

Annual Report

First NZ Properties Limited
For the year ended 31 March 2019

Prepared by RWCA Limited

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Management Report and Market Commentary

Market overview

The 2019 year has been challenging for the group, shareholders, the manager and staff following the discovery of fraud. Much of our focus has been on dealing with this situation and ensuring that our actions provide the best possible opportunity to recover the funds and costs associated with the event.

The investigation is still ongoing and we are continuing with our efforts. Following the initial phase, this matter is now in the hands of both government and private organisations. Progress at this time has slowed and we have no ability to influence the process from this point.

You will be aware from our previous communications that the Serious Fraud Office is investigating this matter. The timeframe provided by the SFO was that an investigation would take a minimum of 12 months. The investigation commenced in February 2019.

Alongside this we commenced civil action to confirm the debt and recover the funds. Following the receipt of the Summary Judgment for the debt in April 2019 some progress has been made with a number of assets being marketed for sale. Proceeds from these sales will be shared on a pro rata basis between the three companies impacted by the fraud.

Results

From an operational perspective the Group has continued to trade normally. Total comprehensive income net of tax was \$178,700, down from the prior year of \$2.27 million. Reasons include a drop in rental revenue and an impairment of Accrued Fraud Recovery. While asset revaluations decreased from the prior year primarily due to the reclassification of 110 Symonds Street from Investment Property to Investment Property held for sale, total value of the properties is \$46.15 million, an increase of \$276,368.

Earnings per share for the year end 2019 was 4 cents. Prior year was 55 cents. A gross dividend of 15 cents per share was paid in May 2018.

Outlook

We communicated to shareholders in June that we have an unconditional agreement for the sale of the property at 110 Symonds Street, Auckland. Settlement is 27 September 2019. We are currently looking at options for reinvesting these funds.

The board has determined that it will not at this time provide a return of capital from the sale proceeds. Our philosophy has always been to identify superior investment opportunities to maximise long term returns for investors.

Progress on this will be communicated at the annual general meeting.

Our letter to shareholders in December 2018 indicated that the Group would recommence distributions by way of dividends in May 2020 and that is still forecasted. We advise that this may change dependent upon the recovery process and possible remission of penalties and interest by Inland Revenue.

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 2019.

Activities

The Group is involved in the property rental business.

Dividends

\$524,247 was paid in Dividends due for the period ended 31 March 2019. Associated imputation credits paid amounted to \$91,473.

Directors

The following Directors held office during the year ended 31 March 2019:

Michael John Millar
Paul John Mephan

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2019.

Remuneration of employees

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

Auditors

Crowe Horwath of Nelson were reappointed as the Group's auditors. Total fees paid consist of:

- Audit engagement: \$11,500
- Share register audit: \$1,550
- Other Services - Tax: \$7,630

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 Corvus Consulting Limited are related party transactions, as Paul Mephan is a Director of Corvus Consulting Limited.

Related party transactions were:

Investment Services Limited	
Fees for management services	\$175,279

Corvus Consulting Limited	
Accounting/registry services fees	\$24,840

Share Purchases

There were no related party share transactions made 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.

Approval of Financial Report

First NZ Properties Limited For the year ended 31 March 2019

The Directors are pleased to present the approved financial report including the historical financial statements of First NZ Properties Limited for year ended 31 March 2019.

APPROVED

For and on behalf of the Board of Directors



Paul Mephan

Date 31 July 2019



Michael Millar

Date 31 July 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

First NZ Properties Limited
For the year ended 31 March 2019

	NOTES	2019	2018 (RESTATED)
Continuing Operations			
Trading revenue			
Gross Rental income	9	3,150,671	4,240,760
Total Trading revenue		3,150,671	4,240,760
Gross Profit			
		3,150,671	4,240,760
Operating Income and Expenses			
Administrative Expenses	10	(194,147)	(304,779)
Other Operating Expenses	11	(930,993)	(1,562,018)
Impairment of non-current assets	21	(966,339)	-
Total Operating Income and Expenses		(2,091,479)	(1,866,798)
Operating Profit			
		1,059,192	2,373,962
Financial Income and Expenses			
Finance Costs	12	(813,920)	(810,285)
Finance Income	13	3,979	2,864
Total Financial Income and Expenses		(809,941)	(807,422)
Profit Before Tax from Continuing Operations			
		249,251	1,566,540
Income Tax Expense			
Tax provision	14	(346,920)	(438,631)
Realised Profit for the Year from Continuing Operations			
		(97,669)	1,127,909
Profit (Loss)			
Fair Value Gain on Investment Property	18	276,368	1,100,000
Total Profit for the Year from Continuing Operations			
		178,699	2,227,909
Income after tax from Discontinued Operations			
		-	-
Profit For The Year			
		178,699	2,227,909
Total Other Comprehensive Income, Net of Tax			
		-	-
Total Comprehensive Income for the Year, Net of Tax			
		178,699	2,227,909
	NOTES	2019	2018 (RESTATED)
Earnings per share			
Basic and diluted earnings per share (cents)	37	4	55

The financial statements should be read in conjunction with the attached Notes to the Financial Statements and Audit Report.



Consolidated Statement of Changes in Equity

First NZ Properties Limited
For the year ended 31 March 2019

	NOTES	2019	2018
Equity			
Issued Capital			
Opening Balance	27	4,065,452	4,065,452
Total Issued Capital		4,065,452	4,065,452
Retained Earnings			
Opening Balance		23,027,847	21,980,241
Increases			
Profit for the Period		178,699	2,227,909
Total Increases		178,699	2,227,909
Decreases			
Dividends Paid	28	524,247	1,180,303
Total Decreases		524,247	1,180,303
Total Retained Earnings		22,682,299	23,027,847
Total Equity		26,747,751	27,093,299



The financial statements should be read in conjunction with the attached Notes to the Financial Statements and Audit Report.

