

Financial Statements



TOWER MortgagePlus Fund

For the year ended 31 March 2011

Contents

Statement of Comprehensive Income	3
Statement of Changes in Unitholders' Funds	4
Statement of Financial Position	5
Statement of Cash Flows	6
Summary of Accounting Policies	7
Notes to the Financial Statements	13
Auditors' Report	24

Statement of Comprehensive Income

For the year ended 31 March 2011

	Note	2011 \$	2010 \$
Investment Income			
Interest Income Earned on Performing Loans		1,818,091	5,926,618
Interest Income Earned on Impaired Loans		1,818,634	2,556,143
Interest Income Earned on Cash at Bank		211,351	464,555
Total Investment Income		3,848,076	8,947,316
Expenses			
Fees Paid to Auditors	3	41,550	46,677
Bad Debts Written Off	2	2,140,740	5,771,141
Movement in Provision for Loan Losses	2	(418,008)	(3,990,945)
General Expenses	4	153,211	381,204
Management Fees	4	426,088	1,003,131
Trustee Fees	4	25,955	65,815
Consulting Fees		-	13,950
Legal Fees		8,737	10,280
Total Expenses		2,378,273	3,301,253
Net Profit		1,469,803	5,646,063
Other Comprehensive Income		-	-
Total Comprehensive Income		1,469,803	5,646,063

The Summary of Accounting Policies and Notes form an integral part of these Financial Statements.

Statement of Financial Position

For the year ended 31 March 2011

		2011	2010
	Note	\$	\$
Assets			
Cash and Cash Equivalents		9,640,935	11,768,114
Receivable from Related Party	4	-	215,000
Other Receivables		696	158
Mortgage Loans	1	23,945,494	48,174,170
Total Assets		33,587,125	60,157,442
Liabilities			
Payable to Related Parties	4	42,600	54,049
Other Payables and Accrued Expenses		31,041	64,501
Total Liabilities		73,641	118,550
NET ASSETS		33,513,484	60,038,892
<i>Represented by:</i>			
Unit Holders' Funds		33,513,484	60,038,892

For and on behalf of Trustees Executors Limited, on 30 August 2011.



Director



Director

The Summary of Accounting Policies and Notes form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 31 March 2011

	Note	2011 \$	2010 \$
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		4,240,945	10,688,728
Repayment of Mortgages		22,327,536	56,314,998
Payment by Trustees Executors Holdings Limited	4	-	12,000,000
Cash was applied to:			
Operating Expenses		(700,450)	(1,652,296)
Net Cash Inflows from Operating Activities	5	25,868,031	77,351,430
Cash Flows from Financing Activities			
Cash was applied to:			
Distributions Paid		(1,651,737)	(6,775,881)
Capital Repayments to Unit Holders		(26,343,473)	(71,872,988)
Net Cash Outflows from Financing Activities		(27,995,210)	(78,648,869)
Net Decrease in Cash and Cash Equivalents		(2,127,179)	(1,297,439)
Cash and Cash Equivalents at the beginning of the year		11,768,114	13,065,553
Cash and Cash Equivalents at the end of the year		9,640,935	11,768,114

The Summary of Accounting Policies and Notes form an integral part of these Financial Statements.

Summary of Accounting Policies

For the year ended 31 March 2011

1 Reporting entity and statutory base

The financial statements are for the TOWER MortgagePlus Fund (the "Fund"), which is a Group Investment Fund, and cover the twelve month period to 31 March 2011.

Trustees Executors Limited is the Trustee of the Fund (the "Trustee"). TOWER Managed Funds Investment Limited is the Administration and Investment Manager of the Fund (the "Manager").

The Fund is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of the Fund have been prepared by the Manager on behalf of the Trustee in accordance with the Financial Reporting Act 1993, the Trustee Companies Act 1967 and with the provisions of the Trust Deed. The Trustee has the power to amend and reissue the financial statements.

The Fund is domiciled in New Zealand and established under the Trustee Companies Act 1967. The address of its registered office is Level 11, TOWER Centre, 22 Fanshawe Street, Auckland 1010.

