TWC Quantum Apartments Limited
Financial statements
for the year ended 31 March 2019

Contents

Independent Auditor’s Report

To the Shareholders of TWC Quantum Apartments Limited

Opinion

We have audited the financial statements of TWC Quantum Apartments Limited (the ‘Company’), which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 4 to 23, present fairly, in all material respects, the financial position of the Company as at 31 March 2019, and its financial performance and 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’).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (‘ISAs’) and International Standards on Auditing (New Zealand) (‘ISAs (NZ)’). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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.

Key audit matter	How our audit addressed the key audit matter
Investment Property Valuations	
The Investment Property is a residential investment property valued at $14,600,000 as disclosed in Note 4. The Company's policy is to engage an independent, external valuer to perform a valuation of the property on an annual basis. The valuation methods used for assessing the fair value include a combination of the capitalisation of market income and discounted cash flow methodologies. Fair values are calculated using actual and forecast key inputs including: rental growth rates, capitalisation rates, discount rates and occupancy. The valuation of investment properties is a key audit matter due to the subjective judgements and assumptions in the valuation model adopted.	We read the valuation report for the property and checked for any limitations of scope that would impact the reliability of the valuation. We assessed the valuers' experience and professional accreditations. This included having each valuer confirm to us their independence, qualifications and that the scope of the work undertaken was in line with professional valuation standards and accounting standards. In addition, we considered the Company's process for reviewing and challenging the valuation report inputs to ensure they accurately reflect the individual characteristics of the property. We tested the key inputs to the valuation including understanding the key drivers of the movement in valuation and challenging the reasonableness of those key drivers. We agreed the value of rentals, occupancy and lease terms to a sample of significant underlying lease agreements. Our internal valuation specialists were engaged in assessing the appropriateness of the valuation methodology, and reviewing the reasonableness of the capitalisation and discount rates used in the valuation model.

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information in the Directors Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors 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 directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company 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 and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on 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.

Restriction on use

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

Deloitte Limited

Trevor Deed, Partner
for Deloitte Limited
Wellington, New Zealand
26 July 2019

Directors' report

The Company achieved a profit of $2,429,908 for the year ended 31 March 2019. This is an increase of $1,597,334 compared to the previous financial year. The increased performance was mainly driven by a fair value increase in the investment property of $1,850,000 with 59 Boulcott St now valued at $14.6m (2018: $12.75m). Revenue recorded an improvement of $108,637 contributed to the increased valuation of the property.

Operating expenses increased $28,464 with insurance for a second year in a row being the main driver with an increase in premiums of $34k. Interests cost increased slightly due to a full year of an interest rate swap of 5.59% (previously 5.13%). There has been a fair value gain on the fixed interest swap of $87,214; the arrangement unwinds in December 2019; directors do not intended to renew the swap facility and have gone to the market for refinancing all loans.

Effective 1 July 2018, the Company registered as a portfolio investment entity for tax purposes meaning the Company is now taxed at a blended rate made up of investors prescribed investor rates (maximum 28%). This has had a positive impact on the entity reducing the overall tax rate to 18.10% (2018: 28%) resulting in a lower tax expense and more cash is available to the entity.

The directors declared and paid dividends of $422,800 which represent a 9.25% gross return.

The trading outlook for the 2019/2020 financial year is positive with continued high occupancy rates and annual rents are expected to increase by approximately $200k. Demand from our tenant base for affordable rental accommodation has continued to increase significantly over the last 12 months. This reflects constraints on supply (for example landlords moving stock to Air BnB arrangements and fewer conversions of commercial buildings to rental accommodation) failing to meet increased student and young professional accommodation demands. Expenditure in the 2019/20 will remain stable with an increase in insurance expected, along with some capital expenditure required to replace one of the lift controllers in the building. This expenditure will be funded through retained cash flow.

For and on behalf of the Board, comprising Ian Cassels, Ed Lee and Neil Bramley.

