

TOWER Capital Limited Annual Report 2009





# TOWER Capital Limited

## Annual Report 2009

Annual Report for the financial period ended 30 September 2009

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### TOWER Group

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## Chairman's Letter

TOWER Capital Limited (**TOWER Capital**) is a wholly owned subsidiary of TOWER Limited (**TOWER**) and the issuer of \$81.8 million of Bonds. These are Fixed Rate Senior Unsecured Bonds, with a fixed interest rate of 8.5% per annum, and are repayable in April 2014. TOWER and TOWER Financial Services Group Limited (also a wholly owned subsidiary of TOWER) guarantee the Senior Bonds on an unsecured and unsubordinated basis.

The proceeds of the issue of Senior Bonds were used by the TOWER Group to repay bank debt. The financial statements of TOWER Capital for the period ended 30 September 2009 record the loan made by TOWER Capital to TOWER Financial Services Group Limited to enable this repayment.

As a member of the TOWER Group, TOWER Capital is dependent on the financial position and performance of TOWER. TOWER has reported a profit after tax of \$50.1 million for the year ended 30 September 2009, an increase of 23.8% on the previous year. This is a first rate result. The Board considers the outlook for the TOWER Group is positive. Having successfully completed the issue of the Senior Bonds and the issue of \$81.3 million of new shares in September, TOWER is in a very good position to take advantage of strategic opportunities as they arise.

A copy of the TOWER Annual Report for the year ended 30 September 2009 is available on TOWER's website: [www.towerlimited.com](http://www.towerlimited.com).



A I (Tony) Gibbs CNZM  
Chairman

# Corporate Governance and Regulatory Disclosures

## Corporate Governance approach

TOWER's Board and the management team have a responsibility to achieve the highest standards of corporate performance, ethical behaviour and accountability across the TOWER Group. The Board has adopted and developed corporate governance structures and practices that are consistent with best practice and ensure the integrity of the governance framework, with continual reassessment of its practices against these standards. Where developments arise in corporate governance, the Board is committed to review TOWER's practices and incorporate changes where appropriate to ensure TOWER maintains best practice governance structures.

TOWER Capital operates under the corporate governance policies, practices and processes adopted and followed by TOWER. A full statement of TOWER's corporate governance approach is set out in the corporate governance section of TOWER's Annual Report.

## Directors

The directors of TOWER Capital at 30 September 2009 were:

Tony Gibbs (Chairman)

Bill Falconer

Rob Flannagan

Mike Jefferies

John Spencer

Susie Staley

Denis Wood

These directors also comprise the Board of TOWER, and directors' profiles are included in the Corporate Governance section of the TOWER Annual Report.

## Directors' Interests

TOWER Capital is a wholly owned subsidiary of TOWER Limited and no director held a relevant interest in any shares of the Company. Details of directors' interests in TOWER Limited shares are set out in the Corporate Governance section of the TOWER Annual Report.

Directors held the following beneficial interests in TOWER Capital Senior Bonds as at 30 September 2009:

Director	Holding
Tony Gibbs	1,000,000
Bill Falconer	50,000
Susie Staley	65,000
John Spencer	50,000
Denis Wood	75,000

## Interests Register

TOWER Capital is required to maintain an Interests Register in which the particulars of certain transactions and matters involving the Directors must be recorded. The Interests Register is available for inspection on request.

Details of matters that have been entered in the Interests Register by individual Directors during the accounting period are outlined in the table of Directors' disclosures below.

### General disclosures of interest

During the period ended 30 September 2009, Directors disclosed interest, or a cessation of interest (indicated by (R)), in the following entities pursuant to section 140 of the Companies Act 1993.

