

Provincia

Annual Report 2022

Strength, Resilience and Results





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Directory

Provincia Property Fund Limited

Nature of Business: Property Investment

New Zealand Business Number
9429042473749

Directors

Malcolm McDougall (appointed 9 September 2020)

Jenson Varghese (appointed 1 April 2019)

Michael Webster (appointed 24 March 2021)

Manager

Provincia Property Fund Management Limited
Unit D
268 Manukau Road
Epsom
Auckland

Registered Office

Level 1, 96 St Georges Bay Road,
Parnell, Auckland 1052

Chartered Accountants

VCFO Group Limited
Level 1, 96 St Georges Bay Road, Parnell
Auckland 1052

Bankers

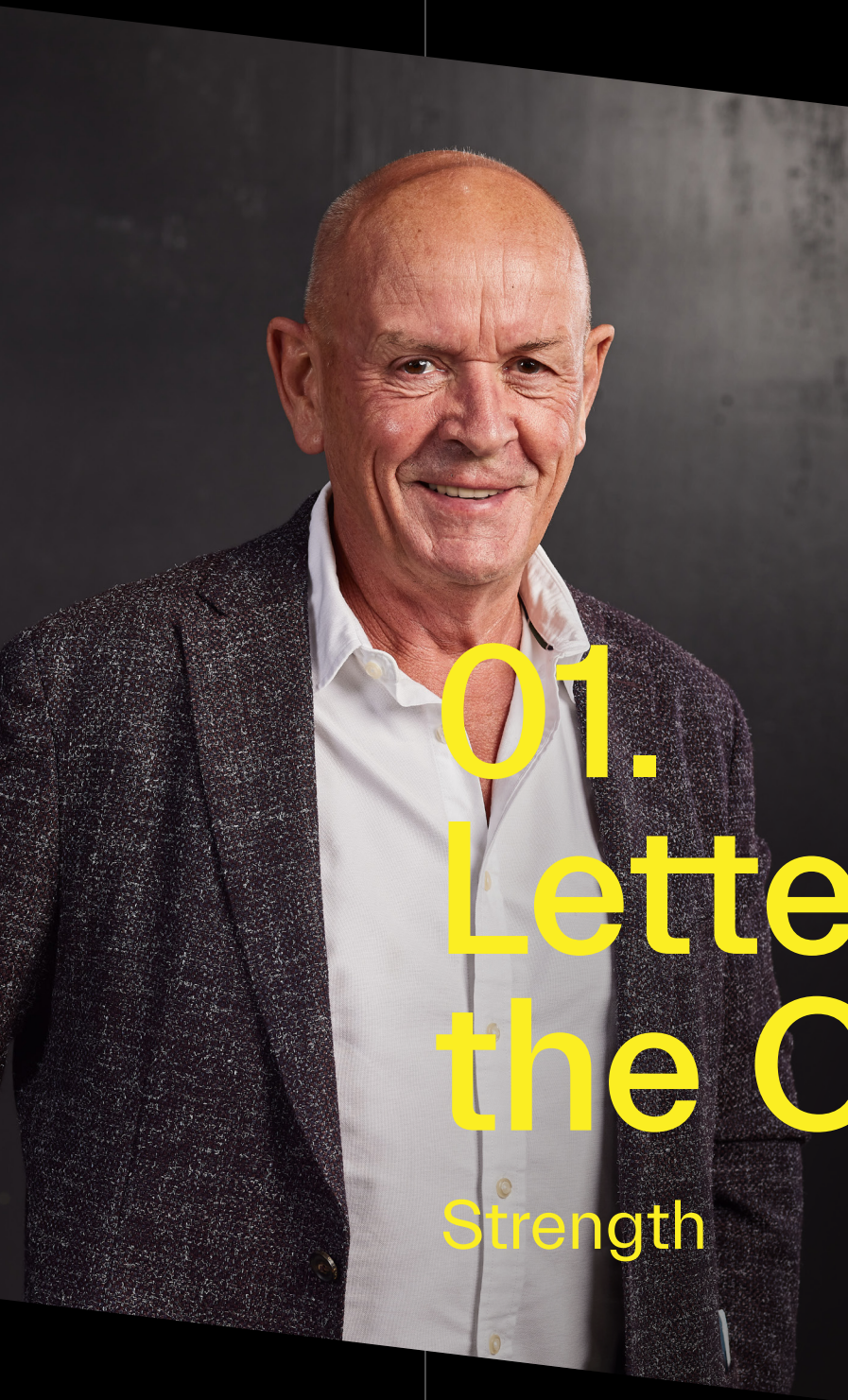
ASB Bank Limited
PO Box 35
Shortland Street
Auckland 1140

Solicitors

Tompkins Wake
Level 11, The AIG Building
41 Shortland Street
Auckland 1010

Auditor

BDO Auckland
Level 4, BDO Centre
4 Graham Street
Auckland 1010



01. Letter from the Chair

Strength

Dear Shareholders,

It is a pleasure to present our Annual Report for the financial year to 31 March 2022 .

Financial Performance and Highlights For 2022

It is pleasing to present our best ever, year end financial performance. There is a real strength to the results.

During the financial year ended 31 March 2022 Provincia added three more properties to the portfolio:

- 7 Timothy Place, Avondale, tenanted by Westie Pies Ltd operating in food manufacturing.
- 46 Greenmount Drive, East Tamaki, tenanted by Viand Foods Ltd operating in food manufacturing.
- 489 J Rosebank Road , Avondale, tenanted by Gobake Ltd and Auckland Electrical Contracting & Services Ltd operating respectively in food manufacturing and electrical contracting.

This brought our portfolio to 12 properties, which increased in value by \$28,414,553 from \$66,030,000 to \$94,444,553.

These acquisitions were supported by an increase in equity of \$18,404,433 and an increase of bank debt of \$9,625,000 whilst staying well within our 45% borrowing covenant ratio.

Our shareholder numbers increased from 104 to 128 (as at 31 March 2022) and our share price from \$1.43 to \$1.56.