Ian Cassels
Chairperson

26 July 2019

TWC Quantum Apartments Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 March 2019

	Notes	2019 $	2018 $
Rental income		**1,413,309**	1,304,672
Total revenue		**1,413,309**	1,304,672
Fair value gain on investment property	4	**1,850,000**	358,901
Total income		**3,263,309**	1,663,573
Directors fees and expenses	15	**(4,000)**	(2,000)
Property operating expenses		**(227,024)**	(191,883)
Property maintenance costs		**(71,245)**	(84,290)
Operating and administration costs	6	**(26,095)**	(23,019)
Management fees		**(121,522)**	(120,230)
Total expenses		**(449,886)**	(421,422)
Finance costs	11	**(296,212)**	(283,494)
Change in fair value of financial instruments		**87,214**	58,477
		(208,998)	(225,017)
Total expenses		**(658,884)**	(646,439)
Profit before income tax		**2,604,425**	1,017,134
Income tax expense	5	**(174,517)**	(184,560)
Profit from continuing operations		**2,429,908**	832,574
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**2,429,908**	832,574
Profit after tax is attributable to:			
Equity holders of TWC Quantum Apartments Limited		**2,429,908**	832,574
Total profit or loss and other comprehensive income for the year is attributable to:			
Equity holders of TWC Quantum Apartments Limited		**2,429,908**	832,574
		2,429,908	832,574

	2019 Cents	2018 Cents
Earnings per share attributable to the ordinary equity holders of the company during the year:		
Attributable to coninuing operations:		
Basic earnings per share	**42.2**	14.5

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

TWC Quantum Apartments Limited
Statement of financial position
As at 31 March 2019

	Notes	**2019** $	2018 $
ASSETS			
Current assets			
Cash and cash equivalents		**309,038**	205,698
Trade and other receivables	7	**38,991**	25,238
Deferred tax asset		**14,377**	48,131
Total current assets		**362,406**	279,067
Non-current assets			
Investment property	4	**14,600,000**	12,750,000
Total non-current assets		**14,600,000**	12,750,000
Total assets		**14,962,406**	13,029,067
LIABILITIES			
Current liabilities			
Trade and other payables	10	**98,691**	84,706
Current income tax liabilities		**58,043**	58,583
Interest bearing loans and borrowings	9	**-**	5,100,000
Derivative financial instruments	18	**79,360**	-
Total current liabilities		**236,094**	5,243,289
Non-current liabilities			
Interest bearing loans and borrowings	9	**5,100,000**	-
Derivative financial instruments	18	**-**	166,574
Total non-current liabilities		**5,100,000**	166,574
Total liabilities		**5,336,094**	5,409,863
Net assets		**9,626,312**	7,619,204
EQUITY			
Share capital	8	**5,500,000**	5,500,000
Retained earnings		**4,126,312**	2,119,204
Total equity		**9,626,312**	7,619,204

Approved for issue and signed on behalf of the Board of Directors of TWC Quantum Apartments Limited on 26 July 2019.

Ian Cassels
Chairperson

26 July 2019

Ed Lee
Director

26 July 2019

The above statement of financial position should be read in conjunction with the accompanying notes.

	Notes	Share capital (Offer shares) $	Share capital (Subordinated shares) $	Share issue costs $	Retained earnings $	Total $
Balance as at 1 April 2017		4,625,000	1,125,000	(250,000)	1,679,643	7,179,643
Profit after tax attributable to the equity holders of the Company		-	-	-	832,574	832,574
Other comprehensive income						
Total comprehensive income		-	-	-	832,574	832,574
Transactions with owners						
Distributions	13	-	-	-	(393,013)	(393,013)
Balance as at 31 March 2018		4,625,000	1,125,000	(250,000)	2,119,204	7,619,204
Balance as at 1 April 2018		4,625,000	1,125,000	(250,000)	2,119,204	7,619,204
Profit after tax attributable to the equity holders of the Company		-	-	-	2,429,908	2,429,908
Other comprehensive income						
Total comprehensive income		-	-	-	2,429,908	2,429,908
Transactions with owners						
Distributions	13	-	-	-	(422,800)	(422,800)
Balance as at 31 March 2019		4,625,000	1,125,000	(250,000)	4,126,312	9,626,312

