

TWC Quantum Dixon Limited
Financial statements
for the period ended 31 March 2017

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Independent Auditor's Report

To the Shareholders of TWC Quantum Dixon Limited

Opinion

We have audited the financial statements of TWC Quantum Dixon Limited (the 'Company'), which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 5 to 25, present fairly, in all material respects, the financial position of the Company as at 31 March 2017, and its financial performance and cash flows for the period 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.

Other information

The director is 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.

Director's responsibilities for the financial statements

The director is 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 director determines 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 director is 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 director either intends 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-6>

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
28 July 2017

Directors' report

We achieved a profit of \$484,067 for the 3.5 months ending 31 March 2017. This is a profit improvement of \$261,330 compared to the TWC Quantum Dixon offer document. The result included an increase in the value of 13-21 Dixon St of \$300,000 compared to the fair value of the property of \$22 million at acquisition date (the Offer Document also incorporates an equity contribution component of \$750,000). The property is valued at \$22.3 million at year end. No dividends were paid during the year but a final dividend of \$286,281 was paid in April 2017 representing a gross return of 9.25%.

The building performed well in the Kaikoura earthquake in November 2016 requiring minimal spending to rectify some cosmetic damage. Insurance costs have increased by nearly 37% to \$89k as insurers revise risk pricing for Wellington based assets.

At the upcoming Annual General Meeting shareholders will consider the nomination of Edward Lee as a Director of the company. If appointed, Ed will strengthen the skill set of the Board and enhance the linkage to shareholders through Ed's employment at Chris Lee and Partners.

The trading outlook for the coming year remains positive with high occupancy levels and strong demand. Victoria University is a leading catchment for tenants and the university's student roll of 21,500 grew by 1.8% last year. We anticipate a slight decrease in profitability due to higher insurance costs. The Board will monitor costs closely and anticipates maintaining the current dividend level of 9.25%.

For and on behalf of the Board.



Ian Cassels
Chairperson

28 July 2017

TWC Quantum Dixon Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 March 2017

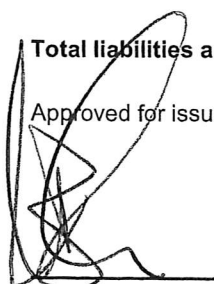
	Notes	2017 \$'
Rental income		<u>540,258</u>
Total revenue		<u>540,258</u>
 Fair value gain on investment property	 4	 300,000
 Property operating expenses		 (93,835)
Property maintenance costs		(24,593)
Operating and administration costs		<u>(30,317)</u>
Total expenses	6	(148,745)
 Finance cost	 10	 <u>(135,864)</u>
Profit before income tax		<u>555,649</u>
Income tax expense	5	<u>(71,582)</u>
Profit from continuing operations		<u>484,067</u>
 Profit after tax is attributable to:		
Equity holders of TWC Quantum Dixon Limited		<u>484,067</u>
Total profit or loss and other comprehensive income for the period is attributable to:		
Equity holders of TWC Quantum Dixon Limited		<u>484,067</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the notes on pages 9 to 25.

TWC Quantum Dixon Limited
Statement of financial position
As at 31 March 2017

	Notes	2017 \$'
ASSETS		
Current assets		
Cash and cash equivalents		327,166
Trade and other receivables	7	<u>132,679</u>
Total current assets		<u>459,845</u>
Non-current assets		
Investment properties	4	<u>22,300,000</u>
Total non-current assets		<u>22,300,000</u>
Total assets		<u>22,759,845</u>
LIABILITIES		
Current liabilities		
Trade and other payables	9	137,647
Current income tax liabilities		71,582
Deferred income		<u>7,227</u>
Total current liabilities		<u>216,456</u>
Non-current liabilities		
Interest bearing loans and borrowings	12	<u>10,625,000</u>
Total non-current liabilities		<u>10,625,000</u>
Total liabilities		<u>10,841,456</u>
Net assets		<u>11,918,389</u>
EQUITY		
Share capital	8	10,684,322
Contributed equity		750,000
Retained earnings		<u>484,067</u>
		<u>11,918,389</u>
Total equity		<u>11,918,389</u>
Total liabilities and equity		<u>22,759,845</u>

Approved for issue and signed on behalf of the Board of Directors of TWC Quantum Dixon Limited on 28 July 2017.



Ian Cassels
Director

28 July 2017

These financial statements should be read in conjunction with the notes on pages 9 to 25.

