

First NZ Properties Limited

Annual Report for the year ended 31 March 2017

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Management Report & Market Commentary

Market overview

Leasing activity in the commercial market has been buoyant over the last 12 to 18 months particularly in the main centres. Market sentiment remains good at the current time having improved markedly over the past few years. The strong economy and stimulated investment environment has provided the necessary business and consumer confidence that underpins positive property fundamentals. Landlords have had higher expectations of returns and better performing tenants have been able to cope with rental increased. This has boosted investor confidence and kept competition for good quality properties high.

The lift in capital values through both the rise in rents, together with the current low interest levels, has led to an imbalance in supply and demand leading to a lack of stock for purchasers to chase as owners hold on to their assets. Capitalisation rates have sharpened and it is your board's view that they will continue to do so as the relative certainty regarding interest rates and their current low levels should continue to put downward pressure on yields.

The properties

Sheffield Crescent in Christchurch has a lease in place until 2024 with renewal options available out to 2036. There has been significant repair work undertaken to the roof which has been expensed in the year and is referred to below. The property's valuation increased \$780,000 to \$11.34m.

Symonds Street in Auckland is multi-tenanted with leases of various lengths and with various renewal options. One tenant, Intueri Education Group has been placed into liquidation and the area they occupied is now vacant. Leasing agents are working to find a replacement tenant. The leases to the naming rights holder, Vocus Communications, expire in April 2018. We have strong indication that they will not be renewing and again leasing agents will be engaged to find replacement tenants. This may include us having to refurbish to areas occupied. The property's valuation increased \$3,200,000 to \$33.4m.

Results

Operating profit decreased slightly over 2016 mainly due to a charge of \$777,000 for roof repairs at Sheffield Crescent. Excluding these repair costs, the operating result would have shown an increase of 13%.

The two property valuations increased by \$3,980,000, which, on top of the \$2,220,000 increase last year represents a very healthy increase in valuation. This contributed to an increase in the NTA per share to \$6.41 from \$5.55.

This increase in valuations along with the ongoing dividend returns makes this a very healthy investment. Dividends totalling 40 cents per share brought total returns to 8.5% based on the last trade price.

Liquidity in the secondary market has continued to be strong with demand outstripping supply. Latest sales have been at \$4.70 per share.

Report of the Directors to the Shareholders

Your Directors take pleasure in presenting their Annual Report including the financial statements of the Group for the year ended 31 March 2017.

Activities

The Group is involved in the property rental business.

Dividends

\$1,185,046 was paid in Dividends due for the period ended 31 March 2017. Associated imputation credits paid amounted to \$455,331.

Directors

The following Directors held office during the year ended 31 March 2017.

Neil Allan Barnes
Michael John Millar

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2017.

Remuneration of employees

No employee's remuneration exceeded \$100,000.

Auditors

Crowe Horwath of Nelson were reappointed as the the company's auditors.

Interests register

The following are transactions recorded in the Interests Register for the year:

Related party transactions

All transactions conducted by the Group with Investment Services Limited are related party transactions, as Michael Millar is a Director of Investment Services Limited.

All transactions conducted by the Group with Activa Consulting Limited are related party transactions, as Neil Barnes is a Director of Activa Consulting Limited.

Interested transactions were:-

Investment Services Limited

Payment of fees for management services	227,731
	<u>227,731</u>

Activa Consulting Limited

Payment of fees for accounting And registry services	26,225
	<u>26,225</u>

Share purchases

Investment Services Limited made no share purchases or disposals in the company during the year.

Directors' loans

There were no loans by the Group to the Directors.

Directors' indemnity and insurance

The Group's Directors and the Directors of its subsidiaries are insured against liabilities to other parties (except the Group or a related party of the Group) that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