<b>Tony Gibbs</b>	Aeneid Seventeen Limited	Director
	Coats plc	Director
	Coats Holdings Limited	Director
	Ezypeel Mandarins Limited	Director
	GPG Forests Limited	Director
	GPG Shares Limited	Director
	Guinness Peat Group New Zealand Limited	Director
	Guinness Peat Group plc	Director
	Ithaca Custodians Limited	Director
	Staveley Inc	Chairman (R)
	Turners & Growers Fresh Limited	Director
	Turners & Growers Limited	Chairman
<b>Bill Falconer</b>	FastForward Ltd	Director (R)
	Hellaby Holdings Ltd	Chairman
	Meat Industry Association	Chairman
	New Zealand Symphony Orchestra	Director
	Oyster Bay Marlborough Vineyards Ltd	Chairman (R)
	Primary Growth Partnership Investment Advisory Panel	Chairman
	Rowing New Zealand	Chairman
	Waterfront Partnership	Chairman
	Westfield Trust NZ Ltd	Director
<b>Mike Jefferies</b>	Metals X Ltd	Director
	OzGrowth Ltd	Director
	TAFMO Ltd	Chairman
<b>John Spencer</b>	Allied Nationwide Finance Ltd	Director
	AsureQuality Ltd	Chairman
	DairyNZ Ltd	Director
	Tainui Group Holdings Ltd	Chairman
	Telfer Young Ltd	Chairman
	Solid Energy New Zealand	Deputy Chairman
	Touchstone Capital Partners Ltd	Director (R)
	WEL Networks Ltd	Chairman
<b>Susie Staley</b>	Allied Nationwide Finance Ltd	Director
	Global Technologies NZ	Director (R)
	Maritime New Zealand	Chairman
	University of Otago Foundation Trust	Trustee
<b>Denis Wood</b>	Mercy Hospice Auckland Ltd	Chairman
	Radius Health Group	Chairman (R)
	Genesis Power Ltd	Director

### *Specific disclosures of interests*

During the financial period, TOWER Capital did not enter into any transactions in which TOWER Capital directors were interested. Accordingly, no disclosures of interest were made.

### *Indemnity and insurance*

In accordance with section 162 of the Companies Act 1993 and its constitution, TOWER Limited has provided insurance for and indemnities to, directors and employees of the TOWER Group for losses from actions undertaken in the course of their duties, including the directors of TOWER Capital. The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity. Particulars have been entered in TOWER's Interests Register pursuant to section 162 of the Companies Act 1993.

### *Use of company information by Directors*

No member of the Board issued a notice requesting to use information received in his or her capacity as a Director which would not have otherwise been available to that Director.

### **Remuneration**

There were no remuneration payments made, or other benefits given, to any Director by TOWER Capital during the financial period. The Directors of TOWER Capital are also directors of TOWER and are paid directors' fees by TOWER for their duties in this capacity. The Group Managing Director does not receive director's fees. Details of the remuneration paid by TOWER Limited to the Directors are set out in the Corporate Governance section of TOWER's Annual Report. TOWER Capital did not employ any staff during the financial period.

### **Donations**

TOWER Capital did not make any donations during the financial period.

### **Audit fees**

All audit fees and fees for other services provided by PricewaterhouseCoopers are paid by TOWER Limited.

### **The spread of holdings in the Senior Bonds at 30 November 2009 was:**

<b>Geographic breakdown</b>	<b>Number</b>	<b>%</b>	<b>Holding</b>	<b>%</b>
New Zealand	1,776	99.60	81,665,000	99.89
Overseas	7	0.40	94,000	0.11
<b>Total</b>	<b>1,783</b>	<b>100.00</b>	<b>81,759,000</b>	<b>100.00</b>
<b>Size of Holdings</b>	<b>Number</b>	<b>%</b>	<b>Holding</b>	<b>%</b>
5,000 – 9,999	294	16.49	1,582,000	1.93
10,000 – 49,999	1,137	63.77	20,891,000	25.55
50,000 – 99,999	214	12.00	11,676,000	14.28
100,000 – 499,999	119	6.67	18,726,000	22.90
500,000 – 999,999	10	0.56	5,820,000	7.12
1,000,000 and over	9	0.51	23,064,000	28.22
<b>Total</b>	<b>1,783</b>	<b>100.00</b>	<b>81,759,000</b>	<b>100.00</b>

## Financial Statements

The financial statements for the period ended 30 September 2009 are set out on pages 10 to 20. The tangible assets per Senior Bond as at that date were \$1.03.

