

Springs Road Property Limited

Annual Report
for the year ended
31 March 2006



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

The Market

Over the past 12 months property as an asset class has continued to be popular. The net yield on commercial properties has steadied at between an 8% and 9% return. The market for large buildings has been dominated by offshore funds continuing to purchase these types of property.

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

Your Property

Goodman Fielder House has continued to perform well with an increase in value from \$5,390,000 to \$6,050,000. This is a 12% increase in value.

Goodman Fielder advised us during December 2005 that due to restructuring they no longer needed to occupy Levels 2 and 3. We have worked with Goodman Fielder to secure a replacement tenant. The new tenant is the Counties Manukau District Health Board. They have taken a new 6 year lease from the 5th of April 2006 until the 4th of April 2012. This change is very beneficial for your investment as the surrendered Goodman Fielder lease had less than three years to run.

Goodman Fielder will continue to occupy the test bakery until the end of that lease in December 2008. At that time they can either renew the lease or the Counties Manukau District Health Board may exercise their first right of refusal to occupy that space.

Manukau Water continues to occupy the ground floor and level 1. They are due to renew their lease on the 1st floor in July 2006.

The Investment

Your investment in Springs Road Property Limited continues to go from strength the strength. Not only have we secured a new tenant on much better terms than those of the lease to Goodman Fielder but the value of your investment has increased significantly over the year.

The net asset value per parcel has increased by 16.52% to \$7,348. This is a significant lift in value.

The interest rate on Mortgage Bonds for the year ending 31 March 2007 will also increase from 11.13% to 11.5%.

We remain confident that this investment will continue to perform well and that the outlook remains stable.

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 2006.

Activities

The company is involved in the property rental business.

Dividends

No dividend was declared for the year ended 31 March 2006.

Directors

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

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

Remuneration of Directors

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

Remuneration of employees

No employees remuneration exceeded \$100,000.

Auditors

Richards Woodhouse were reappointed as the Company's auditors.

Interests register

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

Interested transactions

All transactions conducted by the Company with Investment Services Limited are interested transactions, as Michael Millar is a Director of Investment Services Limited.

Interested transactions were:

Investment Services Limited

Payment of fees for Management, Accounting and Registry services	33,128
	<u>\$33,128</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: 11 May 2006

Springs Road Property Limited

Statement of financial performance

For the year ended 31 March 2006

	<i>Note</i>	2006 \$	2005 \$
Income			
Rent received	2	563,493	574,202
Interest received		23,121	14,416
		586,614	588,618
Less expenditure			
Accountancy		4,143	4,026
Audit fees		422	1,422
Interest - Loans		152,362	145,285
- Mortgage Bonds		257,325	221,027
Custodian fees		1,500	1,500
Printing, postage and stationery		952	336
Registry fees		2,385	2,310
Management fees	3	26,600	22,750
Legal and professional fees		423	89
Insurance		1,901	4,543
Non-recoverable opex		588	3,746
Valuation fees		3,000	1,775
Repairs & Maintenance		6,206	-
General expenses		2,818	3,110
		460,625	411,919
Net surplus (deficit) before taxation		125,989	176,699
Tax	4	-	-
Net surplus (deficit) before revaluation		125,989	176,699
Unrealised increase (decrease) in value of Investment property	10	620,247	754,638
Net surplus (deficit)		746,236	931,337

Springs Road Property Limited
Statement of movements in equity
For the year ended 31 March 2006

	2006	2005
	\$	\$
Total equity at beginning of period	1,333,102	401,765
Net surplus (deficit) for the period	746,236	931,337
Dividend paid	(67,915)	-
Total equity at end of period	<u><u>2,011,423</u></u>	<u><u>1,333,102</u></u>

Springs Road Property Limited
Statement of financial position
As at 31 March 2006

	<i>Note</i>	2006 \$	2005 \$
Equity		2,011,423	1,333,102
Represented by:			
Current assets			
Cash and bank balances	6	408,743	343,868
Accounts receivable		21,272	22,687
Tax refund due		13,897	11,024
		<hr/>	<hr/>
		443,912	377,579
Non-current assets			
Investment property	10	5,950,000	5,320,000
		<hr/>	<hr/>
Total assets		6,393,912	5,697,579
Less liabilities:			
Current liabilities			
Accounts payable		107,389	93,287
GST payable		13,100	9,190
		<hr/>	<hr/>
		120,489	102,477
Non-current liabilities			
Bank loans - Secured	7	1,950,000	1,950,000
Mortgage bonds - Secured	7	2,312,000	2,312,000
		<hr/>	<hr/>
		4,262,000	4,262,000
		<hr/>	<hr/>
Total liabilities		4,382,489	4,364,477
Net assets		2,011,423	1,333,102
		<hr/> <hr/>	<hr/> <hr/>