This naturally had a major impact on rental income which rose from \$2,799,344 to \$4,140,731 and net profit before tax from \$3,749,728 to \$7,307,939 (including fair value gains of properties)

It is pleasing to note that despite a very competitive economic environment and the interruptions from Covid, pre tax gross dividends paid during the

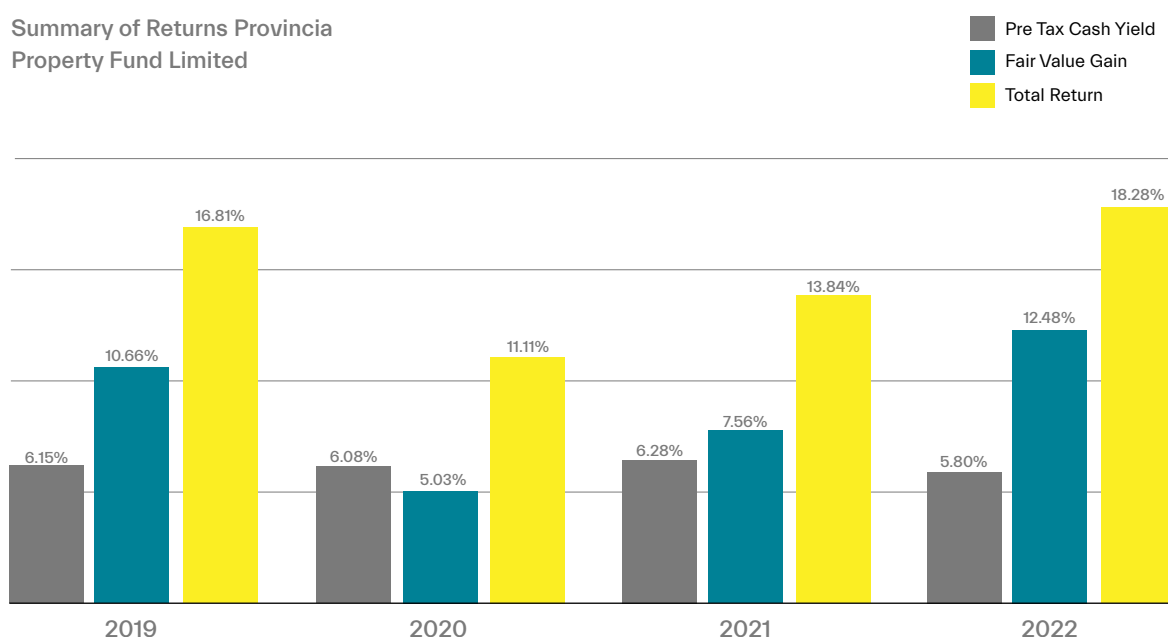
period were \$2,396,890, representing a yield of 5.8% on shareholder capital invested.

This combined with a fair value gain on the properties of 12.5% represents a total return to shareholders of 18.3%, a strong result in a difficult year.

Thanks go to our existing and new shareholders, our bankers and management for assisting the company with this growth and performance.

Fund performance since inception

Summary of Returns Provincia
Property Fund Limited



Board Appointments

Jenson Varghese and I remain as directors for the 2022 - 2023 financial year and current director Michael Webster is up for rotation as per the Provincia constitution. Michael has offered himself for re-election for a further term and this is fully recommended by the other board members. His experience in property investment, IT and financial markets is a valuable asset to the Board. He was one of our early investors and is now our single largest shareholder.

At the AGM, shareholders will be invited to vote for Michael's re-appointment for another term.

Management Team

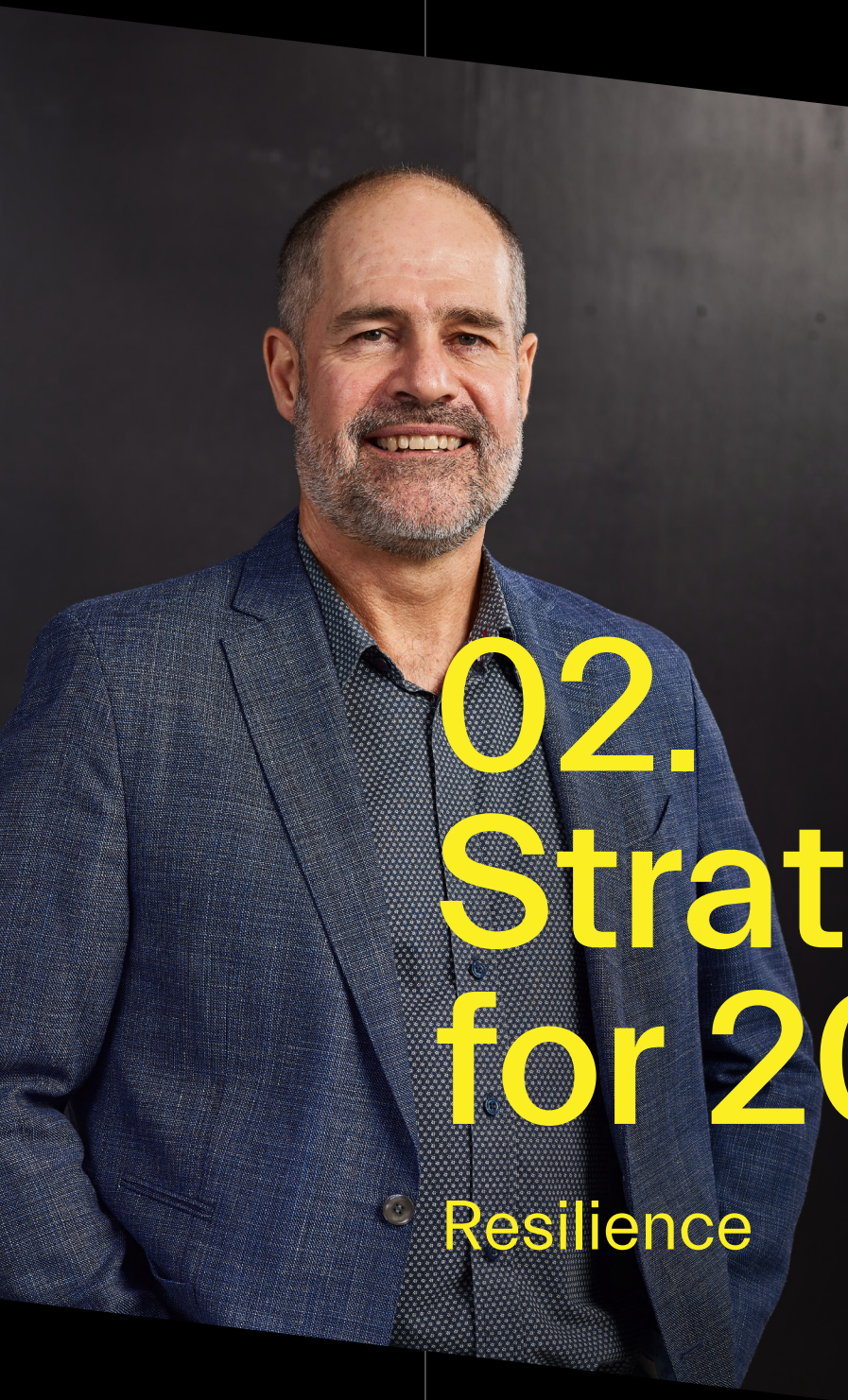
We have strengthened our team over the year. Our CEO, Carl Burling and Asset Manager, Jack Revill continue to lead our management team with the addition of Katie Heath as Senior Property Manager and Duncan Shand as Advisory Director - Marketing. Katie holds a Bachelor of Commerce in accounting and finance and a Diploma in Business in economics and law. She has had 7 years experience in senior property management positions both here and overseas. Duncan has joined the Provincia team as an advisor to the Board with a focus on marketing and communications. Duncan has a background in corporate marketing, working at Air New Zealand and iHug before he started his company, Young Shand. Duncan is passionate about growing New Zealand businesses through building strong brands and using smart digital technology.