The Fund commenced operations on 29 June 1990, and until 4 April 2008 was primarily involved in raising funds from Unit Holders and investing in a portfolio of first mortgages, cash and other fixed interest securities. On 4 April 2008 the Trustee of the Fund resolved to wind up and realise the assets of the Fund. As a result, all unit holdings were frozen as at 4 April 2008. Since then investors have been and continue to be paid out capital on a pro-rata basis as the Fund is wound up and mortgages are repaid, refinanced or sold.

The Trustee has made it clear that there will be an orderly unwinding of the Fund's assets and that no 'fire sale' approach will be taken in liquidating the Fund. However, further deterioration in the property market will impact the Fund's ability to quickly dispose of its mortgage book. A portion of the book may be realised at a value less than its carrying value.

Pro-rata payments of capital (effected by a pro-rata cancellation of units at \$1 per unit) have been made as follows:- 16 May 2008 \$23,975,213, 15 August 2008 \$47,907,523, 14 November 2008 \$23,964,017, 6 March 2009 \$11,973,014, 6 August 2009 \$23,954,116, 17 December 2009 \$31,145,371, 4 March 2010 \$16,773,502, 3 June 2010 \$14,373,085, 21 October 2010 \$11,970,388 and 1 July 2011 \$9,583,633.

Capital will continue to be repaid to the Fund's investors as the mortgages are repaid, refinanced or sold. The repayment of capital paid on 01 July 2011 brought the total capital repaid to investors to 90 cents per unit.

The current economic conditions and the nature of the Fund's assets make it impossible to predict the timing of future capital repayments.

2 Summary of significant accounting policies

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

As noted above, on 4 April 2008 the Trustee of the Fund resolved to wind up and realise the assets of the Fund, resulting in all unit holdings being frozen as at that date. Accordingly, the going concern assumption is no longer appropriate. These accounts have been prepared on a realisation basis. Performing loans are carried at amortised cost which approximates realisation value. Non-performing loans are held at realisation value after consideration of impairment losses and costs of debt recovery as detailed in the loan loss provisioning policy in section 4 below.

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"), as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

(b) New standards and amendments to existing standards

No new standards or amendments to existing standards which are relevant to the Fund have been adopted in the period from 1 April 2010.

The following new standards and amendments to standards which are relevant to the Fund are not yet effective and have not been applied in preparing the financial statements:

NZ IFRS 7: Financial Instruments: Disclosures Appendix E – The amendment applies to annual periods beginning on or after 1 April 2011 but may be adopted early. The change to the definition of a 'financial institution' in the amended standard means that collective investment schemes no longer meet the standard's definition of a 'financial institution', and hence need not make the credit risk and maturity profile disclosures specified in Appendix E. The adoption of this standard has no effect on the Fund's profit.

NZ IFRS 9: Financial Instruments - This replaces part of NZ IAS 39 and will be mandatory for the Fund's financial statements for the year beginning 1 April 2013. The standard establishes two primary measurement categories for financial assets being amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. Requirements for financial liabilities, which include new measurement guidance, were added to the standard in October 2010. The impact of this standard on the Fund's profit has not yet been assessed.

NZ IAS 24: Related Party Disclosures – The revised standard was approved in November 2009 and is applicable to the Fund in the 2012 financial year. The revisions to this standard simplify the definition of a related party and clarify its intended meaning. The adoption of this standard may result in additional or amended disclosures but will not have an effect on profit.

No other standards, amendments or interpretations that have been issued but are not yet effective are expected to have a material impact the Fund's financial statements.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars (\$), which is the Fund's functional currency. All financial information has been rounded to the nearest dollar.

(d) Financial instruments

(i) Classification

The Fund's financial assets are categorised as Loans and Receivables.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date).

Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Loans and Receivables

The Fund's Loans and Receivables are initially measured at fair value plus transaction costs. Subsequently Loans and Receivables are carried at their amortised cost using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts the estimated cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset.

All Loans and Receivables are reviewed at each balance date to determine whether there is objective evidence of impairment. Objective evidence of impairment exists when there has been a significant or prolonged decline in the estimated realisable value of an asset below its carrying amount. Where any such indication of impairment exists, the carrying value is reduced by the amount of the impairment loss, which is the difference between the asset's carrying amount and the estimated net realisable value, which is also recognised in the Statement of Comprehensive Income.