Consolidated Statement of Financial Position

First NZ Properties Limited As at 31 March 2019

	NOTES	31 MAR 2019	31 MAR 2018
Assets			
Current Assets			
Cash and Bank	17	207,519	995,209
Trade and Other Receivables	22	393,678	81,076
Income Tax Receivable	14	264,686	-
Investment property classified as held for sale	19	33,942,977	-
Total Current Assets		34,808,860	1,076,285
Non-Current Assets			
Investment Property	18	12,210,000	45,840,000
Other Non-Current Assets	20	8,382	-
Total Non-Current Assets		12,218,382	45,840,000
Total Assets		47,027,242	46,916,285
Liabilities			
Current Liabilities			
Trade and Other Payables	22	148,690	365,169
GST Payable	22	54,282	50,782
Income Tax Payable	14	-	24,786
Provisions	26	-	100,000
Loans	22	-	18,898,636
Other Liabilities	26	794,269	-
Total Current Liabilities		997,241	19,439,373
Non-Current Liabilities			
Loans	22	18,898,636	-
Deferred Tax Liability	15	383,614	383,614
Total Non-Current Liabilities		19,282,250	383,614
Total Liabilities		20,279,491	19,822,987
Net Assets		26,747,751	27,093,299
Equity			
Share Capital	27	4,065,452	4,065,452
Retained Earnings		22,682,299	23,027,847
Total Equity		26,747,751	27,093,299



The financial statements should be read in conjunction with the attached Notes to the Financial Statements and Audit Report.

Consolidated Statement of Cash Flows

First NZ Properties Limited
For the year ended 31 March 2019

	NOTES	2019	2018 (RESTATED)
Operating Activities			
Receipts from customers		3,081,700	4,262,918
Payments to suppliers		(1,277,540)	(1,736,634)
Interest, Dividend and Investment Income		3,979	2,864
Finance costs		(881,655)	(926,390)
Income tax refunded/(paid)		(636,392)	(420,837)
Net GST Received / (Paid)		(6,432)	(10,506)
Cash payments from other operating activities		-	(6,864)
Net Cash Flows from Operating Activities	39	283,659	1,164,550
Investing Activities			
Costs relating to sale of investment properties		(8,382)	-
Payment for investment properties		(36,610)	-
Net Cash Flows from Investing Activities		(44,992)	-
Financing Activities			
Dividends paid		(524,247)	(1,180,303)
DWT Arrears Paid	8	(172,070)	-
DWT Arrears penalties and interest paid		(330,042)	-
Net Cash Flows from Financing Activities		(1,026,358)	(1,180,303)
Net Cash Flows		(787,691)	(15,753)
Cash and Cash Equivalents			
Cash and cash equivalents at beginning of period		995,209	1,010,962
Cash and cash equivalents at end of period	17	207,519	995,209
Net change in cash for period		(787,691)	(15,753)



The financial statements should be read in conjunction with the attached Notes to the Financial Statements and Audit Report.

Notes to the Consolidated Financial Statements

First NZ Properties Limited For the year ended 31 March 2019

1. Reporting Entity

These consolidated financial statements ("the financial statements") of First NZ Properties Limited ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 March 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 31 July 2019.

First NZ Properties Limited is a limited company incorporated and domiciled in New Zealand and registered under the Companies Act 1993, and is engaged in the business of Commercial Property Investment.

2. Basis of Preparation

Statement of Compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP); the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the Financial Markets Conduct Act 2013. For the purpose of complying with NZ GAAP, the Group is a for-profit entity. These financial statements comply with New Zealand International Financial Reporting Standards (NZ IFRS).

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

Presentation Currency

The financial statements are presented in New Zealand Dollars (NZD), which is the Group's functional currency. All values are rounded to the nearest NZD, except when otherwise indicated.

Reporting Period

The financial statements represent a period of twelve months ending 31 March 2019.

Comparatives

The comparative financial period is twelve months. Comparatives have been reclassified from that reported in the prior year financial statements where appropriate to ensure consistency with the presentation of the current year's position and performance.

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2019. Subsidiaries are those entities controlled directly by the Company. The financial statements of the wholly owned subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

4. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are summarised below



Revenue Recognition

Rental income

Income arising from operating leases on investment properties is recognised on a straight line basis over the life of the lease and included in revenue in the statement of profit or loss. Lease incentives provided in relation to letting the investment properties are capitalised to the respective investment properties in the statement of financial position and amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income.

Service Charges Recovered

The tenants also pay the majority of the Groups Operating Expenses. These are recoveries of expenses incurred by the group in relation to the Investment Properties. The tenants are charged a monthly amount towards these operating costs based on an annual budget, and occupied floor space for each Investment Property. An annual wash-up reconciliation is prepared by the Group and any under or overcharges of actual costs incurred against costs recharged are settled.

Service Charge recoveries are recognised when invoiced, on a monthly basis, which is in line with when the Group meets its performance obligations for the services provided. The service charge recovered are based on what is specified in the tenants leases and the costs on the associated outgoings. The Group does not provide discounts nor is there any finance component in any of the costs so the transaction price is easily determined and allocated on a straight-line basis.

The services charges recovered that the Group identifies as being under the scope of NZ IFRS 15 includes but are not necessarily limited to; Rates, Building WoF, Health and Safety, Insurances, Cleaning, Rubbish and Pest Control, Fire Maintenance, Security, Lifts, Air-Conditioning and Other General Maintenance. This is because the Group deems these to be additional services above the lease of the rental space and so should be considered separately to the lease rental income (Refer to Note 9 for further consideration)

Interest

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Finance costs recorded in the profit or loss comprise the interest expenses charged on borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



Income Tax

The income tax expense represents the sum of current tax payable and deferred tax movements.

Current Income Taxes

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Movements in current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Goods and Services Tax

All amounts in these financial statements are shown exclusive of GST, except for receivables and payables that are stated inclusive of GST.



Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the Property Institute of New Zealand.

The properties are held for both capital appreciation and rental income purposes. Revaluation gains or losses are included in the Statement of Profit or Loss. The investment properties are not depreciated for accounting purposes however depreciation is claimed for taxation purposes.

The Group reclassifies an investment property to investment property classified as held for sale when the Group commences the process of disposing the property. The carrying value of the investment property is the contracted sale price, net of sale costs, being the best indicator of fair value.

Investment properties are derecognised either when they have been disposed of (i.e. at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in NZ IFRS 15.



Financial Instruments

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

The Group's accounting policy for each category is as follows:

Fair value through profit or loss

They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not have any financial assets as being at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within NZ IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within bad debts in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for other financial assets at amortised cost are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Group's financial assets measured at amortised cost comprise trade and other receivables, accrued fraud recovery and cash and cash equivalents and accrued fraud recovery in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.



Fair value through other comprehensive income

They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

Purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the fair value through other comprehensive income reserve.

The Group does not have any financial assets as being at fair value through other comprehensive income.

Financial Liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

The Group's accounting policy for each category is as follows:

Fair value through profit or loss

They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

The Group does not have any financial liabilities as being at fair value through profit or loss.

Other financial liabilities

Other financial liabilities include the following items:

Bank borrowings are initially recognised at fair value. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

De-Recognition of Financial Instruments

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or if the Group transfers the financial asset to another party without retaining control or substantial all risks and rewards of the asset.

A financial liability is de-recognised when it is extinguished, discharged, cancelled or expires.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.



Impairment of Non-Financial assets

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the reported profit or loss.

The estimated recoverable amount of an asset is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting to their present value using a pre-tax discount rate that reflects current market rates and risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. Other impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount. An impairment loss on property carried at fair value is reversed through the relevant reserve. All other impairment losses are reversed through profit or loss.

Any reversal of impairments previously recognised is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Share Capital

Share capital represents the consideration received for shares that have been issued. All transaction costs associated with the issuing of shares are recognised as a reduction in equity, net of any related income tax benefits.

Dividend Distribution

Dividend distributions to the shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Directors.



Fair Value Measurement

A number of the Group's accounting policies and disclosures require measurement at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Group

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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.

Current assets and liabilities

Current assets and liabilities are stated at estimated realisable value.



5. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, other than those arising from changes in the NZ IFRS reporting standards, as noted below.

- *NZ IFRS 9 Financial Instruments* replaced *NZ IAS 39 Financial Instruments: Recognition and Measurement*. The standard came into effect on 1 January 2018 and was adopted from 1 April 2018. The Group has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information. The classification of financial instruments has not resulted in any reclassification between measurement categories for the Group's financial assets and liabilities.
- *NZ IFRS 15 Revenue from Customer Contracts* supersedes *NZ IAS 11 Construction Contracts* and *NZ IAS 18 Revenue*. The standard came into effect on 1 January 2018 and was adopted retrospectively from 1 April 2018. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and required revenue to be recognised at an amount reflecting the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. NZ IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The majority of the revenues of the Group are derived from rental income from lease agreements with tenants of the investment properties. Accounting for lease income is out of the scope of NZ IFRS 15. The implementation of NZ IFRS 15 has required a change in the presentation of service charges in the statement of comprehensive income. Previously, The Group presented the income generated from service charges recovered from tenants as an offset to property operating expenses. In implementing NZ IFRS 15, these components have been separated out between income and expense as income falls under the scope of NZ IFRS 15 and cannot be netted off against related expenses. As a result, the 2018 comparatives have been restated as follows: gross rental income increased by \$753,766 and property operating expenses increased by \$753,766. These have also had a flow on impact to the statement of cash flows where gross rent received has increased by \$756,766 and operating expenses has also increased by \$756,766.

Various other new and amended standards and interpretations have become effective, however these are not listed as they are not considered to have any impact on the Group.



6. Adoption of new and revised reporting standards

Financial Reporting Standards Effective in the Reporting Period

There were a number of new standards and amendments to existing standards that came into effect in the current financial year. The details of the standards and their assessed impact on the Group are as follows:

- *NZ IFRS 9 Financial Instruments* replaced *NZ IAS 39 Financial Instruments: Recognition and Measurement*. The standard came into effect on 1 January 2018 and was adopted from 1 April 2018. The Group has applied NZ IFRS 9 retrospectively, but has elected not to resate comparative information. The classification of financial instruments has not resulted in any reclassification between measurement categories for the Group's financial assets and liabilities.
- *NZ IFRS 15 Revenue from Customer Contracts* supersedes *NZ IAS 11 Construction Contracts* and *NZ IAS 18 Revenue*. The standard came into effect on 1 January 2018 and was adopted retrospectively from 1 April 2018. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and required revenue to be recognised at an amount reflecting the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. NZ IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The majority of the revenues of the Group are derived from rental income from lease agreements with tenants of the investment properties. Accounting for lease income is out of the scope of NZ IFRS 15. The implementation of NZ IFRS 15 has required a change in the presentation of service charges in the statement of comprehensive income. Previously, The Group presented the income generated from service charges recovered from tenants as an offset to property operating expenses. In implementing NZ IFRS 15, these components have been separated out between income and expense as income falls under the scope of NZ IFRS 15 and cannot be netted off against related expenses. As a result, the 2018 comparatives have been restated as follows: gross rental income increased by \$753,766 and property operating expenses increased by \$753,766. These have also had a flow on impact to the statement of cash flows where gross rent received has increased by \$756,766 and operating expenses has also increased by \$756,766.

New NZ IFRS Standards and Interpretations Issued But Not Yet Adopted

Accounting standards and interpretations, considered relevant to the operation of the Group, that have not been applied during the reporting year, or have been issued but are not yet effective as at the date of issuance of these Financial Statements are outlined below. If applicable, the Group intends to adopt these when they become effective.