TWC Quantum Dixon Limited
Statement of changes in equity
For the period ended 31 March 2017

		Share Capital	Share Capital	Share issue	Contributed	Retained	Total
		Capital	(Subordinated	costs	equity	earnings	
		\$'	shares)	\$'	\$'	\$'	\$'
Balance as at 1 April 2016						-	
Profit for the period		-	-	-	-	484,067	484,067
Total comprehensive income		-	-	-	-	484,067	484,067
Issue of ordinary shares		9,325,000	1,750,000	(390,678)	-	-	10,684,322
Equity contribution from Vendor	13	-	-	-	750,000	-	750,000
Total contributions by and distributions to owners		9,325,000	1,750,000	(390,678)	750,000	-	11,434,322
Balance as at 31 March 2017		9,325,000	1,750,000	(390,678)	750,000	484,067	11,918,389

The above statement of changes in equity should be read in conjunction with the notes on pages 9 to 25.

TWC Quantum Dixon Limited
Statement of cash flows
For the period ended 31 March 2017

	Notes	2017 \$'
Cash flows from operating activities		
Receipts from customers		414,806
Goods and services tax net refunded		20,876
<i>Total cash inflow from operating activities</i>		435,682
Payments to suppliers and employees		(48,717)
Interest paid		<u>(119,121)</u>
Net cash inflow received from operating activities	16	<u>267,844</u>
 Cash flows from investing activities		
Payments for investments		<u>(21,250,000)</u>
Net cash outflow from investing activities		<u>(21,250,000)</u>
 Cash flows from financing activities		
Net proceeds from issues of shares and other equity securities		10,684,322
Proceeds from borrowings		<u>10,625,000</u>
Net cash inflow received from financing activities		<u>21,309,322</u>
 Net increase received in cash and cash equivalents		327,166
Opening cash and cash equivalents		<u>-</u>
Closing cash and cash equivalents		<u>327,166</u>

The above statement of cash flow should be read in conjunction with the notes on pages 9 to 25.

1 Summary of significant accounting policies

These financial statements are for TWC Quantum Dixon Limited (the 'Company') as a separate legal entity. The Company was incorporated on 22 September 2016. The Company owns a residential investment property in 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, Te Aro, Wellington.

These financial statements have been approved for issue by the Board of Directors on 28 July 2017. The financial statements cannot be amended after issue.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(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 requirements of the Financial Reporting Act 2013, Companies Act 1993 and the Financial Markets Conduct Act 2013. The Company is a tier 1 reporting entity.

The company incorporated on 22 September 2016. Accordingly, these are the Company's first financial statements for the period ended 31 March 2017.

Preparation of the Financial Statements

The financial statements have been prepared on a going concern basis, applying a historical cost convention, except for the revaluation of investment property and financial instruments which have been measured at fair value.

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

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

There are no new or amended standards that were adopted during the period that have a material impact on the Company.

(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 31 March 2017, 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 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. It is not expected to have a material impact on the Company's financial statements, but a full assessment has not been completed.

Effective date: 1 January 2018, with early adoption allowed.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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 which reflect their expected consideration for those goods or services. The adoption of this standard is not expected to have a significant impact on this Company, but a full assessment has not been completed.

Effective date: 1 January 2018, with early adoption allowed

There are no other IFRSs or 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.

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(j) for the recognition of rental income.

(d) Financial instruments

(i) Financial assets

1 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

Financial assets are classified as financial assets at fair value through profit or loss, or loans and receivables, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset expire or the Company transfers substantially all risks and rewards of ownership.

Financial assets recognised in the statement of financial position as trade and other receivables (excluding prepayments) are classified as loans and receivables. They are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Cash and cash equivalents are also classified as loans and receivables. They are subsequently measured at amortised cost. Restricted deposits are classified as loans and receivables.

The Company assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence (such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss and other comprehensive income.

(ii) Financial liabilities

Liabilities within the scope of NZ IAS 39 are classified as financial liabilities at amortised cost.

All financial liabilities of the Company are measured at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

(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.

1 Summary of significant accounting policies (continued)

(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) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as finance cost over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the date of the statement of financial position.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

1 Summary of significant accounting policies (continued)

(l) Interest income and expense (continued)

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.

(m) 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).

(n) 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 45% 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 exclusive 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 \$10,625,000 from ANZ maturing on 20 December 2019.

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

	2017 \$'
Borrowings subject to interest rate risk	10,625,000

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 2017	Carrying value	+0.5%	-0.5%
<i>Financial liabilities</i>			
Loans and borrowings	10,625,000	53,125	(53,125)

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:

	2017 \$'
Cash and cash equivalents	327,166

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 2017:			
<i>Financial assets</i>			
Cash and cash equivalents	327,166	1,636	(1,636)

(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 loans and receivables. 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 except those that are provided for.