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	2019 $	2018 $
Cash flows from operating activities			
Receipts from tenants		**1,407,755**	1,308,151
Goods and services tax net refunded		**(1,085)**	2,889
Payments to suppliers		**(444,369)**	(461,195)
Interest paid on borrowings		**(294,859)**	(282,537)
Payments of tax		**(141,302)**	(126,053)
Net cash flow received from operating activities	17	**526,140**	441,255
Cash flows from investing activities			
Payments for capital expenditure		**-**	(91,100)
Net cash outflow from investing activities		**-**	(91,100)
Cash flows from financing activities			
Dividends paid	13	**(422,800)**	(393,014)
Net cash outflow from financing activities		**(422,800)**	(393,014)
Net increase / (decrease) in cash and cash equivalents		**103,340**	(42,859)
Opening cash and cash equivalents		**205,698**	248,557
Closing cash and cash equivalents		**309,038**	205,698

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

These financial statements are for TWC Quantum Apartments Limited (the 'Company') as a separate legal entity. The Company was incorporated on 14 June 2012. The Company owns a residential investment property in Wellington. The property is a nine level residential apartment building located at 59 Boulcott Street, Wellington.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 12, iCentre, 50 Manners Street, Wellington.

(a) Basis of preparation

Statement of compliance

The Company is a for profit entity and the financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards (IFRS). The financial statements have been prepared in accordance with the Financial Reporting Act 2013, The Financial Markets Conduct Act 2013 and the Companies Act 1993. The Company is a tier 1 reporting entity.

Preparation of the financial statements

The financial statements have been prepared on a going concern basis, applying a historical cost convention, except for investment property and financial instruments which have been measured at fair value. The financial statements cover the period from 1 April 2018 to 31 March 2019.

The financial statements have been presented in New Zealand dollars, which is the Company's functional and presentation currency and rounded to the nearest dollar.

Certain prior year comparatives have been reclassified to align with current year presentation.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(a) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018:

- **NZ IFRS 9 (2014), 'Financial instruments,' issued in September 2014**

  NZ IFRS 9 (2014) supersedes the 2010 version of the same standard and replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under NZ IFRS 9 will be driven by an entity's business model for managing the financial assets and the contractual cashflow characteristics of the financial assets.

  Effective date: 1 January 2018, with early adoption allowed. This will be effective for the Company for the year ending 31 March 2019. TWC Quantum Apartments has already adopted the standard using the modified retrospective approach which means that cumulative impact (if any) of the adoption would be recognised in retained earnings as of 1 April 2018 and that comparatives will not be restated.

  The adoption of NZ IFRS 9 has not materially affected the classification and measurement of these financial assets. The forward-looking impairment impact has not had a material impact on this entity due to the minor value of the items on the balance sheet it is applicable to.

  There has been no material impact on the accounting for financial liabilities. The entity's financial liabilities include financial liabilities at amortised cost and a derivative financial instrument which is held at fair value through profit and loss, as the entity has not elected to apply hedge accounting. The treatment of both of these categories of financial liabilities under the new requirements is consistent with that of the previous NZ IAS 39.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- **NZ IFRS 15 (2014), 'Revenue from Contracts with Customers'**

  NZ IFRS 15 establishes principles that ensure entities recognise revenue in a manner which reflects the transfer of goods or services to customers and at amounts that reflect their expected consideration for those goods or services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

  Effective date: 1 January 2018, with early adoption allowed. This is effective for the Company for the year ending 31 March 2019. The Company has already adopted the standard using the modified retrospective approach which means that any cumulative impact of the adoption will be recognised in retained earnings as of 1 April 2018 and that comparatives will not be restated.

