

First NZ Properties Limited



Annual Report for the year ended 31 March 2005

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Management Report & Market Commentary

The Market

Over the past 12 months property as an asset class has continued to be popular with the net yield on commercial properties staying at similar levels to last year. Quality commercial property has sold during the year at yields of between 8% and 9% net return. The New Zealand retail consumer market has continued to remain buoyant.

Over the last year the interest rates have increased with the 90-day bill rate moving from 5.51% to 7.08%. This has increased the cost of borrowing to a level where it is difficult to purchase a sound commercial building which will provide a margin between the borrowing rate and capitalisation rate.

Your Properties

First NZ Properties Ltd has had a significant year in its history. The decision was made to sell the Foodtown Te Atatau when an offer was received which was significantly above the valuation of the property. The lease had only a few years to run at Te Atatu and it was likely on expiry of the lease either the supermarket tenant would not renew or significant development of the site would be required. Either of these options would have created a large amount of financial stress to the fund. The sale of Foodtown TeAtatu was \$4,600,000 and it was represented in the accounts at March 2004 at \$3,800,000. This resulted in a significant capital gain for the shareholders.

The fund has purchased an industrial property at 15 Sheffield Crescent, in Christchurch. It is occupied by Christchurch Yarns NZ Ltd. Christchurch Yarns process raw wool into carpet yarn primarily for export. They have unique method of mixing the yarn which is in demand in the carpet industry. The site has room to expand the building at a later stage if required. The lease is for 12 years with two yearly market related rent reviews.

This purchase has helped strengthen the portfolio and increase the average lease length of the fund based on the floor area to 11 years.

Company Name

As the portfolio no longer owns any Food related properties the decision was made to change the company name from Foodstore Properties Limited to First New Zealand Properties Limited.

The value of the portfolio at the end of March 2004 was \$10,600,000 by March 2005 the size of the fund had increased to \$16,225,000. This represents an overall increase in the size of the fund of 53% for the year.

Report of the Directors to the Shareholders

Your Directors take pleasure in presenting their Annual Report including the financial statements of the Company for the period ended 31 March 2005.

Activities

The Company is involved in the property rental business.

Dividends

\$283,927 was paid in Dividends due for the period ended 31 March 2005. Associated dividend withholding tax paid amounted to \$139,845.

Directors

The following Directors held office during the year ended 31 March 2005.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2005.

Remuneration of employees

No employees' remuneration exceeded \$100,000.

Auditors

Richards Woodhouse 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 Company with Investment Services Limited are related party transactions, as Michael Millar is a Director of, and Neil Barnes and Virginia Laughton employees of, Investment Services Limited.

Interested transactions were:-

Investment Services Limited

Payment of fees for management, accounting and registry services	171,594
	<u>\$171,594</u>

Share purchases

No share transactions took place during the period.

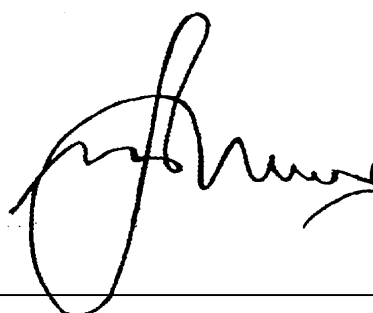
Directors' loans

There were no loans by the Company to the Directors.

Directors' indemnity and insurance

The Company's Directors and the Directors of its subsidiaries are insured against liabilities to other parties (except the Company or a related party of the Company) 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: 19 September 2005

FIRST NZ PROPERTIES LIMITED
Statement of financial performance
For the year ended 31 March 2005