For, and on behalf of, the Board



CHAIRMAN



DIRECTOR

Dated: 30 June 2017

First NZ Properties Limited

Statement of Comprehensive Income

For the year ended 31 March 2017

	<i>Note</i>	<i>Group</i>	
		2017	2016
		\$	\$
Revenue			
Rent revenue		3,503,550	3,348,432
Interest		6,726	23,227
Insurance claim proceeds	10	-	39,973
		<hr/>	<hr/>
		3,510,276	3,411,632
Less expenditure			
Accounting and registry		26,225	25,700
Audit fees		7,800	8,554
Sundry expenses		8,784	6,143
Insurance		2,576	3,157
Interest		1,091,531	1,238,471
Legal fees		6,592	10,977
Management fees	3	227,731	217,648
Repairs and irrecoverable opex		777,005	470,890
Printing and stationery		998	3,451
Leasing costs		60,578	61,945
Valuation fees		10,450	9,950
		<hr/>	<hr/>
Total Expenditure		2,220,270	2,056,886
		<hr/>	<hr/>
Net profit/(loss) before taxation		1,290,006	1,354,746
Income tax	7	361,201	368,136
		<hr/>	<hr/>
Profit/(Loss) before revaluation		928,805	986,610
Unrealised gain/(loss) on Interest Rate Swap		(252,565)	28,746
Unrealised increase/(decrease) in value of investment properties	13	3,980,000	2,220,000
		<hr/>	<hr/>
Total Profit/(Loss)		4,656,240	3,235,356
		<hr/>	<hr/>
Earnings per share (cents)		114.5	79.6

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 16 and the audit report on pages 17 to 19.

First NZ Properties Limited

Statement of Changes in Equity

For the year ended 31 March 2017

2017	Share capital	Retained earnings	Total Equity
	\$	\$	\$
Balance 1 April 2016	4,065,452	18,509,047	22,574,499
Profit/(loss) for the year	-	4,656,240	4,656,240
Distributions to shareholders	-	(1,185,046)	(1,185,046)
Balance 31 March 2017	4,065,452	21,980,241	26,045,693

2016	Share capital	Retained earnings	Total Equity
	\$	\$	\$
Balance 1 April 2015	4,065,452	16,453,287	20,518,739
Profit/(loss) for the year	-	3,235,356	3,235,356
Distributions to shareholders	-	(1,179,596)	(1,179,596)
Balance 31 March 2016	4,065,452	18,509,047	22,574,499

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 16 and the audit report on pages 17 to 19.

First NZ Properties Limited

Statement of Financial Position

As at year ended 31 March 2017

	Note	2017 \$	Group 2016 \$
ASSETS			
Current assets			
Cash and bank balances	9	1,010,962	938,379
Accounts receivable		74,700	34,659
Tax receivable		-	52,337
Fair value of interest rate swap		-	252,565
		1,085,662	1,277,940
Non-current assets			
Investment properties		44,740,000	40,760,000
		45,825,662	42,037,940
LIABILITIES:			
Current liabilities			
Accounts payable		311,667	107,766
GST payable		79,060	73,425
Bank loan	8	-	18,898,636
Taxation		6,992	-
Property sinking fund		100,000	-
		497,719	19,079,827
Non-current liabilities			
Bank loan	8	18,898,636	-
Deferred tax	5	383,614	383,614
		19,779,969	19,463,441
NET ASSETS		26,045,693	22,574,499
EQUITY			
Issued share capital	4	4,065,452	4,065,452
Retained earnings		21,980,241	18,509,047
TOTAL EQUITY		26,045,693	22,574,499



Director
Dated: 30 June 2017



Director
Dated: 30 June 2017

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 16 and the audit report on pages 17 to 19.

First NZ Properties Limited

Statement of Cash Flows

For the year ended 31 March 2017

	<i>Note</i>	<i>Group</i>	
		2017	2016
		\$	\$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Rents received		3,503,550	3,348,432
Interest received		6,726	23,227
Insurance claim proceeds		-	39,973
		<hr/>	<hr/>
		3,510,276	3,411,632
<i>Cash was applied to:</i>			
Payments to suppliers		1,039,142	1,003,845
Interest		913,506	1,238,849
Taxation paid		300,000	-
		<hr/>	<hr/>
		2,252,648	2,242,694
Net cash flow from operating activities	11	1,257,628	1,168,938
Cash flows from financing activities			
<i>Cash was applied to:</i>			
Bank loan repayment			-
Payment of dividends		(1,185,046)	(1,179,596)
		<hr/>	<hr/>
Net cash flows to financing activities		(1,185,046)	(1,179,596)
Total (decrease)/increase in cash balances		72,582	(10,658)
Add Opening cash brought forward		<hr/>	<hr/>
		938,379	949,037
Closing cash carried forward	9	<hr/>	<hr/>
		1,010,961	938,379

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 16 and the audit report on pages 17 to 19.