  The adoption of this standard has not had a significant impact to this entity as their revenue is composed primarily of lease income, which is accounted for under NZ IAS 17.

(b) New standards, amendments and interpretations issued, but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following set out in the following:

- **NZ IFRS 16 (2016), 'Leases'**

  NZ IFRS 16 establishes new recognition criteria for leases and will result in almost all leases being recognised on the balance sheet (with minor exceptions), as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised when an entity has the right to obtain substantially all of the economic benefits from the asset during the period of use and to direct the use of the asset. The accounting for lessors will not significantly change. An analysis of this standard has been completed; as this entity solely perform the lessor role in these contracts, it will not have a significant impact to the entity.

  Effective date: Mandatory adoption required for financial years commencing on or after 1 January 2019. This will be effective for the Company for the year ending 31 March 2020.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(b) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as at the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income for future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of the investment property is replaced, the carrying amount of the replaced part is derecognised.

1 Summary of significant accounting policies (continued)

(b) Investment property (continued)

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in the statement of profit or loss and other comprehensive income for the period in which it arises. Investment properties are derecognised when they have been disposed.

Where the Company disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of profit or loss and other comprehensive income within net gain from fair value adjustment on investment property.

(c) Leases

The Company is the lessor in an operating lease.

Properties leased out under operating leases are included in investment property in the statement of financial position. See Note 1(i) for the recognition of rental income.

(d) Financial instruments

Classification

From 1 April 2018, the Company classifies its financial assets in the following measurement categories:

• those to be measured subsequently at fair value (either through OCI or through profit or loss), and
• those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Impairment

From 1 April 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

1 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

Write-off

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(f) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(g) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(h) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income or equity — in which case, the tax is also recognised in other comprehensive income or equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

(i) Revenue recognition

Revenue includes rental income from the investment property held by the Company. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(j) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved.

1 Summary of significant accounting policies (continued)

(k) Interest income and expense

Interest income and expense are recognised within 'finance income' and 'finance costs' in profit or loss using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(l) Other expenses

Expenses include legal, accounting, auditing and other fees. They are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred (on an accruals basis).

(m) GST

As the Property comprises residential accommodation, GST on those costs and expenses directly attributable to the portion of the Property utilised for residential accommodation is not able to be claimed by the Company and will therefore be non-recoverable.

Approximately 96% (2018: 96%) of all costs and expenses incurred by the Company (excluding interest on bank borrowing) are related to the residential portion of the Property and are therefore included in the statement of profit or loss and other comprehensive income at the GST inclusive amount (if applicable).

2 Financial risk management

2.1 Financial risk factors

The risk management function within the Company is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Company is exposed during or at the end of the reporting period. Financial risk comprises market risk, credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

(a) Market risk

Interest rate risk

The Company's interest rate risk principally arises from long-term borrowings of $5.1 million from ANZ as noted in note 9.

The Directors and management review interest rate risk at Board meetings. The Company's policy is to cover at least 50% of interest rate risk on borrowings at fixed rates through the use of interest rate swaps.

As at balance date, the Company had the following liabilities exposed to interest rate risk:

	2019 $	2018 $
Borrowings covered by fixed interest or interest rate swaps	**2,750,000**	2,750,000
Borrowings subject to interest rate risk	**2,350,000**	2,350,000

The following demonstrates the sensitivity on the Company's profit and loss, resulting from a change in interest rates, with all other variables held constant.

For financial year ended 31 March 2019 (2018: same)	**Carrying value**	**+0.5%**	**-0.5%**
Loans and borrowings	5,100,000	25,500	(25,500)

Trade and other receivables and trade and other payables are interest free and with a term of less than one year, so it is assumed that there is no interest rate risk associated with these financial instruments.

