

Springs Road Property Limited

Annual Report
for the year ended
31 March 2004



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Management Report and Market Commentary

Over the past 12 months property as an asset class has continued to gain in popularity. As the demand for commercial properties has increased, the yield on purchase price has reduced. Quality commercial property has sold during the year at yields of between 7.5% and 8.5% net return. The same standard of property may have achieved a net return of 8.5% to 9.5% in 2002. The New Zealand retail market has continued to remain buoyant. The continued strength of the domestic economy and lower interest rates has further encouraged investment in property.

Goodman Fielder House is a strategically positioned office building in a fast growing area of Auckland. Botany Downs Shopping Centre is close by and expanding subdivisions and new housing is being constructed in the areas adjacent to East Tamaki.

Goodman Fielder House is 60% occupied by Goodman Fielder and 40% occupied by Manukau Water. The tenants are both involved in businesses which are growing. Goodman Fielder has continued to increase their involvement in the supply of goods to supermarkets and retail outlets. Manukau Water is a part of the Manukau City Council, controlling the water supply and distribution for Manukau City.

In the last year Manukau Water has renewed one of its two leases for a further 3-year period. Manukau Water now has expiry dates of the 13th of July 2006 and 13th of July 2009 for the two leases.

Goodman Fielder's seven-year lease is due expire in December 2004. They have two four-year rights of renewal. We have been working with Goodman Fielder over the last year to resolve any shortfall in their tenancy arrangements and this has resulted in upgrades to facilities and areas of refurbishment.

The lobby area has been refurbished, including the replacement and resealing of the glass in the conservatory entry. The lifts have received maintenance and refurbishment and the air-conditioning system has been partly overhauled.

The Company has invested capital in the upgrade and maintenance to ensure the property is maintained at a standard acceptable to quality tenants. This expenditure impacts on the companies cashflow and therefore the Directors have deferred the consideration of a discretionary dividend for the year ended 31 March 2004 until the Goodman Fielder tenancy renewal is confirmed. The current cash return is 7.8% before tax, on a purchase price per parcel of \$5,000. This cash return remains competitive, however, the Directors do favour paying the discretionary dividend as and when the Company is in a position to do so.

Within a well performing property market an individual property within the market may not be performing at the same level as the market due to distinctive one off factors. In the case of Goodman Fielder House the short remaining lease term for Goodman Fielder is the one factor holding back an increase in the value of the property for this year.

The value of the property has decreased by 5.2% from \$4.9m to \$4.65m for the year ended 31st March 2004. In valuing the property the registered valuer has used a high capitalisation rate of 11.5%, of the net income, which results in a lower value. Similar properties with longer leases would attract a capitalisation rate of 8.5%. When a longer-term lease is confirmed at Springs Road the valuation can be expected to appreciate.

Property Management

Until the end of 2003 the Manager, Investment Services Limited, had contracted the property management operation of the property to The Franklin Company, who were based in Auckland. This contract has now been terminated in favour of employing an 'in house' property manager whose primary function is the management of the commercial properties within Investment Services management portfolio.

Report of the Directors to the Shareholders

Your Directors take pleasure in presenting their Annual Report including the financial statements of the Company for the year ended 31 March 2004.

Activities

The company is involved in the property rental business.

Dividends

No dividend was declared for the year ended 31 March 2004.

Directors

The following persons held office as Directors during the year ended 31 March 2004.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2004.

Remuneration of employees

No employees remuneration exceeded \$100,000.

Auditors

Richards Woodhouse were reappointed as the Company's auditors.

Interests register

The following are transactions recorded in the Interests Register for the year:

Interested transactions

All transactions conducted by the Company with Investment Services Limited are interested transactions, as Michael Millar is a Director of, and Neil Barnes and Virginia Laughton are employees of, Investment Services Limited.

Interested transactions were:

Investment Services Limited

Payment of fees for Management, Accounting and Registry services	30,336
	<u><u>\$30,336</u></u>

Share purchases

No share transactions took place during the period.

Directors' loans

There were no loans by the Company to the Directors.

Directors' indemnity and insurance

The Company's Directors are insured against liabilities to other parties (except the company or a related party of the company) that may arise from their positions as directors. The insurance does not cover liabilities arising from criminal actions.