These accounting standards and interpretations are

- *NZ IFRS 16 Leases* is effective 1 January 2019, applicable to the Group from 1 April 2019. As the Group is a lessor of investment property, accounting for leases as lessor under the current standards is similar to the new standard and as a lessor, there are no changes to the groups current accounting treatment and disclosure of leases.
- *NZ IAS 1 Presentation of Financial Statements* is effective 1 January 2020, applicable to the Group from 1 April 2020. Management have assessed NZ IAS 1 and have found that it had minimal impact on the financial reporting.
- *NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* is effective 1 January 2020, applicable to the Group from 1 April 2020. Management have assessed NZ IAS 8 and have found that it had minimal impact on the financial reporting.



7. Significant Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Where material, information on significant judgements, estimates and assumptions is provided in the relevant accounting policy or provided in the relevant note disclosure.

The estimates and underlying assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Estimates are subject to ongoing review and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in future years affected.

The following are significant management judgements in applying the accounting policies of the Group that have a significant effect on the financial statements:

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Board of Directors have determined the appropriate valuation techniques and inputs for fair value measurements. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in later notes.

Impairment

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

Deferred Tax Assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax losses or credits. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full.



8. Significant events and transactions

Sale of 110 Symonds Street, Auckland

As at 31 March 2019, the Group had entered into an unconditional agreement for the sale of its property at 110 Symonds Street, Auckland, for net \$35,000,000, with settlement occurring post balance date on 27 September 2019. The property has been separately disclosed as investment property classified as held for sale.

Misappropriated Funds

During the yearended 31 March 2019, a fraud against the company was uncovered.

Once knowledge of the fraud became known, the directors engaged PwC Forensic Services, to investigate and report to the Group. The scope of the review undertaken by PwC was subject to a number of assumptions and limitations including the date to which historical bank information was available, and therefore only covered the period from 8 September 2008 to September 2018.

The amount of monies identified as being misappropriated -	\$ 966,339.42
This is the amount determined by directors as the amount for which they will seek recovery, from the perpetrator and any other avenues available to them, and have recorded a recoverable amount as:	
Fraud Recovery Receivable of -	\$ 966,339.42
However, as at balance date, while a number of steps have been taken to secure assets and payment from the perpetrator, the progress of these is such that it is not able to be determined with any certainty, what the value of those recoveries are likely to. The directors have therefore determined to fully impair the Fraud Recovery Receivable in the current year.	
Impairment of Fraud Recover Receivable	\$966,339.42
Net Value of Fraud Recovery Receivable	\$0.00
As a result of the impairment of the Fraud Recovery Receivable, there is an Income statement impact in the current year, of the same amount	
Impairment of Fraud Recovery Expenses (Income Statement)	\$966,339.42
As the fraud was largely committed by the diversion of payments due to the Inland Revenue Department (IRD), the company has a continued liability for those payments to be made. The Group has accrued in respect to the fraud amount, this liability to the IRD as a Current liability under Accounts Payable.	
Provision for Fraud Expenses	\$966,339.42
Less paid prior to Balance date	\$172,069.98
Amount owing at balance date	\$794,269.44



The misappropriated funds relate to money owing to the IRD for Dividend Withholding Tax(DWT) as well as other amounts owed for Lease Incentives, Management Fee/Opex Washups, Unclaimed Distributions, and Other Payments.

In the 2019 year \$720,000 has been paid to Inland Revenue consisting of the following as at 31 March 2019:

The Group was seeking remission of the above penalties and interest as at 31 March 2019. As of 28 June 2019 these have been remitted and will be repaid to the Group.

The costs associated with recovering misappropriated funds during the period have been met by Investment Services Limited. Investment Services Limited will not be seeking recovery from the Group for the period.



9. Revenue

Revenue is accounted for in accordance with *IFRS 15 Revenue from Contracts with Customers* where appropriate.

IFRS 15 Revenue from Contracts with Customers was adopted during the current year. The comparative figures for the year ended 31 March 2018 have been restated to match the current treatment.

Revenue is recognised when or as control of promised services is transferred to the particular customer with an amount that reflects the consideration that the entity expects to be entitled to in exchange for those services

	NOTES	2019	2018
Revenue			
Gross rental income			
Rental from Investment Properties		2,695,473	3,483,994
Service charge income recovered from tenants (NZ IFRS 15 Revenue from Contracts for Customers)		531,685	756,766
Impairment loss		(3,266)	-
Lease incentives		(73,219)	-
Total Gross rental income		3,150,671	4,240,760
Total Revenue		3,150,671	4,240,760

The following is a description of the Principal activities the Group generates revenue:

- The Group provides additional services to the tenants of the Groups Investment Property – The Group reports the revenue from these additional services in the Gross Rental income line in the statement of profit or loss and other comprehensive income.
- Additional services involve the management of the Groups Investment property leased to tenants. The contracts associated for these additional services are structured so the Group is reimbursed for subcontracted vendor costs as well as associated overhead and management fee expenses (service charge income recoveries). Additional services represent a series of distinct services rendered over time to deliver the overall performance obligation of managing the tenancy and property for each tenant.
- The amount of revenue recognised is Gross for all additional services – an offsetting amount is recorded under other operating expenses.
- The payment for these additional services are reimbursements of cost of third-party services delivered to tenants that are controlled by the Group, therefore the Group is considered to be Principal for those services.
- Where the Group does not control third-party services delivered to tenant the Group is considered to be agent and therefore offsets the revenue and expense against each other for those services.

