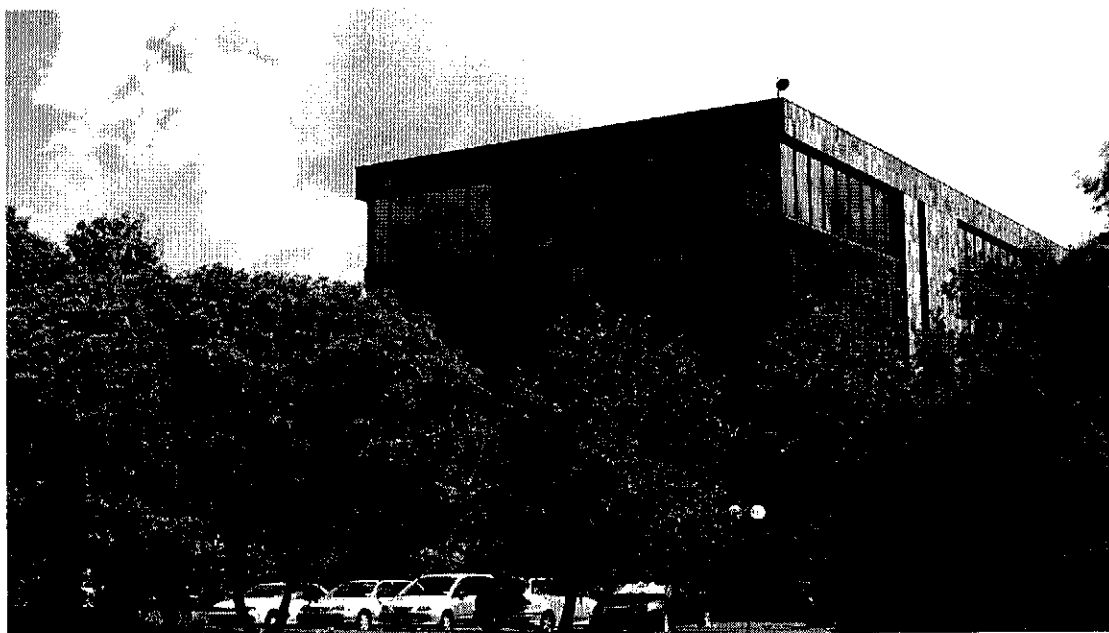


Springs Road Property Limited

Annual Report
for the year ended
31 March 2010



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Management Report and Market Commentary

The Market

Over the past 12 months the total returns (income plus capital) have generally stayed static for commercial property. Interest rates trended down and have then increased with the increases in the OCR. We have noticed that the banks have generally tightened up on their lending criteria making it more difficult for some investors to purchase commercial property. There has been an increase in the number of proportionate ownership schemes for commercial property being promoted. Smaller investors are moving to these as they provide a better return than having money in the bank.

Your Property

The property has followed the market down with the reduction in value from \$6,500,000 to \$5,800,000. The decrease was due to Manukau Water not renewing their lease in July. Subsequently, they vacated the building during August 2009. A new tenant, the Ministry of Pacific Island Affairs has taken on a new lease for part of this space commencing on 1 October 2010 and we are actively seeking a new tenant for the balance of the space.

International Financial Reporting Standards (IFRS)

As Springs Road Property Limited is classified as an issuer we now have to comply with the latest IFRS reporting formats. These are technical accounting presentation changes which have no bearing on the way the company is operated or the actual profit and cashflow it generates. However by complying it does reduce the net asset value of the company by recognising certain assets and liabilities which "may" arise.

The Investment

The company made an operating profit of some \$46,000 in the past financial year. This is lower than in 2009 due to the loss of rental from Manukau water and the additional operating costs which are irrecoverable from tenants due to the vacancy.

Because of the uncertainty as to the timing of finding new tenants for the space vacated by Manukau Water the Directors have not proposed an additional dividend. Once this situation is resolved the Directors will reassess the situation.