## Waivers granted to TOWER Capital by NZX during the financial period

As TOWER Capital had not completed the first six months of a financial year, it was not required to prepare a half year report for the period ended 31 March 2009. On 19 June 2009, NZX Regulation granted TOWER Capital a waiver from the requirement under Listing Rule 10.4.1(b) to make a preliminary announcement of its results for the period ended 31 March 2009 as the Senior Bonds were only allotted on 24 March 2009 and the information to be contained in such an announcement would not contain any material information. NZXR consulted with the Securities Commission in making the determination to grant this waiver.

This Annual Report is signed on behalf of the Board by



A I (Tony) Gibbs CNZM  
Chairman



Rob Flannagan  
Group Managing Director

# Financial Statements

For the period ended 30 September 2009

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## **Auditors' Report**

to the shareholders of TOWER Capital Limited

We have audited the financial statements on pages 10 to 20. The financial statements provide information about the past financial performance and cash flows of the Company for the period ended 30 September 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 14 and 15.

### **Directors' Responsibilities**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the period ended on that date.

### **Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacities as auditors and providers of other assurance and advisory services.

**Auditors' Report**  
TOWER Capital Limited

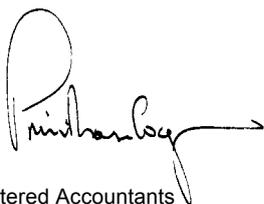
**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 10 to 20
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with International Financial Reporting Standards; and
  - (iii) give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the period ended on that date.

Our audit was completed on 25 November 2009 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland

# Income Statement

For the period ended 30 September 2009

	Note	Period ended 30 September 2009 \$
<b>Investment revenue</b>		
Interest income	3	5,030,239
<b>Total investment revenue</b>		<b>5,030,239</b>
<b>Operating expenses</b>		
Operating expenses		27,990
<b>Total operating expenses</b>		<b>27,990</b>
<b>Financing costs</b>		
Interest expense		3,910,718
Amortisation of capitalised costs	6	280,414
<b>Total financing costs</b>		<b>4,191,132</b>
<b>Profit before tax</b>		<b>811,117</b>
Income tax expense	4	243,335
<b>Profit for the period attributable to shareholders</b>		<b>567,782</b>

*The above income statement should be read in conjunction with the accompanying notes.*

# Balance Sheet

As at 30 September 2009

	Note	2009 \$
<b>Assets</b>		
Cash and cash equivalents		1,606
Related party receivables	5	83,975,114
<b>Total Assets</b>		<b>83,976,720</b>
<b>Liabilities</b>		
Related party payables	5	3,163,446
Tax payable	4	243,335
Interest bearing liabilities	6	80,002,157
<b>Total Liabilities</b>		<b>83,408,938</b>
<b>Net Assets</b>		<b>567,782</b>
<b>Equity</b>		
Retained earnings	8	567,782
<b>Total Equity</b>		<b>567,782</b>

The financial statements were approved for issue by the Board on 25 November 2009.



AI (Tony) Gibbs  
Chairman



John Spencer  
Director

*The above balance sheet should be read in conjunction with the accompanying notes.*

# Statement of Changes in Equity

For the period ended 30 September 2009

	Period ended 30 September 2009
	\$
<b>Total equity at the beginning of the period</b>	-
Profit for the period	567,782
<b>Total recognised income and expense for the period</b>	<b>567,782</b>
<b>Total equity at the end of the period</b>	<b>567,782</b>

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

# Statement of Cash Flows

For the period ended 30 September 2009

	Note	Period ended 30 September 2009 \$
<b>Cash flows from operating activities</b>		
Interest received		2,969,563
Interest paid		(2,449,416)
Payments to suppliers and employees		(408)
<b>Net cash inflow from operating activities</b>	12	<b>519,739</b>
<b>Cash flows from investing activities</b>		
Loan to related party		(81,759,000)
Net advances to related parties		(518,133)
<b>Net cash outflow from investing activities</b>		<b>(82,277,133)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of fixed rate senior unsecured bonds		81,759,000
<b>Net cash inflow from financing activities</b>		<b>81,759,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,606</b>
Cash and cash equivalents at the beginning of the period		-
<b>Cash and cash equivalents at the end of the period</b>		<b>1,606</b>

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

# Notes to the Financial Statements

For the period ended 30 September 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial report are set out below.

