

# First NZ Properties Limited

## Annual Report for the year ended 31 March 2006

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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. The net yield on commercial properties has steadied at between an 8% and 9% return. The market for large buildings has been dominated by offshore funds continuing to purchase these types of property.

Over the last year interest rates have increased with the 90-day bank bill rate moving from 7.08% to a high of 7.69% around December and then eased off to 7.49% during March 2006. This continuing increase has continued to make it difficult to purchase a sound commercial building which will provide a margin between the borrowing rate and capitalisation rate.

## Your Properties

This year has been a period of consolidation for First NZ Properties Ltd after the changes which occurred in the previous financial year. KPMG House in Christchurch has continued to perform well with two minor rent reviews occurring during the year. The Human Rights Commission rental moved from \$51,669 per year to \$54,097. Enabling Technologies rental moved from \$15,865 per year to \$17,140. There was some minor compliance work required to complete a resource consent for smoke discharge required this year.

There have been no changes to the industrial property at 15 Sheffield Crescent in Christchurch. It is due for a rent review during the next financial year.

The value of the portfolio at the end of March 2006 was \$17,500,000 compared to the March 2005 size of \$16,225,000. This represents an overall increase in the size of the fund of 7.9% for the year.

The NTA per share has risen 21.5% from \$1.63 to \$1.98 as at 31 March 2006.

# 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 2006.

## **Activities**

The Company is involved in the property rental business.

## **Dividends**

\$283,927 was paid in Dividends due for the period ended 31 March 2006. Associated dividend withholding tax paid amounted to \$139,845.

## **Directors**

The following Directors held office during the year ended 31 March 2006.

Michael John Millar  
Neil Allan Barnes  
Virginia Anne Laughton (Resigned)

## **Remuneration of Directors**

No Directors remuneration was paid during the year ended 31 March 2006.

## **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 Investment Services Limited.

Interested transactions were:-

Investment Services Limited

Payment of fees for management, accounting and registry services	105,105
	<u>\$105,105</u>

## **Share purchases**

No share transactions took place during the period.

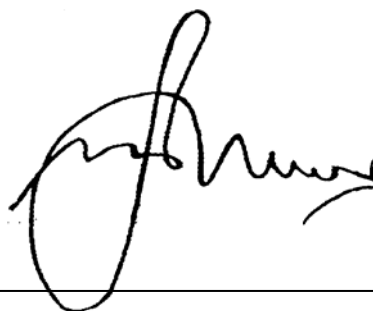
## **Directors' loans**

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: 15 September 2006

**FIRST NZ PROPERTIES LIMITED**  
**Statement of financial performance**  
**For the year ended 31 March 2006**

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Income</b>					
Rent received	<b>3</b>	1,379,842	1,129,356	-	-
Interest received		67,408	40,644	957,424	698,472
Gain on sale of property		-	860,000	-	-
<b>Total Income</b>		<u>1,447,250</u>	<u>2,030,000</u>	<u>957,424</u>	<u>698,472</u>
<b>Less expenditure</b>					
Accountancy		7,626	7,392	7,626	7,392
Audit fees		1,778	3,177	1,778	3,177
Bank charges		426	2,043	426	2,043
General expenses		5,244	4,855	5,244	4,855
Insurance		2,811	4,769	2,811	4,769
Interest		809,244	568,252	809,244	568,252
Legal fees		2,276	14,450	2,276	14,450
Management fees	<b>4</b>	89,319	156,282	-	-
Repairs and irrecoverable opex		25,888	28,140	25,888	28,140
Printing		1,219	958	1,219	958
Registry fees		8,160	7,920	8,160	7,920
Sales commission		-	46,000	-	46,000
Valuation fees		6,000	11,116	6,000	11,116
<b>Total Expenditure</b>		<u>959,991</u>	<u>855,354</u>	<u>870,672</u>	<u>699,072</u>
<b>Net surplus before taxation</b>		<u>487,259</u>	<u>1,174,646</u>	<u>86,752</u>	<u>(600)</u>
Income tax	<b>7</b>	28,628	331,622	28,628	331,622
<b>Net surplus before revaluation</b>		<u>458,631</u>	<u>843,024</u>	<u>58,124</u>	<u>(332,222)</u>
Unrealised (decrease)/increase In value of investment properties		1,225,000	325,000	-	-
<b>Net surplus</b>		<u><u>1,683,631</u></u>	<u><u>1,168,024</u></u>	<u><u>58,124</u></u>	<u><u>(332,222)</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 2006**