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Income					
Rent received	3	1,129,356	647,366	-	-
Interest received		40,644	126,616	698,472	508,036
Gain on sale of property		860,000	502,000	-	-
Total Income		<u>2,030,000</u>	<u>1,275,982</u>	<u>698,472</u>	<u>508,036</u>
Less expenditure					
Accountancy		7,392	7,392	7,392	7,392
Audit fees		3,177	2,078	3,177	2,078
Bank charges		2,043	2,006	2,043	2,006
General expenses		4,855	9,358	4,855	9,358
Insurance		4,769	6,378	4,769	6,378
Interest		568,252	207,737	568,252	207,737
Legal fees		14,450	70,784	14,450	70,784
Management fees	4	156,282	114,749	-	-
Repairs and irrecoverable opex		28,140	-	28,140	-
Printing		958	5,176	958	5,176
Registry fees		7,920	7,920	7,920	7,920
Sales commission		46,000	-	46,000	-
Valuation fees		11,116	10,756	11,116	10,756
Total Expenditure		<u>855,354</u>	<u>444,334</u>	<u>699,072</u>	<u>329,585</u>
Net surplus before taxation		<u>1,174,646</u>	<u>831,648</u>	<u>(600)</u>	<u>178,451</u>
Income tax	8	331,622	296,851	331,622	296,851
Net surplus before revaluation		<u>843,024</u>	<u>534,797</u>	<u>(332,222)</u>	<u>(118,400)</u>
Unrealised (decrease)/increase In value of investment properties		325,000	(137,000)	-	-
Net surplus		<u><u>1,168,024</u></u>	<u><u>397,797</u></u>	<u><u>(332,222)</u></u>	<u><u>(118,400)</u></u>

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 12 and the audit report on page 13.

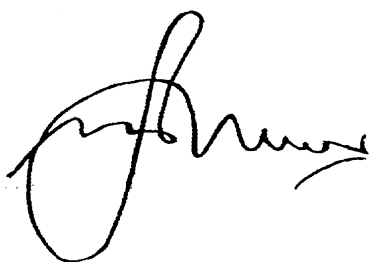
FIRST NZ PROPERTIES LIMITED
Statement of movements in equity
For the year ended 31 March 2005

	<i>Group</i>		<i>Parent</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Total equity at beginning of period	5,729,174	6,104,562	1,819,769	2,711,354
Net surplus for the period	1,168,024	397,797	(332,222)	(118,400)
Total recognised revenue and expenses for the period	1,168,024	397,797	(332,222)	(118,400)
Distributions to shareholders	(272,385)	(283,927)	(272,385)	(283,927)
Share repurchase	-	(489,258)	-	(489,258)
Total equity at end of period	6,624,813	5,729,174	1,215,162	1,819,769

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 12 and the audit report on page 13.

FIRST NZ PROPERTIES LIMITED
Statement of financial position
As at year ended 31 March 2005

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Equity	5&6	6,624,813	5,729,174	1,215,162	1,819,769
Represented by:					
Current assets					
Cash and bank balances	7	243,087	704,021	243,087	704,021
Accounts receivable		5,312	13,553	-	-
Taxation refund due		7,171	-	7,171	-
		<u>255,570</u>	<u>717,574</u>	<u>250,258</u>	<u>704,021</u>
Non-current assets					
Investment properties		15,825,000	10,440,000	-	-
Loans in subsidiaries	11	-	-	10,420,161	6,543,748
Shares in subsidiaries	11	-	-	500	400
		<u>16,080,570</u>	<u>10,440,000</u>	<u>10,670,919</u>	<u>7,248,169</u>
Total assets					
Less liabilities:					
Current liabilities					
Accounts payable		76,256	49,806	76,256	49,806
GST payable		22,051	17,974	22,051	17,974
Loans		2,000,000	-	2,000,000	-
Taxation payable		-	360,620	-	360,620
		<u>2,098,307</u>	<u>428,400</u>	<u>2,098,307</u>	<u>428,400</u>
Non-current liabilities					
Term loans	9	7,357,450	5,000,000	7,357,450	5,000,000
		<u>9,455,757</u>	<u>5,428,400</u>	<u>9,455,757</u>	<u>5,428,400</u>
Total liabilities					
Net assets		6,624,813	5,729,174	1,215,162	1,819,769



Director
Dated: 19 September 2005



Director
Dated: 19 September 2005

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 12 and the audit report on page 13.