First NZ Properties Limited

Notes to the Financial Statements

For the year ended 31 March 2017

1 Statement of significant accounting policies

Basis of preparation

The Company, First NZ Properties Limited, is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. Its principal activity is property rental. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The financial statements have been authorised for issue by the Board of Directors on 30 June 2017. The financial statements have been prepared on the historical cost basis with the exception of the investment properties, which are revalued. The presentation currency is New Zealand Dollars. All numbers presented have been rounded to the nearest dollar.

Basis of consolidation

The Group financial statements are prepared for the financial statements of the Company and all its subsidiaries, using the purchase method. All intercompany transactions have been eliminated on consolidation.

Investment properties

The investment properties are revalued annually and is recorded at an estimate of fair value, which is market value. The properties are held for both capital appreciation and rental income purposes. Revaluation gains or losses are included in the Statement of Comprehensive Income in the Profit/(Loss). The investment properties are not depreciated for accounting purposes however depreciation is claimed for taxation purposes.

Leases

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Critical accounting estimates, assumptions and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. All judgements and assumptions made are believed to be reasonable based on the most current set of circumstances available to the company.

The estimates and underlying assumptions are reviewed on an ongoing basis. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a high degree of judgement or areas where assumptions are significant to the company include the valuation of investment properties (Note 13).

Notes to the Financial Statements (continued)

1 Statement of significant accounting policies (continued)

Fair value measurement

A number of the Group's accounting policies and disclosures require measurement at fair value. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique adopted as follows.

Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 : Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs), or where there are significant adjustments to market data.

Property operating expenses

The operating expenses of the property at 110 Symonds Street are borne by the tenants. Management manages the operating expense account on behalf of the tenants and such costs are therefore not included in the financial statements except where a cost is not fully recoverable from the tenants in which case it is reported as irrecoverable opex.

Taxation

The income tax expense recognised for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Financial instruments

All financial instruments of the Group are recognised in the Statement of Financial Position. The Group has no off-balance sheet financial instruments. Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of asset and liability.

Bank loans

Bank loans are measured at the principal amount owed to the bank. Interest costs are expensed in the year in which they are incurred.

Accounts payable and receivable

Accounts Receivable are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for doubtful debts. Collectability of trade receivable is reviewed on an ongoing basis. Uncollectable debts are written off as incurred.

Accounts Payable are initially measured at fair value, subsequently measured at amortised cost using effective interest method

Statement of cash flows

The following are the definitions of the terms in the Statement of cash flows:

- a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.
- b) Investing activities are those activities relating to the acquisition, holding and disposal of tangible assets and of investments including investment properties. Investments can include securities not falling within the definition of cash.
- c) Financing activities are those activities, which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- d) Operating activities include all transactions and other events that are not investing or financing activities.

Notes to the Financial Statements (continued)

1 Statement of significant accounting policies (continued)

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Revenue Recognition

Rental income is recognised in the income statement on a straight line basis over the term of the lease. Interest received is recognised in the income statement using effective interest method.

Goods and Services Tax

These financial statements have been prepared on a GST exclusive basis with the exception of Accounts Receivable and Accounts Payable which are shown inclusive of GST.

Statement of compliance

The financial statements comply with New Zealand generally accepted accounting practice, which include New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial Statements comply with International Financial Reporting Standards ("IFRS").

Going concern assumption

These financial statements have been prepared on the assumption that the loan will be renegotiated on expiry on 30 November 2018.

2 Lease Agreements

15 Sheffield Crescent

- Ten year term expiring 21 November 2024
- Four rights of renewal of 3 years each
- 3 yearly rent reviews.

110 Symonds Street, Auckland

- Multiple tenancies with Vocus as the anchor tenant
- Various rights of renewal varying in number and length
Average duration of leases is 3.64 years

3 Management fees

A fee of 6.5% per annum of lease rentals was payable to the Investment Manager in the year ended 31 March 2017. The management agreement also provides for a performance fee of 5% of any gain arising from the sale of a property.

4 Share Capital

At 31 March 2017 the total number of shares on issue comprises 4,065,452 shares of \$1 each authorised, issued and fully paid (2016: 4,065,452 shares of \$1 each authorised, issued and fully paid) rating equally for dividends and other distributions.

A dividend of 40 cents per share was paid to equity holders during the year (2016 : 40 cents per share).

Notes to the Financial Statements (continued)

5 Deferred Tax

The deferred tax liability relates to timing difference relating to the tax on the depreciation claimed on Sheffield Crescent. The amount reported as deferred tax as at the balance date was \$383,614 (2016 : \$383,614).