	<i>Group</i>		<i>Parent</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Total equity at beginning of period</b>	6,624,813	5,729,174	1,215,162	1,819,769
Net surplus for the period	1,683,631	1,168,024	58,124	(332,222)
Distributions to shareholders	(273,891)	(272,385)	(273,891)	(272,385)
<b>Total equity at end of period</b>	<b>8,034,553</b>	<b>6,624,813</b>	<b>999,395</b>	<b>1,215,162</b>

*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 2006**

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Equity</b>	<b>5&amp;6</b>	<b>8,034,553</b>	<b>6,624,813</b>	<b>999,395</b>	<b>1,215,162</b>
<b>Represented by:</b>					
<b>Current assets</b>					
Cash and bank balances	<b>8</b>	693,865	243,087	693,865	243,087
Accounts receivable		12,868	5,312	7,556	-
Taxation refund due		-	7,171	-	7,171
		<u>706,733</u>	<u>255,570</u>	<u>701,421</u>	<u>250,258</u>
<b>Non-current assets</b>					
Investment properties		17,050,000	15,825,000	-	-
Loans in subsidiaries	<b>11</b>	-	-	10,019,654	10,420,161
Shares in subsidiaries	<b>11</b>	-	-	500	500
		<u>17,756,733</u>	<u>6,080,570</u>	<u>10,721,575</u>	<u>10,670,919</u>
<b>Total assets</b>					
<b>Less liabilities:</b>					
<b>Current liabilities</b>					
Accounts payable		262,890	76,256	262,890	76,256
GST payable		20,018	22,051	20,018	22,051
Loans		9,357,450	2,000,000	9,357,450	2,000,000
Taxation payable		81,822	-	81,822	-
		<u>9,722,180</u>	<u>2,098,307</u>	<u>9,722,180</u>	<u>2,098,307</u>
<b>Non-current liabilities</b>					
Term loans	<b>9</b>	-	7,357,450	-	7,357,450
		<u>9,722,180</u>	<u>9,455,757</u>	<u>9,722,180</u>	<u>9,455,757</u>
<b>Total liabilities</b>					
		<u>8,034,553</u>	<u>6,624,813</u>	<u>999,395</u>	<u>1,215,162</u>
<b>Net assets</b>					



**Director**  
Dated: 15 September 2006



**Director**  
Dated: 15 September 2006

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**FIRST NZ PROPERTIES LIMITED**  
**Statement of cash flows**  
**For the year ended 31 March 2006**

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Cash flows from operating activities</b>					
<i>Cash was provided from:</i>					
Rents received		1,379,842	1,129,356	-	-
Interest received		67,408	40,644	67,408	40,644
Refund of advance tax		220,366	-	220,366	-
		<u>1,667,616</u>	<u>1,170,000</u>	<u>287,774</u>	<u>40,644</u>
<i>Cash was applied to:</i>					
Payments to suppliers		(137,938)	(282,962)	(48,619)	(134,921)
Interest		(805,009)	(534,005)	(805,009)	(534,005)
Taxation paid		-	(699,032)	-	(699,032)
		<u>(942,947)</u>	<u>(1,515,999)</u>	<u>(853,628)</u>	<u>(1,367,958)</u>
Net cash flow from operating activities	<b>10</b>	<u>724,669</u>	<u>(345,999)</u>	<u>(565,854)</u>	<u>(1,327,314)</u>
<b>Cash flows from investing activities</b>					
<i>Cash was provided from:</i>					
Repayment of loan from subsidiaries		-	-	1,290,523	-
Sale of property		-	4,600,000	-	-
		<u>-</u>	<u>4,600,000</u>	<u>1,290,523</u>	<u>-</u>
<i>Cash was applied to:</i>					
Purchase of property		-	(8,000,000)	-	-
Advance of loan to subsidiaries		-	-	-	3,218,685
		<u>-</u>	<u>(4,200,000)</u>	<u>1,290,523</u>	<u>(3,218,685)</u>
Net cash flows to investing activities		<u>-</u>	<u>(4,200,000)</u>	<u>1,290,523</u>	<u>(3,218,685)</u>
<b>Cash flows from financing activities</b>					
<i>Cash was provided from:</i>					
Proceeds from bank loan		-	4,357,450	-	4,357,450
		<u>-</u>	<u>4,357,450</u>	<u>-</u>	<u>4,357,450</u>
<i>Cash was applied to:</i>					
Payment of dividends		(273,891)	(272,385)	(273,891)	(272,385)
Net cash flows to financing activities		<u>(273,891)</u>	<u>4,085,065</u>	<u>(273,891)</u>	<u>4,085,065</u>
<b>Total (decrease)/increase in cash balances</b>		<u>450,778</u>	<u>(460,934)</u>	<u>450,778</u>	<u>(460,934)</u>
<b>Add Opening cash brought forward</b>		<u>243,087</u>	<u>704,021</u>	<u>243,087</u>	<u>704,021</u>
<b>Closing cash carried forward</b>		<u><b>693,865</b></u>	<u><b>243,087</b></u>	<u><b>693,865</b></u>	<u><b>243,087</b></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, 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 (Cranmer) Limited</i> \$
<b>Income</b>				
Rental income	3	1,379,842	787,910	591,932
<b>Expenses</b>				
Management fees	4	89,319	51,002	38,317
Interest - Parent Company		890,016	502,902	387,115
<b>Total Expenses</b>		<u>979,335</u>	<u>553,904</u>	<u>425,432</u>
<b>Net surplus (deficit)</b>		<u><u>400,507</u></u>	<u><u>234,006</u></u>	<u><u>166,501</u></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, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> 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.

