the cash flows represent the purchase and sale of investments. The purchase and sale of investments is presented in the Statement of Cashflows on a net basis, as the gross amounts would not provide useful information for financial statement purposes.

Definition of terms used in the Statement of Cashflows:

"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 and those activities relating to the cost of servicing the Fund's unitholder investments.

j) Distributions

In accordance with the Trust Deed, distributable income is distributed to unitholders by way of cash or re-investment into the Fund. A small percentage of income may be retained to help meet losses on individual loans. This remains as undistributed income, and is recorded in the Capital Reserve (refer Note 6).

Distributions to unitholders comprise the income of the Fund to which unitholders are presently entitled.

k) Cash & Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments with average maturities of three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

l) Accounts Receivable

Accounts receivable are measured on initial recognition at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method less impairment losses. Impairment losses are measured using the expected credit losses model at the time of initial recognition and on subsequent measurement. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced by the allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within expenses. When an accounts receivable is uncollectible it is written off against the allowance account.

m) New and Amended Standards Adopted by the Fund

NZ IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue effective from 1 January 2018. This has replaced IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund adopted NZ IFRS 15 on its effective date, there was no impact from the adoption of this standard on the financial statements of the Fund. This is due to the main sources of income relating to interest, which is outside the scope of this standard.

NZ IFRS 9: Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Fund adopted NZ IFRS 9 on its effective date.

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains, but simplifies, the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

The adoptions of NZ IFRS 9 has not had a significant impact on the measurement of the Funds financial statements. There have been no changes in classification and measurement as a result of the application of the business model and contractual cashflow characteristics tests.

n) Standards and Interpretation Not Yet Effective

There have been no standards, amendments and interpretations that have been issued by the External Reporting Board but are not yet effective that will impact the Fund.

3. Unitholders' Funds

	March 2019	March 2018
	$	$
Balance at the Beginning of the Year	7,050,026	7,617,485
Plus:		
Investor distributions reinvested	-	-
Add:		
PIE tax refund receivable	193,057	126,186
Less:		
PIE tax refund received	126,186	134,943
Investor units withdrawn	2,831,673	395,890
Unit valuation adjustment	-	162,812
Net (withdrawals)	(2,957,859)	(693,645)
Balance at the End of the Year	**4,285,224**	**7,050,026**

Unitholders' Funds by Region

	March 2019		March 2018	
	$	%	$	%
Wellington / Kapiti	1,547,019	37.8	2,617,515	37.8
Other – NZ	2,543,622	62.2	4,303,743	62.2
New Zealand resident total	4,090,641	100	6,921,258	100
Overseas residents	1,526	0	2,578	0
Investor funds total	4,092,167	100	6,923,836	100
PIE tax adjustments receivable	193,057		126,190	
Unitholders' Funds	**4,285,224**		**7,050,026**	

The above analysis is based on $1 units. The units are however currently valued at less than $1 (refer below) and the difference arises from accumulated losses as analysed in note 7.

The Manager on behalf of the Supervisor shall calculate the Fund value and unit value as at each valuation day. A valuation day, being a day specified by the Supervisor as a day on which the market value of the investments in the Fund is determined, occurs at least once a month. Whenever a determination of the Fund value is required, such value shall be the value calculated as at the valuation day. If the Supervisor has cause to believe at any time that on the relevant valuation day there may be a material discrepancy or potential error in the calculation of the Fund value or unit value the Supervisor shall calculate the Fund value or unit value as the case may be and that calculation shall be conclusive or binding upon all unitholders and former unitholders.

Funds are from Individuals, Trusts, Companies and Estates within New Zealand. There are 4,092,167 units on issue at 31 March, 2019 (31 March 2018: 6,923,836), 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 periods consistent with the accounting standard, NZ IAS 32, because: 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.

All unitholders' funds are normally repayable on request in accordance with the Trust Deed, however since 29 April 2011 the Directors of the Manager agreed with the Supervisor to impose the 90 business day notice period for withdrawals. This action is allowed in the Trust Deed and the 90 business day notice has continued throughout the period. The Trust Deed further permits the Manager, in certain circumstances, to suspend all withdrawals for the Fund until such time as the Manager so determines. Periods of suspension of withdrawals generally operate for a term of 90 days, however further suspensions beyond 90 days are permitted. The Manager in consultation with the Supervisor agreed that withdrawals from the Fund should be suspended for a period of 90 days from 18 January 2013.

From 19 April 2013, when the suspension of redemptions was lifted, in agreement with the Supervisor, the Fund moved to a fluctuating unit value. Accordingly since this date, all unitholder redemptions have been and will continue to be calculated at the current unit value rather than $1 per unit.

The Manager in consultation with the Supervisor agreed to again suspend withdrawals from the Fund for a period of 90 days from 18 March 2015 and on reaching the suspension end date of 16 June 2015 consulted with the Supervisor to have the suspension lifted. The Manager's position was that it believed there was adequate resources within the Fund to maintain sufficient liquidity if the suspension was lifted. This view was not supported by the Supervisor and the Fund has remained in suspension. The next period of suspension expired on 15 May 2016. The Fund came out of suspension and after consultation with unitholders paid out those redemptions that had qualified their request.

The Manager resolved to wind up the Fund on 31 March 2018. As a result, unitholders' funds will be repaid when mortgages are sold and or repaid as funds become available.

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 considered the wind-up resolution and that unitholders' funds will be repaid when mortgages are sold and or repaid and funds become available.