TOWER Capital Limited ('the Company') was incorporated on 18 December 2008. Accordingly, the financial statements represent the operations of the Company for the period from this date to 30 September 2009. No comparative information has been presented.

TOWER Capital Limited is a profit-orientated company incorporated and domiciled in New Zealand. The Company was incorporated to undertake an issue of debt securities with the purpose of on lending the proceeds within the TOWER Group.

### BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). It complies with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements were authorised for issue by the Board of Directors on 25 November 2009.

*Compliance with International Financial Reporting Standards (IFRS)*

The financial statements and notes of TOWER Capital Limited comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a historical cost basis with any exceptions noted in the accounting policies below.

### SPECIFIC ACCOUNTING POLICIES

#### (A) INVESTMENT REVENUE

Interest income is recognised on an effective interest method.

#### (B) EXPENSES

Expenses are recognised in the period they are incurred.

#### (C) FINANCING COSTS

Financing costs include interest on external debt and the amortisation of transaction costs and are recognised on an effective interest method.

#### (D) TAXATION

##### (i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### (ii) Tax consolidation

TOWER Capital Limited is part of the New Zealand tax consolidated group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the group.

##### (iii) Income tax expense

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

#### (E) GST

All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cash flows are included in the statement of cash flows on a net basis to the extent that the GST is not recoverable and has been included in the expense or asset.

#### (F) FOREIGN CURRENCY

*Functional and presentation currency*

The financial statements are presented in the currency of the primary economic environment in which the Company operates, being New Zealand dollars.

#### (G) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (H) RECEIVABLES

Receivables are recognised initially at fair value. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will be the fair value.

#### (I) FINANCIAL INSTRUMENTS

The Company classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Company's loans and receivables comprise related party receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

#### (J) IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. For all financial assets, the carrying amount is reduced by the impairment loss directly.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

In respect of available for sale debt instruments, the loss is reversed directly through the income statement. In respect of available for sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

#### (K) INTEREST BEARING LIABILITIES

Interest bearing debt is initially measured at fair value, net of transaction costs incurred, and is subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised over the term of the borrowings.

#### (L) PAYABLES

These amounts represent liabilities for goods and services provided prior to the end of the financial year which are unsettled.

#### (M) PROVISIONS

Provisions are only recognised when the Company has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

#### (N) CONTRIBUTED EQUITY

Ordinary shares issued by the Company are classified as equity and are recognised at fair value less direct issue costs.

#### (O) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

## 2. OTHER EXPENSES

#### AUDIT FEES

No fees for audit or other services were paid by TOWER Capital Limited to its auditors during the year. TOWER Corporation Holdings Limited paid all fees for audit services provided to TOWER Capital Limited.

	Period ended 30 September 2009
	\$
<b>3. INVESTMENT INCOME</b>	
Interest income - external	751,890
Interest income - related party	4,278,349
<b>Total investment income</b>	<b>5,030,239</b>
<b>4. TAXATION</b>	
<b>Analysis of taxation expense</b>	
Current taxation	(243,335)
Profit before taxation	811,117
Income tax expense at current rate of 30%	243,335
<b>Deferred tax</b>	
There is no deferred tax balance as at reporting date.	
<b>Taxation payable is analysed as:</b>	
Current	243,335
Non current	-
	<b>243,335</b>

# Notes to the Financial Statements

For the period ended 30 September 2009

## 5. RELATED PARTY TRANSACTIONS

The Company is immediately and ultimately owned by TOWER Limited. All members of the TOWER Group are considered to be related parties of the Company. Related party receivable and payable balances of TOWER Capital Limited at the reporting date were as follows:

Related party	2009 \$	Nature of Relationship	Type of Transaction
TOWER Financial Services Group Limited	83,975,114	Subsidiary of TOWER Limited	Loan/Advance
TOWER Corporation Holdings Limited	(3,163,446)	Subsidiary of TOWER Limited	Advance

The Company issued a loan to TOWER Financial Services Group Limited (TFSG) of \$81,759,000 on 24 March 2009, bearing a fixed interest rate of 10% per annum. The loan is payable on demand and the above total includes accrued interest of \$2,060,776. The Company advanced a further \$155,338 to TFSG during the period. This advance is non-interest bearing and payable on demand.