Director

Dated: 11 May 2006



Director

Dated: 11 May 2006

Springs Road Property Limited

Statement of cash flows

As at 31 March 2006

	<i>Note</i>	2006	2005
		\$	\$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Rents received		563,493	579,399
Net interest received		<u>23,121</u>	<u>14,416</u>
		586,614	593,815
<i>Cash was applied to:</i>			
Operating expenses		(43,459)	(54,459)
Interest		<u>(400,612)</u>	<u>(367,251)</u>
		<u>(444,071)</u>	<u>(421,710)</u>
Net cash flow from operating activities	8	142,543	172,105
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>(67,915)</u>	<u>-</u>
Net cash flows from financing activities		<u>(67,915)</u>	<u>-</u>
Cash flows from investing activities			
<i>Cash was applied to</i>			
Capital expenditure		<u>(9,753)</u>	<u>(15,362)</u>
Net cash flows from investing activities		<u>(9,753)</u>	<u>(15,362)</u>
Total net (decrease)/increase in cash balances		64,875	156,743
Add opening cash brought forward		<u>343,868</u>	<u>187,125</u>
Closing cash carried forward		<u>408,743</u>	<u>343,868</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.

	2006	2005
	\$	\$
Net surplus (deficit) before taxation	125,989	176,699
<i>Adjusted for:</i>		
Depreciation claim	<u>(135,444)</u>	<u>(136,652)</u>
Tax Profit/(Loss) for year	<u>(9,455)</u>	<u>40,047</u>

5 Deferred taxation

The company has an unrecognised deferred taxation liability of \$458,234 (2005: \$413,538) in respect of depreciation, and an offsetting unrecognised future tax benefit of \$224,415 (2005: \$221,295) 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

	2006	2005
	\$	\$
National Bank accounts	395,489	328,180
ASB Bank account	<u>13,254</u>	<u>15,688</u>
	<u>408,743</u>	<u>343,868</u>

Notes to the financial statements (continued)

7 Non-current liabilities

	2006 \$	2005 \$
ASB Bank	1,950,000	1,950,000
Mortgage Bonds	2,312,000	2,312,000
	<u>4,262,000</u>	<u>4,262,000</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 2006 the rate was 11.13%
- 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

	2006	2005
	\$	\$
Net profit (deficit) after taxation	746,236	931,337
Decrease/(Increase) in property valuation	(620,236)	(754,638)
	<u>125,989</u>	<u>176,699</u>
<i>Add/(less) movements in working capital items</i>		
(Increase)/decrease in accounts receivable	1,415	8,789
Increase/(decrease) in accounts payable	14,102	(2,672)
Increase/(decrease) in net GST	3,910	(8,099)
(Increase)/decrease in tax refund due	(2,873)	(2,612)
	<u>16,554</u>	<u>(4,594)</u>
Net cash inflow from operating activities	<u>142,543</u>	<u>172,105</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 December 2006 at an interest rate of 7.81%. The rate of interest on convertible mortgage bonds was 11.13% for the year ended 31 March 2006.

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 2006 at a market value of \$6,050,000. The amount of \$5,950,000 included in the statement of financial position is calculated by taking this amount and deducting an allowance for disposal costs assessed at \$100,000.

	2006	2005
	\$	\$
Valuation brought forward	5,320,000	4,550,000
Capitalised additions	9,753	15,362
	<u>5,329,753</u>	<u>4,565,362</u>
Current valuation	6,050,000	5,390,000
Less Disposal costs	(100,000)	(70,000)
	<u>5,950,000</u>	<u>5,320,000</u>
Change in value of property	<u>620,247</u>	<u>754,638</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

33,128

\$33,128

Directory

Nature of business	Property rental	Bankers	ANZ National Bank 1 Victoria Street Wellington
Paid in capital	\$578,000	Auditors	Richards Woodhouse Trafalgar Street 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 Ltd L1 3/237 Queen Street PO Box 3637 Richmond Nelson
Incorporation number	WN886293	Secondary Market	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Nelson
I.R.D. number	69-248-896		
Directors	Michael John Millar Neil Allan Barnes		
Investment Manager	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Nelson Phone (03) 544 2005 Fax (03) 544 2300		
Property Manager	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Nelson		
Accountant	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Nelson		