Canterbury Mortgage Trust

Annual Report 2011

Canterbury Mortgage Trust Group Investment Fund

Audited Financial Statements For The Year Ended 31 March 2011

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Directory

The Manager:

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Directors of the Manager:

Alan William Prescott *LLB*
Alexander Donald McBeath *LLB* (Chairman)
Geoffrey Read Thomas *LLB*
Paul Ernest McEwan

The Trustee:

Trustees Executors Limited
Level 5
10 Customhouse Quay
Wellington

Tax Advisor:

PricewaterhouseCoopers
Christchurch

Auditor:

Deloitte
Christchurch

Bank:

ANZ National Bank Limited
Christchurch

Canterbury Mortgage Trust

Chairmans Report

Chairman's Review

The Canterbury Mortgage Trust Fund wind up is progressing, but more slowly now the majority of the performing loans have been repaid.

From the date of winding-up until 31 March 2011, investors in the Fund have been repaid 78.5% of their capital investment. A further capital repayment of 2% proposed for early August will bring the total repaid to 80.5%. This calculation does not include any tax benefit received by unitholders as a result of the losses allocated in the 2009 financial year.

We are continuing to work with the Trustee and an experienced loans recovery specialist and each loan continues to be individually assessed to ensure the right action is taken to have it repaid.

An important issue facing borrowers is the difficulty refinancing in the current financial climate. When loans are overdue but not otherwise in default we have been prepared, in appropriate circumstances, to work with borrowers to achieve the best outcome for the Fund.

When recovery action is taken as the result of a loan default, we continue to carefully weigh up whether greater benefits to investors will occur through an early sale or through deferring sale until the property market improves.

In some cases, where investigations have revealed good grounds for legal action against other parties, a firm approach has resulted in satisfactory settlements being made on behalf of investors.

Financial Statements

The financial statements now essentially show how the trust, which is no longer a going concern, is progressively realising its assets. In addition, as the assets are realised, the various financial ratios that formerly governed the operation of the Fund as a going concern are unable to be achieved.

Over the last 2 years the Trust has added $7.45 million (before tax) to unitholders account balances, representing a partial recovery on the write-downs applied to unitholders accounts in the year to 31 March 2009.

The financial statements show the Fund being significantly reduced in size, with net assets now being $25.24 million down from $61.57 million at 31 March 2010.

Outlook for 2012

While we still expect to continue making payments, the timing and amount of those payments is difficult to forecast as we are dealing with the most difficult of the recoveries. Unfortunately the recent earthquakes, occurring when the property market was already slow, have made the disposal process much more complex and time consuming regardless of location.

The directors remain hopeful of an improvement in the fund's position, with the trustee and the manager committed to doing everything possible to achieve the best result for unitholders, in the circumstances.

A D McBeath
Chairman

Canterbury Mortgage Trust

Approval by Directors

For the Year Ended 31 March 2011

Authorisation for Issue

The Directors of Fund Managers Canterbury Limited (as manager) and the Directors of Trustees Executors Limited (as trustee) authorised the issue of these financial statements on 20 July 2011.

Approval by Trustee and Manager

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

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

Director	Director
Fund Managers Canterbury Limited	**Fund Managers Canterbury Limited**

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

Director	Director
Trustees Executors Limited	**Trustees Executors Limited**

Statement of Comprehensive Income
For the Year Ended 31 March 2011

	Notes	31 March 2011	31 March 2010
Revenue			
Mortgage interest income		1,966,219	6,792,283
Interest income from bank accounts		129,674	636,008
Other income		2,201	-
Total Revenue from financial assets at amortised cost		2,098,094	7,428,291
Expenses			
Management fees	9	381,590	1,051,288
Trustees fees	9	118,527	152,351
Credit Consultancy		273,566	-
Accountancy		27,474	65,605
Administration		72,691	45,502
Audit fees		58,075	146,171
Bank charges		6,332	6,848
		938,255	1,467,765
Reduction in Provision for Impairment	6	(2,000,000)	(32,443,529)
Provision for Impairment Recovered		-	(407,745)
Bad Debt write off		1,535,158	33,887,022
Bad Debts Recovered		(907,302)	-
Next Movement in Impairment and Bad Debts		(1,372,144)	1,035,748
Total Expenses		(433,889)	2,503,513
Net Profit Before Taxation		2,531,983	4,924,778
Taxation	3	-	-
Net Profit and Total Comprehensive Income for the Year		$2,531,983	$4,924,778

These statements are to be read in conjunction with the accounting policies and notes on pages 9-22

Statement of Changes in Unitholders Funds
For the Year Ended 31 March 2011

	Notes	31 March 2011	31 March 2010
Unitholders' Funds at Start of Period		61,575,214	221,083,144
Net Profit and Total Comprehensive Income for the Year		2,531,983	4,924,778
Total Recognised Income and Expenses for the Period		2,531,983	4,924,778
Net Repayments to Unitholders	5	(38,366,740)	(163,420,542)
PIE tax effect	7	(496,821)	(1,012,166)
Unitholders' Funds at End of Period	4	$25,243,636	$61,575,214