To summarise, in a challenging year the team have worked hard to deliver a strong result. I would like to thank the team, the directors and all our investors for their contributions and support.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Malcolm McDougall'.

Malcolm McDougall
Chair



02. Strategy for 2023

Resilience

CEO Report

Dear Shareholders,

Industrial property has been the highest performing commercial property sector for the last 15 years and we intend to continue with our agreed strategy which is;

“ To create a diversified portfolio of value-add properties in the outperforming industrial property sector to provide long-term competitive income and capital gains to shareholders.

Short Term Challenges

There will be some reductions in cash yield because of increased interest rates, over which we have little control. We are focused on implementing a number of things to mitigate this impact including:

- Value-Add – We are evaluating each property in the portfolio to see if there are any further improvements we can make to increase rent. We also have a number of specific capital projects already planned that will help maximise rental income.
- Lease Renegotiations – We have a number of properties coming up for a lease renewal. These are opportunities to increase rent which in turn increase both cash yield and capital value.

Medium to Long Term Optimism

The outlook for industrial property continues to be positive according to a recent Colliers Research Report - April 2022. With online shopping increasing by 54% between 2019 and 2021, this has increased demand for logistics warehousing. Supply chain disruption has also boosted the demand for warehouse and yard space, as tenants use a “just-in-case” over a “just-in-time” “inventory model.

These fundamental demand shifts are expected to continue and result in uplifts in rental rates and values providing strength and resilience to expected returns.

The current economic environment is presenting unique opportunities to acquire value-add properties, favouring long term quality over short term higher yields. These properties however will also benefit from the anticipated rental increases.

Consistent with our strategy we therefore intend to continue to invest and grow the fund as we selectively identify properties with built in upside.

Secondary Market Liquidity

Such growth not only provides further security from diversification but also increased liquidity from having more shareholders. We are working with Syndex to create a secondary market which will provide a platform to improve shareholding liquidity.

Improve Marketing

Over the last twelve months with the appointment of Duncan Shand as Advisory Director-Marketing we have focused on improving our brand and communications and I trust you may have seen an example of this on our new website. Our ongoing marketing efforts will now focus on communicating to the wider investment market that we have achieved an impressive average total return of 15% per annum over the last 4 years which we expect to keep delivering.

Long term resilience

We will continue to select properties according to our investment principles. This favours long term quality over short term high yields. It favours low vacancy locations where it is easy to re-tenant and renegotiate a more favourable lease. We prefer to invest in locations and property that offer lower risk and stronger long term growth.

While we are still working through a challenging period we are confident in the resilience of industrial property and the results that we will continue to deliver.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Carl Burling', with a long horizontal flourish extending to the right.

Carl Burling
CEO



03. Value-Add Case Study Result

Although somewhat detailed this example demonstrates our ‘value-add’ investment approach.

102A Carbine Road , Mount Wellington , Auckland (comprising 3 buildings) had been on and off the market several times in 2019 and had failed to sell, even though it was in one of the most sought-after industrial areas in Auckland.

After some initial investigations we found the buildings had some structural issues which meant the building was below the acceptable safe earthquake rating. Additionally, the leases had inflation adjusted rent reviews that had not caught up to market rents and some of the lease terms were short and due to expire. These were all risks.

Whilst other potential buyers may have seen these issues as negatives, we saw an opportunity to purchase the property below market and to add value by making improvements to the building and leases.

During the pre-purchase due diligence process we engaged a specialist structural engineer, who used surface penetrating radar to look inside the walls. He found that one of the buildings had a lot more structural steel in the concrete than had been assumed, so we would be able to upgrade the building to an acceptable safe earthquake rating immediately at little or no cost. The other two buildings required minor structural improvements to get them to a safe earthquake rating and the cost for the improvements in relation to the value increase was minimal.

Since purchase, the structural improvements were carried out and one of the long-term tenants renewed their lease for a further 6 years. Another existing tenant was replaced with a new tenant on much more favourable terms than the previous one.

“ These structural and lease improvements significantly improved value from a purchase price of \$7,110,000 to the current valuation of \$11,000,000.

In addition, another long-term tenant is on an inflation adjusted rent review which has not kept up with the market rent. When this rent is reviewed to market, it will add further value to the property.



04. Results at a glance

Financial Results

Profit

\$7,307,939 **↑95%**

Pre-tax Cash Yield

5.8%

Property Fair Value Gain

12.5%

Total Return
(Pre-Tax Cash Yield + Fair Value Gain)

18.3%

Current Gearing

40%

Portfolio Snapshot

Portfolio Value

94.4M **↑43%**

Rental

\$4,140,731 **↑48%**

Acquisitions

3

Total properties

12

Tenants

22

Occupancy

100%

WALT

3.9 years

* Weighted Average Lease Term as at 1 May 2022



05. Portfolio Summary

Address	Rent	Value
38 Richard Pearce Drive, Airport Oaks, Auckland	\$431,648	\$7,700,000
19 Arwen Place, East Tāmaki, Auckland	\$402,000	\$8,500,000
785 Great South Road, Penrose, Auckland	\$521,180	\$10,250,000
54 Tidal Road, Māngere, Auckland	\$415,267	\$8,000,000
1/30 Kerwyn Ave, East Tāmaki, Auckland	\$219,088	\$4,000,000
102A Carbine Road & 4 Gabador Place, Mt Wellington, Auckland	\$443,134	\$11,000,000
18 Noel Burnside Road, Wiri, Auckland	\$663,000	\$11,600,000
27 Timothy Place, Avondale, Auckland	\$234,600	\$4,450,000
80D Hunua Road, Papakura, Auckland	\$438,600	\$6,900,000
7 Timothy Place, Avondale, Auckland	\$409,744	\$7,800,000
46 Greenmount Drive, East Tāmaki, Auckland	\$447,372	\$8,650,000
489J Rosebank Road, Avondale, Auckland	\$219,728	\$5,575,000
TOTAL PORTFOLIO	\$4,845,361	\$94,425,000

