First NZ Properties Limited

Annual Report
for the year ended
31 March 2018

Contents

Management Report & Market Commentary

Market overview

Business confidence remains high and the economic outlook remains positive following the continued low interest rate & low inflation environment.

Leasing activity in the commercial market has continued to be strong over the last 12 months with demand for space in the Auckland office sector remaining high. Sentiment remains good with the prospects of further rental value growth through to the end of 2018.

Demand is expected to be softer into 2019 and beyond as the supply of new developments provides tenants with more choice.

Investment demand for the Auckland office sector remains strong, particularly for the large prime assets in the CBD and modern long let properties in prime fringe location.

The Christchurch Industrial market also remains strong however, similar to Auckland, we will see new supply providing increased choice to tenants.

The properties

Sheffield Crescent in Christchurch has a lease in place until 2024 with renewal options available out to 2036. Further work has been completed to the roof resulting in 100% of the original roof being replaced. This work has been expensed in the year. The property's valuation increased $500,000 to $11.84m.

110 Symonds Street in Auckland is multi-tenanted with leases of various lengths with various renewal options. The leases to the naming rights holder, Vocus Communications, expire in May 2018. Vocus Communications are not renewing, leaving three floors vacant from 1 June. Work is in progress with leasing agents to find suitable tenants however the reduction in rental income and costs associated with refurbishment and lease inducements will impact the financial performance in the next 12 months. We are confident that quality & location of the property will attract good long-term tenants. The property's valuation increased $600,000 to $34.0m.

Results

Operating profit increased $276,534 over the 2017 year due mainly to reductions in funding costs and leasing costs.

The two property valuations increased by $1,100,000, which, on top of the $3,980,000 increase last year represents a healthy increase in valuation. This contributed to an increase in the NTA per share to $6.66 from $6.41.

This increase in valuations along with the current dividend returns makes this a good investment. Dividends totalling 40 cents per share brought income returns to 8.51% based on the last trade price.

Liquidity in the secondary market has continued to be strong. 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 2018.

Activities
The Group is involved in the property rental business.

Dividends
$1,180,303 was paid in Dividends due for the period ended 31 March 2018. Associated imputation credits paid amounted to $455,331.

Directors
The following Directors held office during the year ended 31 March 2018:

Neil Allan Barnes - Ceased 26/2/2018
Michael John Millar
Paul John Mephan – Appointed 13/2/2018

Remuneration of Directors
No Directors remuneration was paid during the year ended 31 March 2018.

Remuneration of employees
No employee's remuneration exceeded $100,000.

Auditors
Crowe Horwath of Nelson were reappointed as 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.

All transactions conducted by the Group with Corvus Consulting Limited are related party transactions, as Paul Mephan is a Director of Corvus Consulting Limited.

Interested transactions were:

Investment Services Limited Fee for Management services	$223,135
Activa Consulting Limited Accounting/registry services fees	24,039
Corvus Consulting Limited Accounting/registry services fees	2,070
	$26,109

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: 26 July 2018

First NZ Properties Limited
Statement of Comprehensive Income
For the year ended 31 March 2018

	Note	Group 2018 $	Group 2017 $
Revenue			
Rent revenue		3,483,994	3,503,550
Interest		2,864	6,726
		3,486,857	3,510,276
Less expenditure			
Accounting and registry		26,109	26,225
Audit fees		11,200	7,800
Sundry expenses		14,076	8,784
Insurance		2,914	2,576
Interest		810,285	1,091,531
Legal fees		7,492	6,592
Management fees	3	223,135	227,731
Repairs and irrecoverable opex		805,253	777,005
Printing and stationery		1,157	998
Leasing costs		7,996	60,578
Valuation fees		10,700	10,450
Total Expenditure		1,920,317	2,220,270
Net profit/(loss) before taxation		**1,566,540**	**1,290,006**
Income tax	7	438,631	361,201
Profit/(Loss) before revaluation		**1,127,909**	**928,805**
Unrealised gain/(loss) on Interest Rate Swap		0	(252,565)
Unrealised increase/(decrease) in value of investment properties	12	1,100,000	3,980,000
Total Profit/(Loss)		**2,227,909**	**4,656,240**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 to21.