Balance Sheet
As At 31 March 2011

	Notes	31 March 2011	31 March 2010
Trust Equity	4	$25,243,636	$61,575,214
Represented by:			
Assets			
Cash and Cash Equivalents		1,387,471	10,733,230
Advances	2	26,528,313	50,583,120
Provision for impairment	6	(2,000,000)	(4,000,000)
Net Advances		24,528,313	46,583,120
GST		1,491	53,983
Deferred Taxation	3	-	152,113
PIE Taxation Refundable		-	4,413,247
Total Assets		25,917,275	61,935,693
Liabilities			
Redemptions payable		101,405	113,529
Trade and other payables	9	227,527	246,950
PIE Taxation payable		344,707	-
Total Liabilities		673,639	360,479
Net Assets		$25,243,636	$61,575,214

These statements are to be read in conjunction with the accounting policies and notes on pages 9-22

	Notes	31 March 2011	31 March 2010
Cashflows from Operating Activities			
Cash was provided from:			
Interest received		4,194,761	10,676,421
Other income		2,201	315
		4,196,962	10,676,736
Cash was applied to:			
Interest paid		-	-
Payments to suppliers		(905,189)	(2,336,893)
Taxation Paid		-	-
		(905,189)	(2,336,893)
Net Cash Inflow from Operating Activities before changes in operating assets		3,291,773	8,339,843
Cash was provided from:			
Repayment of mortgages		23,397,452	50,170,227
		23,397,452	50,170,227
Cash was applied to:			
Mortgage advances made		(2,069,366)	(2,513,553)
		(2,069,366)	(2,513,553)
Net Cash Inflow from Operating Activities	8	24,619,859	55,996,517
Cash Flows from Investing Activities		-	-
Cash Flows from Financing Activities			
Cash was provided from:			
Receipts from Return of Redemptions		(12,124)	113,529
		(12,124)	113,529
Cash was applied to:			
Payments for Redemptions of Units		(33,953,494)	(163,419,620)
		(33,953,494)	(163,419,620)
Net Cash (Outflow) from Financing Activities		(33,965,618)	(163,306,091)
Net (Decrease) / Increase in Cash held		(9,345,759)	(107,309,574)
Add Opening cash brought forward		10,733,230	118,042,804
Ending cash carried forward		$1,387,471	$10,733,230
Represented by:			
Cash and cash Equivalents		1,387,471	10,733,230
		$1,387,471	$10,733,230

These statements are to be read in conjunction with the accounting policies and notes on pages 9-22

1. STATEMENT OF ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared for Canterbury Mortgage Trust Group Investment Fund (the Fund) by Fund Managers Canterbury 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 Fund is domiciled in New Zealand and was established as a Group Investment Fund in accordance with the provisions of its Trust Deed dated 26 June 2001 (as subsequently amended).

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. For this purpose the Fund has designated itself as profit-orientated.

The financial statements comply with International Financial Reporting Standards (IFRS).

Principal Activities

The Fund's principal activities were:

- Receiving deposits for investments from unitholders; and
- Making advances generally on first mortgage security, general security agreements or specific security agreements.

On 11 February 2009 the Manager resolved that the Fund should be wound-up and the assets realised to permit the pro-rata repayment of capital to unitholders. Since that date the activities of the Fund have been limited to the management and realisation of loans and the repayment of unitholders.

Basis of Preparation

As noted above, on 11 February 2009 the Manager of the Fund resolved to wind-up the Fund and realise the assets of the Fund. Accordingly, the going concern assumption is no longer appropriate. These financial statements have been prepared on an other than going concern basis. Performing loans continue to be held at amortised cost which approximates realisation value. Non-performing loans are held at recoverable value after consideration of bad debts, impairment losses and costs of debt recovery as detailed in the loan loss provisioning policy below.

The reporting currency is New Zealand dollars. The accounting policies used in these financial statements are the same as adopted for the year ended 31 March 2010.

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 the substance of the underlying transactions or other events is reported.

Use of Estimates and Judgement

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 6 - Provision for Impairment

Note 10 - Financial Instruments

Note 12 - Asset Quality

Estimates and judgements have been applied where advances are outstanding beyond normal contractual terms. The likelihood of the recovery of these advances is assessed by the Manager. Any impairment loss is estimated with reference to the probability and timing of recovery, the cost of possible enforcement through security and related costs and sale proceeds.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied.

Revenue Recognition

Interest revenue is recognised using the effective interest method. This method allocates interest over the relevant period by applying the effective interest rate to the carrying amount of the financial asset.

Distributions

In accordance with the Fund's Trust Deed, the Fund fully distributes its distributable income to unitholders. Since the decision to wind up, this has been by way of a pro rata allocation of distributable income to unit holders individual accounts. Distributable income equals all income after deduction of fees, expenses, taxes and any amount the Manager considers prudent to withhold to meet possible loan losses.

The distributions are recognised in the Statement of Changes in Unitholders Funds and Note 5.