(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 financial liabilities and has reserves on bank deposit to cover potential 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 2017

	Less than 1 year \$'	1 - 5 years \$'	Total \$'
Financial assets			
Cash	327,166	-	327,166
Receivables	132,679	-	132,679
Term deposit	-	-	-
Total financial assets	<u>459,845</u>	<u>-</u>	<u>459,845</u>
Financial liabilities			
Payables	116,584	-	116,584
Borrowings	-	10,625,000	10,625,000
Interest payable	-	-	-
Total financial liabilities	<u>116,584</u>	<u>10,625,000</u>	<u>10,741,584</u>

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

Assets and liabilities not carried at fair value but for which fair value is disclosed

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, due from other financial institutions, other financial assets, due to other financial institutions and other financial liabilities. As at 31 March 2017 the approximate fair value of borrowings held by the entity is \$10,625,000.

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.

(a) Investment property

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

4 Investment property

	2017 \$'
At fair value	
Opening balance	-
Acquisitions	22,000,000
Net gain (loss) from fair value adjustment	<u>300,000</u>
Closing balance at 31 March	<u>22,300,000</u>
	2017 \$'
Fair value hierarchy	Level 3
Fair value at acquisition	22,000,000
Net gain from fair value adjustments	<u>300,000</u>
Fair value at 31 March	<u>22,300,000</u>

Valuation process

The Company's investment property was revalued at 31 March 2017 by CBRE, 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,
- holds discussions with the independent valuer.

Information about fair value measures using significant unobservable inputs (Level3):

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

	2017 %
Discount rate	8.75
Rental growth rates	1.90
Terminal capitalisation rate	8.25
Capitalisation rate	7.50
Sensitivity analysis	0.25

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.

The valuation assumes 100% occupancy of the commercial tenancies during the respective leases with a 3 month vacancy or lease-up period at the conclusion of each lease. It is assumed that each lease renewal is for 3 years.

Valuation techniques underlying managements estimation of fair value

The fair value of the investment property at 31 March 2017 of \$22,300,000 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;

4 Investment property (continued)

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, but not any earthquake compliance costs;

Capitalisation rates - based on actual location, size and quality of the property and taking into account market data at the valuation date;

Terminal value - taking into account assumptions regarding capital expenditure, occupancy rates and market rents;

5 Income tax

	2017 \$'
Current tax	71,582
Deferred tax	-
Total	<u>71,582</u>
Profit before income tax	<u>555,649</u>
Tax calculated at domestic tax rate (28%)	155,582
Tax effect on:	
- Income not subject to tax:	
• Fair value adjustment of investment property	<u>(84,000)</u>
	<u>71,582</u>
Income tax expense	<u>71,582</u>

(a) Imputation credits

Imputation credits available for subsequent reporting periods based on a tax rate of 28%

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- a) Imputation credits that will arise from the payment of the amount of the provision for income tax;
- b) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- c) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

6 Expenses

Audit fee of \$19,000 plus GST is included in operating and administration costs.

7 Trade and other receivables

	2017 \$'
Trade receivables	31,867
Prepaid insurance	6,921
Other receivables	<u>93,891</u>
	<u>132,679</u>

The estimated fair values of receivables approximate their carrying amounts.

8 Share capital

	2017 Shares	2017 \$'
(a) Share capital		
Ordinary shares		
As at 31 March 2017	11,075,000	11,075,000
Costs of issue	<u>-</u>	<u>(390,678)</u>
	<u>11,075,000</u>	<u>10,684,322</u>

The total authorised number of ordinary shares is 11,075,000 with a par value of \$1 per share. All issued shares are fully paid.

The subordinated shares are ordinary shares of the issuer and rank equally with the offer shares other than in the event of a liquidation of the issuer, in which case they will rank behind the offer shares for payment of their issue price.

	Number of shares	Ordinary shares \$'	Subordinated shares \$'	Total shares (excluding transaction costs) \$'
As at 31 March	<u>11,075,000</u>	<u>9,325,000</u>	<u>1,750,000</u>	<u>11,075,000</u>

9 Trade and other payables

	2017 \$'
<i>Financial liabilities</i>	
Trade payables	39,028
Other accruals and provisions	<u>77,556</u>
	116,584
<i>Non-financial liabilities</i>	
GST payable	<u>21,063</u>
Total trade and other payables	<u>137,647</u>

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.

10 Finance income and expenses

Interest expense is charged at an effective interest rate of 4.57% p.a. on ANZ borrowings of \$10,625,000.

