

# Springs Road Property Limited

Annual Report  
for the year ended  
31 March 2005



## Contents

Management Report & Market Commentary	1
Report of the Directors to the Shareholders	2
Statement of financial performance	3
Statement of movements in equity	4
Statement of financial position	5
Statement of cash flows	6
Notes to the financial statements	7-11
Auditors Report	12
Directory	13

# Management Report and Market Commentary

Over the past 12 months property as an asset class has continued to be popular with the net yield on commercial properties staying at similar levels to last year. Quality commercial property has sold during the year at yields of between 8% and 9% net return. The New Zealand retail consumer market has continued to remain buoyant although as at March 2005 there are some pointers to it slowing. Over the last year the interest rates have increased with the 90 day bill rate moving from 5.51% to 7.08%. This has increased the cost of borrowing to a level where it is difficult to purchase a sound commercial building which will provide a margin between the borrowing rate and capitalisation rate.

Goodman Fielder house has performed better than last year with an increase in value from \$4,650,000 to \$5,390,000 this is a 15.9% increase in value. The last financial year had the uncertainty of the lease expiry of the Goodman Fielder due in December 2004. This uncertainty has decreased as the leases have been firmed up. Goodman Fielder agreed to relinquish a lease of the ground floor and renewed the lease of the 2<sup>nd</sup> & 3<sup>rd</sup> floors along with the test bakery for a further 4 year period expiring on the 31 December 2008. They have also agreed to pay a slightly increased rental on the areas they continued to occupy. Manukau Water has taken a new 4 year lease over the area on the ground floor relinquished by Goodman Fielder. Manukau Water now has expiry dates of the 13<sup>th</sup> of July 2006 for one lease and the 13<sup>th</sup> of July 2009 for the other two leases

Goodman Fielder House is now 55% occupied by Goodman Fielder and 45% occupied by Manukau Water. The tenants are both involved in businesses which are continuing to grow. 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.

When Manukau water leased the ground floor area they requested the ceiling was repainted along with some other minor maintenance items these works have been completed along with a repaint of the ground floor toilet.

Over the next year we have made provision for re-routing the power supply to the building. Currently power comes from the neighbouring site, with the upgrade it will be sourced directly from the power supplier.

# 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 2005.

## **Activities**

The company is involved in the property rental business.

## **Dividends**

No dividend was declared for the year ended 31 March 2005.

## **Directors**

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

Michael John Millar  
Neil Allan Barnes  
Virginia Anne Laughton

## **Remuneration of Directors**

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

## **Remuneration of employees**

No employees remuneration exceeded \$100,000.

## **Auditors**

Richards Woodhouse were reappointed as the Company's auditors.

## **Interests register**

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

## **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 29,086

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**\$29,086**

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## **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



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**CHAIRMAN**



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**DIRECTOR**

Date:

Springs Road Property Limited  
Statement of financial performance  
For the year ended 31 March 2005

	<b>Note</b>	<b>2005</b> \$	<b>2004</b> \$
<b>Income</b>			
Rent received	<b>2</b>	574,202	551,622
Interest received		14,416	6,504
		<u>588,618</u>	<u>558,126</u>
<b>Less expenditure</b>			
Accountancy		4,026	4,026
Audit fees		1,422	1,500
Interest - Loans		145,285	142,015
- Mortgage Bonds		221,027	228,430
Custodian fees		1,500	1,500
Printing, postage and stationery		336	859
Registry fees		2,310	2,310
Management fees	<b>3</b>	22,750	24,000
Legal and professional fees		89	1,188
Insurance		4,543	7,038
Non-recoverable opex		3,746	1,554
Valuation fees		1,775	1,117
Repairs & Maintenance		-	5,857
General expenses		3,110	2,505
		<u>411,919</u>	<u>423,899</u>
<b>Net surplus (deficit) before taxation</b>		176,699	134,227
Tax	<b>4</b>	-	-
<b>Net surplus (deficit) before revaluation</b>		176,699	134,227
Unrealised increase (decrease) in value of Investment property	<b>10</b>	754,638	(330,843)
<b>Net surplus (deficit)</b>		<u><u>931,337</u></u>	<u><u>(196,616)</u></u>