Applications and Redemptions

Applications and redemptions have been suspended since 22 July 2008 and since the decision to wind up the Fund in February 2009, the Fund has made pro rata repayments of capital to unit holders as funds have been realised.

Financial Assets

Financial assets are classified into the following specified categories: "fair value through profit & loss", "available for sale", "held to maturity" and "loans and receivables". The classification depends on the nature and purpose of the financial assets as determined at the time of initial recognition.

Financial assets carried on the balance sheet include cash and cash equivalents, trade and other receivables and advances. Financial assets are initially recognised at their fair value plus transaction costs. Fair value is determined by a market valuation based on market interest rates.

Advances, trade and other receivables and other financial assets are classified as "loans and receivables".

Advances are recorded at amortised cost using the effective interest rate method less any impairment except where the advance is no longer being operated within the loan terms. Non-performing advances are recorded at their estimated realisation value after consideration of impairment losses and costs of debt recovery as detailed in the impairment of assets policy below.

Trade and other receivables and other financial assets are recorded at amortised cost using the effective interest rate method less any impairment.

Financial Liabilities

Financial liabilities carried on the balance sheet include trade and other payables, and are measured at amortised cost using the effective interest rate method.

Trust Equity

In accordance with the February 2008 Amendments to NZ IAS 32 and NZ IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation, unitholders funds are defined as "puttable instruments" and classified as Equity. These amendments apply to annual periods beginning on or after 1 January 2009. However, the Fund early adopted these amendments during the period ended 31 March 2008.

Derivative Financial Instruments

The Fund has not entered into any derivative financial instruments.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Impairment of Assets

At each reporting date, the Manager reviews the carrying amounts of the Fund's 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). Impairment losses directly reduce the carrying amount of assets and are recognised in the Net Profit before taxation.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current interest rate as all advances are at floating rates.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an advance by advance basis. A specific provision for impaired advances is created when recovery of principal and/or interest is not considered fully collectable in accordance with the terms of the loan contract. The collective impairment provision has been determined by the Manager after assessing the remaining advances according to their credit risk characteristics and considering objective evidence of impairment events. The provision is used to reduce the carrying amount of advances when the actual loss is realised. In undertaking this assessment advances are assessed as follows:

a. Past Due Assets

Advances where interest and/or principal are in arrears and they have not been operated by the borrower within their key terms, which are not impaired assets.

b. Impaired assets

Impaired assets are any assets where there is significant doubt about the collectability of the amounts owing.

c. Restructured assets

Restructured assets are those where the original terms have been changed due to the borrowers' difficulty in complying.

The loans are to be repaid over a longer period of time than specified in the original agreement.

Income Tax

From 1 October 2007 the Fund elected to be taxed as a Portfolio Investment Entity (PIE). As a PIE, the Fund allocates income or losses on a daily basis to each investor and deducts tax from that allocated income at the prescribed investor rate for each investor. The tax that is paid to the Inland Revenue is not shown as income tax in the Statement of Comprehensive Income, rather it is shown as the PIE Tax effect in the Statement of Changes in Unitholders Funds.

Current Tax

The Fund qualifies as a Portfolio Investment Entity (PIE) for tax purposes. Under the PIE regime income is effectively taxed in the hands of the Unitholders and therefore the Fund has no income tax expense. Accordingly, no income tax expense is recognised in the Statement of Comprehensive Income.

Under the PIE regime, the Manager attributes the taxable income of the Fund to Unitholders in accordance with the proportion of their interest in the Fund. The income is attributed to each Unitholder quarterly and taxed at the Unitholder's "prescribed investor rate" which is capped at 28% (30% prior to 1 October 2010).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Goods and Services Tax

The Fund is registered for GST for the purpose of returning GST in relation to income received while in possession of properties or where a property is sold by way of a mortgagee sale on behalf of GST registered mortgagors.

All other transactions have been recorded inclusive of GST.

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method.

Operating activities: are the principal revenue producing activities of the Fund and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long term assets.

Financing activities: are activities that result in changes in the size and composition of the contributed equity of the Fund.

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments, net of outstanding bank overdrafts.

STANDARDS AND INTERPRETATIONS ON ISSUE NOT YET ADOPTED

At the date of authorisation of the financial statements, a number of Standards and Interpretations were on issue but not yet effective. We are not aware of any standards on issue but not yet effective which would materially impact the amounts recognised or disclosed in these financial statements.