5.1 CURRENT PORTFOLIO



38 Richard Pearse Drive

Māngere, Auckland

Tenants: 24/7 Fitness Ltd, Active Physio Ltd, Advanced Scaffold (Auckland) Ltd

Purchase date: April 2017

Rent: \$431,648

Value: \$7,700,000



19 Arwen Place

East Tāmaki, Auckland

Tenant: Northpower Ltd

Purchase date: May 2018

Rent: \$402,000

Value: \$8,500,000



785 Great South Road

Penrose, Auckland

Tenant: Goodman Fielder Ltd

Purchase date: August 2018

Rent: \$521,180

Value: \$10,250,000



54 Tidal Road

Māngere, Auckland

Tenants: Charity Clothing, Collection Ltd, Project Stainless Ltd, Southern Hospitality Ltd, Windows 2000 Ltd, TSS Workforce Ltd

Purchase date: May 2019

Rent: \$415,267

Value: \$8,000,000



1/30 Kerwyn Avenue

East Tāmaki, Auckland

Tenants: Super Snack Ltd,
Chasers Food Company Ltd

Purchase date: Oct 2019

Rent: \$219,088

Value: \$4,000,000



102A Carbine Road

Mt. Wellington, Auckland

Tenants: Filtech Ltd , VCNZ Ltd,
Gouk & Sullivan Ltd

Purchase date: Dec 2019

Rent: \$443,134

Value: \$11,000,000



18 Noel Burnside Road

Wiri, Auckland

Tenant: Slumberzone Ltd

Purchase date: Nov 2020

Rent: \$663,000

Value: \$11,600,000



27 Timothy Place

Avondale, Auckland

Tenant: Inline Tyres Ltd

Purchase date: Jan 2021

Rent: \$234,600

Value: : \$4,450,000



80D Hunua Road

Papakura, Auckland

Tenant: Aldersons Transport Ltd

Purchase date: Mar 2021

Rent: \$438,600

Value: \$6,900,000



7 Timothy Place

Avondale, Auckland

Tenant: Westie Pies Ltd

Purchase date: Jun 2021

Rent: \$409,744

Value: \$7,800,000



46 Greenmount Drive

East Tāmaki, Auckland

Tenant: Viand Foods Ltd

Purchase date: October 2021

Rent: \$447,372

Value: \$8,650,000



489J Rosebank Road

Avondale, Auckland

Tenants: Auckland Electrical Contracting and Services Limited, Gobake Limited

Purchase date: February 2022

Rent: \$219,728

Value: \$5,575,000



06. Directors Report

In accordance with Section 208 and 211 of the Companies Act 1993, the Directors present the Annual Report for Provincia Property Fund Limited, including the attached Financial Statements and Independent Auditor's Report thereon.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors consider that the financial statements have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The Directors of the company authorise the financial statements set out on pages 26 to 45 for issue.

Dividend

Total dividends of \$2,396,890 have been declared for the year ended 31 March 2022 (2021: \$1,718,325).

Auditors

The financial statements have been audited by BDO.

Directors' Disclosure

The names of the directors of the company in office at the end of the year are as follows:

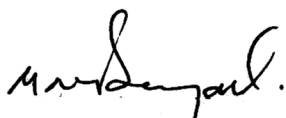
Jenson Varghese

Malcolm John Lambert McDougall

Michael Geoffrey Webster

SIGNED

For and on behalf of the Board of Directors.



Malcolm McDougall

Date: 20 July 2022



Jenson Varghese

Date: 20 July 2022



07. Financial Results

7.1 STATEMENT OF COMPREHENSIVE INCOME

PROVINCIA PROPERTY FUND LIMITED FOR THE YEAR ENDED 31 MARCH 2022	NOTES	2022	2021
OPERATING REVENUE			
Rental Income		\$4,140,731	\$2,799,344
Opex Income			
Opex Recovered		\$744,808	\$507,070
Total Opex Income		\$744,808	\$507,070
TOTAL OPERATING REVENUE		\$4,885,539	\$3,306,414
OTHER INCOME			
Dividend Income		\$303	\$411
Interest Income		\$28	\$55
TOTAL OTHER INCOME		\$331	\$466
OPERATING EXPENSES			
Administration Fees		\$162,270	\$94,434
Audit remuneration 2021		\$46,920	\$2,510
Audit remuneration 2022		\$52,750	-
Directors Fees		\$60,000	\$60,000
D&O Insurance		\$40,195	\$32,892
Interest Expense		\$945,786	\$558,662
Management Fees		\$558,739	\$302,689
Other Expenses		\$119,634	\$42,584
Property Operating Expenses		\$748,359	\$511,591
Total Operating Expenses		\$2,734,653	\$1,605,362
TOTAL OPERATING EARNINGS BEFORE PERFORMANCE FEES AND CHANGES IN FAIR VALUE OF INVESTMENT PROPERTY		\$2,151,217	\$1,701,519

* The above statement should be read in conjunction with the notes to the financial statements.

7.1 STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

PROVINCIA PROPERTY FUND LIMITED FOR THE YEAR ENDED 31 MARCH 2022	NOTES	2022	2021
NON-OPERATING INCOME AND (EXPENSES)			
Manager Performance Fees		(\$191,449)	(\$186,513)
Fair Value Gains (Loss) on Investment Property	7	\$5,348,171	\$2,234,723
Total Non-Operating Income and (Expenses)		\$5,156,722	\$2,048,210
NET PROFIT BEFORE TAXATION ATTRIBUTABLE TO SHAREHOLDERS		\$7,307,939	\$3,749,728
OTHER COMPREHENSIVE INCOME AFTER TAX		-	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		\$7,307,939	\$3,749,728

* The above statement should be read in conjunction with the notes to the financial statements.

7.2 STATEMENT OF FINANCIAL POSITION

PROVINCIA PROPERTY FUND LIMITED AS AT 31 MARCH 2022	NOTES	31 MAR 2022	31 MAR 2021
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	\$1,178,058	\$2,155,703
Trade and Other Receivables	6	\$757,207	\$306,782
Funds Held in Trust Account		-	\$205,677
Total Current Assets		\$1,935,265	\$2,668,162
Non-Current Assets			
Investment Property	7	\$94,444,553	\$66,030,000
Intangible Assets	8	\$1,689	\$1,689
Fund Establishment Costs		\$50,675	\$62,675
Total Non-Current Assets		\$94,496,917	\$66,094,363
TOTAL ASSETS		\$96,432,182	\$68,762,525
LIABILITIES			
Current Liabilities			
Trade and Other Payables	9	\$1,321,914	\$1,026,747
Funds Held For Investors		-	\$785,677
Rent Received in Advance		\$291,090	\$160,355
Total Current Liabilities		\$1,613,004	\$1,972,780
Non-Current Liabilities			
Borrowings	10	\$38,125,000	\$28,500,000
Total Non-Current Assets		\$38,125,000	\$28,500,000
TOTAL LIABILITIES		\$39,738,004	\$30,472,780
NET ASSETS		\$56,694,178	\$38,289,745

* The above statement should be read in conjunction with the notes to the financial statements.