4. Manager's and Supervisor's Fees

The Manager is entitled to be paid an annual fee as may be agreed between the Manager and the Supervisor. Currently, the annual fee for the Manager is 1.75% per annum of the gross value of the Fund plus GST (if any) calculated daily and paid quarterly in arrears from the distributable income. The Manager may pay commissions to law firms or other investment advisers for investment applications lodged through them, but any commissions are paid out of the Manager's own funds. Some of these payments are made to related parties of the Fund. Details are disclosed in the financial report of the Manager.

The Supervisor is entitled to be paid an annual fee as may be agreed between the Manager and the Supervisor. Currently the Supervisor receives an annual fee of up to 0.1 % per annum of the gross value of the Fund plus GST (if any) up to the gross value of the Fund of $100,000,000 (2018: $100,000,000) at which time the annual fee is reduced to 0.08% plus GST (if any) for those funds over $100,000,000 (2018: $100,000,000). This is calculated daily and paid quarterly in arrears from the distributable income. There is a minimum fee of $34,500 plus GST (if any) per annum payable. Refer to Note 13 for details of current period payments.

Both the Supervisor and Manager are entitled to be reimbursed out of the Fund for all costs, expenses or liabilities incurred by either of them whilst acting for the Fund excluding commissions paid to advisors. Both the Supervisor and the Manager are entitled to alter their fees by agreement between the Supervisor and the Manager. The Manager's and Supervisor's fees and expense reimbursements are payable out of the Fund and are not directly payable by investors. However, returns to investors are affected by these fees and expenses in that distributions to investors are made after the deduction of these fees and expenses from the Fund.

5. Contributions Received in Advance

The Fund is being wound up. Accordingly, no applications for units are being received and therefore there were no monies received at 31 March 2019 (31 March 2018: $Nil).

6. Capital Mortgage Income Trust Capital Reserve

The Trust Deed allows the Manager to establish a capital reserve to help meet losses on individual loans by setting aside a very small part of the Fund's income for that purpose. The amount set aside will be reviewed from time to time. At present all losses are dealt with directly through the Statement of Comprehensive Income as they occur along with specific provisions on loans known to be impaired.

Due to the resolution to wind up the Fund, no further contributions will be made to the capital reserve.

7. Undistributed Accumulated Income / (Loss)

	March 2019	March 2018
	$	$
Balance at the Beginning of the Year	(2,766,145)	(2,480,454)
Plus:		
Unit valuation Adjustment*	1,330,035	162,812
Less:		
Net loss for the Year	1,031,418	366,863
Distributions to unitholders	-	81,640
Balance at the End of the Year	**$(2,467,528)**	**$(2,766,145)**

From 19 April 2013, in agreement with the Supervisor, the Fund moved to a fluctuating unit value, which means that any deficit will impact on the value of each unit. The value of each unit in the Fund at 31 March 2019 was $0.417 cents (31 March 2018: $0.608 cents).

* As the units currently have a value of less than $1 per unit (refer to note 3), when investor funds are withdrawn the difference between the $1 unit and its current value results in an allocation of the accumulated losses of the Fund.

8. Mortgage Receivables Interest Due

	March 2019	March 2018
	$	$
Mortgage interest	4,876	13,007
	$4,876	**$13,007**

9. Remuneration to Auditors

	March 2019	March 2018
	$	$
Auditing the financial statements	27,773	25,358
Other non-audit assurance services (note 1)	3,623	3,623
Under accrual of prior year fee relating to auditing the financial statements	4,980	3,218
	36,376	**$32,199**

Notes:

1. Other non-audit services comprise supervisor reporting and unitholders register compliance assurance engagement.

10. Taxation

The Fund is a Portfolio Investment Entity (PIE Fund) and pays tax on investment income based on the prescribed investor rate (PIR) of their investors, rather than at the entity's tax rate. Therefore there is no tax liability for the fund.

11. Investments

a) Mortgage Receivables

	March 2019	March 2018
	$	$
Mortgages	**1,038,656**	**$3,350,313**
Balance at Beginning of the Year	3,350,313	3,679,778
New mortgages paid out	-	477,232
Expenses and arrears charged	355,966	726,651
Interest capitalised on impaired mortgage receivables	313,995	192,659
Principal instalments paid	(2,867)	(9,777)
Repayment of existing mortgages	(3,646,832)	(1,086,370)
Reversal of impairment	1,962,743	-
Allowance for impairment	(1,294,661)	(629,860)
Balance at the End of the Year	**1,038,656**	**$3,350,313**
Due within 12 months	828,327	2,405,913
Due over 12 months	210,329	944,400
	1,038,656	**$3,350,313**

The carrying value for mortgage receivables is $1,038,656 (March 2018: $3,350,313) which includes impairment provisions of $3,417,260 (March 2018: $2,122,599). In order for the Fund to realise its mortgage security in the event that no other resolution of an impaired or past due asset can be achieved, the Fund may require the mortgagor to sell the secured property. The estimated value of secured properties is $3,263,000 (March 2018: $10,554,000). Therefore the carrying value of the mortgage investments is currently 68.17% lower than the estimated value of the secured properties (March 2018: 68.26%). The carrying value is prepared in accordance with NZ IFRS. Some securities may sell above value and some below. This is because the circumstances which arise from a mortgagor sale may have an impact on the estimated fair value. This as well as other objective factors have been included in assessing the impairment provision.