1<sup>st</sup> and 2<sup>nd</sup> 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 2006.

### 5 Share Capital

At 31 March 2006 the total number of shares on issue comprises 4,065,452 shares issued for \$1, and fully paid (2005: 4,065,452 shares issued and fully paid to \$1) rating equally for dividends.

### 6 Equity

	<i>Group</i>		<i>Parent</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</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	766,622	581,882	(3,066,057)	(2,850,290)
Realised Capital Reserve	1,952,479	1,952,479	-	-
Investment Property Revaluation Reserve	1,250,000	25,000	-	-
	<b>8,034,553</b>	<b>6,624,813</b>	<b>999,395</b>	<b>1,215,162</b>
<u>Accumulated losses</u>				
Opening balance	581,882	11,243	(2,850,290)	(2,245,683)
Net surplus for period	458,631	843,024	58,124	(332,222)
Distribution to shareholders	(273,891)	(272,385)	(273,891)	(272,385)
<b>Closing balance</b>	<b>766,622</b>	<b>581,882</b>	<b>(3,066,057)</b>	<b>(2,850,290)</b>
<u>Realised Capital Reserve</u>				
Opening balance	1,952,479	1,154,996	-	-
Transfer from Property Revaluation res	-	797,483	-	-
<b>Closing balance</b>	<b>1,952,479</b>	<b>1,952,479</b>	<b>-</b>	<b>-</b>
<u>Investment Property Revaluation Reserve</u>				
Opening balance	25,000	497,483	-	-
Net increase in property valuation	1,225,000	325,000	-	-
Transfer to capital reserve	-	(797,483)	-	-
<b>Closing balance</b>	<b>1,250,000</b>	<b>25,000</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements (continued)

## 7 Taxation

	<i>Group</i>		<i>Parent</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Surplus before tax and revaluation	487,259	1,174,646	86,752	45,400
Gain on property disposal	-	(814,000)	-	-
<b>Taxable surplus</b>	<b>487,259</b>	<b>360,646</b>	<b>86,752</b>	<b>45,400</b>
Tax at 33%	160,795	119,013	28,628	14,982
Adjustments for tax effect of Depreciation claimed	(132,167)	(104,031)	-	-
	28,628	14,982	28,628	14,982
Depreciation recovered on property sale-	316,640	-	316,640	-
<b>Income tax expense</b>	<b>28,628</b>	<b>331,622</b>	<b>28,628</b>	<b>331,622</b>

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 \$242,770 (2005: \$110,603), 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.

The company has paid tax in advance of \$114,388 (2005: \$202,383) to cover imputation credits on dividends paid. This tax will be available to cover future tax liabilities. As long as the company maintains its current dividend policy and continues to hold the investment properties the tax will remain paid in advance but will not be refundable due to the requirements to keep the imputation credit account in funds.