	NOTES	2019	2018
10. Administrative Expenses			
Accountancy & Registry		32,563	26,109
Audit Fees		13,050	11,200
Sundry Expenses		5,091	15,233
Insurance		2,674	2,914
Legal Expenses		4,117	7,492
Management Fees		175,279	223,135
Leasing Costs		31,963	7,996
Penalties - IRD		23,411	-
Valuation Fees		6,000	10,700
Total Administrative Expenses		294,147	304,779



	NOTES	2019	2018
11. Other Operating Expenses			
Total Operating Expenses		830,993	1,562,018
Total Other Operating Expenses		830,993	1,562,018

	NOTES	2019	2018
12. Finance Costs			
Interest on Loans		813,920	810,285
Total Finance Costs		813,920	810,285

	NOTES	2019	2018
13. Investment Income			
Finance Income			
Dividends Received		2,269	-
Interest Received		1,711	2,864
Total Finance Income		3,979	2,864
Total Investment Income		3,979	2,864

14. Income Tax

1. Components of income tax expense
2. Income tax expense calculation
3. Income tax payable / (receivable) reconciliation

	NOTES	2019	2018
Components of income tax expense			
Current Taxation		346,920	438,631
Total income tax expense		346,920	438,631

	NOTES	2019	2018
Income Tax Expense			
Income Tax Expense			
Current Tax		346,920	438,631
Deferred Tax		-	-
Total Income Tax Expense		346,920	438,631
Reported income			
Profit before tax from continuing operations		249,251	1,566,540
Profit before tax from discontinued operations		-	-
Total Reported income		249,251	1,566,540
Taxable Profit / (Loss)		249,251	1,566,540
At effective income tax rate of 28%		69,790	438,631



Increase/(Decrease) in income tax due to:

Non Deductible Expenses	6,555	-
Impairment of Accrued Fraud Recovery	270,575	-
Total Increase/(Decrease) in income tax due to:	277,130	-

Current Tax Expense	346,920	438,631
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Reported as

Income Tax reported in Profit or Loss	346,920	438,631
Income Tax attributable to discontinued operations	-	-
Income Tax Expense / (Income)	346,920	438,631

NOTES 2019 2018

Income tax payable / (receivable)**Income tax payable / (receivable)**

Opening Balance	24,786	6,992
Current tax expense	346,920	438,631
Deferred Tax Movement	-	-
Losses Brought Forward	-	-

Tax Paid

Imputation Credits Received	(635)	-
Income Tax Paid	(635,168)	(420,036)
RWT Paid	(590)	(802)
Total Tax Paid	(636,392)	(420,838)

Total Income tax payable / (receivable)	(264,686)	24,786
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NOTES 2019 2018

15. Deferred Tax Assets & Liabilities**Deferred Tax Liabilities**

Opening Balance	383,614	383,614
Total Deferred Tax Liabilities	383,614	383,614

NOTES 2019 2018

Deferred Tax arises from**Tax Asset Base**

Income tax losses carried forward	-	-
Total Tax Asset Base	-	-

Deferred Tax @ 28%

Tax Liability Base

Incremental depreciation for tax purposes	1,370,051	1,370,051
Total Tax Liability Base	1,370,051	1,370,051

Deferred Tax @ 28%	383,614	383,614
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	NOTES	2019	2018
16. Imputation Credit Account			
Imputation Credit Account			
Opening Balance		(648,474)	(613,982)
Prior year adjustment		-	-
Increases			
IRD Interest		-	-
Imputation credits converted to losses		-	-
Income Tax Paid		635,168	420,036
Resident Withholding Tax Paid		590	802
Imputation credits on dividends received		635	-
Total Increases		636,392	420,838
Decreases			
Imputation Credits Attached to Dividends		91,473	455,331
Income Tax Refund		-	-
Total Decreases		91,473	455,331
Closing Balance		(103,555)	(648,474)
	NOTES	2019	2018

17. Bank and Cash balances

Cash at Bank		207,519	995,209
Total Bank and Cash balances		207,519	995,209
	NOTES	2019	2018

18. Investment Property

Investment Property			
Opening Balance		45,840,000	44,740,000
Net Change in Fair Value		370,000	1,100,000
Transfer to investment property classified as held for sale		(34,000,000)	-
Total Investment Property		12,210,000	45,840,000
Total Investment Property		12,210,000	45,840,000



19. Investment property classified as held for sale

During the current year, the disposal of the property at 110 Symonds Street, Auckland was approved. Following the change in intention from holding the investment property for capital gains to disposing it, the Group reclassified the property from investment property to investment property classified as held for sale.

As at 31 March 2019, the Group entered into an unconditional agreement for the sale of this property for \$35,000,000 net of vendor underwrite. As at 31 March 2019, the property is held at \$33,942,977, being the sale price, net of disposal costs of \$1,093,632, with the addition of capitalised lease incentives net of amortisation relating to the property of \$36,610. Settlement will occur post balance date on 27 September 2019. (Note 33)

A summary of the current year Profit & Loss items relating to 110 Symonds Street that will be effectively lost in the next year are as follows:

Total "Direct" Revenue lost: \$2,148,371
 Total "Direct" Expenses lost: \$835,056
 Total Interest Expense lost: \$813,920

Profit Effect: \$499,395 reduction in profit

The disposal costs include a 5% gain fee of \$450,000 payable to the Manager under the management agreement. It is the Managers intention for this fee to be paid.

	NOTES	2019	2018
20. Other Non-Current Assets			
Accrued fraud recovery		966,339	-
Less: provision for impairment of accrued fraud recovery	21	(966,339)	-
Accrued fraud recovery - net		-	-
Sale Costs - 110 Symonds Street		8,382	-
Total Other Non-Current Assets		8,382	-

During the 2019 year it was discovered that funds had been misappropriated in prior years totaling \$966,339.42. The misappropriated funds relate to money owing to the IRD for Dividend Withholding Tax(DWT) as well as other amounts owed for Lease Incentives, Management Fee/Opex Washups, Unclaimed Distributions, and Other Payments.