7.2 STATEMENT OF FINANCIAL POSITION (CONTINUED)

PROVINCIA PROPERTY FUND LIMITED AS AT 31 MARCH 2022	NOTES	31 MAR 2022	31 MAR 2021
EQUITY			
Share Capital	4	\$47,990,418	\$34,497,034
Retained Earnings		\$8,703,760	\$3,792,711
TOTAL EQUITY		\$56,694,178	\$38,289,745

* The above statement should be read in conjunction with the notes to the financial statements.

7.3 STATEMENT OF CHANGES IN EQUITY

PROVINCIA PROPERTY FUND LIMITED AS AT 31 MARCH 2021	Share capital	Retained earnings	Total equity
Opening Balance	\$21,743,080	\$1,761,307	\$23,504,387
Profit & total comprehensive income for the year	-	\$3,749,728	\$3,749,728
Transactions with Shareholders			
- Issue of share capital	\$12,753,954	-	\$12,753,954
- Dividends paid		(\$1,525,010)	(\$1,525,010)
- PIE Tax		(\$193,314)	(\$193,314)
Total Transactions with Shareholders	\$12,753,954	(\$1,718,324)	\$11,035,630
EQUITY AS AT 31 MARCH 2021	\$34,497,034	\$3,792,711	\$38,289,745

PROVINCIA PROPERTY FUND LIMITED AS AT 31 MARCH 2022	Share capital	Retained earnings	Total equity
Opening Balance	\$34,497,034	\$3,792,711	\$38,289,745
Profit & total comprehensive income for the year	-	\$7,307,939	\$7,307,939
Transactions with Shareholders			
- Issue of share capital	\$13,829,646	-	\$13,829,646
- Capital raising cost	(\$336,262)		(\$336,262)
- Dividends paid		(\$2,092,067)	(\$2,092,067)
- PIE Tax		(\$304,823)	(\$304,823)
Total Transactions with Shareholders	\$ 13,493,384	(\$2,396,890)	\$11,096,494
EQUITY AS AT 31 MARCH 2022	\$47,990,418	\$8,703,760	\$56,694,178

* The above statement should be read in conjunction with the notes to the financial statements.

7.4 STATEMENT OF CASH FLOW

PROVINCIA PROPERTY FUND LIMITED FOR THE YEAR ENDED 31 MARCH 2022	NOTES	Year of 2022	Year of 2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from: rental & Opex recovered receipts		\$4,572,380	\$3,676,445
Interest, dividends and other investment receipts		\$331	\$466
Payments to suppliers and employees		(\$1,862,098)	(\$1,448,937)
Interest Paid		(\$882,988)	(\$585,093)
Goods & Services Tax - Net		\$126,615	(\$336,460)
Tax payments		-	(\$131)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		\$1,954,240	\$1,306,290
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to purchase investment property (including capital expenditure)		(\$23,066,382)	(\$22,537,955)
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		(\$23,066,382)	(\$22,537,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributed from owners		\$12,906,386	\$13,333,954
Proceeds from borrowings		\$9,625,000	\$11,060,000
Dividend paid		(\$2,396,889)	(\$1,499,333)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		\$20,134,497	\$22,894,621
NET INCREASE/(DECREASE) IN CASH		(\$977,645)	\$1,662,956
BANK ACCOUNTS AND CASH			
Opening cash and cash equivalents		\$2,155,703	\$492,747
Net change in cash for period		(\$977,645)	\$1,662,956
Cash and cash equivalents at 31 March	5	\$1,178,058	\$2,155,703

* The above statement should be read in conjunction with the notes to the financial statements.

7.5 NOTES TO THE FINANCIAL STATEMENTS

Provincia Property Fund Limited.
For the year ended 31 March 2022

1. General Information

Provincia Property Fund Limited (“Provincia” or “the Fund”) is an unlisted limited liability company governed by its constitution.

The Fund is domiciled and registered in New Zealand under the Companies Act 1993. The nature of the operations and principal activities of the Fund are that of investment in commercial property.

Provincia’s directors are Jenson Varghese, Malcolm McDougall and Michael Webster.

Provincia Property Fund Management Limited (the Manager) is the manager of Provincia. The directors of the Manager are Carl Burling, Jack Revill and Malcolm McDougall.

The Administrator is Rockburgh Fund Services Limited. Randolph van der Burgh, Roger Hatrick-Smith and Andrew Archer are directors of the Administrator.

As at 31 March 2022 the Fund had an Investment Statement, which was provided to wholesale and eligible investors. The Fund is not a FMC reporting entity.

The Fund has been audited by BDO Auckland.

This annual report was authorised for issue in accordance with a board of directors resolution.

2. Basis of Preparation

BASIS OF MEASUREMENT

The financial statements have been prepared on an historical cost basis with the exception that investment properties are measured at fair value.

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“NZ GAAP”) and the requirements of the Fund’s constitution. They comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (“NZ IFRS RDR”) and other applicable Financial Reporting Standards, as appropriate for Tier 2 for profit entities.

The Fund is eligible and has elected to report under Tier 2 For Profit Accounting Standards on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The financial statements have been prepared in accordance with the Financial Reporting Act 2013 and the Companies Act 1993.

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

FUNCTIONAL AND PRESENTATIONAL CURRENCY

These financial statements are presented in New Zealand dollars (NZD) which is the Fund's functional currency, being the currency of the primary economic environment in which the Fund operates. The financial statements are rounded to the nearest dollar.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, management is required to make certain estimates, judgements and assumptions that affect reported income, expenses, assets and liabilities. The key judgements required in preparing these financial statements relate to:

- The impact of COVID-19 on the financial statements (refer note 3 for details).
- The fair value determination of investment properties (refer note 7 for details).