For, and on behalf of, the Board



CHAIRMAN



DIRECTOR

Date: 16 June 2004

Springs Road Property Limited

Statement of financial performance

For the year ended 31 March 2004

	<i>Note</i>	2004	2003
		\$	\$
Income			
Rent received	2	551,622	556,009
Interest received		6,504	5,456
		558,126	561,465
Less expenditure			
Accountancy		4,026	3,660
Audit fees		1,500	1,778
Interest - Loans		142,015	164,816
- Mortgage Bonds		228,430	234,668
Custodian fees		1,500	1,500
Printing, postage and stationery		859	917
Registry fees		2,310	2,100
Management fees	3	24,000	23,002
Legal and professional fees		1,188	14,689
Insurance		7,038	1,983
Non-recoverable opex		1,554	3,817
Valuation fees		1,117	1,639
Repairs & Maintenance		5,857	-
General expenses		2,505	1,051
		423,899	455,620
Net surplus (deficit) before taxation		134,227	105,845
Tax	4	-	-
Net surplus (deficit) before revaluation		134,227	105,845
Unrealised increase (decrease) in value of investment property	10	(330,843)	190,000
Net surplus (deficit)		(196,616)	295,845

Springs Road Property Limited
Statement of movements in equity
For the year ended 31 March 2004

	2004	2003
	\$	\$
Total equity at beginning of period	598,381	356,868
Net surplus (deficit) for the period	<u>(196,616)</u>	<u>295,845</u>
Total recognised revenue and expenses for the period	(196,616)	295,845
Proposed dividend	<u>-</u>	<u>54,332</u>
Total equity at end of period	<u><u>401,765</u></u>	<u><u>598,381</u></u>

Springs Road Property Limited
Statement of financial position
As at 31 March 2004

	<i>Note</i>	2004 \$	2003 \$
Equity		401,765	598,381
Represented by:			
Current assets			
Cash and bank balances	6	187,125	180,384
Accounts receivable		31,476	21,869
Tax refund due		8,412	3,778
		<u>227,013</u>	<u>206,031</u>
Non-current assets			
Investment property	10	4,550,000	4,800,000
Total assets		<u>4,777,013</u>	<u>5,006,031</u>
Less liabilities:			
Current liabilities			
Accounts payable		95,959	78,771
Proposed dividend		-	54,332
Bank loans – secured	7	1,950,000	-
GST payable		17,289	12,547
		<u>2,063,248</u>	<u>145,650</u>
Non-current liabilities			
Bank loans - Secured	7	-	1,950,000
Mortgage bonds - Secured	7	2,312,000	2,312,000
		<u>2,312,000</u>	<u>4,262,000</u>
Total liabilities		<u>4,375,248</u>	<u>4,407,650</u>
Net assets		<u>401,765</u>	<u>598,381</u>



Director

Dated: 16 June 2004



Director

Dated: 16 June 2004

Springs Road Property Limited

Statement of cash flows

As at 31 March 2004

	<i>Note</i>	2004	2003
		\$	\$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Rents received		565,003	551,588
Net interest received		<u>6,504</u>	<u>5,456</u>
		571,507	557,044
<i>Cash was applied to:</i>			
Operating expenses		(57,586)	(73,129)
Interest		<u>(372,005)</u>	<u>(402,300)</u>
		<u>(429,591)</u>	<u>(475,429)</u>
Net cash flow from operating activities	8	141,916	81,615
Cash flows from financing activities			
<i>Cash was provided from</i>			
Bank loan advance		<u>-</u>	<u>1,950,000</u>
		-	1,950,000
<i>Cash was applied to</i>			
Bank loan repayment		-	(1,950,000)
Dividend payment		<u>(54,332)</u>	<u>(54,332)</u>
Net cash flows from financing activities		<u>(54,332)</u>	<u>(54,332)</u>
Cash flows from investing activities			
<i>Cash was applied to</i>			
Capital expenditure		<u>(80,843)</u>	<u>-</u>
Net cash flows from investing activities		<u>(80,843)</u>	<u>-</u>
Total net (decrease)/increase in cash balances		6,741	27,283
Add opening cash brought forward		<u>180,384</u>	<u>153,101</u>
Closing cash carried forward		<u>187,125</u>	<u>180,384</u>

Notes to the financial statements

1 Statement of significant accounting policies

Basis of preparation

The company, Springs Road Property Limited was incorporated in December 1997 and is registered under the Companies Act 1993. The financial statements of the company have been prepared in accordance with the Financial Reporting Act 1993, and comprise statements of the following: significant accounting policies, financial performance, movements of equity, financial position, cashflows, as well as the notes to these statements contained on pages 7 to 11 of this Annual Report.