Interest rate risk is the risk that the values and future cashflows of the Company's assets and liabilities will fluctuate due to changes in market interest rates.

As at balance date, the Company had the following assets exposed to interest rate risk:

	2019 $	2018 $
Cash and cash equivalents	**309,038**	205,698

2 Financial risk management (continued)

The following demonstrates the sensitivity on the Company's profit and loss, resulting from a change in interest rates, with all other variables held constant.

Financial asset	**Carrying value**	**+0.5%**	**-0.5%**
For financial year ended 31 March 2019:			
Financial assets			
Cash and cash equivalents	309,038	1,545	(1,545)
For financial year ended 31 March 2018:			
Financial assets			
Cash and cash equivalents	205,698	1,028	(1,028)

(b) Credit risk

Credit risk is the risk that the counterparty to a transaction with the Company will fail to discharge its obligations, causing the Company to incur a financial loss. Financial instruments which potentially subject the Company to credit risk consist of cash and cash equivalents and financial assets at amortised cost. The Company's policy is to assess the creditworthiness of prospective tenants and rent payments are required in advance. The Company manages its exposure to credit risk on an ongoing basis.

For banks, only banks with a Standard and Poor's credit rating of `A+' or above are accepted.

Maximum exposures to credit risk at balance date are the carrying amounts of financial assets in the statement of financial position.

The Company has no concentration of credit risk.

No financial assets are past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions. The Company's liquidity position is monitored on a regular basis and reviewed by the Board to ensure compliance with banking covenants per the Company's lending facility.

The Company generates sufficient cash flows from its operating activities to meet its obligations arising from its current financial liabilities as they fall due and has reserves on bank deposit to cover potential operating shortfalls.

The amounts disclosed in the below tables are the contractual undiscounted cash flows. Undiscounted cash flows in respect of balances due within 12 months generally equal their carrying amounts in the statement of financial position as the impact of discounting is not significant.

2 Financial risk management (continued)

The maturity analysis of financial instruments is as follows:

At 31 March 2019	**Less than 1 year $**	**1 - 5 years $**	**Total $**
Financial assets			
Cash	**309,038**	**-**	**309,038**
Receivables	**6,893**	**-**	**6,893**
Total financial assets	**315,931**	-	**315,931**
Financial liabilities			
Payables	**97,595**	**-**	**97,595**
Interest rate swap (@ 5.59% p.a.)	**79,360**	**-**	**79,360**
Borrowings	**92,590**	**5,169,442**	**5,262,032**
Total financial liabilities	**269,545**	**5,169,442**	**5,438,987**
At 31 March 2018			
Financial assets			
Cash	205,698	-	205,698
Receivables	10,751	-	10,751
Total financial assets	216,449	-	216,449
Financial liabilities			
Payables	73,115	-	73,115
Interest rate swap (@ 5.59% p.a. weighted average rate)	-	166,574	166,574
Borrowings	5,100,000	-	5,100,000
Total financial liabilities	5,173,115	166,574	5,339,689

2.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders.

The Company has one significant asset domiciled in Wellington meaning any event that impacts the assets or region exposes shareholders to risk through loss of asset value. Any loss value due to an event that physically damages the asset is mitigated through prudent insurance coverage.

2.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

2 Financial risk management (continued)

	Level 1 $	Level 2 $	Level 3 $
As at 31 March 2019			
Derivative financial liabilities	-	79,360	-
	-	79,360	-
As at 31 March 2018			
Derivative financial liabilities	-	166,574	-
	-	166,574	-

There were no transfers between levels 1 and 2 during 2019 or 2018.

Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Assets and liabilities not carried at fair value

The carrying values of the following financial instruments are a reasonable approximation of fair value because, for example, they are short-term in nature or re-price to current market rates frequently: cash and cash equivalents, trade and other receivables, trade and other payables, derivative financial instruments and interest bearing loans and borrowings. As at 31 March 2019 the approximate fair value of borrowings held by the entity is $5,100,000 (Level 2) (2018: $5,100,000 [Level 2]).