The Group is seeking to recover the funds mentioned above which were misappropriated in prior years. The amount sought is currently not confirmed and the recovery depends on legal action, the outcome of which will not be known for some time. At this time a provision for the recovery has been created amounting to the core funds misappropriated.

An expected credit loss has been calculated at a rate of 100% on the accrued fraud recovery as at 31 March 2019, due to the current uncertainty of the recovery. This impairment will be reviewed each year to reflect the current recovery likely to be received.

21. Impairment Allowance

Movements in the impairment allowance for accrued fraud recovery for the year ended 31 March 2019 are as follows:

	NOTES	2019	2018
Opening impairment allowance of accrued fraud recovery			
At 1 April under IFRS 9		-	-
Restated through opening retained earnings		-	-
Opening impairment allowance of accrued fraud recovery		-	-
Impairment loss during the year			
Increase during the year	20	966,339	-
Impairment loss during the year		966,339	-
At 31 March		966,339	-

	NOTES	2019	2018
22. Summary of Financial Instruments			
Financial Assets at amortised cost			
Current			
Bank & cash		207,519	995,209
Trade and other receivables			
Prepayments		63,505	(588)
Sundry Debtors		25,380	54,350
Penalties & interest remitted		306,631	-
Trade Debtors		1,917	27,314
Trade Debtors - Impairment loss		(3,756)	-
Total Trade and other receivables		393,678	81,076
Total Current		601,196	1,076,285
Total Financial Assets at amortised cost		601,196	1,076,285
Financial Liabilities at amortised cost			
Current			
Trade and other payables		148,690	365,169
GST Payable		54,282	50,782
Other Liabilities		794,269	-
Total Current		997,241	415,951
Interest-bearing loans & borrowings			
Current interest-bearing loans & borrowings		-	18,898,636
Non-current interest-bearing loans & borrowings		18,898,636	-
Total Interest-bearing loans & borrowings		18,898,636	18,898,636
Total Financial Liabilities at amortised cost		19,895,877	19,314,587

ANZ Bank repayment terms - terminating 30 October 2020 with floating interest. 22 Monthly repayments of interest only will be made commencing 1 month following the drawdown of the loan dated 14 December 2018, each amounting to the total of all daily interest charges for the relevant monthly period. The daily interest charge is calculated on the closing balance of the loan account each day at the applicable interest rate based in a 365 day year.

One final payment of \$18,898,637 will be made on the last day of the term of the loan plus interest on all daily balances from the date on which interest was last debited through to the date of this payment, calculated at the applicable interest rate based on a 365 day year.



	NOTES	2019	2018
23. Trade and other receivables			
Trade Receivables		1,917	27,314
Less: provision for impairment of trade receivables	24	(3,756)	-
Total Trade and other receivables		(1,839)	27,314

	Current	120+ Days	Total
Expected loss rate %	10%	10%	
Gross carrying amount	35,897.74	1,664.7	37,562.44
Loss provision	3,589.774	166.47	3,756.24

24. Impairment Allowance - Trade Receivables

Movements in the impairment allowance for trade receivables for the year ended 31 March 2019 are as follows:

	NOTES	2019	2018
Opening provision for impairment of trade receivables			
At 1 April under IFRS 9		-	-
Restated through opening retained earnings		-	-
Opening provision for impairment of trade receivables		-	-
Impairment loss during the year			
Increase during the year	23	3,756	-
Receivable written off during the year as uncollectible		-	-
Impairment loss during the year		3,756	-
At 31 March		3,756	-

Security Held for Loans

The Loan is secured by the following:

Cross Guarantee and Indemnity between First NZ Properties Limited, Symonds110 Limited, Sheffield Crescent Property Limited;

Registered first ranking Mortgage over 110 Symonds Street, Grafton, Auckland by Symonds110 Limited;

Registered first ranking Mortgage over 15 Sheffield Crescent, Burnside, Christchurch by Sheffield Crescent Property Limited;

Registered first ranking General Security Agreement over all the present and after acquired property of Symonds110 Limited, Sheffield Crescent Property Limited, Foodstore Cranmer Limited;

Registered first ranking General Security Agreement over all the present and after acquired property of First NZ Properties Limited;



25. Financial Instrument Risks

This note deals with exposures to interest rate, credit and liquidity risks 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 Groups performance. The Group has interest rate risk through its bank loans. Loans are subject to floating interest rates. The Group continually reviews these rates and may use interest rate derivatives 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 Group 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 Group 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.

Market risk

Market risk arises from the price risk from the Group's investment property. Investment property that is not fully occupied, or that has not been appropriately positioned in the market will expose the Group to fair value risk and price risk. The Group looks to maintain a strategic refurbishment and leasing plan that is reasonable and achievable through the utilisation of specialist property management experience to ensure re-positioning opportunities that increase rental income across the Group are explored. The Groups properties are assessed at least once a year against several criteria to determine whether property should be sold or remain in the Group.

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

Capital Disclosures

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, retained earnings)

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders

The Group monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt adjusted capital as defined above. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents.

The debt-to-adjusted-capital ratios at 31 March 2019 and at 31 March 2018 were as follows:

	NOTES	2019	2018
Debt to adjusted capital ratio			
Loans and borrowings		18,898,636	18,898,636
Less: Cash and cash equivalents		(207,519)	(995,209)
Net Debt		18,691,118	17,903,427
Total Equity		26,747,751	27,093,299
Total adjusted capital		26,747,751	27,093,299
Debt to adjusted capital ratio (%)		70	



	NOTES	2019	2018
26. Other Liabilities			
Property Sinking Fund		-	100,000
Funds Owing to Parties as a Result of Fraud		794,269	-
Total Other Liabilities		794,269	100,000

Property Sinking Fund

During the 2019 year it was decided by management to release the property sinking fund relating to 110 Symonds Street, Auckland to the Profit & Loss following the reclassification of the property from investment property to investment property held for sale.