The estimated net realisable value of impaired mortgage loans is assessed by the Manager at each balance date based on one or a combination of the following in respect of the property/properties each individual impaired loan is secured on: offers received from prospective purchasers, valuations by registered valuers, market appraisals by real estate agents or, less frequently, using the capitalisation approach. The capitalisation approach is considered a "snap shot" view of a property's value, based upon current, or reasonably expected, rental income and an appropriate market yield for that particular property.

The Fund first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Bad debts are recognised in the Statement of Comprehensive Income when they arise.

(e) Other financial assets and liabilities

Other financial assets and liabilities, including cash and receivables (which are classified as loans and receivables) and payables (which are classified as liabilities at amortised cost), are carried at their amortised cost using the effective interest rate method. Their carrying value closely approximates their fair value. The effective interest rate is the rate that exactly discounts the estimated cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

Receivables may include amounts for interest and other income.

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) Unit Holders' Funds

The units qualify as "puttable instruments", the impact of which is the classification of Unit Holders' Funds as equity rather than a liability, as:

- they entitle the unit holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation or maturity
- unit holders have no priority over other claims to the assets of the Fund on liquidation
- all units have identical rights
- apart from the contractual obligation of the issuer to redeem the units for cash or another financial asset, the units do not include a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under potentially unfavourable conditions to the Fund, and
- the total expected cash flows attributable to the units over their life is based substantially on the profit or loss and changes in the value of the recognised and unrecognised net assets of the Fund over its life.

On 4 April 2008 the Trustee of the Fund resolved to wind up and realise the assets of the Fund. The impact of that announcement was that all unit holdings were frozen as at that date.

Capital repayments are being made to unit holders as the Fund's assets are being liquidated.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes demand deposits and other highly liquid investments readily convertible into cash and include on-call borrowings such as bank overdrafts used by the Fund as part of its day-to-day cash management.

(i) Investment income

Interest income and expenses for all debt instruments is recognised on an accruals basis in the Statement of Comprehensive Income using the effective interest method. Interest is accrued at the reporting date from the time interest was last received. Other income is accrued when the right to receive payment is established.

(j) Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(k) Distributions of income/Capital repayments to Unit Holders

In accordance with the Trust Deed, the Fund distributes its distributable income, and any other amounts determined by the Trustee, to unit holders. The distributions and capital repayments are recognised in the Statement of Changes in Unit Holders' Funds.

(l) Goods and Services Tax (GST)

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

(m) Taxation policy

No taxation is expected to be payable by the Fund, as all taxable income is planned to be distributed to investors. Taxable income distributed to investors within six months of balance date is liable for tax in the hands of the investor, unless the investor is exempt from tax. If any taxable income is not distributed to investors within the required timeframe, the Fund will be liable for tax on that portion of the taxable income.

(n) Asset quality

Impaired assets comprise the following categories of assets:

a) Non-accrual assets which consist of:

- all loans against which a specific provision has been raised,
- loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest, restructured loans where the interest rate charged is lower than the Fund's average cost of borrowing,
- loans not included above, that are maintained on a cash basis because of a significant deterioration in the financial performance or position of the borrower.

b) Restructured assets are those assets on which the original contractual terms have been modified on a concessional basis due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Fund's average cost of borrowings at the date of restructuring.

c) Other assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt.

Although not classified as impaired assets, assets that are in arrears for 90 or more consecutive days but are well secured are reported separately as 'past due assets'.

3 Capital management

The capital of the Fund is represented by Unit Holders' Funds.

With effect from 4 April 2008 the Fund is no longer accepting contributions or withdrawal requests. Prior to this date withdrawals by unit holders were subject to a 30 day notice period, and there were no specific restrictions on contributions.

The Manager will make pro-rata capital repayments to unit holders as and when there is sufficient money in the Fund's bank account, as mortgages are repaid, refinanced or sold.

4 Accounting estimates and judgements

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

Carrying value of Mortgage Assets

The Trustee has taken into account all information available to it up to the date of signing of the financial statements in determining the carrying value of the mortgage assets held by the Fund. Details of the assumptions used in determining a prudent level of loan loss provisioning is detailed in the Accounting Policies (refer to note 2 (d) (iii)). In the current uncertain economic environment it is difficult for the Trustee to determine valuations and loan loss provisioning with any certainty, thus there is a risk of further deterioration and losses as a result of falling property prices and/or exposure to interest rates. It is not practicable to estimate the financial effect of any such contingency.