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and management judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Investment property

The fair value of the investment property is determined by using valuation techniques. For further detail of the judgements and assumptions made, see Note 4.

4 Investment property

	2019	2018
	$	$
	Level 3	Level 3
Fair value at 1 April	**12,750,000**	12,300,000
Net gain from fair value adjustments	**1,850,000**	358,901
Capitalised subsequent expenditure	**-**	91,099
	14,600,000	12,750,000

Valuation process

The Company's investment property was revalued at 31 March 2019 by Colliers International, an independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and categories of the investment property valued. The investment property's current use equates to the highest and best use.

At each financial year end the Company:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

Valuation techniques underlying managements estimation of fair value

The fair value of the investment property at 31 March 2019 of $14,600,000 (2018: $12,750,000) agrees to the valuation reported by the external valuer. The valuation was determined using both the capitalisation of passing income and discounted cashflow projections based on significant unobservable inputs. These inputs include:

- Future rental cash inflows - based on the actual location, type and quality of the property and supported by the terms of existing leases and external evidence such as current market rents for similar properties;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Estimated occupancy rates - includes necessary investments to maintain functionality of the property for its expected useful life;
- Capital expenditure - includes necessary investments to maintain functionality of the property for its expected useful life;
- Capitalisation rates - based on actual location, size and quality of the property and taking into account market data at the valuation date; and
- Terminal value - taking into account assumptions regarding capital expenditure, occupancy rates and market rents.

There were no changes to the valuation techniques during the year.

Information about fair value measures using significant unobservable inputs (Level 3)

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The key assumptions used in the valuation of the investment property are:

	2019	2018
	%	%
Occupancy	**97.50**	97.50
Discount rate	**9.50**	9.75
Rental growth rates	**2.92**	2.91
Terminal capitalisation rate	**9.00**	9.00
Capitalisation rate	**8.00**	8.13

4 Investment property (continued)

A structural assessment was made by third party structural engineers on 14 May 2012. This property was assessed as having a NBS rating of 90%.

The structural engineers performed an 'invasive' inception of key structural elements of the building after the recent November 2016 South Island Earthquake events advising that the building performed well and a couple of floors showed some minor cracks.

Based on this, the valuer has assessed that the November 2016 South Island earthquake has not significantly altered the buildings seismic integrity.

The following demonstrates the sensitivity to the Company's profit, equity and fair value of the investment property resulting from a change in the capitalisation rate and a change in the discount rate.

	2019	**2019**	2018	2018
	-0.125 %	**0.125 %**	-0.125 %	0.125 %
Change in capitalisation rate	**239,530**	**(232,161)**	204,791	(198,585)
	-0.250 %	**0.250 %**	-0.250 %	0.250 %
Change in discount rate	**244,105**	**238,715**	215,903	(211,146)

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields. The lower the capitalisation rate, the higher the fair value. The lower the discount rate, the higher the fair value.

5 Income tax expense

	2019 **$**	2018 $
Current tax	**140,763**	167,541
Deferred tax	**33,754**	17,019
Total	**174,517**	184,560

The deferred tax asset relates to temporary differences arising from doubtful debts and fair value loss on derivatives.

	2019 **$**	2018 $
Profit before income tax	**2,604,425**	1,017,134
Tax calculated at domestic tax rate (21%, made up of 28% from 1 April 2018 to 30 June 2018 and 18.10% from 1 July 2018 to 31 March 2019) (2018: 28%)	**491,384**	284,798
Tax effect of:		
- Income not subject to tax:		
• Fair value adjustment of investment property	**(334,850)**	(100,492)
• Non-deductible expenses	**-**	254
• Movement in deferred tax due to change in applicable tax rate	**17,983**	-
	174,517	184,560

The Company elected to become a portfolio investment entitiy, effective 1 July 2018. This resulted in a change in the tax rate applicable to the Company from 28%, being the New Zealand Corporate tax rate, to 18.10%, being an average rate based on the prescribed investor rates notified by the investors.