In line with the Prospectus and Investment Statement issued for the Company, the interest rate on mortgage bonds reduces for the year to 31 March 2011 to 6.78% from 7.37%.

The NTA per parcel as at 31 March 2010 was \$6,407.

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 2010.

Activities

The company is involved in the property rental business.

Dividends

No dividend has been declared for the year ended 31 March 2010.

Directors

The following persons held office as Directors during the year ended 31 March 2010.

Neil Allan Barnes
Michael John Millar

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2010.

Remuneration of employees

No employees remuneration exceeded \$100,000.

Auditors

Carran Miller Strawbridge 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	39,258
	<u>\$39,258</u>

Share purchases

Investment Services Limited purchased 2 parcels during the period at \$6,250 each.

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: 24 September 2010

Springs Road Property Limited
Income Statement
For the year ended 31 March 2010

	Note	2010 \$	2009 \$
Income			
Rent received	2	483,806	633,772
Interest received		13,214	23,014
Other Income			4,920
		<u>497,020</u>	<u>661,706</u>
Less expenditure			
Accountancy		4,668	4,500
Audit fees		2,000	2,460
Interest - Loans		148,790	164,971
- Mortgage Bonds		170,394	289,000
Custodian fees		1,500	1,500
Printing, postage and stationery		914	972
Registry fees		2,789	2,700
Management fees	3	31,800	34,800
Legal and professional fees		6,882	5,894
Insurance		2,417	2,280
Non-recoverable opex		71,165	968
Valuation fees		2,370	3,250
General expenses		5,502	2,229
		<u>451,191</u>	<u>515,524</u>
Net surplus (deficit) before taxation		45,829	146,182
Tax movement	5	(13,749)	(43,855)
		<u>32,080</u>	<u>102,327</u>
Net surplus (deficit) before revaluations		32,080	102,327
Unrealised gain/(loss) on Interest Rate Swap		28,765	(159,643)
Unrealised increase/(decrease) in value of Investment property	12	(660,000)	(734,775)
Net surplus		<u>(599,155)</u>	<u>(792,091)</u>

Springs Road Property Limited
Statement of changes in equity
For the year ended 31 March 2010

	2010	2009
	\$	\$
Total equity at beginning of period	1,990,592	2,896,328
Net surplus (deficit) for the period	(599,155)	(792,091)
Dividend paid	-	(113,645)
Total equity at end of period	<u>1,391,437</u>	<u>1,990,592</u>

Springs Road Property Limited

Balance Sheet

As at 31 March 2010

	Note	2010 \$	2009 \$
Equity		1,391,437	1,990,592
Represented by:			
Current assets			
Cash and bank balances	6	564,491	435,252
Accounts receivable		18,106	23,115
Tax refund due		4,331	9,223
Future benefit of tax losses		194,865	176,345
		<u>781,793</u>	<u>643,935</u>
Non-current assets			
Investment property	12	5,700,000	6,360,000
		<u>5,700,000</u>	<u>6,360,000</u>
Total assets		<u>6,481,793</u>	<u>7,003,935</u>
Less liabilities:			
Current liabilities			
Accounts payable		98,792	104,491
GST payable		8,802	4,593
Bank Loan		-	1,950,000
		<u>107,594</u>	<u>2,059,084</u>
Non-current liabilities			
Bank loan	8	1,950,000	-
Mortgage bonds - Secured	8	2,312,000	2,312,000
Fair value of Interest Rate Swap		84,944	113,709
Property sinking fund	13	75,000	-
Deferred tax		560,818	528,550
		<u>4,982,762</u>	<u>2,954,259</u>
Total liabilities		<u>5,090,356</u>	<u>5,013,343</u>
Net assets		<u>1,391,437</u>	<u>1,990,592</u>