The financial statements have been prepared on the historical cost basis except that the investment property is revalued.

Investment property

The investment property is recorded at net current value, which is market value less anticipated costs of disposal. Revaluation gains or losses are included in the statement of financial performance following the net profit (loss) before revaluation. The investment property is not depreciated.

Taxation

The company adopts tax effect accounting whereby income tax is matched with operating profit after allowing for permanent differences, including depreciation using the partial liability method. The tax benefit of tax losses is recognised in the year the losses are utilised.

Financial instruments

All financial instruments of the company are recognised in the balance sheet. The company has no off-balance sheet financial instruments. Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of asset and liability.

Debtors

Debtors are stated at estimated realisable value.

Goods and services tax

The financial statements have been prepared on a GST exclusive basis except for trade receivables and payables.

Statement of cash flows

The following are the definitions of the terms in the Statement of cash flows:

- a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

- b) Investing activities are those activities relating to the acquisition, holding and disposal of tangible assets and of investments. Investments can include securities not falling within the definition of cash.
- c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Company. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- d) Operating activities include all transactions and other events that are not investing or financing activities.

Changes in accounting policies

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

2 Rents received

The annual rentals for the property have been set under the leases taken over on acquisition. The two tenants have leases with the following terms:

Goodman Fielder Milling

- Eight-year term expiring 31 December 2004.
- Two rights of renewal of four years each.
- Two yearly rent reviews based on current market rentals and encompassing a ratchet clause.

Manakau City Council

2 Leases

- 1) First Floor
 - Three year lease expiring 13 July 2006.
 - One, three year right of renewal.
 - Rent review on renewal
- 2) Ground Floor
 - Six year lease expiring 13 July 2009.
 - Two, three year rights of renewal.
 - Rent review three yearly, or on renewal.

3 Management fees

The Investment Manager's fee for 2001 and thereafter is based on 0.5% of the opening net capital value of the property.

Notes to the financial statements (continued)

4 Taxation

Tax will be paid on net income after allowing for permanent differences including depreciation, which are not expected to reverse in the foreseeable future.

	2004	2003
	\$	\$
Net surplus (deficit) before taxation	134,227	105,845
<i>Adjusted for:</i>		
Depreciation claim	<u>(153,891)</u>	<u>(154,785)</u>
Tax Loss for year	<u>(19,664)</u>	<u>(48,940)</u>

5 Deferred taxation

The company has an unrecognised deferred taxation liability of \$368,443 (2003: \$317,659) in respect of depreciation, and an offsetting unrecognised future tax benefit of \$234,510 (2003: \$228,021) in respect of tax losses carried forward. The carry forward of tax losses is dependent upon sufficient shareholder continuity being maintained.

6 Cash and bank balances

	2004	2003
	\$	\$
National Bank accounts	175,025	161,766
ASB Bank account	<u>12,100</u>	<u>18,618</u>
	<u>187,125</u>	<u>180,384</u>

Notes to the financial statements (continued)

7 Non-current liabilities

	2004 \$	2003 \$
ASB Bank	-	1,950,000
Mortgage Bonds	2,312,000	2,312,000
	<u>2,312,000</u>	<u>4,262,000</u>

ASB Bank repayment terms - at end of 2 years being December 2004 with fixed interest rate of 7.26% per annum. The ASB Bank loan is secured by a first ranking debenture over the assets of Springs Road Property Limited and a first ranking mortgage over the property.