Mortgage by Loan Type

	March 2019		March 2018	
	$	%	$	%
Home	184,944	17.8	759,604	22.7
Residential rental	245,613	23.6	557,499	16.6
Commercial	608,099	58.5	2,033,210	60.7
	1,038,656	**100**	**$3,350,313**	**100**

Mortgages by Region

	March 2019		March 2018	
	$	%	$	%
Wellington	644,163	62	2,203,166	65.8
Nelson/Marlborough	-	-	-	-
Other	394,493	38	1,147,147	34.2
	1,038,656	**100**	**$3,350,313**	**100**

Mortgages by Nature of Underlying Security

	March 2019	March 2018
	$	$
Development	184,944	184 ,944
Standard homes	-	574,660
Home total	184,944	759,604
Standard homes	245,613	161,240
Development	-	396,259
Residential rental total	245,613	557,499
Investment properties	608,099	1,636,308
Development	-	170,141
Owner occupied	-	226,761
Commercial total	608,099	2,033,210
	1,038,656	**$3,350,313**

Customer sectors are identified by confirming the nature of the security provided.

The effective interest rates on the mortgage investments as at 31 March, 2019 are in the range of 0% p.a.-12 % p.a (March 2018: 0% p.a.-12% p.a.). The standard lending rates were as follows:

Home mortgages	8.50% p.a.	March 2018: 8.50%)
Residential rental mortgages	8.75% p.a.	(March 2018: 8.75%)
Commercial mortgages	9.00% p.a.	(March 2018: 9.00%)
Rural mortgages	8.50% p.a.	(March 2018: 8.50%)

As detailed in note 15(l) there are three impaired assets totalling $433,834 at the reporting date (March 2018: $1,360,750). Forgone interest income on impaired mortgages is recognised as impairment loss against the mortgage using the original interest rate discounted against future cash flows where mortgages are held at fixed interest rates. Mortgages that are held at a variable interest rate are discounted using current observable market interest rate as a practical expedient to discount the future cash flows for the purpose of the measurement of impairment loss. The Manager carefully manages impaired loans by early identification and actively pursuing remedies to recover the outstanding loan and interest amounts.

As detailed in note 15(m), there is one past due not impaired, totalling $184,945 at 31 March, 2019 (March 2018: two, $214,834).

b) Cash Deposits

The effective interest rate on deposits held with financial institutions as at 31 March, 2019 was 0.35% p.a. (March 2018: 0.45% p.a.)

12. Payables and Accruals

	March 2019	March 2018
	$	$
Trade creditors	664	14,190
Distribution payments to unitholders	-	-
Professional fees	40,000	36,500
Total Accounts Payable	**$40,664**	**$50,690**

13. Related Party Transactions

The related parties are Trustees Executors Limited, who provides The related parties are Trustees Executors Limited, who provides supervisor services to the Fund, Fund Managers Otago Limited, who provides management services to the Fund, and Anderson Lloyd Lawyers , and Webb Farry who provide legal services to the Fund and to Fund Managers Otago Limited.

Fund Managers Otago Limited (the Manager) and its directors and key management personnel are related to the Fund by virtue of being its manager. Details of key management personnel are included in the financial statements of Fund Managers Otago Limited.

The shareholders and directors of the Manager have no related party lending or connections with borrowers other than through professional services provided by Webb Farry and Anderson Lloyd in the preparation of loan documentation. The shareholders and directors of the Manager who are present and past partners in the law firms of Brandons Solicitors and Fletcher Vautier Moore wish to disclose that these firms have clients who have invested in the Fund. Their respective investment ledgers as at balance date were; Brandons Solicitors $701,734 (31 March 2018: $1,151,541); Fletcher Vautier Moore 932,364 (31 March 2018: $1,713,225). All direct and indirect investments associated with the directors of the Manager are set out below.

Several shareholders and directors of the Manager have investments in the Fund, both direct and indirect (through trusts and as Supervisor for investors).

Fund Managers Otago Limited is also the manager for NZ Mortgage Income Trust Group Investment Fund and NZ Mortgage Income Trust (No. 2 Fund) Group Investment Fund.

In the current year, the Fund advanced four mortgage receivables that are shared with NZ Mortgage Income Trust (No. 2 Fund) Group Investment Fund (2018: six). The total of the advances for both funds was $2,389,406 (March 2018: $3,297,945). The Fund's receivable on shared advances at 31 March, 2019 is $897,057 (2018: $1,254,945) with interest rates charged between 7.80% and 9.50% p.a. (2018: 8.50% & 9.50% p.a.).

The following transactions occurred during the period under review in regard to parties directly related to the Fund:

	March 2019	March 2018
	$	$
Transactions for the Year		
Supervisor fees to Trustees Executors Limited	34,500	34,500
Management fees to Fund Managers Otago Limited	70,243	85,395
Legal fees to Anderson Lloyd	8,729	2,751
Legal fees to Webb Farry	138	-

The following is the balance payable to each related party at each balance date.

	March 2019	March 2018
	$	$
Balance payable at balance date		
Legal fees to Anderson Lloyd	-	402

In 2012, the Manager of the Fund announced that a related party, the NZ Mortgage Income Trust Group Investment Fund, was to be wound-up from 12 November 2012.

Employees and Directors of Fund Managers Otago Limited are allowed to invest in the Fund on ordinary commercial terms. However, all employees and Directors of Fund Managers Otago Limited are prohibited from making any borrowings from the Fund.

At 31 March, 2019 there were no employees of Fund Managers Otago Limited with personal investments (including investments of immediate family members) in the Fund (March 2018: $Nil). The Directors of Fund Managers Otago Limited had the following direct investments, in the Fund at 31 March 2019: N Moore $172,760 and D Forsyth $22,395 (March 2018: N Moore $97,194; D Forsyth $45,250). The Directors of Fund Managers Otago Limited had the following indirect investments, in the Fund at 31 March, 2019: N Moore $220,824 and D Forsyth $118,844 (March 2018: N Moore $814,810; D Forsyth $244,119).