The balance owing to TOWER Corporation Holdings Limited represents the expenses paid on behalf of the Company during the period. The balance is non-interest bearing and is payable on demand.

Related party transactions with TOWER Capital Limited during the year were as follows:

Related party	2009 \$	Nature of Relationship	Type of Transaction
TOWER Financial Services Group Limited	81,759,000	Subsidiary of TOWER Limited	Loan
TOWER Financial Services Group Limited	155,338	Subsidiary of TOWER Limited	Advance
TOWER Financial Services Group Limited	4,278,349	Subsidiary of TOWER Limited	Interest on loan
TOWER Corporation Holdings Limited	(3,644,191)	Subsidiary of TOWER Limited	Bond issue costs and other expenses

	2009 \$
<b>6. INTEREST BEARING LIABILITIES</b>	
Fixed rate senior unsecured bonds	83,220,402
Unamortised capitalised costs	(3,218,245)
	<b>80,002,157</b>
<b>Analysed as:</b>	
Current	860,297
Non current	79,141,860
	<b>80,002,157</b>

### Fixed rate senior unsecured bonds

On 24 March 2009, the Company issued \$81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds mature on 15 April 2014. The total balance above includes \$1,461,402 of accrued interest. The Company capitalised \$3,498,659 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest method. The bonds are carried at amortised cost using the effective interest method. The amortised costs to 30 September 2009 were \$280,414. The fair value of fixed rate senior unsecured bonds as at 30 September 2009 is \$83,535,000, this has been estimated using the method outlined in Note 11 (D).

## 7. CONTRIBUTED EQUITY

Issued share capital	1,000 ordinary shares
----------------------	-----------------------

Shares have been issued for nil consideration on incorporation. Each share ranks equally with one vote attached to each share.

	2009
	\$
<b>8. RETAINED EARNINGS</b>	
Opening balance	-
Net profit for the period	567,782
<b>Closing balance</b>	<b>567,782</b>

#### 9. SEGMENTAL REPORTING

TOWER Capital Limited derives its revenue from one single business class and operates predominately in one geographical segment, New Zealand. Consequently no segmental information is disclosed.

#### 10. FINANCIAL INSTRUMENTS

The analysis of financial assets and liabilities into their categories and classes is set out in the following table:

As at 30 September 2009	Total	Loans and receivables
Financial Assets	\$	\$
Cash and cash equivalents	1,606	1,606
Related party receivables	83,975,114	83,975,114
<b>Total financial assets</b>	<b>83,976,720</b>	<b>83,976,720</b>
	Total	Financial liabilities at amortised cost
Financial Liabilities	\$	\$
Interest bearing liabilities	80,002,157	80,002,157
Related party payables	3,163,446	3,163,446
<b>Total financial liabilities</b>	<b>83,165,603</b>	<b>83,165,603</b>

#### 11. RISK MANAGEMENT INFORMATION

The financial condition and operating results of the Company are affected by a number of key financial risks. Financial risks include market risk, credit risk and financing and liquidity risk.

These risks are managed through the parent company's (TOWER Limited) risk management policy which is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to all risks is monitored by TOWER Limited's Company Secretary & Compliance Manager and this exposure is reported quarterly to the TOWER Group Audit and Compliance Committee.

The Board has delegated to the TOWER Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, group risk management and internal financial controls and systems as part of their duties.

Compliance risk and operational risk are both monitored by internal committees and reported regularly to the Board.

##### (A) MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in market interest rates (interest rate risk), foreign exchange rates (currency risk), and market prices (price risk) whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

###### (i) Interest rate risk

Interest rate risk is the risk that the value or future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2009 there were no interest rate swaps in place in relation to external borrowings. Interest on external borrowings is fixed therefore mitigating the cash flow risk arising from changes in interest rates.

###### (ii) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Company's functional currency.

The Company is not exposed to currency risk, as there are no assets, liabilities or transactions which are denominated in a currency that is not the Company's functional currency.

###### (iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Company is not exposed to the price risk because it holds no investments in publicly traded equity securities.