FIRST NZ PROPERTIES LIMITED

Statement of cash flows

For the year ended 31 March 2005

	Note	Group		Parent	
		2005	2004	2005	2004
		\$	\$	\$	\$
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Rents received		1,129,356	711,573	-	-
Interest received		40,644	126,616	40,644	126,616
Refund of advance tax		-	173,619	-	173,619
		<u>1,170,000</u>	<u>1,011,808</u>	<u>40,644</u>	<u>300,235</u>
<i>Cash was applied to:</i>					
Payments to suppliers		(282,962)	(255,244)	(134,921)	(136,685)
Interest		(534,005)	(190,182)	(534,005)	(190,182)
Taxation paid		(699,032)	(70,500)	(699,032)	(70,500)
		<u>(1,515,999)</u>	<u>(515,926)</u>	<u>(1,367,958)</u>	<u>(397,367)</u>
Net cash flow from operating activities	10	<u>(345,999)</u>	<u>495,882</u>	<u>(1,327,314)</u>	<u>(97,132)</u>
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Repayment of loan from subsidiaries		-	-	-	-
Sale of property		4,600,000	4,600,000	-	-
		<u>4,600,000</u>	<u>4,600,000</u>	<u>-</u>	<u>-</u>
<i>Cash was applied to:</i>					
Purchase of property		(8,800,000)	(7,000,000)	-	-
Advance of loan to subsidiaries		-	-	3,218,685	1,806,986
		<u>(4,200,000)</u>	<u>(2,400,000)</u>	<u>(3,218,685)</u>	<u>(1,806,986)</u>
Net cash flows to investing activities		<u>(4,200,000)</u>	<u>(2,400,000)</u>	<u>(3,218,685)</u>	<u>(1,806,986)</u>
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Proceeds from bank loan		4,357,450	3,000,000	4,357,450	3,000,000
		<u>4,357,450</u>	<u>3,000,000</u>	<u>4,357,450</u>	<u>3,000,000</u>
<i>Cash was applied to:</i>					
Repayment of loan		-	-	-	-
Payment of dividends		(272,385)	(283,927)	(272,385)	(283,927)
Repurchase of equity		-	(489,258)	-	(489,258)
		<u>4,085,065</u>	<u>2,226,815</u>	<u>4,085,065</u>	<u>2,226,815</u>
Net cash flows to financing activities		<u>4,085,065</u>	<u>2,226,815</u>	<u>4,085,065</u>	<u>2,226,815</u>
Total (decrease)/increase in cash balances		<u>(460,934)</u>	<u>322,697</u>	<u>(460,934)</u>	<u>322,697</u>
Add Opening cash brought forward		<u>704,021</u>	<u>381,324</u>	<u>704,021</u>	<u>381,324</u>
Closing cash carried forward		<u>243,087</u>	<u>704,021</u>	<u>243,087</u>	<u>704,021</u>

These statements are to be read in conjunction with the notes and accounting policies on pages 7 to 12 and the audit report on page 13.

Notes to the financial statements

1 Statement of significant accounting policies

Basis of preparation

The Company, First NZ Properties Limited (formerly Foodstore Properties Limited), was incorporated in August 1995 and is registered under the Companies Act 1993. The financial statements of the Company and Group have been prepared in accordance with the Financial Reporting Act 1993, and comprise statements of the accounting policies, financial performance, movements in equity, financial position, cashflows, as well as the notes to these statements.

The financial statements have been prepared on the historical cost basis with the exception of the investment properties, which are revalued.

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 stated at net current value as determined annually by an independent registered valuer on an existing use bases. Net current value is market value less anticipated costs of disposal. Revaluation gains or losses are included in the statement of financial performance following the net surplus before revaluation. Investment properties are not depreciated.

Taxation

The Company and Group use the liability method to calculate deferred taxation. Taxation is provided for in the financial statements in respect of the net surplus after allowance for permanent differences and timing differences not expected to reverse in the foreseeable future. This is the partial basis of calculating deferred taxation.

Financial instruments

All financial instruments of the Company and Group are recognised in the statement of financial position.

Accounts receivable

Accounts receivables are stated at estimated realisable value.

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.

Changes in accounting policies

There have been no changes in accounting policies during the year.

Notes to the financial statements (continued)

2 Subsidiaries' statement of financial performance

	<i>Note</i>	<i>Total</i> \$	<i>Sheffield Crescent Limited</i> \$	<i>Foodstore Properties (Te Atatu) Limited</i> \$	<i>Foodstore (Cranmer) Limited</i> \$
Income					
Rental income	3	1,129,356	328,296	214,842	586,218
Expenses					
Management fees	4	156,282	21,339	96,839	38,104
Interest - Parent Company		657,828	207,802	78,132	371,894
Total Expenses		<u>814,110</u>	<u>229,141</u>	<u>174,971</u>	<u>409,998</u>
Net surplus (deficit)		<u>315,246</u>	<u>99,155</u>	<u>39,871</u>	<u>176,220</u>

This net surplus/(deficit) forms part of the net surplus before taxation on page 4.