In the prior 2010 year this was also the case.

Provision for Doubtful Debts

The doubtful debt provision is made up of two types of provisioning, specific and collective.

The specific provision is established to cover all identified doubtful debts, and is recognised when there is objective evidence over non-collectability of a receivable or, in the case of mortgage loans, of principal and interest in accordance with the loan agreement. Objective evidence over collectability of mortgage loans can be identified where loans are in default and are being actively managed through the issuance of Property Law Act notices and sale of the underlying property security with the cooperation of the borrower through a controlled sales process. Specific provisioning is also made for loans which are technically in default, expired or in arrears and where the Fund is not expecting full recovery.

The collective provision is calculated to cover loans for which it is likely that losses have been incurred but not yet identified and is based on the historical loss experience of the Fund. At 31 March 2011 there was no collective provision as the expected realisable value of each individual loan which was in default was assessed and written down by any impairment loss at that date.

The reduction in provisioning during the year ended 31 March 2011 represents the specific write off where there are either uncollectable shortfalls on the sale of a property or there is specific evidence that the full carrying value of the loan will not be recovered when the property is sold.

At 31 March 2011 the Fund carried a specific loan provision of \$100,000 and no collective provisioning. At 31 March 2010 the Fund carried specific and collective loan provisions of \$400,000 and \$118,008 respectively.

Notes to the Financial Statements

For the year ended 31 March 2011

NOTE 1: Mortgage Loans	Note	2011	2010
		\$	\$
Mortgages - Principal and Interest Outstanding		24,045,494	54,691,274
Payment by TEHL – Unapplied Balance	4	-	(5,999,096)
Collective Loan Provision		-	(118,008)
Specific Loan Provision		(100,000)	(400,000)
Total Mortgage Loans		23,945,494	48,174,170
Performing		5,318,351	27,549,316
Past Due not Impaired		1,168,837	4,493,127
Impaired		17,458,306	16,131,727
Total Mortgage Loans		23,945,494	48,174,170

NOTE 2: Loan Contingency Provision	2011	2010
	\$	\$
Collective Loan Provision		
Carrying amount at the beginning of year	118,008	375,277
Unused amounts reversed during the year	-	(257,269)
Additional provisions made during the year	-	-
Amounts used during the year	(118,008)	-
Carrying amount at the end of year	-	118,008
Specific Loan Provision (Individually impaired assets)		
Carrying amount at the beginning of year	400,000	4,133,676
Unused amounts reversed during the year	(100,000)	(897,371)
Additional provisions made during the year	-	2,934,836
Amounts used during the year	(200,000)	(5,771,141)
Carrying amount at the end of year	100,000	400,000

The primary cause of the recognition of impairment losses has been the deterioration of the New Zealand property market.

Two of the impaired loans, for which the borrowers are in liquidation, are secured on 5 apartments in the same property in the New Brighton suburb of Christchurch. During the financial year the Christchurch region experienced several major earthquakes and large aftershocks. The apartments suffered some damage as a result which has been assessed as cosmetic and minor in nature. The properties are habitable and are all tenanted at present.

NOTE 2: Loan Contingency Provision continued

Given the recent and ongoing earthquake activity in the Christchurch region it has been impossible to determine what price the properties are likely to achieve on the open property market and for this reason the total estimated net realisable value of the 5 apartments has been assessed as \$1,208,410 using the capitalisation approach, based on the annualised rental income of \$72,800 from the existing tenancies.

All of the properties upon which the Fund's mortgage loans are secured are fully insured and therefore the Fund's exposure to potential loss through earthquake damage on the aforementioned apartments in New Brighton is limited to the insurance excess of 2.50% with a minimum excess of \$2,500. The Body Corporate of the property has lodged a notice of loss with the property's insurers and continues to assess the degree of costs for work required to repair the damage to the apartments.

As at 31 March 2011 there was no collective provision as the expected realisable value of each individual loan which was in default was assessed and written down by any impairment loss at that date, thus no further provisioning was deemed necessary.

