

Stellar Investment Group

FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 MARCH 2019



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STELLAR INVESTMENT GROUP
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 14 MARCH 2019

Stellar Investment Group
Financial Statements
For the period ended 14 March 2019

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Stellar Investment Group

Directory

For the period ended 14 March 2019

Nature of Business	Commercial Property Investment
Address	33-35 Vickery Street, Te Rapa Hamilton
Proportionate Ownership Scheme	16 Proportionate Shares
Property Manager	PMG Property Funds Management Limited PO Box 2034 Tauranga
Accountant	Sharon Dresner Tauranga
Auditors	Baker Tilly Staples Rodway Audit Limited PO Box 743 Tauranga
Solicitors	Cooney Lees Morgan PO Box 143 Tauranga
Bankers	ASB Tauranga Branch
IRD Number	83-893-591

Stellar Investment Group
Statement of Comprehensive Income
For the period ended 14 March 2019

	Note	2019 \$	2018 \$
Revenue			
Rental income		873,569	1,335,790
Operating Expenditure Recovered		<u>81,238</u>	<u>113,312</u>
		954,807	1,449,103
Less Expenses			
Accounting Fees		2,050	2,210
Audit Fee		6,950	5,000
AGM Expenses		281	253
Compliance Costs		0	259
Consultancy		200	1,200
Fire Security Expenses		0	3,835
General Expenses		12	645
Health & Safety Expenses		0	1,397
Legal Expenses		0	6,712
Management Fees - Scheme		41,921	71,171
Rates		82,976	111,419
Subscriptions		1,421	0
Valuation Fees		11,180	0
Bank Fees		211	183
Interest - Loan		<u>38,451</u>	<u>70,865</u>
		185,653	275,149
Net operating income prior to depreciation and interest received		769,154	1,173,953
Interest Received		227	587
Depreciation	3	0	(156,685)
Realised Gain on Disposal of Investment Property	3	8,124,612	0
Net profit/(loss)		<u>8,893,993</u>	<u>1,017,856</u>
Other comprehensive income		-	-
Total comprehensive income		<u>8,893,993</u>	<u>1,017,856</u>

These financial statements should be read in conjunction with the accompanying Notes and Audit Report.



Stellar Investment Group
Statement of Changes in Equity
For the period ended 14 March 2019

	2019	2018
	\$	\$
Movements in Retained Earnings/(Losses)		
Opening Balance	78,708	0
Profit (loss) for the period	8,893,993	1,017,856
Distribution to investors for the period	(8,972,701)	(939,148)
Net movement for the year	(78,708)	78,708
Closing Balance Retained Earnings/(Losses)	(0)	78,708
Movements in Proportionate Share Capital Contribution		
Opening Balance	6,985,549	0
Contributions/transfers from investors	0	6,985,549
Repayment of Share Capital	(6,985,549)	0
Net movement for the year	(6,985,549)	6,985,549
Closing Balance	0	6,985,549
Total Movements in Equity		
Net Movements during the year	(7,064,257)	7,064,257
Total Revenue and Reserves	(7,064,257)	7,064,257
Equity at the Beginning of the Year	7,064,257	0
Equity at the End of the Year	(0)	7,064,257

Stellar Investment Group
Statement of Financial Position
As at 14 March 2019

	Note	2019 \$	2018 \$
Current Assets			
Cash and cash equivalents		0	92,711
Accounts Receivable		0	5,538
Prepayments		0	1,737
		<u>0</u>	<u>99,986</u>
Non-Current Assets			
Investment property	3	0	8,411,372
		<u>0</u>	<u>8,511,358</u>
Total Assets		<u>0</u>	<u>8,511,358</u>
Current Liabilities			
Accounts Payable		0	66,033
Accrued Interest		0	4,903
ASB Loan - Current Portion	4	0	240,000
		<u>0</u>	<u>310,936</u>
Non-Current Liabilities			
Loans and borrowings	4	0	1,136,165
		<u>0</u>	<u>1,136,165</u>
Total Liabilities		<u>0</u>	<u>1,447,101</u>
Net Assets		<u>0</u>	<u>7,064,257</u>
Investors Funds			
Retained Earnings		0	78,708
Proportionate Share Capital		0	6,985,549
Total Investors Funds		<u>0</u>	<u>7,064,257</u>

..... Director, PMG Property Funds Management Limited

..... Director, PMG Property Funds Management Limited

12 June 2019

These financial statements should be read in conjunction with the accompanying Notes and Audit Report.