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

3 Rents receivable

15 Sheffield Crescent

- Tenanted by Christchurch Yarns NZ Limited
- Twelve year term expiring 27 June 2016
- Two rights of renewal of 4 years each
- 2 yearly rent reviews.

KPMG House

Ground Floor – Human Right Commission

- 6 year gross lease expiring 23 February 2009
- No Rights of Renewal
- 2 yearly rent reviews, Ratchet clause on a CPI index rate.

Ground Floor – Enabling Technologies

- 4 year net lease expiring 31 March 2007
- 2 Rights of renewal of 2 years
- 2 yearly rent reviews, no Ratchet clause.

Ground Floor, 3rd, 4th, 5th, 6th floor and naming rights – KPMG

- 12 year lease expiring 18 December 2015
- 1 Right of Renewal of 8 years
- 4 yearly rent reviews, including a Ratchet clause.

1st and 2nd floors – Head leased to KPMG

- 6 year lease expiring 31 December 2009
- 1 Right of renewal of 8 years
- 4 yearly rent reviews, including a Ratchet clause

Notes to the financial statements (continued)

4 Management fees

A fee of 6.5% per annum of rental was payable to the Investment Manager in the year ended 31 March 2005.

5 Share Capital

At 31 March 2005 the total number of shares on issue comprises 4,065,452 shares issued for \$1, and fully paid (2004: 4,065,452 shares issued and fully paid to \$1) rating equally for dividends.

6 Equity

	<i>Group</i>		<i>Parent</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Paid in Capital	4,065,452	4,065,452	4,065,452	4,065,452
Accumulated losses	581,882	11,243	(2,850,290)	(2,245,683)
Realised Capital Reserve	1,952,479	1,154,996	-	-
Investment Property Revaluation Reserve	25,000	497,483	-	-
	6,624,813	5,729,174	1,215,162	1,819,769
<u>Accumulated losses</u>				
Opening balance	11,243	(94,917)	(2,245,683)	(1,698,646)
Net surplus for period	843,024	534,797	(332,222)	(118,400)
Distribution to shareholders	(272,385)	(283,927)	(272,385)	(283,927)
Distributed via share repurchase	-	(144,710)	-	(144,710)
Closing balance	581,882	11,243	(2,850,290)	(2,245,683)
<u>Realised Capital Reserve</u>				
Opening balance	1,154,996	177,227	-	-
Transfer from Property Revaluation res	797,483	977,769	-	-
Closing balance	1,952,479	1,154,996	-	-
<u>Investment Property Revaluation Reserve</u>				
Opening balance	497,483	1,612,252	-	-
Net increase in property valuation	325,000	(137,000)	-	-
Transfer to capital reserve	(797,483)	(977,769)	-	-
Closing balance	25,000	497,483	-	-

Notes to the financial statements (continued)

7 Cash and bank balances

	Group 2005 \$	and Parent 2004 \$
ANZ National Bank accounts	173,956	673,800
ASB Bank account	69,131	30,221
	<u>243,087</u>	<u>704,021</u>

8 Taxation

	Group		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
Surplus before tax and revaluation	1,174,646	831,648	45,400	178,451
Gain on property disposal	(814,000)	(502,000)	-	-
Taxable surplus	<u>360,646</u>	<u>329,648</u>	<u>45,400</u>	<u>178,451</u>
Tax at 33%	119,013	108,784	14,982	58,889
Adjustments for tax effect of Depreciation claimed	(104,031)	(49,895)	-	-
	14,982	58,889	14,982	58,889
Depreciation recovered on property sale	316,640	255,913	-	-
Imputation account catch up	-	155,668	-	155,668
Income tax refund received	-	(173,619)	-	(173,619)
Income tax expense	<u>331,622</u>	<u>296,851</u>	<u>331,622</u>	<u>296,851</u>

The company has a deferred tax liability in respect of depreciation claimed for tax purposes, but not provided for accounting purposes. This liability, which amounts to \$110,603 (2004 \$323,212), is not provided for on the basis that the Group's properties are held for the long term, such that the depreciation timing differences and hence the deferred tax liabilities are not likely to arise in the foreseeable future.