First NZ Properties Limited
Statement of Comprehensive Income
For the year ended 31 March 2018 (continued)

Other Comprehensive Income Movements			
Movements that will be reclassified to profit or loss in subsequent periods		-	-
Movements that will not be reclassified to profit or loss in subsequent periods		-	-
Total Other Comprehensive Income Movements		**-**	**-**
Total Comprehensive Income for the Year		**2,227,909**	**4,656,240**
Basic and diluted earnings per share (cents)	**21**	54.9	114.5

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 to21.

First NZ Properties Limited
Statement of Changes in Equity
For the year ended 31 March 2018

2018

	Share capital	Retained earnings	Total Equity
	$	$	$
Balance 1 April 2017	4,065,452	21,980,241	26,045,693
Profit/(loss) for the year	-	2,227,909	2,227,909
Distributions to shareholders	-	(1,180,303)	(1,180,303)
Balance 31 March 2018	**4,065,452**	**23,027,847**	**27,093,299**

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**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 to21.

CROWE HORWATH NEW ZEALAND

First NZ Properties Limited
Statement of Financial Position
As at year ended 31 March 2018

	Note	*Group* 2018 $	2017 $
ASSETS			
Current assets			
Cash and bank balances	**9**	995,209	1,010,962
Accounts receivable		81,076	74,700
		1,076,285	1,085,662
Non-current assets			
Investment properties	**12**	45,840,000	44,740,000
Total assets		**46,916,285**	**45,825,662**
LIABILITIES:			
Current liabilities			
Accounts payable		365,169	311,667
GST payable		50,782	79,060
Taxation		24,786	6,992
Property sinking fund		100,000	100,000
Bank loan	**8**	18,898,636	-
		19,439,373	497,719
Non-current liabilities			
Bank loan	**8**	-	18,898,636
Deferred tax	**5**	383,614	383,614
Total liabilities		19,822,987	19,779,969
NET ASSETS		**27,093,299**	**26,045,693**
EQUITY			
Issued share capital	**4**	4,065,452	4,065,452
Retained earnings		23,027,847	21,980,241
TOTAL EQUITY		**27,093,299**	**26,045,693**

Director
Dated: 26 July 2018

Director
Dated: 26 July 2018

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 to21.

CROWE HORWATH NEW ZEALAND

First NZ Properties Limited
Statement of Cash Flows
For the year ended 31 March 2018

	Note	Group 2018 $	Group 2017 $
Cash flows from operating activities			
Cash was provided from:			
Rents received		3,483,994	3,503,550
Interest received		2,864	6,726
		3,486,857	3,510,276
Cash was applied to:			
Payments to suppliers		975,406	1,039,142
Interest		926,390	913,506
Taxation paid		420,511	300,000
		2,322,307	2,252,648
Net cash flow from operating activities	10	1,164,550	1,257,628
Cash flows from financing activities			
Cash was applied to:			
Payment of dividends		(1,180,303)	(1,185,046)
Net cash flows to financing activities		(1,180,303)	(1,185,046)
Total (decrease)/increase in cash balances		(15,752)	72,582
***Add* Opening cash brought forward**		1,010,961	938,379
Closing cash carried forward	9	**995,209**	**1,010,961**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 to21.

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 26 July 2018. 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 12).

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 1.89 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 2018. 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 2018 the total number of shares on issue comprises 4,065,452 shares of $1 each authorised, issued and fully paid (2017: 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 (2017: 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 deprecation claimed on Sheffield Crescent. The amount reported as deferred tax as at the balance date was $383,614 (2017: $383,614).

6 Equity

	Group	
	2018	***2017***
	$	***$***
Paid in Capital	4,065,452	4,065,452
Retained Earnings/(Losses)	23,027,847	21,980,241
	27,093,299	**26,045,693**
Retained Earnings/(Losses)		
Opening balance	21,980,241	18,509,047
Net profit for period	1,127,909	676,240
Movement in value of properties	1,100,000	3,980,000
Distribution to shareholders	(1,180,303)	(1,185,046)
Closing balance	**23,027,847**	**21,980,241**

Retained earnings includes accumulated revaluation gains of $11,040,000 (2017: $9,940,000).