14. Financial Instruments

All financial assets are classified as amortised cost, this includes: Bank deposits, term deposit interest due, mortgage receivables, mortgage interest due and accounts receivable.

Financial liabilities, excluding accounts payable, are classified as 'amounts owed to other depositors'.

15. Financial Risk Management

a) Credit Risk

Financial instruments which potentially subject the Fund to credit risk consist of mortgage receivables, bank balances, short term deposits, interest receivable and other receivables. The maximum exposure to credit risk at balance date is the carrying value of the financial instruments as stated in the Balance Sheet.

Significant concentrations of credit risk apply principally in respect of mortgage receivables and short term deposits. Collateral may be taken as security for mortgage receivables in addition to first mortgage security for all mortgage receivables.

b) Concentrations of Credit Risk

In the normal course of business the Fund has a credit risk on loans and investments. The Fund has a credit policy which is used to manage this credit risk. As at 31 March, 2019 there were no significant concentrations of credit risk, except as outlined below;

i) that $621,770 or 33.5% (March 2018: $845,065, 19.50%) of total assets were invested at ANZ Bank. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet, and

ii) Security for all mortgage receivables is by way of first mortgages. The Fund regularly monitors the credit quality of its customers. Credit exposure is concentrated on lending on first mortgage security to borrowers in the commercial and residential property sectors and is concentrated in the Wellington area.

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

	March 2019		March 2018	
% of Equity	$	Number of Loans	$	Number of Loans
> 100	-	-	-	-
20 - 100	665,490	3	964,312	1
10 - 20	371,103	2	-	-
0 - 10	2,063	1	2,386,001	14
	1,038,656	**6**	**$3,350,313**	**15**

The concentrations of loans as a percentage of estimated security for each loan at balance date are as follows:

	March 2019		March 2018	
% of Security	$	Number of Loans	$	Number of Loans
> 100	431,771	2	396,259	1
90 - 99	-	-	-	-
80 - 89	-	-	-	-
70 - 79	184,945	1	-	-
60 - 69	210,329	1	964,312	1
50 - 59	209,548	1	-	-
40 - 49	-	-	396,901	2
30 - 39	-	-	206,806	1
20 - 29	-	-	812,657	5
10- 19	-	-	534,770	3
0 - 9	2,063	1	38,608	2
	1,038,656	**6**	**$3,350,313**	**15**

c) Market Risk

The Fund's exposure to market risk is as follows:

Market Risk:

i) Foreign Exchange Risk - The Fund operates locally and is not exposed to any significant foreign exchange risk.

ii) Price Risk - The Fund is not exposed to price risks during the normal course of operations as it does not have any investments in equity instruments, nor does it trade or invest in commodities.

iii) Interest Rate Risk – The Fund is invested in mortgages that have floating or short-term fixed interest rates. The change in interest rates has a large impact on income and therefore on the amounts distributed to unitholders.

The Manager is of the opinion that the Fund's exposure to market risk at reporting 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	Refer to the first paragraph of Note 15(j)	Note 15(k)
(iii) Other price risk	No securities are bought, sold or traded	Nil

d) Funding Risk

As at 31 March 2018, the Manager, in accordance with the Trust Deed resolved to wind up the Fund. As a result, the Fund will now repay unitholders as mortgages are repaid or sold. Upon wind up of the Fund, the Supervisor's obligations are to sell the Fund's assets, pay or provide for the Fund's liabilities (including wind up costs) and distribute the Fund's net assets to unitholders in proportion to the number of units held.

It is the Supervisor's intention that the Fund's investments are realised and distributed to unitholders as soon as possible. Sufficient time will be taken to obtain fair value for all securities, thereby maximising returns to unitholders as much as possible in the prevailing market conditions.

Further details on investor rights are set out in the Trust Deed which is available during normal business hours from Fund Managers Otago Limited. Copies of the most recent annual report (when available) are also available from Fund Managers Otago Limited. These documents are available free of charge except for the Trust Deed, for which a reasonable fee may apply.

The Fund is closed for new investments.

e) Fair Values

The following table analyses the fair value hierarchy of the Fund's assets and liabilities not measured at fair value at 31 March, 2019 but for which fair value is disclosed. The different levels have been defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

	Fair Value	Carrying Value
Assets	**$**	**$**
Level 1		
Cash and cash equivalents	621,770	621,770
Level 2		
Mortgage interest due	4,876	4,876
Level 3		
Mortgage receivables	1,038,656	1,038,656
Liabilities		
Level 2		
Accounts payable	40,664	40,664

The assets and liabilities included in the above table are carried at amortised costs; their carrying values are a reasonable approximation of fair value, with the exception of mortgage receivables. The fair value of mortgage receivables is based on cashflows discounted using rates currently reflective of the prevailing interest rate environment and the perceived risk associated with each mortgage.

f) General Lending Policy

The policy of the Manager is to establish and maintain a broad and secure range of mortgage investments. The skill of the Manager lies in maintaining a mortgage portfolio with a proper mix of mortgage types, interest rates, maturity dates and physical locations of the mortgaged property.

g) Specific Policy Guidelines

Specific investment policy guidelines are agreed between the Manager and the Supervisor from time to time. These guidelines are as follows:

i) Interest Rates - Most investments will be in mortgages with floating interest rates but the Manager may maintain some fixed rate mortgages to help protect investors against falls in interest rates;

ii) Mix of Mortgage Types - The mortgage portfolio will be spread mainly between residential, residential rental, commercial and farming purposes with a minimum of 10% up to a maximum of 75% of the unitholders' funds invested in residential rental purposes and a minimum of 15 % up to a maximum of 75% of the unitholders' funds invested for commercial purposes. Lending for farming purposes is limited to a minimum of 0% up to a maximum of 50% of the unitholders funds;

iii) Lending Limits - The maximum size of any mortgage on initial lending is limited in relation to both the value of the property provided as security and to the total funds of the Group Investment Fund. As at 31 March, 2019 the limits are:

- 80% of registered valuer's report for residential properties, 60% of registered valuer's report of farming properties, 66.67% of registered valuer's report for other commercial properties or 50% of registered valuer's report of vacant land;

- In the case of leasehold property the limits are set at 50% of the value of the lessee's interest, and
- That no more than 5.00% of the total assets of the Fund Funds will be invested in any one mortgage or advanced to any one borrower (or related party of a borrower) at the time of the initial advance being made and the top 6 exposures of the Fund may not exceed 20.0% of the total assets of the Fund at the time of the advance. As at 31 March, 2019, the largest advance equalled 13.22% of the total assets of the Fund and the top six exposures equalled 55.89% of the total assets of the Fund (March 2018: 22.25% and 52.43%). However, at the time of the initial advances being made the advances were less than 5.00% of the total assets (for single advances) and 20% of the total assets of the Fund for the largest six exposures, however, with reduction in the size of the Fund these percentages have increased.

iv) Ranking - The Manager's policy is to maintain the bulk of investments in first ranking mortgages.

v) Cash Reserves – The Manager will maintain a minimum of 5% of the Fund in liquid investments to provide for withdrawals and running expenses. This portion of the Fund may be partially invested in bank deposits, government or local authority securities. At 31 March, 2019 33.46% of total assets were invested in liquid investments.

The investment policy guidelines noted above have been complied with for the year with the exception of the top six exposures exceeding the guideline due to a reduction in the size of the Fund in recent periods.

h) 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.

The maturity profile below in Note 15(i) analyses the liquidity position of the Fund's assets. The Fund is being wound up and cash is collected through the realisation of the mortgage portfolio with surplus cash distributed pro-rate to unitholders on the traditional quarterly income distribution dates. The Manager and Supervisor make an assessment as to an appropriate amount of cash that should be held to meet the general operating overheads and other financial commitments due in the near term in determining the amount of each distribution.

As at balance date the Fund held 29.0% of its assets in cash (31 March 2018: 19.5%).

i) Liquidity Profile

The maturities of financial instruments are as follows:

March 2019	On Demand	Current 0-6 Months	Current 6-12 Months
	$	$	$
Monetary Assets:			
Cash and cash equivalents	621,770	-	-
Accounts receivable	-	193,058	-
Accrued interest	-	4,876	-
Anticipated future income on loans	-	10,324	10,324
Mortgage advances	433,834	394,493	-
	1,055,604	**602,751**	**10,324**
Monetary Liabilities:			
Accounts payable	-	40,664	-
Net:	**1,055,604**	**562,087**	**10,324**

Maturities of mortgage receivables are based on contractual maturities. During the winding-up of the Fund it may be possible to either renegotiate the terms of each mortgage receivable or sell the longer maturity date mortgages to another lender to ensure timely completion of winding-up of the Fund. However, in the event it is not possible to achieve this, the mortgage details in the maturity profile are the most accurate representation of the term remaining on the mortgage portfolio and therefore the likely repayment date for the principal invested in those mortgages.

At balance date, there were four mortgages in arrears (March 2018: four). The six largest exposures must not exceed 20.00% of the value of the Fund and no more than 5.00% of the Fund will be invested in any one mortgage or advanced to any one borrower (or related party of a borrower) at the time of the initial advance being made. At balance date, 55.89% of the total assets of the Fund are owed by the six largest mortgagees and 13.22% of the total assets is advanced to the largest mortgagee.

The mortgage portfolio of the Fund consists of six mortgages, the majority of which are "On Demand ", or pending demand for a term of between 1 and 3 years. The table above shows the term of the mortgage. The term 'On Demand' means that the Fund could demand the borrower to repay the mortgage when called upon to do so. Such a request would only be made if the Fund felt the mortgage represented an unacceptable risk to the Fund or the Fund had a need to create liquidity within the Fund. The likelihood of the Mortgagor being able to meet such a request will depend on their financial strength and creditworthiness.

1-3 Years	3-5 Years	5+ Years	Total
$	$	$	$
-	-	-	621,770
-	-	-	193,058
-	-	-	4,876
41,296	41,296	20,648	123,888
210,329	-	-	1,038,656
251,625	**41,296**	**20,648**	**1,982,248**
-	-	-	40,664
251,625	**41,296**	**20,648**	**1,941,585**

The Fund has never made demand on any borrower since inception of the Fund in 2003, and therefore the 'On demand' facility has never been tested. Mortgages approaching maturity are renewed in terms of the Funds approved lending policies and guidelines.

Unitholders' funds are classified as equity (as discussed in note 3). However in the normal course of business the Fund receives redemption requests regularly and are usually as the result of the death of an investor and eventual winding up of the investor's estate, personal need for funds (buying a new home, car, furniture or holiday), assisting family with debt, retirement living expenses such as rest home fees, and a change in their investment portfolio weighting.

Foregone interest income on impaired mortgages is recognised as impairment loss against the mortgage using the original interest rate discounted against future cash flows where mortgages are held at fixed interest rate as a practical expedient to discount the future cash flows for the purpose of the measurement of impairment loss.

The liquidity table does not include unitholders' funds as a liability, as they are classified as equity. Repayments to unitholders as a result of winding-up will be made equally between all unitholders, irrespective of whether a unitholder has lodged a redemption request.