<b>Imputation credits</b>	<i>Group</i>	<i>and</i>	<i>Parent</i>
	<i>2006</i>		<i>2005</i>
	<i>\$</i>		<i>\$</i>
<b>Balance at beginning of year</b>	204,632		(360,620)
Resident withholding tax paid	13,566		13,413
2003 tax paid	-		361,000
2004 tax refunded	(411,961)		-
2005 tax paid	-		325,000
2005 tax refunded	(21,971)		-
2006 tax paid	360,000		-
	144,266		338,792
Imputation credits attached to dividends paid	(134,160)		(134,160)
<b>Balance at end of year</b>	<b>10,106</b>		<b>204,632</b>

## Notes to the financial statements (continued)

## 8 Cash and bank balances

	<b>Group 2006 \$</b>	<b>and</b>	<b>Parent 2005 \$</b>
ANZ National Bank accounts	620,983		173,956
ASB Bank account	72,882		69,131
	<u>693,865</u>		<u>243,087</u>

## 9 Term Loans

	<b>Group and Parent</b>	
	<b>2006 \$</b>	<b>2005 \$</b>
ASB Bank	-	7,357,450
	<u>-</u>	<u>7,357,450</u>

Loans are fully repayable within 12 months of balance date and are therefore treated as current liabilities. The loans are secured by a First Ranking debenture over the assets of First NZ Properties Limited and a First Ranking mortgage over the two properties.

## 10 Reconciliation of net profit to net cashflows from operating activities

	<b>Group</b>		<b>Parent</b>	
	<b>2006 \$</b>	<b>2005 \$</b>	<b>2006 \$</b>	<b>2005 \$</b>
Net surplus after tax before revaluation	458,631	843,024	58,124	(332,222)
<b>Non cash items</b>				
Less Interest received from subsidiaries	-	-	(890,016)	(657,828)
	<u>458,631</u>	<u>843,024</u>	<u>(831,892)</u>	<u>(990,050)</u>
<i>Add/(less) movements in working capital items</i>				
(Increase)/Decrease in accounts receivable	7,556)	8,241	(7,556)	-
(Increase)/Decrease in RWT	7,171	(7,171)	7,171	(7,171)
Increase/(Decrease) in accounts payable	186,634	26,450	186,634	26,450
Increase/(Decrease) in net GST	(2,033)	4,077	(2,033)	4,077
Increase/(Decrease) in provision for tax	81,822	(360,620)	81,822	(360,620)
	<u>266,038</u>	<u>(329,023)</u>	<u>266,038</u>	<u>(337,264)</u>
	724,669	514,001	(565,854)	(1,327,314)
<i>Items identified as investing activities</i>				
Gain on sale of investment property	-	(860,000)	-	-
<b>Net cashflows from operating activities</b>	<u>724,669</u>	<u>(345,999)</u>	<u>(565,854)</u>	<u>(1,327,314)</u>

## Notes to the financial statements (continued)

### 11 Investment in subsidiaries

	<b>2006</b>	<i>Parent</i>
	<b>\$</b>	<b>2005</b>
		<b>\$</b>
<b>Shares</b>	500	500
	<hr/>	<hr/>
<b>Loans</b>		
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	1,993,285
Foodstore (Cranmer) Limited	1,936,995	2,103,496
Sheffield Crescent Limited	3,858,498	4,092,504
	<hr/>	<hr/>
	<b>10,019,654</b>	<b>10,420,161</b>
	<hr/> <hr/>	<hr/> <hr/>

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

<b>Nature of business</b>	Property rental	<b>Bankers</b>	ANZ National Bank Limited 1 Victoria Street Wellington
<b>Paid in capital</b>	\$4,065,452	<b>Auditors</b>	Richards Woodhouse PO Box 98 Nelson
<b>Registered office</b>	Level One 3/237 Queen Street Richmond Nelson 7031	<b>Solicitors</b>	McFadden McMeeken Phillips PO Box 656 187 Bridge Street Nelson
<b>Registered under</b>	The Companies Act 1993	<b>Register</b>	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031
<b>Incorporation number</b>	WN656559	<b>Secondary Market</b>	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031
<b>I.R.D. number</b>	65-072-920		
<b>Directors</b>	Michael John Millar Neil Allan Barnes		
<b>Investment Manager</b>	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031 Phone (03) 544 2005 Fax (03) 544 2300		
<b>Accountants</b>	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031		