Imputation credits

	Group 2005 \$	and Parent 2004 \$
Balance at beginning of year	(360,620)	(141,394)
Resident withholding tax paid	13,413	33,742
Resident withholding tax refunded	-	(183,623)
2003 tax paid	361,000	-
2004 tax paid	-	70,500
2005 tax paid	325,000	-
	<u>338,792</u>	<u>(220,775)</u>
Imputation credits attached to dividends paid	(134,160)	(139,845)
Balance at end of year	<u>204,632</u>	<u>(360,620)</u>

Notes to the financial statements (continued)

9 Term Loans

	<i>Group and Parent</i>	
	<i>2005</i>	<i>2004</i>
	\$	\$
ASB Bank	7,357,450	5,000,000

Loan 1 - \$4,357,450 for 2 years repayable November 2006, with fixed interest rate of 8.29% per annum, which is the effective interest rate.

Loan 2 - \$3,000,000 for 3 years repayable December 2007, with fixed interest rate of 8.29% per annum, which is the effective interest rate.

The loans are secured by a First Ranking debenture over the assets of Foodstore Properties Limited and a First Ranking mortgage over the two properties.

10 Reconciliation of net profit to net cashflows from operating activities

	<i>Group</i>		<i>Parent</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	\$	\$	\$	\$
Net surplus after tax before revaluation	843,024	534,797	(332,222)	(118,400)
Non cash items				
Less Interest received from subsidiaries	-	-	(657,828)	(381,420)
	843,024	534,797	(990,050)	(499,820)
<i>Add/(less) movements in working capital items</i>				
(Increase)/Decrease in accounts receivable	8,241	60,397	-	-
(Increase)/Decrease in RWT	(7,171)	9,853	(7,171)	9,853
Increase/(Decrease) in accounts payable	26,450	28,792	26,450	28,792
Increase/(Decrease) in net GST	4,077	3,423	4,077	3,423
Increase/(Decrease) in provision for tax	(360,620)	360,620	(360,620)	360,620
	(329,023)	463,085	(337,264)	402,688
	514,001	997,882	(1,327,314)	(97,132)
<i>Items identified as investing activities</i>				
Gain on sale of investment property	(860,000)	(502,000)	-	-
Net cashflows from operating activities	(345,999)	495,882	(1,327,314)	(97,132)

Notes to the financial statements (continued)

11 Investment in subsidiaries

	2005	<i>Parent</i>
	\$	2004
		\$
Shares	500	400
	<hr/>	<hr/>
Loans		
Foodstore Properties (Birkenhead) Limited	2,408,203	2,408,203
Foodstore Properties (Blockhouse Bay) Limited	(177,327)	(177,327)
Foodstore Properties (Te Atatu) Limited	1,993,285	2,033,157
Foodstore (Cranmer) Limited	2,103,496	2,279,715
Sheffield Crescent Limited	4,092,504	-
	<hr/>	<hr/>
	10,420,161	6,543,748
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The parent's investment in subsidiaries comprises shares at cost.

12 Financial instruments

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

Interest rate risk

The Company and Group have long term borrowings. The Company and Group have minimised interest rate risk through fixing the interest rate associated with those borrowings as detailed in note 9.

Credit risk

The Company and Group in the normal course of business have credit risk from accounts receivable, mainly for rent, and bank balances.

The Company and Group manage credit risk in relation to bank balances through transacting only with major trading banks.

At balance date, there were no significant concentrations of credit risk.

No collateral is required in respect of financial assets.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

Audit report

Directory

Nature of business	Property rental	Bankers	ASB Bank Limited 143 Armagh St Christchurch
Paid in capital	\$4,065,452	Auditors	Richards Woodhouse PO Box 98 Nelson
Registered office	Level One 3/237 Queen Street Richmond 7031	Solicitors	McFadden McMeeken Phillips PO Box 656 187 Bridge Street Nelson
Registered under	The Companies Act 1993	Register	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031
Incorporation number	WN656559	Secondary Market	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031
I.R.D. number	65-072-920		
Directors	Michael John Millar Neil Allan Barnes Virginia Anne Laughton		
Investment Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031 Phone (03) 544 2005 Fax (03) 544 2300		
Accountants	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031		