11 Contractual lease revenue

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

	2017 \$'
No later than 1 year	1,584,755
Later than 1 year and no later than 5 years	5,897,542
Later than 5 years	<u>8,594,515</u>
Total	<u>16,076,812</u>

12 Non-current liabilities - Interest bearing liabilities

	2017 \$'
Bank loans	<u>10,625,000</u>
Total secured non-current interest bearing borrowings	<u>10,625,000</u>

(a) Bank borrowings

The Company has entered into a loan of \$10,625,000 with ANZ for three years on 20 December 2016 with an average floating rate for the 2017 year of 4.36%. The loan is an interest-only basis loan. The approximate fair value of this loan is \$10,625,000. The loan is secured with first mortgage ranking charge over the property and at a first ranking general security agreement over the company.

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

- Net rental income for the next 12 months will not be less than 2 times of interest expense and;
- The Loan to Value Ratio will not exceed 50%.

The Company has complied with all financial reporting covenants throughout the period.

13 Contingencies and commitments

As at 31 March 2017 the Company had no contingent liabilities or assets, except for the below:

Equity contribution by Vendor

If the property is sold, any outstanding bank borrowing and other liabilities would be paid first. In addition, the former owner of the property (or its nominee) will be paid \$750,000 from the sale proceeds over and above the initial \$21,250,000 purchase price of the Property. This payment arises due to the Vendor selling the property for \$21,250,000 when the property had a fair value of \$22,000,000 and the Company agreeing to compensate the Vendor for this amount should the Company ever sell the property. This \$750,000 is treated as an equity contribution in the Statement of Equity. The net proceeds from the sale will be distributed to the Shareholders on a pro-rata basis, subject to the subordination term attached to the subordinated shares.

14 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:

Transactions with related parties

TWC Quatum Dixon Limited has long term leases with Te Aro Tenancies Limited and The Set Up Accommodation Limited, which are both owned by Alex Cassels, son of Ian Cassels.

Name of related party	Arrangement	Transaction	Year-end
		2017 \$'	2017 \$'
Eastwards Trust	Share offer costs incurred	362,023	87,977
	Rates payment made on behalf of TWC Quantum Dixon Limited	2,311	(2,311)
	Costs associated with November 2016 earthquake	5,913	5,913
	Sale transaction - Dixon Street Property	21,250,000	-
Ter Aro Tenancies Limited	On-charge of buildings and repairs	40,560	(13,865)
	Residential income	248,952	12,085
The Set Up Accommodation Limited	Short term residential	139,456	5,982

15 Events after the date of the statement of financial position

The company declared a dividend on 20 April 2017 of \$286,281.

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.

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

	2017 \$'
Net profit	484,067
Add back:	
Fair value gains on investment property	(300,000)
Movement in working capital items:	
Decrease (increase) in trade and other receivables	(132,679)
Increase (decrease) in deferred income	7,227
Increase (decrease) in trade and other payables	137,647
Increase (decrease) in tax payable	71,582
Net cash flow received from operating activities	267,844

17 Actual versus prospective financial statements

The following table shows actual performance against forecast performance as detailed in offer documents. Actual profitability is better than forecast principally due to the value of the property being \$0.3m higher than anticipated. This positive movement has contributed to profitability exceeding forecast by \$0.26m and a stronger financial position compared to forecasts in the offer document. Other variance items are:

- Stronger shareholder equity position from enhanced profitability, lower offer float costs and dividend declared post 31 March 2017 (the offer document incorrectly assumed a dividend would be declared prior to 31 March 2017);
- Rental income is \$17k lower than forecast due to a 3.35 month period from commencement to financial year end versus the offer document assuming a 3.5 month duration; and
- Slightly higher operating costs of \$32k reflecting some one-off maintenance costs to meet tenancies commencing at the start of the calendar year. Note there were no management fees paid during the period given that costs were slightly higher than anticipated.

Statement of profit or loss and other comprehensive income

	Actual Period Ending 31 March 2017 (3.5 months) \$'	Prospectus Period Ending 31 March 2017 (3.5 months) \$'
Rental income	<u>540,258</u>	557,730
Total revenue	<u>540,258</u>	557,730
Fair value gain on investment property	<u>300,000</u>	-
Total income	<u>840,258</u>	557,730
Property operating expenses	(93,835)	(89,834)
Property maintenance costs	(24,593)	-
Operating and administration costs	(30,317)	(10,792)
Management fees	-	(16,042)
Total expenses	<u>(148,745)</u>	(116,667)
Finance cost	<u>(135,864)</u>	(131,706)
Profit before income tax	<u>555,649</u>	309,357
Income tax expense	(71,582)	(86,620)
Profit from continuing operations	<u>484,067</u>	222,737
Profit after tax is attributable to:		
Equity holders of TWC Quantum Dixon Limited	<u>484,067</u>	222,737
Total profit or loss and other comprehensive income for the period is attributable to:		
Equity holders of TWC Quantum Dixon Limited	<u>484,067</u>	222,737