2. ADVANCES

	31 March 2011	31 March 2010
Mortgage advances by loan type:		
- Commercial	7,354,224	13,453,802
- Home - owner occupied	654,762	3,876,315
- Residential Investment Properties	12,766,649	27,350,924
- Rural	5,752,678	5,902,079
Closing balance	$26,528,313	$50,583,120

	31 March 2011	31 March 2010
Mortgage advances by geographical region:		
Canterbury Region	5,763,482	17,659,859
Other South Island Regions	13,354,341	17,452,391
North Island Regions	7,410,490	15,470,870
Closing balance	$26,528,313	$50,583,120

		31 March 2011	31 March 2010
Mortgage advances by nature of underlying security:			
COMMERCIAL	Bare Land	1,048,084	1,388,615
	Development	1,981,741	575,963
	Investment	4,324,399	7,804,120
	Owner Occupied	-	3,685,104
RURAL	Crop/Horticulture	-	274,230
	Sheep	1,706,670	1,465,588
	Viticulture	4,046,007	4,121,845
	Bare Land	-	40,416
HOUSING - Owner Occupied	Cross Lease	-	36,085
	Standard Homes	654,762	3,840,230
RESIDENTIAL	Apartments	5,224,112	12,387,471
	Bare Land	396,168	4,475,382
	Development	6,209,487	9,467,908
	Standard Homes	936,883	1,020,163
		$26,528,313	$50,583,120

3. TAXATION

a) TAXATION EXPENSE

	31 March 2011	31 March 2010
Profit Before Income Taxation	2,531,983	4,924,778
Distributable to Unitholders	(2,531,983)	(4,924,778)
Taxation Expense	$-	$-
Taxation Expenses comprises:		
Current Taxation Expense	-	-
Deferred Taxation benefit of impairment provision	-	-
	$-	$-

b) DEFERRED TAX

	31 March 2011	31 March 2010
Opening balance	152,113	170,842
Deferred Taxation Movements	(152,113)	(18,729)
Closing balance	$-	$152,113

Deferred Tax related solely to the tax benefit of the Formation Losses of the Fund. This represented a PIE tax credit receivable by the unitholders upon realisation of those Formation Losses and was fully realised in 2011. The Formation Losses related to the Provision for Impairment at the date of transition to a Portfolio Investment Entity. The date of transition was 1 October 2007 and the Provision for Impairment at that date amounted to $880,248. The balance of the Deferred Tax benefit at 31 March 2011 after utilisation of losses during the year is $Nil (31 March 2010 $152,113).

4. TRUST EQUITY

	31 March 2011	31 March 2010
Unitholders Funds (Note 5)	25,243,482	61,575,347
Accumulated (Over distributed) / Undistributed Income (Note 7)	154	(133)
	$25,243,636	$61,575,214

5. UNITHOLDERS FUNDS

	31 March 2011	31 March 2010
Repayments to Unitholders	(38,366,740)	(163,420,542)
Profits applied to investors (Net of PIE Tax)	2,034,875	3,912,692
Opening Balance	61,575,347	221,083,197
Closing balance	$25,243,482	$61,575,347

Units were issued at $1 per unit. Unitholders funds were invested for no fixed term. As described in Note 1 redemptions were suspended from 22 July 2008. The Manager resolved on 11 February 2009 to wind up the Fund. All units have equal rights in any surplus on winding up. To balance date, 31 March 2011, the Fund had repaid Unitholders 78.5 cents of each dollar held at the time the decision to wind up was made (31 March 2010 65 cents).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2011

6. PROVISION FOR IMPAIRMENT

	Collective	31 March 2011 Specific	Total	Collective	31 March 2010 Specific	Total
Opening balance	4,000,000	-	4,000,000	5,000,000	39,446,000	44,446,000
Increase in impairment	-	-	-	-	1,876,000	1,876,000
Reduction in impairment	(2,000,000)	-	(2,000,000)	(1,000,000)	(33,319,529)	(34,319,529)
Net (Reduction)/Increase in Impairment	(2,000,000)	-	(2,000,000)	(1,000,000)	(31,443,529)	(32,443,529)
Provision utilised	-	-	-	-	(8,002,471)	(8,002,471)
Closing balance	$2,000,000	-	$2,000,000	$4,000,000	-	$4,000,000

In March 2010 each loan was reviewed in relation to impairment with the Manager and the Trustee concluding that events had developed to the point where the specific provisions should be considered to be bad debts and written off. At the end of the 2011 financial year all remaining loans were once again reviewed and recoveries/ write offs recognised through bad debts. The Manager and Trustee are still pursuing all and any avenues for repayment but acknowledge that collection beyond the written down value is unlikely.

The collective impairment provision has been determined by the Manager, with input from the Trustee and independent external credit consultants. After assessing the remaining advances, according to their credit risk characteristics and considering objective evidence of impairment events, in 2011 this was reduced significantly. This reduction recognises the progress made in recovering loans, which while not considered bad were felt to attract some collection risk.

7. ACCUMULATED UNDISTRIBUTED/(OVER DISTRIBUTED) INCOME

	31 March 2011	31 March 2010
Profit Attributable to Unitholders	2,531,983	4,924,778
PIE (Profit)/loss applied to Unitholders	(2,531,696)	(4,924,858)
Increase/(Decrease) in Undistributed Income	287	(80)
Opening balance	(133)	(53)
Total Accumulated (Over Distributed) / Undistributed Income	$154	$(133)
PIE tax effect allocated on Profits	$496,821	$1,012,166

The PIE tax effect has been calculated at the individual unitholder's PIR (Prescribed Investor Rate).