As at 18 February 2008, the Trustee's holding company, Trustees Executors Holdings Limited, agreed to make the Fund whole for any loss of value in the capital and interest (including arrears from 1 January 2008) of 16 loans that were in default (having at that time an aggregate principal loan amount outstanding of \$33 million), and 12 other performing loans (having at that time an aggregate principal loan amount outstanding of \$18 million). Refer to Note 4 for further information. No provisioning has been made for any of these loans, as they had all been repaid as at 31 March 2011.

Asset Quality

Impaired Assets

As at balance date, there were no Impaired Assets which were either Restructured Assets or Financial assets acquired through the enforcement of security, (31 March 2010: nil)

	2011	2010
	\$	\$
Other individually impaired assets		
Balance at the beginning of the year	16,531,727	24,092,353
Net additions	5,167,488	4,562,694
Amounts written off/written back	(2,140,740)	(5,771,141)
Returned to performing or repaid during the year	(2,000,169)	(6,352,179)
Balance at the end of the year	17,558,306	16,531,727
Specific provision for impairment	(100,000)	(400,000)
Net carrying value	17,458,306	16,131,727

	2011	2010
	\$	\$
Past Due Assets not Impaired		
Balance at the beginning of the year	4,493,127	21,439,075
Additions	1,390,143	2,453,313
Returned to performing or repaid during the year	(1,885,441)	(19,399,261)
Transferred to impaired during the year	(2,828,992)	-
Balance at the end of the year	1,168,837	4,493,127

	2011	2010
	\$	\$
Ageing of Past Due Assets not Impaired		
0–30 Days	277,567	556,994
31–60 Days	-	410,818
61–90 Days	-	-
91+ Days	891,270	3,525,315
TOTAL	1,168,837	4,493,127

	2011	2010
	\$	\$
NOTE 3: Fees Paid to Auditors		
Audit of the Financial Statements	19,108	30,928
Other Audit Services	22,442	15,749
TOTAL	41,550	46,677

NOTE 4: Related Parties

(a) Manager and Trustee

Manager

The Administration and Investment Manager of the Fund is TOWER Managed Funds Investments Limited (“the Manager”), a wholly owned subsidiary of TOWER Limited. The investment management of the mortgage portfolio has been sub-delegated to Trustees Executors Limited Mortgage Management Division (“Mortgage Manager”).

The Administration and Investment Manager is entitled to be paid a management fee and an administration fee from the Fund. Details of the fee rates and amounts paid and payable to the Administration and Investment Manager are as below. Of the 0.925% management fee charged by the Manager, 0.40% (based on the mortgage balance of the Fund) is paid to the Mortgage Manager.

NOTE 4: Related Parties continued

Management Fee	2011	2010
The Manager receives the following percentage of the gross asset value of the Fund (excluding GST)	0.925%	0.925%
	\$	\$
Management Fees incurred during the year	426,088	1,003,131
Management Fees payable at balance date	26,600	30,649
Administration Fee		
The Manager received the following percentage of the mortgage loan balance of the Fund (excluding GST)	0.40%	0.40%
	\$	\$
Administration Fees incurred during the year (included in general expenses)	150,060	369,625
Administration Fees payable at balance date	8,500	23,400

Trustee

The Fund is created by the Trust Deed under which Trustees Executors Limited is Trustee. The investment management of the mortgage portfolio has been sub-delegated to Trustees Executors Limited Mortgage Management Division by the Manager.

The Trustee is entitled to be paid a fee in respect of its services. Details of the fee rates and amounts paid and payable to the Trustee are below.

Trustee Fee	2011	2010
The Trustee receives the following percentage of the gross asset value of the Fund (excluding GST)	0.05%	0.05%
	\$	\$
Trustee Fees incurred during the year	25,955	65,815
Trustee Fees payable at balance date	7,500	21,218

The above amounts include GST. No interest is payable on balances owing to the Administration and Investment Manager and Trustee.

(b) Investments in the Fund by TOWER Related Entities

TOWER related entities holding units in the Fund are:

TOWER Life (NZ) Limited	2011	2010
Units	1,079,257	1,926,830
Market Value \$	995,722	1,777,693
Tower Managed Funds		
Units	292,928	522,974
Market Value \$	270,255	482,495

On 21 January 2010 an in-specie transfer of units in the MortgagePlus Fund was made from Portfolio One Income Assets Fund, Portfolio One Balanced Growth Fund and Portfolio One Managed Growth Fund to their unit holders. Therefore these TOWER products no longer held units in the MortgagePlus Fund as at 31 March 2011 and 31 March 2010.