6 Expenses

Audit fee of $21,450 (GST exclusive) (2018: $20,565) is included in operating and administration costs.

7 Trade and other receivables

	2019 $	2018 $
Trade debtors	**6,279**	16,032
Provision for doubtful debts	**-**	(5,281)
Other receivable	**614**	-
Prepaid insurance	**32,098**	14,487
	38,991	25,238

The estimated fair values of receivables approximate their carrying amounts.

8 Share capital

	Number of shares	**Offer shares**	**Subordinated shares**	**Total shares (excl transaction costs)**
As at 31 March 2019 and 2018	5,750,000	4,625,000	1,125,000	5,750,000

The total authorised number of ordinary shares is 5,750,000 with a par value of $1 per share. All issued shares are fully paid. Share issue costs were $250,000 and have been deducted from share capital.

The Subordinated shares are ordinary shares of the Company and rank equally with the Offer shares other than in the event of a liquidation of the Company, in which case they will rank behind the Offer shares for payment of their issue price. That is, the Offer shares will rank in priority to the Subordinated shares for payment of their issue price of $1.00 each on the liquidation of the Company.

If the issue price of the Offer shares and the Subordinated shares is paid in full, the surplus funds would be distributed amongst the holders of the Offer shares and the Subordinated shares in proportion to their respective shareholdings, with the Offer shares and the Subordinated shares ranking equally with each other in respect of such distribution.

The Subordinated shares may only be sold, transferred or otherwise disposed of with the prior written approval of the independent directors of the Board or with approval by ordinary resolution of the holders of the Offer shares (unless a partial or full offer is made by a third party under the Takeovers Code for shares in the Company).

9 Interest bearing loans and borrowings

The Company has entered into a loan of $5,100,000 with ANZ expiring at 31 January 2019. An extension to this loan was negotiated during the year. The expiry date of the loan is 31 December 2020. There is also a $100,000 overdraft facility that has not been drawn on. The loan is on an interest-only basis. The approximate fair value of this borrowing is $5,100,000 (2018: same as 2019).

The loan is secured by a first ranking charge over the Property and a first ranking general security agreement over the Company (2018: same as 2019).

The Company has given the following key undertakings under the loan facility provided by ANZ:

- If at any time ANZ determines that the amount of the Bank Facility exceeds 50% of the value of its security, it may require the Company to reduce the loan amount, or provide such additional security acceptable to ANZ, to ensure that this ratio is no longer exceeded;
- net rentals from the Property must not fall below 2.00 times the amount of annual interest payable under the bank facility;
- the Property must be insured in accordance with good commercial practice including 24 months of business interruption insurance; and
- an updated valuation of the Property must be provided to ANZ every two years.

(2018: same as 2019).

9 Interest bearing loans and borrowings (continued)

The timelines associated with some other reporting requirements have not been met in 2018 and 2019. ANZ (as appropriate) has waived the timeline requirement for the reporting period.

10 Trade and other payables

	2019 $	2018 $
Financial liabilities		
Trade payables	**34,263**	33,628
Audit accrual	**19,049**	14,375
Interest accrual	**23,223**	21,870
Other accruals	**2,229**	3,242
Other payables	**18,831**	-
	97,595	73,115
Non-financial liabilities		
Income received in advance	**-**	9,410
GST	**1,096**	2,181
	98,691	84,706

The estimated fair values of the above financial liabilities are the discounted amounts of the estimated future cash flows expected to be paid and approximate their carrying amounts.

11 Finance income and expenses

Interest expense is charged at an effective interest rate of 5.59% p.a. on ANZ borrowings of $2,750,000 and 3.94% p.a. on ANZ borrowings of $2,350,000 (2018: 5.41% on borrowings of $5,100,000).