6 Equity

	<i>Group</i>	
	2017	2016
	\$	\$
Paid in Capital	4,065,452	4,065,452
Retained Earnings/(Losses)	21,980,241	18,509,047
	26,045,693	22,574,499
<u>Retained Earnings/(Losses)</u>		
Opening balance	18,509,047	16,453,287
Net surplus for period	676,240	1,015,356
Movement in value of properties	3,980,000	2,220,000
Distribution to shareholders	(1,185,046)	(1,179,596)
Closing balance	21,980,241	18,509,047

Retained earnings includes accumulated revaluation gains of \$9,940,000 (2016 : \$5,960,000).

7 Taxation

	<i>Group</i>	
	2017	2016
	\$	\$
Profit before tax	1,290,006	1,354,746
<i>Adjusted for</i>		
Non-taxable items	-	39,973
Tax profit/(loss) for year	1,290,006	1,314,773
Tax charge		
Tax for year at 28%	361,201	368,136
	361,201	368,136

Notes to the Financial Statements (continued)

7 Taxation (continued)

Imputation Credits

	<i>Group</i>	
	2017	2016
	\$	\$
Balance at beginning of year	(18,319)	-
Resident withholding tax paid	1,872	6,503
Tax refunded	-	(3,238)
2016 Provisional tax paid	-	425,000
2017 Provisional tax paid	300,000	-
	<u>283,553</u>	<u>428,265</u>
Imputation credits attached to dividends paid	(455,331)	(446,584)
Balance at end of year	<u>(171,778)</u>	<u>(18,319)</u>

8 Loans

	<i>Group</i>	
	2017	2016
	\$	\$
Current		
ANZ Bank	-	<u>18,898,636</u>
Term		
ANZ Bank	<u>18,898,636</u>	-

ANZ Bank loan repayment terms – at the end of 3 years being 30 November 2018 with floating interest for the term of the loan. The loan is secured by a first ranking mortgage over the properties plus a General Security Agreement over present and acquired property.

9 Cash and bank balances

	<i>Group</i>	
	2017	2016
	\$	\$
ANZ Bank accounts	1,010,961	938,379
	<u>1,010,961</u>	<u>938,379</u>

10 Insurance claim proceeds

No insurance claim proceeds were received. Prior year included \$39,978 relating to the settlement of a claim for earthquake damage to the chimney stock structure at Sheffield Crescent.

Notes to the Financial Statements (continued)

11 Reconciliation of net profit to net cashflows from operating activities

	<i>Group</i>	
	2017	2016
	\$	\$
Net surplus after tax before revaluation	928,805	986,610
<i>Add/(less) movements in working capital items</i>		
(Increase)/Decrease in accounts receivable	(40,040)	182,325
Increase/(Decrease) in accounts payable	303,901	50,398
Increase/(Decrease) in net GST	5,636	(266)
(Increase)/Decrease in provision for tax	59,329	(50,129)
	<hr/>	<hr/>
	328,823	182,328
	<hr/>	<hr/>
Net cash flow from operating activities	1,257,628	1,168,938

12 Financial instruments

This note deals with exposure to interest rate and credit risk arising in the normal course of the Group's business as follows:

Interest rate risk

The Group has long term borrowings. The Group had minimised interest rate risk through entering into an interest rate swap arrangement, effectively fixing the interest rate to November 2016. The value of the interest rate swap as disclosed in the Statement of Financial Position has been valued by the bank and reflects a level 2 fair value. No hedging has been put in place to replace the swap however if market conditions change this will be reviewed.

Credit risk

The Group in the normal course of business has credit risk from accounts receivable mainly for rent and bank balances. The Group manages bank balance credit risk through transacting only with major trading banks. The Group manages accounts receivable credit risk through accepting only reputable tenants and performing credit assessments prior to accepting the tenancy.

Apart from the risks detailed above, the Group has no other risks which require disclosure. No collateral is required in respect of financial assets.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position. The fair value of each financial asset is the same as the carrying value.

Notes to the Financial Statements (continued)

13 Valuation

Investment property comprises two buildings, A substantial office block and underground car parking situated at Symonds Street, Auckland and a significant industrial premises situated at Sheffield Crescent in Christchurch. The properties are currently leased under the terms and to the tenants disclosed in Note 2. They have been provided as security for the borrowings referred to in Note 8.