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

	31 March 2011	31 March 2010
Net Profit after tax	2,531,983	4,924,778
Plus		
Increase from net repayment of Mortgages	23,983,318	91,619,261
Net (Decrease)/Increase in provision for impairment	(2,000,000)	(40,446,000)
	24,515,301	56,098,039
(Decreases)/Increases in Working Capital Items:		
Accrued Interest	71,491	767,289
Trade, other payables and GST	33,067	(868,811)
Deferred Taxation	152,113	18,729
Net Movements in Working Capital	256,671	(82,793)
Deferred Tax Movement through Statement of Unitholders Funds	(152,113)	(18,729)
Net cash flow from operating activities	$24,619,859	$55,996,517

Movement in Accrued Interest

Accrued Interest is included in the advances on the balance sheet.

9. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL

a. Related Parties

The related parties are Trustees Executors Limited, who provide trustee services to the Fund and Fund Managers Canterbury Limited, who provide management services to the Fund.

Trustee and Management fees are paid in accordance with the Prospectus at the following rates:

- Trustee Fees are 0.1% (2010: 0.1%) on Investments up to $50 million and 0.08% (2010: 0.08%) on Investments exceeding $50 million.
- Management Fees are 1.0% (2010: 1.0%) of unitholders funds.

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

	31 March 2011	31 March 2010
Trustees Fees - Trustees Executors Limited	118,527	152,351
Management Fees - Fund Managers Canterbury Ltd	381,590	1,051,288
	$500,117	$1,203,639
Software service charge - Fund Managers Canterbury Limited	$12,976	$12,500
Amounts payable to related parties at period end:		
Fund Managers Canterbury Limited	$78,049	$161,403
Trustees Executors Limited	$28,103	$15,545

Amounts payable are unsecured and repayable at normal trade terms.

The personal client services division of Trustees Executors Limited invested in the Fund on behalf of its retail trust clients and as at 31 March 2011 held $801,417 in the Fund (31 March 2010 $1,890,923).

Amounts receivable by related parties at period end:		
CMTrust Properties Ltd	$549,600	$313,448

CMTrust Properties Ltd is a property owning company, established in November 2009, whose shares are held in trust for the benefit of the Fund, thus enabling the Fund to enhance its return on a loan settlement. There are also shares held in trust for the benefit of the fund, in relation to The Nelson Ridge Water Company Ltd and its subsidiary Ridges Road Ltd. These companies control assets associated with a subdivision in Central Otago.

9. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

b. Key Management Personnel

Compensation paid to Directors and executives, being the key management personnel of Fund Managers Canterbury Limited in respect of their responsibilities to the Fund were:

	31 March 2011	31 March 2010
Short-term Benefits	$189,798	$295,553
Post Employment Benefits	-	-
Other Long Term Benefits	-	-
Termination Benefits	-	-

The following directors or key management personnel and their related parties beneficially owned units in the Fund:

	31 March 2011	31 March 2010
G C Main	$11,291	$28,546
G C Main & V L Eilken-Main	$5,621	$13,688
V L Eilken-Main	$5,158	$12,567
Thistledome Trust	$28,928	$65,046
H J Thomas	$8,256	$20,108
Latheron Trust	$11,465	$25,779
V F Young	$11,062	$26,922
Winsome & Allen Barrow Trust	$3,585	$9,077

10. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

Interest Rate Risk

It is the policy of the Fund to ensure that interest rate exposure is maintained on a floating rate basis.

All advances are made at floating rates.

Credit Risk

Credit risk is the risk that a counterparty will default on its obligation resulting in a financial loss to the Fund. Prior to the decision to wind up all prospective mortgagors were subject to lending criteria established by the Manager. These included maximum loan security value ratios, a demonstrated debt servicing ability and all advances are secured by first mortgage and/or general security agreement or specific security agreement. Approvals were by Management, or by the Board of Directors of the Manager.

For the period since the commencement of the wind up the Fund has a credit risk on outstanding advances. The Fund's policy with regard to outstanding advances, is that all expired loans are required to be repaid and the remaining loans, 9 as at 31 March 2011(35 as at 31 March 2010), are encouraged to seek alternative funding. The Fund, with the assistance of a third party credit consultant, is working with borrowers to have the loans repaid or recover the outstanding amounts by realising securities held against the loans. The Trustee has approved this approach and is monitoring the progress on an ongoing basis.

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, and unitholder funds.

Management monitors the risk as follows:

- The fund is in suspension, with funds being returned to unit holders only when sufficient reserves have been accumulated to make a repayment of capital.
- Expenses incurred protecting or realising the Fund's position on advances are paid as they fall due. A minimum level of reserves are held as a contingency to cover these costs.

a. Financial Risk Management Policies (continued)

- With the exception of 9 loans (35 in 2010) all mortgages have expired and been called up. The fund is working with borrowers to realise its investment in the most efficient manner. An analysis of the contractual repayment profile of the mortgage advances is outlined in note 11.

The Fund's liquidity position is set out in note 11. The Fund monitors its liquidity position on an ongoing basis and maintains deposits at call, which together with funds received from mortgage repayments enable the Fund to meet its commitments as they fall due.