Springs Road Property Limited  
Statement of movements in equity  
For the year ended 31 March 2005

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>Total equity at beginning of period</b>	401,765	598,381
Net surplus (deficit) for the period	931,337	<u>(196,616)</u>
Total recognised revenue and expenses for the period	1,333,102	<u>(196,616)</u>
<b>Total equity at end of period</b>	<b><u>1,333,102</u></b>	<b><u>401,765</u></b>

Springs Road Property Limited  
Statement of financial position  
As at 31 March 2005

	<i>Note</i>	<b>2005</b> \$	<b>2004</b> \$
<b>Equity</b>		<b>1,333,102</b>	<b>401,765</b>
<b>Represented by:</b>			
<b>Current assets</b>			
Cash and bank balances	<b>6</b>	343,868	187,125
Accounts receivable		22,687	31,476
Tax refund due		11,024	8,412
		<u>377,579</u>	<u>227,013</u>
<b>Non-current assets</b>			
Investment property	<b>10</b>	5,320,000	4,550,000
<b>Total assets</b>		<u>5,697,579</u>	<u>4,777,013</u>
<b>Less liabilities:</b>			
<b>Current liabilities</b>			
Accounts payable		93,287	95,959
Bank loans – secured	<b>7</b>	-	1,950,000
GST payable		9,190	17,289
		<u>102,477</u>	<u>2,063,248</u>
<b>Non-current liabilities</b>			
Bank loans - Secured	<b>7</b>	1,950,000	-
Mortgage bonds - Secured	<b>7</b>	2,312,000	2,312,000
		<u>4,262,000</u>	<u>2,312,000</u>
<b>Total liabilities</b>		<u>4,364,477</u>	<u>4,375,248</u>
<b>Net assets</b>		<u><b>1,333,102</b></u>	<u><b>401,765</b></u>



**Director**

**Dated:**



**Director**

**Dated:**

# Springs Road Property Limited

## Statement of cash flows

### As at 31 March 2005

	<i>Note</i>	<b>2005</b> \$	<b>2004</b> \$
<b>Cash flows from operating activities</b>			
<i>Cash was provided from:</i>			
Rents received		579,399	565,003
Net interest received		<u>14,416</u>	<u>6,504</u>
		593,815	571,507
<i>Cash was applied to:</i>			
Operating expenses		(54,459)	(57,586)
Interest		<u>(367,251)</u>	<u>(372,005)</u>
		<u>(421,710)</u>	<u>(429,591)</u>
Net cash flow from operating activities	<b>8</b>	172,105	141,916
<b>Cash flows from financing activities</b>			
<i>Cash was provided from</i>			
Bank loan advance		<u>1,950,000</u>	<u>-</u>
		1,950,000	-
<i>Cash was applied to</i>			
Bank loan repayment		(1,950,000)	-
Dividend payment		<u>-</u>	<u>(54,332)</u>
Net cash flows from financing activities		<u>-</u>	<u>(54,332)</u>
<b>Cash flows from investing activities</b>			
<i>Cash was applied to</i>			
Capital expenditure		<u>(15,362)</u>	<u>(80,843)</u>
Net cash flows from investing activities		<u>(15,362)</u>	<u>(80,843)</u>
Total net (decrease)/increase in cash balances		156,743	6,741
Add opening cash brought forward		<u>187,125</u>	<u>180,384</u>
<b>Closing cash carried forward</b>		<u><b>343,868</b></u>	<u><b>187,125</b></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 trade 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

- Four-year term expiring 31 December 2008.
- One right of renewal of four years.
- Two yearly rent reviews based on current market rentals and encompassing a ratchet clause.