3. Significant accounting policies

The following significant accounting policies have been applied consistently to all periods presented in these financial statements:

(a) Financial Instruments

CLASSIFICATION AND MEASUREMENT

Financial instruments are recognised when the Fund becomes a party to the contractual provisions of the instrument. A financial instrument is initially recognised at the fair value of consideration paid and is adjusted for (in the case of instruments not carried at Fair Value Through Profit or Loss (FVTPL)) transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument. Transaction costs relating to financial instruments carried at FVTPL are expensed in the Statement of Comprehensive Income.

Financial assets are de-recognised from the Statement of Financial Position when the rights to cash flows have expired or the Fund has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are de-recognised from the Statement of Financial Position when the Fund's obligation has been discharged, cancelled or has expired.

Gains and losses on the de-recognition of non-trading related financial assets and liabilities are recognised as other income as part of other operating income and charges.

The Fund's principal financial instruments comprise Cash and Cash Equivalents, Trade Receivables, Borrowings, Trade and Other Payables. The classification of financial instruments depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent short-term deposits held at banks.

TRADE AND OTHER RECEIVABLES

Trade and other receivables represent amounts due from leases entered into and services performed in the ordinary course of business. After initial recognition, receivables are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of receivables is reviewed at each reporting period. Management considers whether impairment of receivables is required based on the Expected Credit Losses impairment policy below. Receivables that are known to be uncollectible are written off when identified.

IMPAIRMENT

The Expected Credit Losses (ECL) requirements apply to financial assets measured at amortised cost and FVTPL, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts. The Fund has applied the simplified approach to measuring ECL which uses a lifetime expected loss allowance. To measure the ECL, rent receivables have been grouped based on days overdue. Other receivables are recognised at amortised cost, less any allowance for ECL.

The Fund has not recognised any impairment charges in the reporting period as no financial asset defaults are expected.

TRADE AND OTHER PAYABLES

Trade and other payables represent liabilities for goods and services provided to the Fund prior to the end of the financial year that are unpaid and arise when the Fund becomes obliged to make future payments in respect of the purchase of these goods and services. After initial recognition, trade and other payables are subsequently carried at amortised cost and, due to their short-term nature, they are not discounted.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after reporting date.

(b) Revenue

RENTAL INCOME RECOGNITION

The rentals in the Statement of Comprehensive Income are based on the rentals in the existing lease agreements relating to the properties of the Fund.

Rental income (net of any incentives and fixed increase in annual rent) is recognized on a

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

straight-line basis over the term of the relevant lease. Incentives and accrual for fixed increase in annual rent provided to tenants (if any) are initially recognized as an asset of the Fund and the cost is then recognized over the lease term on a straight-line basis as a reduction in rental income.

Revenue from operating expenses recovered is recognized at the point in time when the related operating expense is incurred.

Rental abatement was provided to some of the tenants due to COVID-19. Rental abatement reflects rent and outgoings concessions provided to tenants under lease agreements which contractually entitle a tenant to such concessions. Rental abatement is recognised as a reduction in rental income in the reporting period it is provided.

The properties of the Fund does not have any vacant lettable areas.

(c) Leases

The Fund is defined as a lessor and IFRS 16 does not change substantially how a lessor accounts for leases.

(d) Investment Property

The Fund's investment properties are initially recorded at cost, including transaction costs. Thereafter, investment properties are recorded at their fair values, based on annual independent valuations from a registered valuer.

Gains or losses arising from changes in the fair values of properties are included in profit or loss in the year in which they arise. Realised gains and losses, calculated as the difference between net disposal proceeds and the carrying value of the properties, are included in profit or loss in the year of disposal.

Expenditure incurred on investment properties post acquisition is capitalized to the properties' carrying amount where it is probable that a future economic benefit will flow to the Fund and the costs can be reliably measured. All other costs are expensed as repairs and maintenance and day-to-day servicing costs when incurred.

The fair value of the Fund's investment properties is determined by the most recent independent valuations. The fair value shall reflect, among other things, rental income from current leases and other assumptions that market participants would use when pricing the investment property under current market conditions.

(e) Fees and expenses

Costs are recognised in the Statement of Comprehensive Income as expenses when incurred.

(f) Establishment Costs and Acquisition Costs

Fund establishment costs have been capitalised and are currently being amortised over 4 years.

Property acquisition costs have been capitalised to the cost of the investment property in accordance with NZ IAS 40.

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

(g) Statement of cash flow

The following definitions are used in the statement of cash flow:

- Operating activities are the principal revenue producing activities of the Fund and other activities that are not investing or financing activities;
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents;
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Fund.

(h) Taxation

The Fund was a PIE for the year ended 31 March 2022. Therefore the Fund had no company income tax obligations.

(i) PIE Tax

The Fund has been registered as a Portfolio Investment Entity (PIE) since 1 October 2018. Investors with any Prescribed Investor Rate (PIR) other than 0% are referred to as tax paying investors. The tax liability on PIE income allocated to tax paying investors is calculated using the PIR notified by each investor and the Fund on their behalf deducts and pays the tax to the Inland Revenue Department.

For the year ended 31 March 2022, the PIE tax liability on PIE income allocated to investors is \$304,823 (2021: \$193,314).

(j) Goods and services tax (GST)

All amounts are stated exclusive of goods and services tax (GST) except for accounts payable and accounts receivable which are stated inclusive of GST.

(k) Changes in accounting policies

There have been no changes in accounting policies. Policies have been applied on a consistent basis with those of the previous reporting period.

(l) New Financial Reporting Standards adopted

There have been no new accounting standards that are applicable to these financial statements.

(m) COVID-19 Global Pandemic

During the 2022 financial year, New Zealand has been subject to various restriction periods associated with the COVID-19 global pandemic, with Auckland being subject to greater

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

restrictions than the balance of the country.

Provincia has continued to demonstrate that it is a resilient property business, operating through the Covid-19 alert level restrictions with minimal disruption.

Subsequent to the 31 March balance date, the Government has enacted a new lease legislation. The amendment to the Property Law Act, effective from 18 August 2021, requires all commercial landlords to abate rent for any tenants adversely impacted by these restrictions. Tenants who can prove a financial loss will be required to pay only “a fair proportion” of rent while building access is limited. Support has been provided to tenants impacted by COVID-19 by providing rent abatements for the periods tenants can not access the premises under government restrictions.

While the virus continues to spread globally subsequent to 31 March 2022, Provincia continues to monitor closely the ongoing impacts of COVID-19 to its tenants. The Fund’s operations are being managed conservatively and prudently in relation to potential impacts on the resulting from COVID-19.