Liquidity Profile (cont.)

March 2018	On Demand	Current 0-6 Months	Current 6-12 Months
	$	$	$
Monetary Assets:			
Cash and cash equivalents	845,065	-	-
Accounts receivable	-	126,186	-
Accrued interest	-	13,007	-
Anticipated future income on loans	-	88,998	88,998
Mortgage advances	1,575 ,404	379,722	450,786
	2,420,469	**607,913**	**539,784**
Monetary Liabilities:			
Accounts payable	-	50,690	-
Net:	**2,420,469**	**557,223**	**539,784**

Maturities detailed above for mortgage receivable are based on contractual maturities.

j) Interest Rate Risk

Cash Flow and Fair Value Interest Rate Risk:

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The majority of mortgages are subject to interest receivable at floating interest rates or fixed rates of less than 12 months. Interest rates on mortgages are continually reviewed by the Manager and these rates are varied in accordance with movements in the market.

1-3 Years	3-5 Years	5+ Years	Total
$	$	$	$
-	-	-	845,065
-	-	-	126,186
-	-	-	13,007
355,992	355,992	-	889 ,980
747,826	196,575	-	3,350,313
1,103,818	**552,567**	**-**	**5,224,551**
-	-	-	50,690
1,103,818	**552,567**	**-**	**5,173,861**

An increase in mortgage interest rates charged by the Fund has a significant impact on the distribution of funds to unitholders, all other things remaining unchanged. This will impact on the net assets attributable to unitholders depending on the level of distributions reinvested in the Fund.

The following tables detail the Fund's exposure to interest rate risk as at 31 March, 2019 and the comparatives at 31 March, 2018. The table includes the Fund's assets and liabilities at their carrying amount, categorised by the earlier of contractual repricing or maturity dates.

31 March 2019	Weighted Average Effective Interest Rate	Variable Interest Rate
	%	$
Financial Assets		
Cash and cash equivalents	0.35	617,042
Accounts receivable	-	-
Accrued interest	-	-
Loans secured by mortgage	6.44	1,038,656
		1,655,698
Financial Liabilities		
Accounts payable	-	-
		-

Accrued interest relates to mortgage interest due.

31 March 2018	Weighted Average Effective Interest Rate	Variable Interest Rate
	%	$
Financial Assets		
Cash and cash equivalents	0.45	840,074
Accounts receivable	-	-
Accrued interest	-	-
Loans secured by mortgage	5.2	1,989,742
		2,829,816
Financial Liabilities		
Accounts payable	-	-
		-

k) Sensitivity Analysis – Interest Rate Risk

The sensitivity of Net Surplus After Taxation for the year ended, 31 March, 2019, and Unitholders' Funds at that date, to reasonably possible changes in conditions is as follows:

	Interest Rates Increase by 100 Basis Points (1%)	Interest Rates Decrease by 100 Basis Points (1%)
	$	$
Impact on Net Surplus After Taxation	28,298	(28,298)
Impact on Unitholders' Funds	28,298	(28,298)

Fixed Interest Rate Less than 1 Year	Non Interest Bearing	Total
$	$	$
-	4,728	**621,770**
-	193,058	**193,058**
-	4,876	**4,876**
-		**1,038,656**
-	**202,662**	**1,858,360**
-	40,664	**40,664**
-	40,664	**40,664**

Fixed Interest Rate Less than 1 Year	Non Interest Bearing	Total
$	$	$
-	4,991	**845,065**
-	126,186	**126,186**
-	13,007	**13,007**
-	1,360 ,571	**3,350,313**
-	**1,504,755**	**4,334,571**
-	50,690	**50,960**
-	50,960	**50,960**

l) Impaired Assets

An impaired asset is an asset where the Manager considers that there is a measurable decrease in the estimated future cash flows from the asset. The amounts of impaired assets are:

	March 2019	March 2018
	$	$
Impaired Assets		
Opening balance	1,360,571	1,490,735
Movement in impaired assets	(926,737)	(130,164)
Closing balance	**433,834**	**$1,360,571**
Impaired Assets		
Value of mortgage receivables	433,834	1,360,571
Estimated fair value of collateral held	775,000	1,360,571
Age analysis of impaired assets Impaired assets with a past due component:		
Up to 3 months	186,158	-
3 - 12 months	-	-
Over 12 months	247,676	1,360,571
Impaired Assets with Payments Overdue	**433,834**	**$1,360,571**

Impaired assets include the total amounts owing by the borrowers, not just the past due portion. The table above details all of the impaired assets and the past due portion (payment instalments that are overdue).

In the opinion of the Manager three of the assets held or owned by the Fund are impaired as at 31 March, 2019 (March 2018: two).

The terms and conditions associated with collateral have no significant unusual requirements from usual practice of recourse when a default occurs.

	March 2018	March 2018
	$	$
Provision for Impairment		
Balance at Beginning of the Year	2,122,599	1,492,739
New allowance for impairments provided	1,294,661	629,860
Allowance for impairments reversed	--	--
Allowance for impairments realised	--	--
Balance at End of the Year	**$3,417,260**	**$2,122,599**

The provision for impairment recognises potential losses on three existing loans. If the losses are realised they will be written off as bad loans in future periods with future distributions adjusted accordingly.