### Manukau City Council

#### 3 Leases

- 1) First Floor
- Three year lease expiring 13 July 2006.
  - One, three year right of renewal.
  - Rent review on renewal
- 2) Ground Floor (part)
- Six year lease expiring 13 July 2009.
  - Two, three year rights of renewal.
  - Rent review three yearly, or on renewal.
- 3) Ground Floor (part)
- Four year lease expiring 13 July 2009
  - No rights of renewal
  - Rent review after three years

## 3 Management fees

The Investment Manager's fee 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.

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Net surplus (deficit) before taxation	176,699	134,227
<i>Adjusted for:</i>		
Depreciation claim	<u>(136,652)</u>	<u>(153,891)</u>
<b>Tax Profit/(Loss) for year</b>	<b><u>40,047</u></b>	<b><u>(19,664)</u></b>

### 5 Deferred taxation

The company has an unrecognised deferred taxation liability of \$413,538 (2004: \$368,443) in respect of depreciation, and an offsetting unrecognised future tax benefit of \$221,295 (2004: \$234,510) 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

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
National Bank accounts	328,180	175,025
ASB Bank account	<u>15,688</u>	<u>12,100</u>
	<b><u>343,868</u></b>	<b><u>187,125</u></b>

## Notes to the financial statements (continued)

### 7 Non-current liabilities

	2005 \$	2004 \$
ASB Bank	1,950,000	-
Mortgage Bonds	2,312,000	2,312,000
	<u>4,262,000</u>	<u>2,312,000</u>

ASB Bank repayment terms - at end of 3 years being December 2007 with fixed interest rate of 7.81% per annum for the first two years. 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 2005 the rate was 9.56%
- 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 20<sup>th</sup> 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

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>Net profit (deficit) after taxation</b>	931,337	(196,616)
Decrease/(Increase) in property valuation	(754,638)	330,843
	<hr/>	<hr/>
	176,699	134,227
<i>Add/(less) movements in working capital items</i>		
(Increase)/decrease in accounts receivable	8,789	(9,607)
Increase/(decrease) in accounts payable	(2,672)	17,188
Increase/(decrease) in net GST	(8,099)	4,742
(Increase)/decrease in tax refund due	(2,612)	(4,634)
	<hr/>	<hr/>
	(4,594)	7,689
<b>Net cash inflow from operating activities</b>	<b><u>172,105</u></b>	<b><u>141,916</u></b>

### 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 2006 at an interest rate of 7.81%. The rate of interest on convertible mortgage bonds was 9.56% for the year ended 31 March 2005.

#### **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 2005 at a market value of \$5,390,000. The amount of \$5,320,000 included in the statement of financial position is calculated by taking this amount and deducting an allowance for disposal costs assessed at \$70,000.

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Valuation brought forward	4,550,000	4,800,000
Capitalised additions	15,362	80,843
	<u>4,565,362</u>	<u>4,880,843</u>
Current valuation	5,390,000	4,650,000
Less Disposal costs	(70,000)	(100,000)
	<u>5,320,000</u>	<u>4,550,000</u>
<b>Change in value of property</b>	<b><u>754,638</u></b>	<b><u>(330,843)</u></b>

### 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	29,086
	<u><b>\$29,086</b></u>



# Directory

<b>Nature of business</b>	Property rental	<b>Bankers</b>	ANZ National Bank 1 Victoria Street Wellington
<b>Paid in capital</b>	\$578,000	<b>Auditors</b>	Richards Woodhouse Trafalgar Street PO Box 98 Nelson
<b>Registered office</b>	L1 3/237 Queen Street Richmond Nelson	<b>Solicitors</b>	McFadden McMeeken Phillips 187 Bridge Street PO Box 656 Nelson
<b>Registered under</b>	The Companies Act 1993	<b>Share Register</b>	Investment Services L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300
<b>Incorporation number</b>	WN886293	<b>Secondary Market</b>	Investment Services L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300
<b>I.R.D. number</b>	69-248-896		
<b>Directors</b>	Michael John Millar Neil Allan Barnes Virginia Anne Laughton		
<b>Investment Manager</b>	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		
<b>Property Manager</b>	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		
<b>Accountant</b>	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		