To meet both expected and unexpected fluctuations in operating cash flows, the Fund maintains a stock of liquid investments. As a result of the Fund's resolution to wind up the fund (refer note 15) the level of funds held to cover operating cash flows has been reduced to levels proportionate to the risk

Capital Management

The Fund has no externally-imposed capital requirements other than those set out in the Trust Deed dated 26 June 2001 (as amended) and Investment guidelines. However, since the decision was taken to wind up the Fund, the focus has been on maximising loan recoveries. The Fund retains only sufficient capital to meet its operational requirements. All surplus funds are repaid to unitholders.

b. Quantitative Risk Exposure Disclosures

Concentration of Funding	31 March 2011	31 March 2010
Canterbury Region	16,817,931	42,542,869
Other South Island Regions	3,696,846	9,203,516
North Island Regions	4,483,459	9,272,978
Offshore	245,246	555,984
	25,243,482	61,575,347

Funding is primarily from unitholders in the Canterbury region of New Zealand.

Fair Values

The carrying amounts of financial instruments are the same as their fair value. Fair value has been determined with reference to the expected recovery on each individual mortgage advance.

Credit Risk

At balance date $1,387,471 (31 March 2010 $10,733,230) or 5.50% (31 March 2010 17.43%) of the Fund was invested with the ANZ National Bank of New Zealand Limited. One group of closely related counterparties to which the Fund has a credit exposure exceeded 5% of unitholders funds at 31 March 2011 and this exposure was 6.55% (31 March 2010 6.21%).

At balance date the 6 largest borrower exposures amounted to 70.81% of unitholder funds (31 March 2010 42.37%). This exceeds the credit risk exposure guideline of 20%, established prior to wind up. Since the decision to wind up, the Fund has been unable to adhere to this guideline, due to the reduction in size of unitholders funds and the ongoing realisation of the loan book. Whilst the Manager and Trustee continue to monitor this, given the reducing fund size the Fund is unable to reduce this exposure and therefore, remedy the situation.

The maximum credit exposure (net of provisions and write-offs) of the Fund is $25,915,784 (31 March 2010 $61,729,597). Collateral held in respect of advances of $26,523,313 (31 March 2010 $50,583,120) is by way of registered first mortgage. One loan equalling $9,080,718(gross) (31 March 2010 $9,202,564(gross)), recorded as fully impaired, was incorrectly secured by first mortgage over a neighbouring property and proceedings are ongoing against the acting solicitor, with further legal remedies being explored. The average loan to valuation ratio (LVR) on mortgage advances as at the time of lending was 56.03% (31 March 2010 50.76%). The deterioration in the property market (refer note 15) has had a significant adverse impact on the LVR as at balance date. Asset Quality is further discussed in Note 12.

10. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

Canterbury Mortgage Trust's Trust Deed prescribes that liquid assets (as defined in the Trust Deed as including cash, bank deposits and securities) are to be maintained at a minimum of 5% of Total Tangible assets less reserves. Since the resolution to wind up the Fund in February 2009, the Fund has to date maintained a policy of paying all surplus funds to unitholders, as returns of capital, thus not complying with this requirement.

Sensitivity Analysis

The Fund is focused solely on the recovery of the remaining loans, the majority of these loans are significantly in arrears and are not making regular interest payments. It is not considered relevant or practical to calculate the Fund's sensitivity to changes in interest rates. The overall recovery of the loans is more sensitive to the property market, as this will determine the Fund's overall recovery on the remaining loans.

Interest Revenue

Canterbury Mortgage Trust as an entity accumulates income from mortgage loans which, after deduction of expenses is then paid out to unitholders.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2011

Notes

11. LIQUIDITY PROFILE

The following tables detail the Fund's remaining contractual maturity for its financial assets and liabilities. The tables have been drawn up based on undiscounted cash flows based on the earliest date on which the Fund is entitled to receive the financial asset or required to pay for the financial liability. The table includes both interest and principal cash flows:

31 MARCH 2011	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
Financial Assets:							
Cash and Cash Equivalents	1,387,471	-	-	-	-	-	1,387,471
Advances	24,079,932	559,099	114,041	1,697,859	38,576	195,138	26,684,645
	$25,467,403	$559,099	$114,041	$1,697,859	$38,576	$195,138	$28,072,116
Financial Liabilities:							
Trade and Other Payables	-	227,527	-	-	-	-	227,527
	$ -	$227,527	$ -	$ -	$ -	$ -	$ 227,527

31 MARCH 2010	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
Financial Assets:							
Cash and Cash Equivalents	10,733,230	-	-	-	-	-	10,733,230
Advances	28,559,203	16,987,336	5,079,399	290,029	121,113	627,142	51,664,222
	$39,292,433	$16,987,336	$5,079,399	$290,029	$121,113	$627,142	$62,397,452
Financial Liabilities:							
Trade and Other Payables	-	246,950	-	-	-	-	246,950
	$ -	$246,950	$ -	$ -	$ -	$ -	$ 246,950

Advances include all contractual cash flows for the period defined. The interest rate applied to these contractual cash flows is the floating rate applicable to these advances at Balance Date.