4. Shares Issued

Shares in Provincia Property Fund are as follows:

	2022	2021
Shares at the start of the year	\$26,520,152	\$17,111,637
Add: New shares issued	\$9,732,338	\$9,408,515
Less: Redemptions	-	-
TOTAL SHARES AS AT YEAR END	\$36,252,490	\$26,520,152

All shares are fully paid ordinary shares with no par value. All shares have equal voting and dividend rights. The value of share capital is recorded net of issue costs, including capital raising fees.

5. Bank and Cash

	2022	2021
Bank and Cash (Bank Overdraft)		
ASB Commercial Trust Account	\$1,153,565	\$2,131,238
ASB Savings account	\$24,493	\$24,465
TOTAL BANK AND CASH (BANK OVERDRAFT)	\$1,178,058	\$2,155,703

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

6. Trade and Other Receivables

	2022	2021
Trade Receivables	\$470,077	\$177,283
Accrued Income	\$153,821	\$65,521
Prepayments	\$125,914	\$33,157
GST	-	\$30,424
RWT	\$397	\$397
Related Party Receivables	\$6,998	-
TOTAL TRADE AND OTHER RECEIVABLES	\$757,207	\$306,782

Trade receivables are non-interest bearing. Tenants usually pay their rent on the first day of the month as per the lease agreement.

7. Investment Properties

The following table reconciles the opening balances to the closing balances for fair values:

INVESTMENT PROPERTIES	2022	2021
Carrying amount at beginning of period	\$66,030,000	\$41,044,702
Additions (including capital expenditure)	\$23,066,382	\$22,750,575
Change in fair value of investment property	\$5,348,171	\$2,234,723
TOTAL INVESTMENT PROPERTIES	\$94,444,553	\$66,030,000

Investment Property carrying amounts include \$130,674 of lease incentives arising from providing rent free periods (2021: \$92,101).

Investment property is measured at fair value and was valued as at 31 March 2022 by external, independent property valuer (listed below), having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

- Telfer Young (Auckland) Limited (valuation date 31 March 2022)

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

The fair value of each investment property is listed as below:

FAIR VALUE OF INVESTMENT PROPERTY - INDEPENDENT VALUATION	2022	2021
38 Richard Pearse Drive, Mangere, Auckland	\$7,700,000	\$6,900,000
19 Arwen Place, East Tamaki	\$8,500,000	\$7,700,000
785 Great South Road, Penrose	\$10,250,000	\$8,775,000
54 Tidal Road, Mangere	\$8,000,000	\$7,300,000
1/30 Kerwyn Avenue, East Tamaki	\$4,000,000	\$3,850,000
102A Carbine Road & 4 Gabador Place, Mt Wellington	\$11,000,000	\$9,350,000
18 Noel Burnside, Wir	\$11,600,000	\$11,000,000
27 Timothy Place, Avondale	\$4,450,000	\$4,225,000
80D Hunua Road, Papakura	\$6,900,000	\$6,930,000
7 Timothy Place, Avondale	\$7,800,000	-
46 Greenmount Drive, East Tamaki	\$8,650,000	-
489J Rosebank Road, Avondale	\$5,575,000	-
27 Kaimiro Street, Hamilton (due diligence costs paid)	\$19,552	-
TOTAL FAIR VALUE OF INVESTMENT PROPERTY - INDEPENDENT VALUATION	\$94,444,553	\$66,030,000

The fair value was determined by reference to the following valuation techniques:

a. Direct Capitalisation Approach: market income and contract income: The subject property rental is divided by a market derived capitalisation rate to assess the market value of the asset. Further adjustments are then made to the market value to reflect under or over renting, additional revenue and required capital expenditure.

b. Discounted Cash Flow: Discounted cash flow projections for the subject property are based on estimates of future cash flows, supported by the terms of any existing lease and by external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cashflows.

Impact of COVID-19 to the fair value assessment of investment property

The properties the Fund currently owns are considered to have a medium-low risk profile in comparison with other commercial properties in the locality.

Disruption to the economy and an increase in general economic uncertainty have been evident from when the COVID-19 pandemic reached New Zealand in early 2020. Throughout the country, prices across most commercial property sectors have not been impacted by the pandemic. Over the last 12–24 months the presence of COVID-19 in the community has been an ongoing threat. However, the government's stance in

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

early 2022 to move away from the alert levels and adopt the “traffic light system” will benefit businesses and provide a greater degree of certainty moving forward.

In general terms, industrial properties have been the least affected commercial property class, with offices moderately affected and retail/hospitality the most affected. Given the quality of the assets, current tenures and a large proportion of “essential services” tenants, we consider that the risks associated with COVID-19 are expected to be relatively low in comparison to other commercial/ industrial properties.

8. Intangible Assets

TRADEMARKS

Trademarks for the company are initially recognised at cost. An intangible asset with an indefinite useful life like trademarks, is not amortised but is still subject to an impairment review in accordance with IAS 36 Impairment of Assets, at least on an annual basis or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of trademarks is compared to the recoverable amount, which is the higher of fair value in use and the fair value less costs to sell.

Any impairment is recognised immediately as an expense and is not subsequently reversed.

	Trademark
Opening balance as of 1 April 2021	\$0
Plus: Additions	\$1,689
Less: Amortisation and impairment loss	-
Less: Disposals/transfers	-
CARRYING AMOUNT AS OF 31 MARCH 2022	\$1,689

9. Trade and Other Payables

	2022	2021
Accounts Payable	\$23,629	\$86,034
Related Party Payable	\$191,449	\$237,242
Insurance Funding	\$83,162	\$40,270
GST Payable	\$96,191	-
Withholding Tax Payable	\$1,650	\$4,950
Distribution Payable	\$751,464	\$557,936
Accruals	\$174,369	\$100,315
TOTAL TRADE AND OTHER PAYABLES	\$1,321,914	\$1,026,747

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

Trade and other payables amounts represent liabilities for goods and services provided to the Fund prior to year-end, which are unpaid and arises when the Fund becomes obliged to make future payments regarding the purchase of goods and services. Trade and other payables are usually paid within 30 days.

The 31 March 2022 quarterly distribution payable was \$751,464 which includes net dividend payments of \$656,171 and PIE tax payable of \$95,293. The net dividends were paid to investors on 21 April 2022.

10. Borrowings

ASB COMMERCIAL LOANS	2022	2021
ASB Commercial Loan	(\$38,125,000)	(\$28,500,000)
TOTAL ASB COMMERCIAL LOANS	(\$38,125,000)	(\$28,500,000)

Bank funding of \$38,125,000 from the ASB was used as follows:

(a) \$2,480,000 to assist with the purchase of the property located at 489J Rosebank Road, Avondale; and

(b) \$35,645,000 to assist with the restructure and extension of existing ASB Bank Limited facilities

- \$28,500,000 for the existing loan prior to 31 March 2021.
- \$3,420,000 for the purchase of the property 7 Timothy Place, Avondale on 3 June 2021.
- \$3,725,000 for the purchase of 46 Greenmount Drive, East Tamaki on 3 November 2021.