Stellar Investment Group
Statement of Cash flows
For the period ended 14 March 2019

	Note	2019 \$	2018 \$
<u>Cash flows from operating activities</u>			
Cash was provided from:			
Receipts from Tenants		948,190	1,444,287
GST Received		(8,836)	8,836
Interest Received		227	587
		<u>939,581</u>	<u>1,453,710</u>
Cash was applied to:			
Payments to suppliers		(155,730)	(184,141)
Interest Paid		(38,451)	(71,047)
		<u>(194,181)</u>	<u>(255,188)</u>
Net cash inflow/(outflow) from operating activities		745,400	1,198,522
<u>Cash flows from investing activities</u>			
Cash was provided from:			
Sale of Investment Property		16,547,567	0
Cash was applied to:			
Property purchase and asset additions		(11,583)	(95,151)
Net cash inflow/(outflow) from investing activities		<u>16,535,984</u>	<u>(95,151)</u>
<u>Cash flows from financing activities</u>			
Cash was provided from:			
Net cash assets transferred		0	111,081
		<u>0</u>	<u>111,081</u>
Cash was applied to:			
Distributions to Investors		(15,997,930)	(899,468)
ASB Term Loan		(1,376,165)	(222,273)
		<u>(17,374,095)</u>	<u>(1,121,741)</u>
Net cash inflow/(outflow) from financing activities		(17,374,095)	(1,010,660)
Net increase/(decrease) in cash and cash equivalents held		(92,711)	92,711
Add opening cash and cash equivalents balance		92,711	0
Cash and cash equivalents balance at end of year		<u>0</u>	<u>92,711</u>
<u>Reconciliation of Net Profit</u>			
Net Profit/(Loss) After Taxation		8,893,993	1,017,856
<i>Add/(Less): Non Cash Items</i>			
Depreciation		0	156,685
Realised Gain on Disposal of Investment Property		(8,124,612)	0
<i>Add/(less) movements in other working capital items:</i>			
Decrease/(increase) in accounts receivable		5,538	(5,538)
Decrease/(increase) in prepayments		1,737	(1,737)
Increase/(decrease) in gst payable		(8,089)	8,089
Increase/(decrease) in accounts payable		(18,264)	18,264
Increase/(decrease) in Accrued Interest		(4,903)	4,903
		<u>(8,148,593)</u>	<u>180,666</u>
Net cash flow from operating activities		<u>745,400</u>	<u>1,198,522</u>

These financial statements should be read in conjunction with the Accompanying Notes and Audit Report.

Stellar Investment Group

Notes to the Financial Statements

For the period ended 14 March 2019

1. Statement of Accounting Policies

Reporting Entity

These are the financial statements of the Stellar Investment Group, a proportionate ownership Scheme of wholesale investors under the Financial Markets Conduct Act 2013 ("FMCA"). The scheme is an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013. The Scheme qualifies to report under Tier 2 as it has a lower level of public accountability in accordance with the Financial Markets Conduct Act 2013, which defines entities deemed to have higher public accountability.

The nature of the scheme's business is commercial property investment.

The financial statements were authorised for issue by the Managers on 12 June 2019. Once issued the Managers do not have the power to amend these financial statements.

Basis of Preparation

These financial statements comply with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ("NZ IFRS RDR") as a Tier 2 for-profit entity in accordance with XRB A1 Accounting Standards Framework (For-Profit Entities Update), and other applicable Financial Reporting Standards as appropriate to profit-oriented entities.

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the scheme.

The financial statements are presented in New Zealand dollars, which is the scheme's functional currency, and are rounded to the nearest whole dollar.

The financial statements are not entirely comparable due to the property being sold on 13 December 2018, and the scheme subsequently wound up. Also the comparatives shown for the 2018 year are for the period 17 February 2017 to 31 March 2018.