Whilst mortgages are advanced on an on demand basis, all advances with the exception of 9 loans (as noted in Note 10a above) have expired and been called up, it is not expected that these will be repaid on that basis. Due to the Fund being wound up it is not possible to predict with any certainty when the remaining mortgage advances will be repaid (Refer to Note 15).

The weighted average interest rate on performing advances is 11.29% (March 2010 11.67%). A 0.5% movement in the interest rate would result in a $50,000 movement in interest revenue resulting in an increase or decrease to profit and equity (March 2010 $109,000). Advances which are significantly impaired are set as non accruing until the loan is brought up to date or repaid. Interest rates on all advances are floating with 14 days notice of a change. Therefore all advances reprice in 14 days. Interest rates on bank call and term deposit accounts are within the range of 2.50% to 3.50%. Interest rates can be reset daily for call accounts or on maturity of the term deposit.

While all financial assets/liabilities are ultimately at call the ability to liquidate a financial asset to repay unitholders is ultimately constrained by the timeliness to realise the asset (refer also to note 15).

Notes

12. ASSET QUALITY

a. Past due assets

The past due assets include the total amounts owing by the borrowers who are in arrears, not just the past due portion. As at 31 March 2011 the past due portion was $1,814,335 (31 March 2010 $2,734,534). Past due assets exclude impaired assets as noted in (b) below.

The past due assets are secured by first mortgages over properties in New Zealand with an average LVR of 35.36%, based on valuation at the time of lending. Due to the uncertainty in the property markets (Refer Note 15) the Manager considers it impracticable to estimate the fair value of the collateral held as security as at balance date.

The age analysis of the Past due assets and the Past due portion is:

31 MARCH 2011	0-3 Mths	3-6 Mths	6-9 Mths	9-12 Mths	12 Mths +	Total
Past due assets	174,846	-	1,689,103	-	-	1,863,949
Past due portion	125,232	-	1,689,103	-	-	1,814,335
31 MARCH 2010	0-3 Mths	3-6 Mths	6-9 Mths	9-12 Mths	12 Mths +	Total
Past due assets	4,412,093	2,020,649	516,797	-	-	6,949,539
Past due portion	2,217,088	649	516,797	-	-	2,734,534

	31 March 2011	31 March 2010
b. Impaired Assets		
Opening Impaired assets	29,752,041	79,753,915
New Impaired assets	1,885,500	6,625,069
Impaired assets repaid/written off	(15,592,035)	(56,626,943)
Closing Impaired assets	$16,045,506	$29,752,041

The impaired assets include the total amounts owing by the borrowers who are in arrears, not just the past due portion. The recorded amounts are net of write-downs for previously identified impairments.

Interest Income on Impaired Financial Assets for the period was $120,375 (31 March 2010 $2,003,876).

The impaired assets are secured by first mortgages over properties in New Zealand with an average LVR at the time of lending of 40.79%, with the exception of one fully impaired loan equalling $9,080,719 (31 March 2010 $9,202,564), that was incorrectly secured by first mortgage over a neighbouring property. As stated in Note 6 the Manager and the Trustee have determined that due to changes in the property market these impaired loan assets should be considered bad debts. Accordingly Impaired advances have had a bad debt write down applied to them of $27,240,229 (31 March 2010 $33,313,786), to reflect a current estimated fair market value.

The age analysis of the Impaired assets and the Past due portion is:

31 MARCH 2011	**0-6 Months**	**6-12 Months**	**12 Months+**	**Total**
Impaired assets	1,205,424	180,076	14,660,006	16,045,506
Past due portion	759,910	180,076	14,660,006	15,599,992
31 MARCH 2010	**0-6 Months**	**6-12 Months**	**12 Months+**	**Total**
Impaired assets	3,962,602	5,701,185	20,088,254	29,752,041
Past due portion	3,228,016	1,152,305	20,088,254	24,468,575

c. Restructured Assets.

As at Balance Date, no loans (31 March 2010 - no loans) with interest totalling $Nil (March 2010 $Nil) was capitalised onto the principal balance of the loans. In all cases, these loans continued to meet the loan security value ratios and do not form part of the past due assets.

While there are no restructured loans the Fund has advances outstanding at 31 March 2011 of $2,342,188 to three borrowers (31 March 2010 $313,448 to one borrower), on terms that would not meet the Fund's former investment guidelines. These advances were made as the Manager and Trustee believe they will improve the final recovery to the Fund.

13. COMMITMENTS

Commitments in respect of mortgage advances approved but not yet paid out at 31 March 2011 totalled $Nil (March 2010 $Nil) as included in Note 11.

14. SEGMENT REPORTING

Adoption of NZ IFRS 8 Operating Segments

Canterbury Mortgage Trust Group Investment Fund has adopted NZ IFRS 8 Operating Segments, with effect from 1 April 2009. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Fund that are regularly reviewed by the chief operating decision maker (which is the Board of Directors of the Manager), in order to allocate resources to the segment and to assess its performance.