7 Taxation

	Group	
	2018	***2017***
	$	***$***
Profit before tax	1,566,540	1,290,006
Adjusted for		
Non-taxable items	-	-
Tax profit/(loss) for year	1,566,540	1,290,006
Tax charge		
Tax for year at 28%	438,631	361,201
	1,127,909	**361,201**

Notes to the Financial Statements (continued)

7 Taxation (continued)

Imputation Credits

	Group 2018 $	2017 $
Balance at beginning of year	(171,778)	(18,319)
Resident withholding tax paid	802	1,872
2017 Provisional tax paid	158,996	300,000
2018 Provisional tax paid	261,040	
	249,060	283,553
Imputation credits attached to dividends paid	(455,331)	(455,331)
Balance at end of year	**(206,271)**	**(171,778)**

8 Loans

	Group 2018 $	2017 $
Current		
ANZ Bank	**18,898,636**	**-**
Term		
ANZ Bank	**-**	**18,898,636**

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

	Group 2018 $	2017 $
ANZ Bank accounts	995,209	1,010,961
	995,209	**1,010,961**

Notes to the Financial Statements (continued)

10 Reconciliation of net profit to net cashflows from operating activities

	Group 2018 $	Group 2017 $
Net profit after tax before revaluation	1,127,909	928,805
Add/(less) movements in working capital items		
(Increase)/Decrease in accounts receivable	(6,376)	(40,040)
Increase/(Decrease) in accounts payable	53,502	303,901
Increase/(Decrease) in net GST	(28,278)	5,636
(Increase)/Decrease in provision for tax	17,794	59,329
	36,642	328,823
Net cash flow from operating activities	**1,164,550**	**1,257,628**

11 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
Interest rate risk is the that movements in interest rates will affect the companies' performance. The company has interest rate risk through its bank loans. Loans are subject to floating interest rates. The company continually reviews these rates and may use interest rate derivates to manage this risk.

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.

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.

Liquidity risk
If the company were put in the position of having to repay its bank loan at short notice it would first enter into negotiations with its bank to renegotiate terms failing which the company would look to sell its investment property. However, this is unlikely to make funds available immediately. Cashflow is managed to ensure that all creditors are met as and when they fall due.

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

Notes to the Financial Statements (continued)

12 Valuation

Investment property comprises two buildings, a substantial office block with 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 2018 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	$11,840,000 (2017: $11,340,000)	$34,000,000 (2017:$33,400,000)
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 (2017: Nil)	15.81% (2017: Nil)
Weighted average lease term	6.64 years (2017 7.64 years)	1.89 years (2017: 2.48 years)
Value per square metre	$828 (2017: $794)	$3,902 (2017: $3,839)
Capitalisation rate	8.5% (2017: 8.5%)	7.75% (2017: 7.875%)
Discount rate	10.00% (2017: 10.25%)	8.875% (2017: 9.125%)
Terminal yield	9.0% (2017: 9.00%)	7.75% (2017: 8.0%)
Net market rent	$1,008,474 (2017: $974,897)	$2,790,334 (2017: $2,788,720)
Net passing rent	$1,002,300 (2017: $975,000)	$2,068,546 (2017: $2,593,286)

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)

12 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
Discounted cash flow approach 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.	Discount rates of 10.00% and 8.875% Terminal yields of 9.0% and 7.75% at the end of the 10 year period Assessed market rentals of $1,008,474 and $2,790,334	Discount rate was lower/(higher) The yield was lower/(higher) The assessed market rental was higher/(lower)
Capitalisation approach 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.	Net rental income has been capitalised in perpetuity at capitalisation rates of 8.50% and 7.75% Assessed market rentals of $1,008,474 and $2,790,334	Capitalisation rate in perpetuity was lower/(higher) The assessed market rental was higher/(lower)

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.