Going Concern

The financial statements were prepared on a realisation basis in the current year rather than a going concern basis. The investment property owned by the Scheme was sold during the financial year and as such the Scheme was wound up on 14 March 2019.

Stellar Investment Group

Notes to the Financial Statements

For the period ended 14 March 2019

1. Statement of Accounting Policies continued

Summary of Significant Accounting Policies

The following significant accounting policies have been applied in the comparative period which was prepared on a going concern basis:

a) Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the scheme and that the revenue can be reliably measured. The principal sources of revenue are operating lease income, recovered expenses and interest.

Operating lease income (net of any incentives given to lessees) is recognised on a straight-line basis over the term of the lease.

Recovered expenses are recognised on an accrual basis as the expenses are invoiced to tenants.

Interest income is recognised on a time-proportion basis using the effective interest method.

b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities on the statement of financial position.

c) Financial Assets

At balance date all of the Scheme's financial assets are classified as loans and receivables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed and the reversal is recognised in profit or loss.

Subsequent recoveries of amounts written off are recognised in profit or loss.

Stellar Investment Group

Notes to the Financial Statements

For the period ended 14 March 2019

1. Statement of Accounting Policies continued

d) Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Out of the money derivatives are classified as financial liabilities at fair value through profit or loss. They are carried at fair value and changes in fair value are recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including trade payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial liability.

Derecognition of financial liabilities

The scheme derecognises financial liabilities when, and only when, the scheme's obligations are discharged, cancelled or they expire.

e) Goods and Services Tax (GST)

All amounts are shown exclusive of GST, except for receivables and payables, which are stated inclusive of GST.

f) Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is recognised initially at the book value at the time of transfer of the investment property from the proportionate title scheme. Subsequent to initial recognition, it is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

The depreciable amount of all investment property assets are depreciated over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Where material parts of an item of Investment property have different useful lives, they are accounted for as separate items of Investment property.

The depreciation rates used for each class of assets are:

<i>Class of fixed asset</i>	<i>Depreciation basis</i>	
Investment Property	2-3.6%	Straight Line or
	8% - 20%	Diminishing Value

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal and is calculated as the difference between the proceeds of sale and the carrying value of the item.

Stellar Investment Group

Notes to the Financial Statements

For the period ended 14 March 2019

1. Statement of Accounting Policies continued

g) Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

h) Taxation

No account has been taken for income tax under the scheme as each subscriber will be assessed individually on their proportional share of rent and any other distribution from the scheme. Subscribers will be individually responsible for the payment of their taxes.

i) Statement of Cash Flows

The following terms are used in the Statement of Cash Flows:

- Operating activities are the principal revenue producing activities of the scheme and other activities that are not investing or financing activities;
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the scheme.

j) Critical Accounting Estimates, Assumptions and Judgements

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 scheme's accounting policies.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 1(f) – Investment Property and Note 1(g) operating leases and Note 3 – Investment Property.

Stellar Investment Group
Notes to the Financial Statements
For the period ended 14 March 2019

2. Equity

The scheme has issued ownership shares to wholesale investors in a proportionate ownership scheme. Legal Title to the Property is held by PML Nominees (Stellar Investment Group) Limited as bare trustee on behalf of the Investors of the Scheme. The Nominee's sole purpose is to own the Property for and on behalf of the Investors in accordance with the Ownership and Management Deed. While the Nominee holds the legal titles to the Property, the Investors retain beneficial ownership of the Property as tenants in common in proportion to the number of interests that they hold in the scheme. The scheme comprises 16 ownership shares, all fully paid. Each share confers upon the holder a proportionate share in the investment property; equal rights and obligations in respect of entitlements to income and capital of the scheme and one vote in respect of matters on which subscribers are entitled to vote, in accordance with the terms of the Ownership and Management Deed.

Equity includes proportionate share capital and investors current accounts. The capital management objectives include maintaining sufficient cash reserves to meet liabilities as they fall due, to preserve and enhance the investors capital value and to make distributions to investors and meet bank covenants.

No further shares have been issued. The property was sold during the year and share capital was repaid in full.