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.

m) Past Due Assets

Past due assets are any assets which have not been operated by the counterparty within its key terms which are not considered impaired assets. Details are as follows:

	March 2019	March 2018
	$	$
Mortgages considered past due		
Balance at Beginning of the Year	214,834	318,004
New past due assets	184,945	14,834
No longer classified as past due assets	(214,834)	(118,004)
Balance at End of Year	**184,945**	**$214,834**
Mortgages considered past due		
Value of mortgage receivables	184,945	214,834
Estimated fair value of collateral held	645,000	1,530,000
Assets with a past due component:		
Up to 3 months	-	4,795
3 - 12 months	184,945	-
Over 12 months	-	210,039
Total Past Due Assets	**184,945**	**$214 ,834**

Past due assets include the total amounts owing by the borrowers who are in arrears, not just the past due portion. The table above details the past due assets and the past due portion (payment instalments that are overdue). As at 31 March, 2019 there was one past due assets (March 2018: two). The Manager commences appropriate action, when payment instalments are overdue by 14 days, to either obtain the payment due, or if necessary, to realise the secured property.

In addition to the above past due mortgages there were no matured mortgages as at 31 March, 2019 (March 2019: none). These are mortgages where the mortgagor is up-to-date with their regular interest and principal payments. The process of renewing mortgages is ongoing year round. Mortgages are assessed for renewal based on the same criteria as new mortgages and strictly in terms of the agreed lending policies and guidelines of the Fund. Where for whatever reason a mortgage no-longer meets those criteria they are asked to refinance or repay. Normal collection action follows in cases where repayment cannot be made.

n) Restructured Assets

Restructured assets are assets which, were it not for the Fund agreeing to vary the original terms of the asset, would have been considered impaired. These varied terms are not generally comparable with those offered to new borrowings with comparable risk. If a restructured asset subsequently becomes past due or impaired it is classified accordingly and is no longer regarded as a restructured asset. There are no restructured assets.

Interest earned on the restructured loans in the year to 31 March, 2019 was $nil (March 2018: $nil)

o) Security Held Through the Enforcement of Security

The Fund, in order to realise a mortgage security in the event that no other resolution of a past due asset can be achieved, may require the mortgagor to sell the secured property with all proceeds initially being to the credit of the Fund. Funds which are surplus to those amounts required to settle the debt secured by the property in question are returned to the mortgagor.

The Fund had no financial or non-financial assets acquired through the enforcement of security at 31 March, 2019 (March 2018: None).

16. Commitments for Expenditure

There are no capital commitments at 31 March, 2019 (March, 2018: $Nil).

17. Commitments to Lend

Lending commitments total $Nil as at 31 March, 2019 (March, 2018: $Nil).

18. Contingent Liabilities

There were no contingent liabilities as at 31 March, 2019 (March, 2018: $Nil).

19. Unrecognised Contractual Commitments

As at 31 March, 2019, the Fund

a) Had no commitments to extend credit that were irrevocable because they could not be withdrawn at the discretion of the financial institution without the risk of incurring significant penalty or expense;
b) Had no direct credit substitutes, including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;
c) Had no certain transaction-related contingent liabilities, including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;
d) Had no short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security; and

e) Had no commitments, note issuance facilities and revolving underwriting facilities.

20. Segmental Reporting

The Fund operates in the financial service segment in New Zealand, providing flexible mortgage packages to families, landlords, businesses and farmers. Management does not break down into smaller segments.

21. Wind up of the Fund

As at 31 March, 2018 the Manager has, in accordance with the Trust Deed, resolved to wind up the Fund.

The Manager's reasons for the decision to wind-up the Fund came about as a result of the assessment of the profitability of the Fund for the balance of this financial year and looking forward into the next financial year. With the level of impaired loans within the Fund it became apparent that insufficient income could be generated to cover the costs of running the Fund. It was also clear that resolution of the impaired loans would not be achieved in a time frame which would materially change this assessment.

The Manager will manage the process and has a wind-up plan in place, the main focuses are: arrange for the orderly sale of the mortgages not in default, cease renewal of all existing mortgages and concentrating on finding solutions to the two impaired mortgages.

It is the opinion of the Manager that a wind-up could be completed within 3 - 5 years. As there are significant issues with one of the impaired mortgages which will require the Manager considerable time to remedy.

Upon wind up the assets will be realised and unitholders will have their capital repaid to them on a pro-rata basis.

As a result of the wind up decision, the provisioning in respect of the potential impairment of mortgages at balance date has been determined based on an orderly realisation of mortgages or security.

However, due to the circumstances discussed above the amount that will ultimately be recovered from these advances is uncertain and could be materially different from their carrying values.

22. Subsequent Events

On 24 July 2019 a sales and purchase agreement was signed to sell the security of an impaired mortgage for $500,000. The proceeds from the sale will be used to repay the mortgage. This is expected on settlement date 1 November 2019. The mortgage is a shared mortgage with NZ Mortgage Income Trust (No 2 Fund) Group Investment Trust. The Fund's share of the mortgage after impairment is $186,158 as at 31 March 2019. The combined mortgage after impairment is $464,249 as at 31 March 2019.

There were no other material events occurring post 31 March, 2019 that require disclosure.

Independent auditor's report

To the unitholders of Capital Mortgage Income Trust Group Investment Fund

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in unitholders' funds for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Capital Mortgage Income Trust Group Investment Fund (the Fund), present fairly, in all material respects, the financial position of the Fund as at 31 March 2019, 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).

Emphasis of Matter - Basis of Preparation

Without modifying our opinion, we draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements for the year ended 31 March 2019 have been prepared on a realisation basis. As disclosed in the Fund's statement of accounting policies, and in note 21 to the financial statements, on 31 March 2018 the Fund Manager resolved to wind up the Fund. The Fund will continue to operate while it realises its assets.