17 Actual versus prospective financial statements (continued)

Statement of financial position

	Actual As at 31 March 2017 \$'	Prospectus As at 31 March 2017 \$'
ASSETS		
Current assets		
Cash and cash equivalents	327,166	364,094
Trade and other receivables	132,679	-
Total current assets	<u>459,845</u>	<u>364,094</u>
Non-current assets		
Investment properties	22,300,000	22,000,000
Total non-current assets	<u>22,300,000</u>	<u>22,000,000</u>
Total assets	<u>22,759,845</u>	<u>22,364,094</u>
LIABILITIES		
Current liabilities		
Trade and other payables	137,647	35,833
Current income tax liabilities	71,582	105,523
Deferred income	7,227	-
Distribution payable	-	215,747
Total current liabilities	<u>216,456</u>	<u>357,103</u>
Non-current liabilities		
Interest bearing loans and borrowings	10,625,000	10,625,000
Total non-current liabilities	<u>10,625,000</u>	<u>10,625,000</u>
Total liabilities	<u>10,841,456</u>	<u>10,982,103</u>
EQUITY		
Share capital	10,684,322	10,625,000
Contributed equity	750,000	750,000
Retained earnings	484,067	6,991
	<u>11,918,389</u>	<u>11,381,991</u>
Total equity	<u>11,918,389</u>	<u>11,381,991</u>
Total liabilities and equity	<u>22,759,845</u>	<u>22,364,094</u>

17 Actual versus prospective financial statements (continued)

Actual statement of changes in equity	Share Capital \$'	Share Capital (Subordinated shares) \$'	Share issue costs \$'	Contributed equity \$'	Retained earnings \$'	Total \$'
Balance as at 1 April 2016					-	
Profit for the period	-	-	-	-	484,067	484,067
Total comprehensive income	-	-	-	-	484,067	484,067
Issue of ordinary shares	9,325,000	1,750,000	(390,678)	-	-	10,684,322
Equity contribution from Vendor	-	-	-	750,000	-	750,000
Total contributions by and distributions to owners	9,325,000	1,750,000	(390,678)	750,000	-	11,434,322
Actual balance as at 31 March 2017	9,325,000	1,750,000	(390,678)	750,000	484,067	11,918,389
Prospectus statement of changes in equity	Share Capital \$'	Share Capital (Subordinated shares) \$'	Share issue costs \$'	Contributed equity \$'	Retained earnings \$'	Total \$'
Balance as at 1 April 2016					-	
Profit for the period	-	-	-	-	222,737	222,737
Total comprehensive income	-	-	-	-	222,737	222,737
Issue of ordinary shares	9,325,000	1,750,000	(450,000)	-	-	10,625,000
Equity contribution from Vendor	-	-	-	750,000	-	750,000
Distributions	-	-	-	-	(215,746)	(215,746)
Total contributions by and distributions to owners	9,325,000	1,750,000	(450,000)	750,000	(215,746)	11,159,254
Prospectus balance as at 31 March 2017	9,325,000	1,750,000	(450,000)	750,000	6,991	11,381,991

17 Actual versus prospective financial statements (continued)

Statement of cash flows

	Actual Period ending 31 March 2017 (3.5 months) \$'	Prospectus Period ending 31 March 2017 (3.5 months) \$'
Cash flows from operating activities		
Receipts from customers	414,806	599,560
Goods and services tax net refunded	20,876	-
<i>Total cash inflow from operating activities</i>	435,682	599,560
Payments to suppliers and employees	(48,717)	(89,582)
Interest paid	(119,121)	(131,706)
Payment of tax	-	(14,177)
Net cash inflow received from operating activities	<u>267,844</u>	<u>364,094</u>
Cash flows from investing activities		
Payments for investments	<u>(21,250,000)</u>	<u>(21,250,000)</u>
Net cash outflow from investing activities	<u>(21,250,000)</u>	<u>(21,250,000)</u>
Cash flows from financing activities		
Net proceeds from issues of shares and other equity securities	10,684,322	10,625,000
Proceeds from borrowings	<u>10,625,000</u>	<u>10,625,000</u>
Net cash inflow received from financing activities	<u>21,309,322</u>	<u>21,250,000</u>
Net increase received in cash and cash equivalents	327,166	364,094
Opening cash and cash equivalents	-	-
Closing cash and cash equivalents	<u>327,166</u>	<u>364,094</u>