Products and services from which reportable segments derive their revenues

The Fund operates in one industry, receiving deposits for investments from unitholders (funding) and making advances secured by mortgages and other forms of security (lending). On 11 February 2009 the Manager resolved that the Fund should be wound-up and the assets realised to permit the pro-rata repayment of capital to unitholders. Since that date the activities of the Fund have been limited to permit the pro-rata repayment of capital to unitholders. The service provision process for each of the investments and mortgages is similar.

Segment revenues and results

The accounting policies of the reportable segment are the same as the Fund's accounting policies described in Note 1. As there is only one reportable segment for the Fund the segment profit represents profit earned for the segment after all costs including all management fees, trustees fees, reduction in provision for impairment, provision recovered and bad debt write off. The Board of Directors of the Manager make resource allocation decisions to this segment based on the expected cash flows and results of Fund operations as a whole. For the purposes of monitoring segment performance and allocating resources to the segment, the Board monitors the tangible and financial assets attributable to the segment. All assets are allocated to the reportable segment.

Information about major customers

Please refer to Note 10 b for the six largest borrower exposures.

Geographical reporting

All operations are carried out in New Zealand, and there is a concentration of both funding and lending in the Canterbury region. Therefore there is a geographical concentration of risk regarding lending, with approximately 22.0% (2010 34.9%) of the loan portfolio lent in Canterbury, refer to Note 2 for further details.

15. WIND-UP OF THE FUND AND MORTGAGE ADVANCES ARREARS

On 22 July 2008 the Manager of the Fund advised its investors that all withdrawals from the Fund had been suspended for 90 days and would then be followed by the 90 business day redemption period making the effective date for the payment of redemptions March 2009. This action was taken to secure and protect the Fund from an unprecedented level of withdrawal requests from unitholders. On 11 February 2009 the Manager resolved that the Fund should be wound-up and the assets realised to permit the pro-rata repayment of capital to unitholders. Since the decision to wind up the Fund, the realisation of the Fund's assets has been supervised by the Trustee, who has contracted a third party credit consultant to manage the realisation process.

Notes

15. WIND-UP OF THE FUND AND MORTGAGE ADVANCES ARREARS (continued)

The continued sluggish New Zealand economy, the demise of a number of finance companies and the soft property market have resulted in very limited options for mortgage holders to refinance, making it increasingly difficult for many to repay their loans. The property market continues to be characterised by depressed prices and slow sales volumes. These conditions result in uncertainty regarding the value and the ability to realise the underlying security on mortgage advances on a timely basis. The inability of borrowers to repay mortgage advances has reduced the amount estimated to be recoverable on these advances, in real terms, and a collective provision for impairment has been made.

Consistent with the wind-up instructions of the Trustee, the provisioning in respect of the potential impairment of advances outstanding at balance date has been determined based on an orderly realisation of advances.

In terms of the earthquakes that hit Canterbury in the last year, the Fund's securities within the Canterbury region were all insured and while there is damage to some properties, the Trust's position is protected by the insurance cover carried over those properties. Progress on collection outside of the Canterbury region has continued uninterrupted.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF CANTERBURY MORTGAGE TRUST GROUP INVESTMENT FUND

Report on the Financial Statements

We have audited the financial statements of Canterbury Mortgage Trust Group Investment Fund on pages 6 to 22, which comprise the balance sheet as at 31 March 2011, the statement of comprehensive income, statement of changes in unitholders funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Fund's unitholders, as a body. Our audit has been undertaken so that we might state to the Fund's unitholders those matters 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's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Manager's Responsibility for the Financial Statements

The Manager 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 control 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.

Auditor's Responsibilities

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 and International Standards on Auditing (New Zealand). Those standards require that we comply with 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 internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as 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 auditor, we have no relationship with or interests in Canterbury Mortgage Trust Group Investment Fund.

Opinion

In our opinion, the financial statements on pages 6 to 22:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of The Canterbury Mortgage Trust Group Investment Fund as at 31 March 2011, and its financial performance and its cash flows for the year ended on that date.

Emphases of Matter

Basis of Preparation

As disclosed in the accounting policies and Note 15 to the financial statements on 11 February 2009 the Manager resolved to wind-up and realise the assets of the Fund. Accordingly, the financial statements for the year ended 31 March 2011 have been prepared on an other than going concern basis.

Fundamental Uncertainty

In forming our unqualified opinion, we have considered the adequacy of the disclosures in Note 15 of the financial statements regarding the impairment of advances and the potential impact of current market conditions on the recoverability of advances. These market conditions impact on both the realisation value and the expected timing of repayment of advances.

Consistent with the wind-up instructions of the Trustee the provisioning in respect of the potential impairment of advances outstanding at balance date has been determined based on an orderly realisation of the advances.

The financial statements do not include any adjustment to the carrying value of the advances that may result from further deterioration in property prices on which advances are secured beyond the date of approval of the financial statements, nor the effect of any delays in liquidating the property securities through a sale process.

Deloitte

Chartered Accountants
20 July 2011
Christchurch, New Zealand

Canterbury Mortgage Trust

Canterbury Mortgage Trust Group Investment Fund

Registered office of the Manager Fund Managers Canterbury Limited

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