On 5 March 2010 an in-specie transfer of units in the MortgagePlus Fund was made from Tasman Conservative Fund to its members. Therefore this TOWER product no longer held units in the MortgagePlus Fund as at 31 March 2011 and 31 March 2010.

Related party receivable and payable balances are transacted in accordance with the terms of various agreements and deeds.

(c) Guarantee by Trustees Executors Holdings Limited

Included in the Statement of Financial Position as at 31 March 2010 as part of 'Other Receivables' is an amount of \$215,000. As at 14 February 2008, the Trustee's holding company, Trustees Executors Holdings Limited ("TEHL"), agreed to make the Fund whole for any loss of value in the capital and interest (including arrears from 1 January 2008) of 16 loans that were in default (having at that time an aggregate principal loan amount outstanding of \$33 million), "Tranche A", and 12 other performing loans (having at that time an aggregate principal loan amount outstanding of \$18 million), "Tranche B". The amount of \$215,000 represents interest receivable for the quarter ended 31 March 2010 in respect of these loans. At 31 March 2011 all of the loans in Tranche A and Tranche B had been settled and there was no interest receivable in respect of those loans.

On 15 December 2009 TEHL made a payment of \$12 million to the Fund to cover existing and future obligations for capital repayments under the above mentioned agreement. From this payment, the capital repayment obligations of TEHL were deducted. At 31 March 2010 an unapplied balance of \$5,999,096 was held by the Fund. At 31 March 2011 this payment had been fully applied and TEHL had no further capital repayment or interest obligations. Interest on the unapplied balance of the \$12 million payment held by the Fund is payable to TEHL on a quarterly basis in accordance with the terms of the Deed of Payment relating to the payment of the \$12 million by TEHL. Total interest paid to TEHL in the year ended 31 March 2011 was \$280,419 (2010: \$250,064). Interest income is reported in the Statement of Comprehensive Income net of the interest payable to TEHL.

The following table details the number of and value of Tranche A and B loans outstanding as at balance date which are guaranteed by TEHL:

	2011		2010	
	Capital Amount \$	Number of Loans	Capital Amount \$	Number of Loans
Tranche A	-	-	10,255,380	6
Tranche B	-	-	13,662,638	8
Total of Loans Guaranteed by TEHL	-	-	23,918,018	14
Less: Unapplied Balance of the \$12 million Payment	-		(5,999,096)	
Net Balance Outstanding	-		17,918,922	

The interest and capital repayments that have been made by Trustees Executors Holdings Limited to the Fund during the year ended 31 March 2011 total \$4,515,964, which included total purchases by TEHL of 4 loans from the Fund totalling \$4,307,742, (31 March 2010: \$14,425,386).

NOTE 5: Reconciliation of Net Profit to Cash Inflows from Operating Activities	2011	2010
	\$	\$
Net Profit	1,469,803	5,646,063
Add: Non Cash Items		
Movement in Provision for Loan Losses	1,722,732	1,780,196
Add: Movements in Working Capital		
Payable to Manager	(11,449)	(77,149)
Other Payables and Accrued Expenses	(33,460)	(54,090)
Accrued Interest	178,249	1,085,032
Other Receivables	214,620	656,380
Add: Changes in Investments	22,327,536	68,314,998
Net Cash Inflows from Operating Activities	25,868,031	77,351,430

NOTE 6: Financial Risk Management

The Fund is exposed to credit risk, interest rate risk, market price risk and liquidity and cash flow risk arising from the financial instruments it holds. The risk management policies employed by the Fund to manage these risks prior to the Trustee's decision to wind the Fund up are discussed below. The impact of such analysis on the net income and equity of the Fund is detailed in the notes below.

(a) Credit Risk

Credit risk is the risk that a counterparty will fail to meet its contractual obligations, either in whole or in part, under a contract. Financial instruments which potentially expose the Fund to credit risk consist of cash and cash equivalents and loans and receivables.

The maximum credit risk is considered to be the carrying value of the assets set out in the Statement of Financial Position.