The investment properties are measured at fair value and were valued as at 31 March 2017 by external, independent property valuers, having appropriately recognised professional qualifications and recent experience in the location and categories of the properties being valued.

The latest revaluation of the investment properties is summarised as follows;

	Sheffield Crescent	Symonds Street
Purpose	Financial reporting	Financial reporting
Amount of valuation	\$11,340,000 (2016:\$10,560,000)	\$33,400,000 (2016;\$30,200,000)
Valuer	Colliers International	Colliers International
Basis of valuation	The determination of the values stated were market value subject to existing tenancies and occupational arrangements.	The determination of the values stated were market value subject to existing tenancies and occupational arrangements.
Assessment approach	Discounted cash flow Capitalisation approach	Discounted cash flow Capitalisation approach
Vacancy rate	Nil (2016 : Nil)	Nil (2016 : Nil)
Weighted average lease term	7.64 years (2016 L 8.64 years)	2.48 years (2016 : 2.3 years)
Value per square metre	\$794 (2016 : \$739)	\$3,839 (2016 : \$3,466)
Capitalisation rate	8.5% (2016 : 8.75%)	7.875% (2016 : 8.0%)
Discount rate	10.25% (2016 10.5%)	9.125% (2016 : 9.125%)
Terminal yield	9.0% (2016 : 9.25%)	8.0% (2016 : 8.25%)
Net market rent	\$974,897 (2016 : \$974,897)	\$2,788,720 (2016 : \$2,576,177)
Net passing rent	\$975,000 (2016 : \$975,000)	K\$2,593,286 (2016 : \$2,416,152)

The valuations reflect the quality of tenants in occupation, the allocation of maintenance and insurance responsibilities between the Group and the tenant and the remaining economic life of the properties. The valuations also assume on expiry of the current lease terms the company will be able to re-tenant the properties at or above market rates. The valuations assume the buildings meet the minimum seismic ratings requirements and that no capital expenditure is required on earthquake strengthening.

The fair value measurement for the investment properties has been categorised as a level 3 fair value (refer to Note 1) based on the inputs to the valuation technique used being based on unobservable inputs.

Notes to the Financial Statements (continued)

13 Valuation (continued)

The following table outlines the valuation techniques measuring fair value of the investment properties, as well as the unobservable inputs used and the inter-relationship between the key unobservable inputs and fair value measurement.

Valuation technique	Unobservable inputs	The estimated fair value would increase/(decrease) if
<p>Discounted cash flow approach</p> <p>The discounted cash flow method adopts a 10 year investment horizon and makes appropriate allowances for rental growth and leasing costs on lease expiries, with an estimated terminal value at the end of the investment period. The present value is a reflection of market based income (inflows) and expenditure (outflows) projections over the 10 year period discounted at a market analysed return.</p>	<p>Discount rates of 10.25% and 9.125%</p> <p>Terminal yields of 9.0% and 8% at the end of the 10 year period</p> <p>Assessed market rentals of \$974,897 and \$2,788,720</p>	<p>Discount rate was lower/(higher)</p> <p>The yield was lower/(higher)</p> <p>The assessed market rental was higher/(lower)</p>
<p>Capitalisation approach</p> <p>This approach is considered a "point in time" view of the investment properties' value, based on the current contract and market income and an appropriate market yield or return for the properties. Capital adjustments are then made to the value to reflect under or over renting, pending capital expenditure and upcoming expiries, including allowances for lessee incentives and leasing costs.</p>	<p>Net rental income has been capitalised in perpetuity at capitalisation rates of 6.6% and 7.875%</p> <p>Assessed market rentals of \$974,897 and \$2,788,720</p>	<p>Capitalisation rate in perpetuity was lower/(higher)</p> <p>The assessed market rental was higher/(lower)</p>

In deriving the market value under each approach, all assumptions are based, where possible, on market based evidence and transactions for properties with similar locations, construction detail and quality of lease covenant. The adopted market value is a judgemental combination of both the Capitalisation and the Discounted Cash Flow approaches.

14 Minimum lease income

Future minimum rentals receivable under non-cancellable leases at the balance date are as follows:

	<i>Group</i>	
	2017	2016
	\$	\$
Not later than one year	3,489,325	3,429,688
Later than one year but not later than five years	6,634,317	8,002,136
More than five years	2,866,464	3,786,935
	12,990,107	15,218,759

Notes to the Financial Statements (continued)

15 Contingent Liabilities

There were no contingent liabilities at balance date (2016 : Nil)

16 Capital Commitments

There were no capital commitments at balance date (2016 : Nil).