Funds Owing to Parties as a Result of Fraud

During the 2019 year it was discovered that funds had been misappropriated in prior years totaling \$966,339.42. The misappropriated funds relate to money owing to the IRD for Dividend Withholding Tax(DWT) and Goods and Services Tax(GST) as well as other amounts owed for Lease Incentives, Management Fee/Opex Washups, Unclaimed Distributions, and Other Payments.

The Liability put in place consists of the following:

- Core DWT owing to Inland revenue of \$366,815. During the year \$172,070 of the tax owing was repaid to the inland revenue.
- Core GST owing to Inland revenue of \$360,309. As at 31 March 2019 none of this amount has been repaid.
- Amounts owed to other parties for Lease Incentives, Management Fee/Opex Washups, Unclaimed Distributions, and Other Payments. Totaling \$239,215. As at 31 March 2019 none of this amount has been repaid.

	NOTES	2019	2018
27. Issued Capital			
4,065,452 - Ordinary Shares		4,065,452	4,065,452

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

The total number of authorised share at balance date was 4,065,452 (prior year 4,065,452) of \$1 each. At balance date all authorised shares were issued and fully paid.

	NOTES	2019	2018
28. Dividends Paid			
Cash dividends declared and paid during the year			
Interim Dividend for current year		-	585,425
Final Dividend for prior year		524,247	585,425
Total Cash dividends declared and paid during the year		524,247	1,170,850
Dividend per share (cents)		13	29



29. 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 \$175,279 (2018: \$223,135) 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. It is the Managers intention to paid this fee on the sale of 110 Symonds Street, Auckland in the upcoming financial year.

Corvus Consulting Limited commenced provides accounting and registry services to the Group. 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 \$24,840 (2018: \$2,070) in accounting and registry fees during the year.

Activa Consulting provided accounting and registry services to the group in the prior year up to the end of February 2018 when Activa Consulting and Neil Barnes ceased providing services to the Group. All transactions conducted by the Group with Activa Consulting Limited were related party transactions as Neil Barnes is a Director of Activa Consulting Limited. In the prior financial year the Group paid Activa Consulting Limited \$24,039 in accounting and registry fees.

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:

Michael Millar	61,178 Shares
Investment Services Limited	280,997 Shares
Neil Barnes	50,802 Shares (resigned 27 Feb 2018)

30. Lease Agreement Terms

15 Sheffield Crescent

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

31. Minimum Lease Income

The Group has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have remaining lease terms as noted above. All leases include a clause to enable upward revision of the rental charge on various review dates based on prevailing market conditions.

Future minimum net rentals receivable, after incentive rebates, under non-cancellable leases at the balance sheet date areas follows:

	NOTES	2019	2018
Minimum Lease Income			
Within one year		1,876,901	2,319,060
After one year but not more than five years		4,009,200	6,294,595
More than five years		650,808	2,107,252
Total Minimum Lease Income		6,536,910	10,720,907



32. Management Fees

A fee of 6.5% per annum of lease rentals was payable to the Investment Manager in the year ended 31 March 2019. The management agreement also provides for a performance fee of 5% of any gain arising from the sale of a property.

It is the intention of the Investment Manager to be paid the 5% gain fee on the sale of 110 Symonds Street, Auckland in the upcoming financial year.

33. Group Information and Investment in Subsidiaries

The consolidated financial statements of the Group include:

Name	Principle Activity
Parent	
First NZ Properties Limited	Property investment and management
Subsidiaries	
Sheffield Crescent Property Limited	Property investment
Symonds110 Limited	Property investment
Kilmore Street Property Limited	Dormant - Discontinued 09/11/2018
Foodstore Properties (Te Atatu) Limited	Dormant - Discontinued 12/10/2018
Foodstore (Cranmer) Limited	Dormant -Discontinued 09/11/2018

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.

	NOTES	2019	2018
Investments in Subsidiaries			
Kilmore Street Property Limited		-	100
Foodstore Properties (Te Atatu) Limited		-	100
Foodstore (Cranmer) Limited		-	100
Sheffield Crescent Property Limited		100	100
Symonds 110 Limited		100	100
Total Investments in Subsidiaries		200	500

34. Contingent Assets and Contingent Liabilities

There are no Contingent Assets and Liabilities at year end (Last Year: \$Nil)

35. Capital Commitments

There are no capital commitments at year end (Last Year: \$Nil)



36. Subsequent Events

In June 2019, Inland Revenue remitted the Interest & Penalties charged to the Group in relation to the outstanding Dividend Withholding Tax payable as a result of fraud. Multiple companies that were affected by the fraud including First NZ Properties applied for interest & penalties remission with Inland Revenue. As at balance date one of the companies had its penalties remitted with the remaining companies including First NZ Properties still having the request processed. On the basis that all affected companies had similar Fraud, Interest & Penalties applied and that one company had its interest and penalties remitted at balance date, it has been determined that an adjusting event has taken place and as such an adjustment has been made to reflect the penalties & Interest remitted after balance date in the current financial year.

	NOTES	2019	2018
37. Earnings Per Share			
Reconciliation of those amounts used as the numerator to profit or loss			
Profit for the year and earnings used in basic and diluted EPS		178,699	2,227,909
Reconciliation of the weighted average of shares used as the denominator to profit or loss			
Weighted average number of shares used in basic and diluted EPS		4,065,452	4,065,452
Basic and diluted earnings per share (cents)		4	55



38. Valuations

Investment property comprises a significant industrial premises situated at Sheffield Crescent in Christchurch. The property is currently leased under the terms and to the tenants disclosed in Note 30. They have been provided as security for the borrowings referred to in Note 22.