12 Contractual lease revenue

Operating leases relate to the investment property owned by the Company with lease terms of 12 months, with no options to extend.

The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2019 $	2018 $
No later than 1 year	**1,276,968**	1,122,659
Total	**1,276,968**	1,122,659

13 Dividends per share

Total dividends paid out in 2019 were $422,800 (or $0.0735 per share) (2018: $393,013 or $0.0683 per share).

14 Contingencies and commitments

Under the original sale and purchase agreement, in the event that the investment property is sold, the Company would have to pay the original vendor from whom the Company purchased the investment property the first (up to) $500,000 of any sale proceeds received by the Company over and above $10,500,000.

15 Related party transactions

Ian Cassels, a non-remunerated director of the Company and key management personnel, is also a shareholder and director of the entities listed in the table below outlining related party transactions during the year. The table also shows the type of transaction together with the transaction value and balance at year end:

	Transaction		**Year-end**	
Name of related party and nature	**2019 $**	2018 $	**2019 $**	2018 $
The Wellington Company Asset Management Limited				
• Building and emergency lighting inspections	**3,260**	3,105	**-**	-
• Facilities management fee to The Wellington Company Asset Management Limited.	**15,000**	14,131	**(3,975)**	(14,131)
Ed Lee				
• Directors Fees	**4,000**	2,000	**(330)**	(660)

The Wellington Company Asset Management Limited has sub-contracted the property, leasing and tenancy management obligations under the Management Agreement to Te Aro Tenancies Limited. Te Aro Tenancies is owned and operated by Alex Cassels, the son of Ian Cassels. The following transactions took place with Te Aro Tenancies during the year:

		Transaction		**Year-end**	
Name of related party	**Arrangement**	**2019 $**	2018 $	**2019 $**	2018 $
Te Aro Tenancies Limited	Buildings and repairs paid to Te Aro Tenancies Limited*	**31,108**	44,633	**(230)**	(3,562)
Te Aro Tenancies Limited	Cleaning paid to Te Aro Tenancies Limited	**24,594**	31,380	**(2,276)**	(2,276)
Te Aro Tenancies Limited	Management fee paid to Te Aro Tenancies Limited	**34,832**	34,105	**(3,568)**	(2,842)
Te Aro Tenancies Limited	Leasing management fee paid to Te Aro Tenancies Limited	**69,663**	75,094	**(7,136)**	(5,684)
TWC Quantum Dixon Limited	Repairs and maintenance fees charged to TWC Quantum Dixon Limited	**2,475**	-	**2,475**	-

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

16 Events after the date of the statement of financial position

The Company declared a net dividend on 12 April 2019 of $109,214.

There were no other material events after the date of the statement of financial position that have a bearing on the understanding of these financial statements.

17 Reconciliation of net profit with net cash flow from operating activities

	2019 **$**	2018 $
Net profit	**2,429,908**	832,574
Add back:		
Deferred tax	**33,754**	17,015
Fair value gains on investment property	**(1,850,000)**	(358,901)
Change in fair value of financial instruments	**(87,214)**	(58,477)
Movement in working capital items:		
Increase in trade and other receivables	**(13,753)**	(3,219)
Increase/(decrease) in trade and other payables	**13,985**	(29,229)
(Decrease)/increase in current income tax liabilities	**(540)**	41,492
Net cash inflow from operating activities	**526,140**	441,255

18 Derivative financial instruments

The Company does not apply hedge accounting in accordance to NZ IFRS 9. Nevertheless, interest rate swap contracts are part of economic hedge relationships. Interest rate swaps are used to fix the interest payments of variable debt instruments.

The Company entered into an interest rate swap contract on 7 April 2014, effective from 1 December 2017, for a notional principal amount of $2,750,000 and a maturity date of 2 December 2019. At 31 March 2019 the fair value loss on interest rate swaps was $79,360 (2018: $166,574)