PricewaterhouseCoopers, Westpac Building, 106 George St, Dunedin, PO Box 5848, Dunedin 9054, New Zealand
T: +64 3 470 3600, F: +64 3 470 3601, pwc.co.nz

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

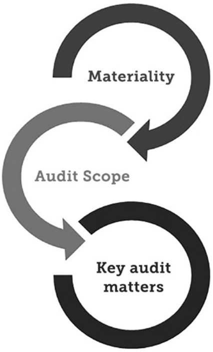
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) 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.

Our firm carries out other services for the Fund in the area of unitholders register compliance assurance. The provision of this other service has not impaired our independence as auditor of the Fund.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $18,100, which represents 1% of Net assets.

We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Fund is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there is one key audit matter:

- Determination of realisable values

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the

Key audit matters

Determination of realisable values

As disclosed in note 21 of the financial statements, as at 31 March 2018, the Manager has, in accordance with the Trust Deed, resolved to wind up the Fund. As a consequence the financial statements have been on a realisation basis to reflect the expected realisable value of the assets of the Fund and the exit costs and obligations to complete an orderly wind up of the Fund.

This is key audit area because of the significant judgements applied by management in determining the realisable value of the assets and completeness of liabilities as well as the expected wind up costs.

As disclosed in note 21 of the financial statements, the Manager's wind up plan is to focus on the orderly sale of mortgages and finding solutions for impaired mortgages. Upon wind up, the assets will be realised and unitholders will have their capital repaid on a pro rata basis.

Management consider the expected credit loss method when assessing impairment of mortgages based on historic knowledge of the customer, type of security and other factors in the current macroeconomic environment.

The accounting policy in note 2(g) of the financial statements outlines management process to assess expected credit loss.

At each reporting date, the Manager assesses on a forward-looking basis the expected credit loss ("ECL") associated with the carrying amounts of mortgage receivables on an asset by asset basis to determine whether there is any indication that those assets will suffer an impairment loss financial statements as a whole, taking into account the structure of the Fund the accounting processes and controls, and the industry in which the Fund operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

How our audit addressed the key audit matter

Our audit procedures included obtaining an understanding of the approach taken by the Directors of the Fund manager to determine the recoverable value of assets and the completeness of liabilities as a result of the decision to wind up the Fund.

We performed the following procedures in relation to the assets recognized in the statement of financial position for the Fund after the realisation adjustments were processed:

Liabilities and obligations:

- For a sample of recorded liabilities we tested the recorded value of the obligation to the relevant contracts at balance date and ensured that estimated realisation costs were consistent with current agreements.
- During our audit, we did not identify any unrecorded obligations that would need to be recognised as a provision as a result of the decision to wind up the Fund.
- We have considered the future costs to wind up the Fund and where appropriate ensure that any provision is recognised in the statement of financial position.
- We sent legal confirmation letters to ensure that any legal matters, both known and potential, had been properly captured for financial reporting purposes, including all associated costs as confirmed by the lawyers. Also, to identify any unrecorded liabilities from legal responses.

Assets:

- We obtained the mortgage receivables ledger at year end, and using our knowledge of the Fund and the industry, identified loans for which we believed there may be indicators of impairment. We considered management's conclusions from past events, current conditions or forecast of future economic conditions. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the ECL (if any). A specific provision for ECL is created when recovery of principal and/or interest is not considered fully collectable in accordance with the terms of the loan contract. A collective ECL is determined by the Manager after assessing the remaining mortgage receivables according to their credit risk characteristics and considering objective evidence of past events, current conditions and forecast of future economic conditions. Given the current size of the loan book, all assets were considered individually and therefore no collective provision was considered necessary.

The key judgements applied by management and the Directors of the Fund manager include:

- Determining criteria for significant increase in credit risk
- Future valuations and other forward looking information
- Determining time frame to sell and estimating future selling costs
- Discount rate

Where an allowance is required, this is recognised in the allowance for impairment and monitor on a regular basis. As at 31 March 2019, the provision for impairment is $3,417,260 as set out in note 15(l) of the financial statements.

regarding impairment for each of these loans individually.

- For each identified loan:
  - We assessed the appropriateness of the criteria used for significant increase in credit risk by considering whether the loan is past due, impaired or restructured and the value of the security;
  - We obtained the valuation of the security to assess the adequacy and quality of the security. We did this by assessing the qualifications of the expert assessing the valuation method and reasonableness of the inputs and assumptions used in the valuation;
  - We assessed management's estimated time to sell the underlying security by verifying whether the property has been listed for sale, considered the time frame from past sales and ensured this is consistent with management's forecasts that have been prepared;
  - We assessed the estimated selling costs used and whether this is consistent with our expectations based on our understanding of the market; and
  - We assessed the discount rate used to ensure that it is consistent with the cost of borrowing.

For other assets that had not been impaired to their realisable value at balance date, we considered their collectability by agreeing amounts received post period end.

Disclosures

- We assessed management's disclosures against relevant financial reporting standards to ensure they were appropriate and that the classification of assets and liabilities was consistent with the realisation basis.

Information other than the financial statements and auditor's report

Fund Managers Otago Limited (the Manager) is responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the financial statements

The Manager is 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 Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible 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 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) and ISAs 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 our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Fund's unitholders. 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 Fund and the Fund's unitholders for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants   Dunedin

31 July 2019

CAPITAL
MORTGAGE INCOME TRUST

P.I.E Registered

GROUP INVESTMENT FUND

Registered Office of the Manager: Fund Managers Otago Ltd
Level 8, 248 Cumberland Street, PO Box 5741, Dunedin 9054
Phone (03) 471 6500 Tollfree 0800 800 212 Fax (03) 479 0598

www.nzmit.co.nz

cre8ive8806