# Notes to the Financial Statements

For the period ended 30 September 2009

## 11. RISK MANAGEMENT INFORMATION (CONTINUED)

### (B) CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result of changes in credit risk of that instrument.

The Company's exposure to credit risk is limited to deposits held with banks and other financial institutions as well as credit exposure to related party receivables or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Company is 'A'.

#### (i) Credit risk concentration

Concentration of credit risk exists when the Company enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. The Company manages concentration of credit risk by credit rating, industry type and individual counterparty.

The credit risk concentration is within one geographical segmental, New Zealand. The significant concentrations of credit risk are outlined by industry type below.

	2009 Carrying value \$
Banks	1,606
Related party receivable	83,975,114
<b>Total financial assets with credit exposure</b>	<b>83,976,720</b>

#### (ii) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account any collateral or any other credit enhancements is the carrying amount of the financial assets held by the Company at the reporting date, which is as follows:

Asset	
Cash and cash equivalents	1,606
Related party receivable	83,975,114
<b>Total credit risk</b>	<b>83,976,720</b>

#### (iii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

Credit exposure by credit rating	
AA	1,606
Related parties with no credit rating	83,975,114
	<b>83,976,720</b>

#### (iv) Financial assets that would otherwise be past due whose terms have been renegotiated

None of the financial assets that are fully performing has been renegotiated in the past period.

#### (v) Financial assets that are past due but not impaired

None of the financial assets are past due or impaired.

### (C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Company maintains sufficient current assets to ensure that it can meet its debt obligations and other cash outflows on a timely basis.

#### Financial assets and liabilities by expected and contractual maturity

The tables below summarise the Company's financial assets and liabilities into relevant maturity groups based on the remaining period at the balance date to the expected contractual and maturity dates. All amounts disclosed are expected or contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

#### Expected cash flows

The maturity table based on the expected cash flows is presented below for the purposes of disclosing the cash flows that are actually expected to occur over the life of the Company's financial assets and liabilities.

	Carrying value	Total expected cash flows	Less than one year	One to two years	Two to three years	Three to four years	Four to five years
	\$	\$	\$	\$	\$	\$	\$
<b>As at 30 September 2009</b>							
<b>Financial assets</b>							
Cash and cash equivalents	1,606	1,606	1,606	-	-	-	-
Related party receivables	83,975,114	118,694,689	8,331,239	8,175,900	8,175,900	8,175,900	85,835,750
<b>Total financial assets</b>	<b>83,976,720</b>	<b>118,696,295</b>	<b>8,332,845</b>	<b>8,175,900</b>	<b>8,175,900</b>	<b>8,175,900</b>	<b>85,835,750</b>
<b>Financial liabilities</b>							
Interest bearing liabilities	80,002,157	113,022,298	6,949,515	6,949,515	6,949,515	6,949,515	85,224,238
Related party payables	3,163,446	3,163,446	546,206	661,181	727,382	800,211	428,466
<b>Total financial liabilities</b>	<b>83,165,603</b>	<b>116,185,744</b>	<b>7,495,721</b>	<b>7,610,696</b>	<b>7,676,897</b>	<b>7,749,726</b>	<b>85,652,704</b>

#### Contractual cash flows

The table below presents the maturity analysis of the Company's financial assets and liabilities on a contractual cash flow basis.

	Carrying value	Total contractual cash flows	Less than one year	One to two years	Two to three years	Three to four years	Four to five years
	\$	\$	\$	\$	\$	\$	\$
<b>As at 30 September 2009</b>							
<b>Financial assets</b>							
Cash and cash equivalents	1,606	1,606	1,606	-	-	-	-
Related party receivables	83,975,114	83,975,114	83,975,114	-	-	-	-
<b>Total financial assets</b>	<b>83,976,720</b>	<b>83,976,720</b>	<b>83,976,720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>							
Interest bearing liabilities	80,002,157	113,022,298	6,949,515	6,949,515	6,949,515	6,949,515	85,224,238
Related party payables	3,163,446	3,163,446	3,163,446	-	-	-	-
<b>Total financial liabilities</b>	<b>83,165,603</b>	<b>116,185,744</b>	<b>10,112,961</b>	<b>6,949,515</b>	<b>6,949,515</b>	<b>6,949,515</b>	<b>85,224,238</b>

#### (D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques referred to below:

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values. The following methods and assumptions were used by the Company in estimating the fair values of financial instruments.