The loan is expired on 31 March 2024. The Bank may, in its absolute discretion, on 31 March 2023 and on each anniversary thereafter, consider offering the fund the right to extend the loan term for a further 12 months. The loan interest rate is 3.35% per annum. No interest rates were changed prior to drawdown.

The Bank holds mortgages over all properties and a general security deed of all present and after acquired assets of the Fund.

As at 31 March 2022, the current floating interest rate on all facilities is 3.35%.

Key loan covenants are as follows:

- The Loan to Value Ratio (LVR) shall not exceed 45% at all times.
- The Weighted Average of the unexpired term of all Leases shall exceed 2 years at all times.
- The Net Rental Income shall not be less than 2 times the Interest Cost, on a per annum basis.

There have been no breaches of these financial covenants.

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

11. Operating leases as lessor

The Fund has entered into operating leases on its investment properties. These leases have initial terms of between one and ten years remaining.

Future minimum rental receivables under non-cancellable operating leases as at 31 March 2022 are as follows:

PROVINCIA PROPERTY FUND	2022	2021
Within one year	\$4,826,595	\$3,972,367
After one year but not more than five years	\$10,554,173	\$6,410,807
More than five years	\$3,494,849	\$3,554,619

12. Financial Instruments

EXPECTED CREDIT LOSSES

The Fund's principal financial instruments comprise cash and cash equivalents, trade receivables, trade payables and borrowings.

At the reporting date the Fund has presented the ECL allowances in its statement of financial position for financial assets measured at amortised cost as a deduction against the gross carrying amount.

The Fund's total credit impairment allowance remained at nil as at 31 March 2022. At the reporting date, the Fund has not recognised any impairment charges. No financial asset defaults are expected as most of the trade receivables are expected to be received in the following month.

The Fund assesses credit impairment for each financial asset. The Fund's definition of default determines the reference point for the calculation of the ECL components, and in particular the probability of default. Default is generally defined as the point when the customer or borrower is unlikely to pay its receivable in full, or the customer or borrower is 90 days or more past due.

QUANTITATIVE DISCLOSURES

Credit risk

The carrying amount of financial assets represent the Fund's maximum credit exposure.

The status of receivables at reporting date is as follows:

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

FINANCIAL ASSETS	Gross Receivables 2022	ECL Allowance 2022	Gross Receivable 2021	ECL Allowance 2021
Cash and Cash Equivalents	\$1,178,058	-	\$2,155,703	-
Trade and Other Receivables	\$757,207	-	\$306,782	-
TOTAL FINANCIAL ASSETS	\$1,935,265	-	\$2,462,485	-

Interest Rate Risk

The Fund is exposed to cash flow interest rate risk from long-term borrowings at variable rate. It is currently Fund policy that 100% of external borrowings (excluding short-term overdraft facilities and finance lease payables) are variable rate, fixed margin borrowings.

Capital Risk Management

Capital risk arises from the Fund's management of working capital and the finance charges. It is the risk that the Fund will encounter difficulty in meeting its financial obligations as they fall due.

The Fund's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements. The Fund also seeks to reduce capital risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, when market condition warrant this.

13. Related Parties

ENTITIES	NATURE OF RELATIONSHIP	COMMONALITY OF DIRECTORSHIP
Provincia Property Fund Management Limited	Shareholder & Manager of the Fund	Malcolm John Lambert McDougall
Key management personnel	Shareholders of the Fund	Michael Webster, Jenon Varghese, Malcolm John Lambert McDougall

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

RELATED PARTY - PROVINCIA PROPERTY FUND MANAGEMENT	2022	2021
PAYABLES		
Provincia Property Fund Management Limited	\$191,449	\$227,685
TOTAL PAYABLES	\$191,449	\$227,685
RECEIVABLES		
Provincia Property Fund Management Limited	\$6,998	-
TOTAL RECEIVABLES	\$6,998	-
PURCHASES		
Provincia Property Fund Management		
Management Fees	\$558,739	\$302,689
Manager Performance Fees	\$191,449	\$186,513
Property Acquisition Fees	\$720,900	\$572,000
Marketing Fees	\$102,375	\$71,500
Capital Raising Fees	\$328,237	\$155,557
Total Provincia Property Fund Management	\$1,901,700	\$1,288,259
TOTAL PURCHASES	\$1,901,700	\$1,288,259
RELATED PARTY - KEY MANAGEMENT PERSONNEL		
Director Fees		
Chairman fees	-	\$45,000
Director fees	\$60,000	\$15,000
Total Director Fees	\$60,000	\$60,000
Dividends paid	\$220,925	\$148,888
Share investment	\$5,075,428	\$2,855,039
TOTAL RELATED PARTY - KEY MANAGEMENT PERSONNEL	\$ 5,356,353	\$3,063,927

7.5 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 March 2022.

14. Capital Commitments and Contingencies

The construction of building a new workshop for the property located at 80D Hunua Road, Papakura purchased in the last financial year is currently in progress. At the reporting date, a payment of \$250,000 has been paid to the Vendor against the original \$1m retention. The Fund will pay the remaining retention balance of \$750,000 to the Vendor in progress payments within 12 months subject to the appointed quantity surveyor's review and approval of the construction of the new workshop.

The retention will not be paid until the conditions specified in the contract are met.

The manager has decided to not go ahead with the Capex work for the property located at 19 Arwen Place (2021: \$350,000).

The Fund has no other material contingent liabilities and capital commitments at the balance date.

15. Subsequent events

The following events have occurred post reporting date:

- (a) A new \$750,000 term loan was drawdown from ASB to assist with Capex contributions at 80D Hunua Road. In which, an additional \$250,000 was paid to the Vendor on 1 July 2022.
- (b) Performance fees were paid to the Fund Manager by way of issuing new shares of 133,811 on 1 June 2022.

There are no other significant subsequent events.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS PROVINCIA PROPERTY FUND LIMITED

Opinion

We have audited the financial statements of Provincia Property Fund Limited ("the Company"), which comprise the statement of financial position as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2022, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ("NZ IFRS RDR") issued by the New Zealand Accounting Standards Board.

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 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) 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, the Company.

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information contained in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Directors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-8/>.

This description forms part of our auditor's report.

Who we Report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



BDO Auckland
Auckland
New Zealand
20 July 2022

Provincia

We unlock the potential
of industrial property.

www.provincia.co.nz