The investment property is measured at fair value and was valued as at 31 March 2019 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 property is summarised as follows:

	Sheffield Crescent
Purpose	Financial reporting
Amount of valuation	\$12,210,000 (2018: \$11,840,000)
Valuer	Colliers International
Basis of valuation	The determination of the values stated were market value subject to existing tenancies and occupational arrangements.
Assessment approach	Discounted cash flow Capitalisation approach
Vacancy rate	Nil (2018: Nil)
Weighted average lease term	5.64 years (2018: 6.64 years)
Value per square metre	\$855 (2018: \$828)
Capitalisation rate	8.25% (2018: 8.5%)
Discount rate	9.75% (2018: 10.00%)
Terminal yield	8.75% (2018: 9.00%)
Net market rent	\$1,008,474 (2018: \$1,008,474)
Net passing rent	\$1,002,300 (2018: \$1,002,300)

The valuation 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 property. The valuation also assumes on expiry of the current lease terms the Group will be able to re-tenant the property at or above market rates. The valuation assumes the buildings meet the minimum seismic ratings requirements and that no capital expenditure is required on earthquake strengthening.

The following table outlines the valuation techniques measuring fair value of the investment property, 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 9.75%</p> <p>Terminal yields of 8.75% at the end of the 10 year period</p> <p>Assessed market rentals of \$1,008,474</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 8.25%</p> <p>Assessed market rentals of \$1,008,474</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.

	NOTES	2019	2018
39. Reconciliation of the net cash flow from operating activities to profit (loss)			
Net profit / (loss) after tax		(97,669)	1,127,909
Changes in Assets and Liabilities			
(Increase) / decrease in accounts receivable		(312,602)	(6,376)
Increase / (decrease) in accounts payable		(216,479)	53,502
Increase / (decrease) in GST payable		3,500	(28,278)
(Increase) / decrease in income tax		(289,472)	17,792
Increase / (decrease) in Property Sinking Fund		(100,000)	-
Increase / (decrease) in impairment allowance		966,339	-
DWT Arrears penalties and interest paid classified as financing activities		330,042	-
Total Changes in Assets and Liabilities		381,328	36,640
Net cash inflow / (outflow) from operating activities		283,659	1,164,549



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of First NZ Properties Limited

Opinion

We have audited the financial statements of First NZ Properties Limited and its controlled entities (the Group) on pages 6 to 36, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 March 2019, and its consolidated financial performance and its consolidated 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 we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 First NZ Properties Limited or any of its controlled entities.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the Key Audit Matter
<p>Valuation of Investment Properties – Notes 18, 19 and 38</p> <p>The Group's Investment Properties were valued at \$12,210,000 for Investment Property and at \$33,942,977 for Investment property classified as held for sale which represented 25% and 72% of the total assets respectively at 31 March 2019.</p>	<p>We performed the following procedures over the valuation of investment property and investment property classified as held for sale:</p> <ul style="list-style-type: none"> Scrutinised the valuation report prepared by management's expert, including the methodology

Key Audit Matter	How we addressed the Key Audit Matter
<p>Management rely on the valuation which was carried out by an independent valuer for the property classified as Investment Property. The valuer performed their work in accordance with NZ IAS 40: Investment Property.</p> <p>The key assumptions in relation to the valuation were:</p> <ul style="list-style-type: none"> • Weighted average lease term; • Value per square metre; • Capitalisation rates; • Discount rate; • Terminal yield; • Net market rent; and • Net passing rent <p>Management determined the carrying value of Investment property classified as held for sale based on the sale price less costs to sell as the best indicator of fair value.</p> <p>We considered the valuation of investment property and investment property classified as held for sale to be a key audit matter because of the financial significance of the carrying value and the subjective judgments required in the assumptions.</p>	<p>employed and key assumptions and estimates used;</p> <ul style="list-style-type: none"> • Evaluated whether the expert had the necessary competence, capabilities and objectivity to undertake the valuation; • Challenged the various assumptions used in the valuation. In particular, we compared the valuation assumptions used by the valuers to market evidence and current market conditions. • Challenged management’s reclassification of the property to investment property classified as held for sale and the carrying value applied to the transaction.
Significant Event – Misappropriated funds – Notes 8, 19 and 23	
<p>We considered the recognition and treatment of the misappropriation of funds against the company to be a key audit matter because of the subjective judgements required in the recognition, measurement, presentation and disclosure of the event and the subsequent actions by the Group.</p>	<p>We performed the following procedures over the recognition, measurement, presentation and disclosure:</p> <ul style="list-style-type: none"> • Considered the impact of the misappropriation of funds in the planning for the audit; • Scrutinised the review report prepared by management’s expert, including the methodology employed, assumptions made and limitations identified in the quantification of the funds misappropriated; • Reviewed the correspondence and updates provided by the Group to shareholders on progress around the funds misappropriated; • Reviewed the IRD debts that were identified as a result of the report developed by management’s expert; • Challenged management on the method of recognition applied for the Fraud Recovery

Key Audit Matter	How we addressed the Key Audit Matter
	<p>Receivable and the assumptions, including certainty, of the recoverability of the receivable;</p> <ul style="list-style-type: none"> Reviewed the presentation and disclosure of the events presented in the annual report to ensure that these were complete, accurate and a true and fair presentation of the events and management's judgements.

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, Approval of Financial Report and Directory on pages 3 to 5 and 41 to 42, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.

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 our 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.

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

For and on behalf of:



Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS

Dated at Nelson this 31st day of July 2019

Directory

First NZ Properties Limited For the year ended 31 March 2019

Nature of Business

Commercial Property Investment

Business Location

Physical Address

Registered Office

Level 1
3/237 Queen Street
Richmond 7031

Date of Incorporation

23 August 1995

Incorporation Number

656559

New Zealand Business Number

9429038569333

IRD Number

065-072-920

Directors

Paul Mephan
Michael Millar

Bankers

Bankers

Solicitors

Solicitors

Auditors

Auditors

Chartered Accountant

RWCA Limited
Level 3, 7 Alma Street, Buxton Square, Nelson 7010

Investment Manager, Property Manager, Share Register, Secondary Market

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