Before the Fund ceased issuing new loans in 2007 credit risk was managed by investing in loans which were secured by way of first mortgages over the titles or interests in the following assets:

- Residential freehold land and buildings
- Residential leasehold land and buildings
- Rural property such as economic farming units (excluding orchards, kiwi fruit farms, market gardening, poultry farming or tobacco growing)
- Commercial and industrial property

Exposure by sector

The concentration of credit exposure by property sector is as follows:

	2011	2010
Residential Sector	89.20%	87.40%
Commercial Sector	10.80%	12.60%

There has been no exposure to the Rural Sector since 2009.

Exposure by geographical segment

The concentration of credit exposure by geographical segment is as follows:

	2011	2010
Mortgages of:	\$23,945,494	\$48,174,170
Auckland	72.6%	79.6%
Wellington	0.2%	0.1%
Rest of North Island	19.9%	15.0%
Christchurch	5.2%	2.7%
Rest of South Island	2.1%	2.6%
	100.0%	100.0%

Exposure to individual counterparties

All cash and short term deposits are held with the ANZ National Bank Limited, which has a Standard & Poor's credit rating of AA as at 31 March 2011.

The guarantee from Trustees Executors Holdings Limited discussed above in Note 4 also represented a concentration of credit risk at 31 March 2010. At 31 March 2011 all loans guaranteed by TEHL had been settled. At any time, the maximum exposure for the Fund to this credit risk was the total value of capital and interest of these loans.

Credit risk exposures to individual counterparties greater than 10% of Unit Holders' Funds are as follows:

% exposure of Unit Holders' Funds	2011	2010
	Number of counterparties	Number of counterparties
ANZ National Bank Limited 10-20%	1	1

(b) Market Risk

Market risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits.

The Fund's investments consist primarily of cash and mortgage loans which are recorded at estimated realisable value.

(i) Other Price Risk

As the majority of the Fund's assets are held in the form of mortgage loans, the repayment of which can be impacted by property prices, it is exposed to property price risk. This price risk is managed by the Mortgage Manager's policies on Loan Value Ratios (LVR's), geographical and concentration risk requirements.

NOTE 6: Financial Risk Management continued

(ii) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Fund's main interest rate risk arises from investments made in mortgage loans.

The Mortgage Manager manages interest rate risk in terms of the Investment Guidelines which are set out for the Fund.

Variable interest rates are reviewed and adjusted periodically by the Mortgage Manager to stay in line with the market. The Fund has had no fixed interest mortgage loans since September 2008.

At balance date, had the interest rate increased or decreased by 1.0%, which is a level of variation which would reasonably be expected, with all other variables held constant, the increase or decrease in profit for the year and Unit Holders' Funds would amount to approximately \$240,462 (2010: \$482,988). This change in Unit Holders' Funds primarily derives from changes in interest income.

(c) Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Fund will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate.

On 4 April 2008 the Trustee of the Fund resolved to wind up the Fund. The Fund is in the process of realising its assets and the intention of the Trustee is to repay capital to investors as the mortgages are repaid, refinanced or sold.

Maturity of contractual gross undiscounted cash flows

The contractual gross undiscounted cash flows of the Fund as at balance date are as follows:

2011 Financial Assets	\$ Gross undiscounted cash flows						Total Undiscounted cash flows
	\$ Carrying Amount	< 3 months	< 1 year	1-3 years	3-5 years	> 5 years	
Cash and Cash Equivalents	9,640,935	9,640,935	-	-	-	-	9,640,935
Receivable from Related Party	-	-	-	-	-	-	-
Other Receivables	696	696	-	-	-	-	696
Mortgage Loans	23,945,494	-	20,368,699	4,644,182	522,008	1,790,314	27,325,203
Total Assets	33,587,125	9,641,631	20,368,699	4,644,182	522,008	1,790,314	36,966,834
Financial Liabilities							
Payable to Related Parties	42,600	42,600	-	-	-	-	42,600
Other Payables and Accrued Expenses	31,041	31,041	-	-	-	-	31,041
Total Liabilities	73,641	73,641	-	-	-	-	73,641