13 Minimum lease income

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

	Group	
	2018	***2017***
	$	***$***
Not later than one year	2,319,060	3,489,325
Later than one year but not later than five years	6,294,595	6,634,317
More than five years	2,107,252	2,866,464
	10,720,907	**12,990,107**

Notes to the Financial Statements (continued)

14 Contingent Liabilities

There were no contingent liabilities at balance date (2017: Nil)

15 Capital Commitments

The following capital commitments at balance date are $640,000 (2017: Nil).

Sheffield Crescent - Roof Costs $160,000

Symonds Street – Refurbishment Costs levels 3,4,6 & 9 $480,000

16 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 $223,135 (2017: $227,731) in management fees during the year.

Investment Services Limited under its management agreement is entitled to be paid a fee equal to 5% of any capital gains realised on the sale of the property at any time.

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 $24,039 (2017: $26,225) in accounting and registry fees during the year. Activa Consulting and Neil Barnes ceased providing services to the company at the end of February 2018.

Corvus Consulting Limited commenced providing accounting and registry services to the Group in March 2018. All transactions conducted by the Group with Corvus Consulting Limited are related party transactions as Paul Mephan is a Director of Corvus Consulting Limited. The Group paid Corvus Consulting Limited $2,070 (2017: $Nil) in accounting and registry fees during the year.

There were no amounts due to a 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

Notes to the Financial Statements (continued)

17 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.

	2018	***2017***
	$	***$***
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
	500	**500**

18 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.

19 Adoption of new and revised reporting standards

NZ IFRS 9 Financial Instruments comes into effect on 1 January 2018. First NZ Properties Ltd is required to adopt NZIFRS 9 for the financial year end 31 March 2019. Management have assessed NZ IFRS 9 and have found that the impact will be minimal.

NZ IFRS 15 Revenue from Customer Contracts comes into effect on 1 January 2018. First NZ Properties Ltd is required to adopt NZIFRS 15 for the financial year end 31 March 2019. Management have assessed NZ IFRS 15 and have found that the impact will be minimal.

NZ IFRS 16 Leases comes into effect on 1 January 2019 replacing the current standard IAS 17 Leases. First NZ Properties Ltd is required to adopt NZ IFRS 16 for the financial year end 31 March 2020. First NZ Properties is a lessor of investment property, accounting for leases as lessor under the current standards is similar to the new standard and we see minimal impact to recognition, measurement and reporting.

Notes to the Financial Statements (continued)

20 Events occurring after balance date

Lease of vacant ground floor space to Catholic Diocese of Auckland commencing 1 June 2018, term of 6 years with two rights of renewal for a further 6 years each.

Lease renewal agreed with Protecta Insurance Ltd. Protecta will move from Level 8 to Level 6 . Commencing 1 August 2018 for a term of 6 years with two further rights of renewal of 6 years each.

21 Earnings per share

	2018	***2017***
Reconciliation of those amounts used as the numerator to profit or loss:		
Profit for the year and earnings used in basic and diluted EPS	**2,227,909**	**4,656,240**
Reconciliation of the weighted average number of shares used as the denominator:		
Weighted average number of shares used in basic and diluted EPS	**4,065,452**	**4,065,452**
Basic and diluted earnings per share (cents)	**54.9**	**114.50**

Crowe Horwath
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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 Company) on pages 3 to 18, which comprise the statement of financial position as at 31 March 2018, 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 Company as at 31 March 2018, 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 Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (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 Company.

Information Other Than the Financial Statements and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Management report & Market Commentary, Report of the Directors to the Shareholders, and the Directory on pages 1 to 2, but does not include the financial statements and our auditor's report thereon.

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.

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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

The engagement partner on the audit resulting in this independent auditor's report is Ken Sandri.

For and on behalf of:

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS

Dated at Nelson this 26th day of July 2018

Directory

Nature of business Property rental

Paid in capital $4,065,452

Registered office Level One
3/237 Queen Street
Richmond
Nelson 7020

Registered under The Companies Act 1993

Incorporation number WN656559

I.R.D. number 65-072-920

Directors Paul John Mephan
Michael John Millar

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Nelson 7050

Bankers ANZ Bank Limited
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Wellington

Auditors Crowe Horwath
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Nelson

Solicitors Pitt & Moore
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