##### (i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair values.

##### (ii) Related party receivables and payables

Carrying values of related party receivables and payables reasonably approximate their fair values.

##### (iii) Interest bearing liabilities

The fair value of fixed rate senior unsecured bonds is determined by reference to the average quoted market price of the underlying debt securities at the end of the period.

#### (E) SENSITIVITY ANALYSIS

No sensitivity analysis has been disclosed as there is no impact on the shareholder profit after tax or equity from changes in interest rates, exchange rates and equity prices. Cash, related party loans and interest bearing liabilities are held at amortised cost and subject to fixed interest rates and other related party balances are interest free.

# Notes to the Financial Statements

	Period ended 30 September 2009
	\$
<b>12. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<b>After tax profit for the period attributed to shareholders</b>	567,782
Add/(less) movements in working capital	
Increase in related party receivables	(2,033,095)
Increase in taxation	243,335
	<b>(1,789,760)</b>
<b>Add other items classified as financing activities</b>	
Interest on borrowings	1,741,717
<b>Net cash inflow from operating activities</b>	<b>519,739</b>

## 13. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 September 2009.

## 14. CAPITAL COMMITMENTS

There were no capital commitments as at 30 September 2009.

## 15. IMPACT OF AMENDMENTS TO NZ IFRS

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 October 2009 or later periods, and the Company has not early adopted them:

- NZ IAS 1 (Amendment) 'Presentation of financial statements' (effective from 1 January 2009). The revised NZ IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity.  
All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This is not expected to have a material impact on the Company. The Company will apply NZ IAS 1 (Amendment) from 1 October 2009.
- NZ IFRS 8, 'Operating segments' (effective from 1 January 2009). NZ IFRS 8 replaces NZ IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company will apply NZ IFRS 8 from 1 October 2009.
- NZ IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amended standard extends the disclosures requirements of estimates used to determine recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives, equivalent to those for value-in-use calculation. This disclosure is required when discounted cash flows are used to estimate fair value less costs to sell. The Company will apply the NZ IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 October 2009.
- NZ IAS 32 (Amendment), 'Financial instruments: Presentation' and NZ IAS 1 (Amendment), 'Presentation of Financial Statements - Puttable Financial Instruments and Obligations arising on liquidation' (effective from 1 January 2009). The revisions provide a limited scope exceptions for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.
- NZ IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective from 1 January 2009). The amendment requires disclosure of all the level of the fair value hierarchy into which fair value measurements are categorised based on a three level fair value hierarchy for financial instruments. In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities. The Company will apply NZ IFRS 7 (Amendment) from 1 October 2009.

## 16. SUBSEQUENT EVENTS

There have been no material events subsequent to 30 September 2009.

# 2009 TOWER Capital Directory

## **TOWER Capital Limited**

### **REGISTERED OFFICE & INVESTOR RELATIONS**

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Email: investor.relations@tower.co.nz  
Website: www.towerlimited.com

### **HOLDING COMPANY**

TOWER Limited

### **AUDITOR**

PricewaterhouseCoopers

### **SOLICITORS**

DLA Phillips Fox

## **REGISTRAR**

### **Computershare Investor Services Limited**

Level 2, 159 Hurstmere Road,  
Takapuna, North Shore  
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Telephone New Zealand:  
+64 9 488 8777  
Email: enquiry@computershare.co.nz  
Website:  
www.computershare.co.nz/investorcentre

Holders with enquiries regarding transactions, changes of address or interest payments should contact Computershare.

Holdings can also be managed electronically by using Computershare's secure website.

This website enables holders to view balances, change addresses, and update payment and tax information, and report options.

TOWER Capital recommends holders elect to have interest payments direct credited to their nominated bank account in New Zealand or Australia to minimise the risk of fraud and misplacement of cheques.

Please quote your CSN or holder number when contacting our registrar.



**TOWER Capital Limited**

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