3. Investment Property

	2019 \$	2018 \$
Reconciliation of Carrying amount of Investment Property:		
Carrying amount at beginning of year	8,411,372	0
Investment Property transfer from proportionate title scheme	0	8,472,906
Asset Additions during the year	11,583	95,151
Depreciation for the year	0	(156,685)
Realised Gain on Sale of Investment Property	8,124,612	0
Sale of Investment Property	(16,547,567)	0
	-----	-----
Carrying amount at end of year	0	8,411,372
	=====	=====
Reconciliation of Accumulated Depreciation:		
Accumulated Depreciation at beginning of the year	156,685	0
Depreciation recognised for the year	0	156,685
Sale of Investment Property	(156,685)	0
	-----	-----
Accumulated Depreciation at the end of the year	0	156,685
	=====	=====
Reconciliation of Gross Carrying Amount:		
Gross Carrying Amount at beginning of the year	8,568,057	0
Investment Property transfer from proportionate title scheme	0	8,472,906
Plus Asset additions during year	11,583	95,151
Sale of Investment Property	(8,579,640)	0
	-----	-----
Carrying Amount at the end of the year	0	8,568,057
	=====	=====

The property was sold during the current period.

Stellar Investment Group

Notes to the Financial Statements

For the period ended 14 March 2019

4. Borrowings

The scheme had a term loan with the ASB bank. The interest rate at 31 March 2018 was 4.195%. This loan was repaid in full during the year upon sale of the investment property.

5. Related Parties

The scheme has a relationship with PML Nominees (Stellar Investment Group) Limited, a company incorporated under the Companies Act 1993 and domiciled in New Zealand. PML Nominees (Stellar Investment Group) Limited holds title to assets as bare trustee on behalf of the Investors in Stellar Investment Group. PML Nominees (Stellar Investment Group) Limited also holds the ASB Borrowings. The Directors of PML Nominees (Stellar Investment Group) Limited are Scott McKenzie, Nigel Lowe and Daniel Lem.

The assets of the Scheme are managed under a Management Agreement between the Investors and PMG Property Funds Management Limited. PMG Property Funds Management Limited is a related party under IAS 24 due to their ability to exercise significant influence over the Scheme.

Management fees are an arm's length transaction. Management fees are calculated at 5% of Net Rental Income. Management fees payable at balance date were \$Nil.

The scheme sold the property to Pacific Property Fund Limited whom is a related party due to Scott McKenzie being a Director of both companies. The Sale price was determined by independent valuation.

6. Lessor Operating Lease

The scheme's investment property has the following minimum lease payments receivable under non-cancellable operating leases:

	2019	2018
	\$	\$
Not later than one year	0	1,195,000
Later than one year and not later than five years	0	2,291,781
Later than five years	0	0
	-----	-----
Total lease receivable	0	3,486,781
	=====	=====

The property has been sold therefore there are no lease payments receivable.

7. Capital Commitments

The Scheme has no capital commitments at balance date.

8. Contingent Liabilities

The scheme has no material contingent liabilities at balance date.

9. Subsequent Events

There were no material events subsequent to balance date. The final payment to investors was made on the 13th of March 2019 and the scheme was wound up on the 14th of March 2019.

INDEPENDENT AUDITOR'S REPORT

To the Investors of Stellar Investment Group

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stellar Investment Group ('the Investment Group') on pages 3 to 12, which comprise the statement of financial position as at 14 March 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Investment Group as at 14 March 2019, and its financial performance and its cash flows for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime ('NZ IFRS RDR').

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

Basis for Opinion

We conducted our audit in accordance with 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 are independent of the Investment Group 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* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Stellar Investment Group.

Emphasis of Matter

We draw attention to Note 1 of the financial statements, which describes that the financial statements are prepared on realisation basis as the scheme is no longer a going concern and has been wound up. Our opinion is not modified in respect of this matter.

Responsibilities of the Manager for the Financial Statements

The Manager is responsible on behalf of the Investment Group for the preparation and fair presentation of the financial statements in accordance with NZ IFRS RDR, and for such internal control as the Manager determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible on behalf of the Investment Group for assessing the Investment Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Investment Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>



BAKER TILLY STAPLES RODWAY AUDIT LIMITED

Tauranga, New Zealand

12 June 2019