The terms of the convertible mortgage bonds are as follows:

- Each mortgage bond has a face value of \$4,000.
- Interest paid of 12.5% per annum (pre-tax) from date of issue to 31 March 2001. Thereafter the rate is to be set by the directors at 31 March annually at either 12.5% p.a. or the 90-day bank bill rate plus 4% p.a. whichever is the lesser (pre-tax). For the year ended 31 March 2004 the rate was 9.88%
- Bonds will be redeemed on the sale of the company's property in cash to the extent that sufficient funds are then available and by conversion into ordinary shares for any balance.

Or

- Mandatory conversion to ordinary shares on the 20th anniversary of deed poll.

Or

- Conversion to ordinary shares at the option of the company at any earlier time upon giving notice to bond holders.
- Shares may only be transferred as part of a parcel of 1,000 shares and one convertible mortgage bond.

Notes to the financial statements (continued)

8 Reconciliation of net profit/(deficit) to net cashflows from operating activities

	2004	2003
	\$	\$
Net profit (deficit) after taxation	(196,616)	295,845
Decrease/(Increase) in property valuation	330,843	(190,000)
	<hr/>	<hr/>
	134,227	105,845
<i>Add/(less) movements in working capital items</i>		
(Increase)/decrease in accounts receivable	(9,607)	959
Increase/(decrease) in accounts payable	17,188	(31,545)
Increase/(decrease) in net GST	4,742	8,152
(Increase)/decrease in tax refund due	(4,634)	(1,800)
	<hr/>	<hr/>
	7,689	(24,230)
Net cash inflow from operating activities	<u>141,916</u>	<u>81,615</u>

9 Financial instruments

This note deals with exposures to interest rate and credit risk arising in the normal course of the company's business as follows.

Interest rate risk

The Company has long-term borrowings. The Company has minimised interest rate risk though fixing the interest rate associated with those borrowings for a two-year period up to the year 2004 at an interest rate of 7.26%. The rate of interest on convertible mortgage bonds was 9.88% for the year ended 31 March 2004.

Credit risk

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

The Company manages credit risk through transacting only with major trading banks.

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

No collateral is required in respect of financial assets.

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

Notes to the financial statements (continued)

10 Investment property valuation

The investment property was valued by DTZ, registered property valuers of Auckland, on 31 March 2004 at a market value of \$4,650,000. The amount of \$4,550,000 included in the statement of financial position is calculated by taking this amount and deducting an allowance for disposal costs assessed at \$100,000.

	2004	2003
	\$	\$
Valuation brought forward	4,800,000	4,610,000
Capitalised additions	(330,843)	-
	<u>4,550,000</u>	<u>4,610,000</u>
Current valuation	4,650,000	4,900,000
Less Disposal costs	(100,000)	(100,000)
	<u>4,550,000</u>	<u>4,610,000</u>
Change in value of property	<u>(330,843)</u>	<u>190,000</u>

11 Related party transactions

Michael Millar is both a Director of Springs Road Property Limited and Investment Services Limited the Company's manager and as such Investment Services Limited is a related party.

During the period the following transactions were entered into with Investment Services Limited.

Payment of fees for management,
Accounting and registry services

30,336

\$30,336



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RichardsWoodhouse

Auditors' Report to the Shareholders of Springs Road Property Limited

We have audited the financial statements on pages 3 to 11. The financial statements provide information about the past financial performance and cash flows of the company for the year ended 31 March 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 7.

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 31 March 2004 and its financial performance and cash flows for the year 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 capacity as auditors.

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 3 to 11:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the company as at 31 March 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 16 June 2004 and our unqualified opinion is expressed as at that date.

Richards Woodhouse
Nelson

Treasurer/Audit Report - Springs Road Property



Directory

Nature of business	Property rental	Bankers	ASB Bank Limited 143 Armagh Street Christchurch
Paid in capital	\$578,000	Auditors	Richards Woodhouse 9 Buxton Square PO Box 98 Nelson
Registered office	L1 3/237 Queen Street Richmond Nelson	Solicitors	McFadden McMeeken Phillips 187 Bridge Street PO Box 656 Nelson
Registered under	The Companies Act 1993	Share Register	Investment Services L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300
Incorporation number	WN886293	Secondary Market	Investment Services L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300
I.R.D. number	69-248-896		
Directors	Michael John Millar Neil Allan Barnes Virginia Anne Laughton		
Investment Manager	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		
Property Manager	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		
Accountant	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		