17 Related parties

Investment Services Limited provides management services to the Group. All transactions conducted by the Group with Investment Services Limited are related party transactions as Michael Millar is a Director of Investment Services Limited. The Group paid Investment Services Limited \$227,731 (2016:\$217,648) in management fees during the year.

Activa Consulting Limited provides accounting and registry services to the Group. All transactions conducted by the Group with Activa Consulting Limited are related party transactions as Neil Barnes is a Director of Activa Consulting Limited. The Group paid Activa Consulting Limited \$26,225 (2016:\$25,700) in accounting and registry fees during the year.

There were no amounts due to the related party as at the balance date

At balance date the following investments, both direct and indirect, were held by the directors and the Manager:

Neil Barnes	50,802 shares
Michael Millar	61,178 shares
Investment Services Limited	280,997 shares

18 Investment in subsidiaries

All subsidiaries are wholly owned, have a principal activity of being property owning companies and have a balance date of 31 March.

	2017	2016
	\$	\$
Kilmore Street Property Limited	100	100
Foodstore Properties (Te Atatu) Limited	100	100
Foodstore (Cranmer) Limited	100	100
Sheffield Crescent Property Limited	100	100
Symonds 110 Limited	100	100
	<hr/> 500	<hr/> 500

Notes to the Financial Statements (continued)

19. Group information

The consolidated financial statements of the Group include:

Name	Principal activity
Parent First NZ Properties Limited	Property investment and management
Subsidiaries Sheffield Crescent Property Limited	Property investment
Symonds 110 Limited	Property investment
Kilmore Street Property Limited	Dormant
Foodstore Properties (Te Atatu) Limited	Dormant
Foodstore (Cranmer) Limited	Dormant

All group members are incorporated in New Zealand.

The ultimate controlling entity and parent company of the group is First NZ Properties Limited which owns 100% of each subsidiary company.

20 Adoption of new and revised reporting standards

NZ IFRS 9 Financial Instruments comes into effect on 1 January 2018. Management have yet to assess the impact the standard is likely to have on the financial instruments.

NZ IFRS 15 Revenue from Customer Contracts comes into effect on 1 January 2018. Management have yet to assess the impact the standard is likely to have on the current contracts.

NZ IFRS 16 Leases comes into effect on 1 January 2019 replacing the current standard IAS 17 Leases. Management have yet to assess the impact the standard is likely to have on the current leases.

21 Events occurring after balance date

There have been no events subsequent to the balance date which require adjustment to the financial statements.

Subsequent to the balance date the Board have approved further roof repairs at Sheffield Crescent. The expected cost of these repairs is \$256,000 and the costs will be expensed in the year end 2018 financial statements.

First NZ Properties Limited

Independent Auditor's Report to the Shareholders of First NZ Properties Limited

Opinion

We have audited the financial statements of First NZ Properties Limited (the Group) on pages 3 to 16, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with *New Zealand equivalents to International Financial Reporting Standards* (NZ IFRS).

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 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, the Group.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Directors to the Shareholders on page 2, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Management Report and Market Commentary, which is expected to be made available to us after that date.

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



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

If we read the Management Report and Market Commentary, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Directors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the 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 directors either intend to liquidate the Group 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 (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.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that are of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Crowe Horwath New Zealand Audit Partnership

CHARTERED ACCOUNTANTS



Ken Sandri

Partner

Dated at Nelson this 30 day of June 2017

Directory

Nature of business	Property rental	Bankers	ANZ Bank Limited 1 Victoria Street Wellington
Paid in capital	\$4,065,452	Auditors	Crowe Horwath 72 Trafalgar Street Nelson
Registered office	Level One 3/237 Queen Street Richmond Nelson 7050	Solicitors	Pitt & Moore 78 Selwyn Place PO Box 42 Nelson 7040
Registered under	The Companies Act 1993	Register	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7050
Incorporation number	WN656559	Secondary Market	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7050
I.R.D. number	65-072-920		
Directors	Neil Allan Barnes Michael John Millar		
Investment Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7050 Phone (03) 544 2005 Fax (03) 544 2300 info@investmentservices.co.nz		
Accountants	Activa Consulting Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7050		