2010 Financial Assets	\$ Gross undiscounted cash flows					Total Undiscounted cash flows	
	\$ Carrying Amount	< 3 months	< 1 year	1-3 years	3-5 years		> 5 years
Cash and Cash Equivalents	11,768,114	11,768,114	-	-	-	-	11,768,114
Receivable from Related Party	215,000	215,000	-	-	-	-	215,000
Other Receivables	158	158	-	-	-	-	158
Mortgage Loans	48,174,170	-	27,631,482	25,787,911	503,613	1,794,478	55,717,484
Total Assets	60,157,442	11,983,272	27,631,482	25,787,911	503,613	1,794,478	67,700,756
Financial Liabilities							
Payable to Related Parties	54,049	54,049	-	-	-	-	54,049
Other Payables and Accrued Expenses	64,501	64,501	-	-	-	-	64,501
Total Liabilities	118,550	118,550					118,550

Maturity of investments is based upon contractual periods only. Loans are able to be repaid prior to contractual maturity but the timing of these repayments cannot be reliably ascertained.

NOTE 6: Financial Risk Management continued**(d) Fair values of financial assets and financial liabilities**

	Designated at Fair Value through Profit or Loss	Loans and Receivables	Liabilities at Amortised cost	Total
2011	\$	\$	\$	\$
Cash and Cash Equivalents	-	9,640,935	-	9,640,935
Accrued Interest Receivable from Related Party	-	-	-	-
Other Receivables	-	696	-	696
Mortgage Loans	23,945,494	-	-	23,945,494
Total Financial Assets	23,945,494	9,641,631		33,587,125
Payable to Related Parties	-	-	42,600	42,600
Other Payables	-	-	31,041	31,041
Total Financial Liabilities	-	-	73,641	73,641
2010				
Cash and Cash Equivalents	-	11,768,114	-	11,768,114
Accrued Interest Receivable from Related Party	-	215,000	-	215,000
Other Receivables	-	158	-	158
Mortgage Loans	48,174,170	-	-	48,174,170
Total Financial Assets	48,174,170	11,983,272	-	60,157,442
Payable to Related Parties	-	-	54,049	54,049
Other Payables	-	-	64,501	64,501
Total Financial Liabilities	-	-	118,550	118,550

NOTE 7: Subsequent Events

Since balance date a taxable income distribution of \$1,051,791 has been paid on 1 July 2011, in respect of the year ended 31 March 2011. Also on 1 July 2011 a further capital distribution was paid to Unit Holders of \$9,583,633 which represents 4 cents per unit of original capital holding.

Independent Auditors' Report



To the unitholders of TOWER MortgagePlus Fund Report on the Financial Statements

We have audited the financial statements of TOWER MortgagePlus Fund on pages 3 to 23, which comprise the statement of financial position as at 31 March 2011, the statement of comprehensive income, the statement of changes in unitholders' funds and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of accounting policies and other explanatory information.

Trustee's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, TOWER MortgagePlus Fund.

Opinion

In our opinion, the financial statements on pages 3 to 23:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and

- (iii) give a true and fair view of the financial position of the Fund as at 31 March 2011, and its financial performance and cash flows for the year then ended.

Basis of preparation

The financial statements for the year ended 31 March 2011 have been prepared on the realization basis. As disclosed in the Fund's summary of accounting policies of the Trustee resolved on 4 April 2008 to wind up and realize the assets of the Fund. The impact of this announcement was that all unitholdings were frozen as at that date.

Emphasis of matter

In forming our unqualified opinion on the financial statements of the Fund we considered the disclosure made in note 2 regarding asset impairment and the potential impacts on the carrying value of the outstanding loans arising from continuing market conditions.

The carrying value of the loans at balance date has been determined based on an orderly unwinding of the outstanding loans with due consideration by the Trustee of impairment as set out in section 4 of the accounting policies.

The financial statements do not include any adjustment to the carrying value of the loans that may result from further deterioration in property prices on which loans are secured beyond the date of approval of these financial statements.

Report on Other Legal and Regulatory Requirements

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

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

Restriction on Distribution or Use

This report is made solely to the Fund's unitholders, as a body. Our audit work has been undertaken so that we might state to the Fund's unitholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's unitholders, as a body, for our audit work, for this report or for the opinions we have formed.



**Chartered Accountants
9 September 2011**

Auckland





TOWER