Director

Dated: 24 September 2010



Director

Dated: 24 September 2010

Springs Road Property Limited

Statement of cash flows

As at 31 March 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Rents received		483,806	633,772
Net interest received		<u>13,123</u>	<u>23,697</u>
		496,929	657,469
<i>Cash was applied to:</i>			
Operating expenses		95,492	41,503
Interest		<u>347,198</u>	<u>451,115</u>
		<u>442,690</u>	<u>492,618</u>
Net cash flow from operating activities	10	54,239	164,851
Cash flows from financing activities			
<i>Cash was applied to</i>			
Bank loan repayment		(1,950,000)	-
Dividend payment		-	(113,645)
<i>Cash was provided by</i>			
Bank loan		1,950,000	-
		<u> </u>	<u> </u>
Net cash flows from financing activities		<u>-</u>	<u>(113,645)</u>
Cash flows from investing activities			
<i>Cash was applied to</i>			
Capital expenditure		-	(134,775)
<i>Cash was provided by</i>			
Sinking Fund Contribution		<u>75,000</u>	<u>-</u>
Net cash flows from investing activities		<u>75,000</u>	<u>(134,775)</u>
Total net (decrease)/increase in cash balances		129,239	(83,569)
Add opening cash brought forward		<u>435,252</u>	<u>518,821</u>
Closing cash carried forward		<u>564,491</u>	<u>435,252</u>

Notes to the financial statements

1 Statement of significant accounting policies

Basis of preparation

The company, Springs Road Property Limited is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared on the historical cost basis with the exception of the investment property which is revalued. The presentation currency is New Zealand Dollars.

Investment property

The investment property is recorded at the Director's estimate of fair value, which is market value less anticipated costs of disposal. Revaluation gains or losses are included in the Income Statement following the net profit (loss) before revaluation. The investment property is not depreciated for accounting purposes however depreciation is claimed for taxation purposes. The property is held for both rental income and capital appreciation purposes.

Taxation

The income tax expense recognised for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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 which are shown inclusive of GST.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Statement of compliance

The financial statements comply with New Zealand generally accepted accounting practice, which include New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial Statements comply with International Financial Reporting Standards ("IFRS").

Notes to the financial statements (continued)

1 Statement of significant accounting policies (continued)

Revenue Recognition

Rental income is recognised in the income statement on a straight line basis over the term of the lease. Interest received is recognised in the income statement using effective interest method

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.

2 Rents received

The two tenants have leases with the following terms:

Counties Manukau District Health Board

Levels 2 & 3.

- Six year lease term commenced 5 April 2006.
- Two, three year Rights of Renewal.
- Three yearly rent reviews based on market rentals and encompassing a ratchet clause.

Goodman Fielder Milling

Occupying test bakery

- Three-year term expiring 31 December 2011.
- One right of renewal of three years.
- Two yearly rent reviews based on current market rentals and encompassing a ratchet clause.

Notes to the financial statements (continued)

3 Management fees

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

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.

	2010 \$	2009 \$
Net surplus (deficit) before taxation	45,829	146,182
<i>Adjusted for:</i>		
Depreciation claim	<u>(107,559)</u>	<u>(115,386)</u>
Tax Profit/(Loss) for year	<u>(61,730)</u>	<u>30,796</u>

5 Tax charge

	2010 \$	2009 \$
Tax on profit for the year	18,519	(9,239)
Deferred tax provision for the year	(32,268)	(34,616)
Tax charge for the year	<u>(13,749)</u>	<u>(43,855)</u>

6 Cash and bank balances

	2010 \$	2009 \$
ANZ National Bank accounts	<u>564,491</u>	<u>435,252</u>
	<u>564,491</u>	<u>435,252</u>

Notes to the financial statements (continued)

7 Share capital

At 31 March 2010 the total number of shares authorised, issued and fully paid comprised 578,000 ordinary shares of \$1 each (2009: 578,000 shares authorised, issued and fully paid to \$1 each) rating equally for dividends and other distributions.

8 Non-current liabilities

	2010 \$	2009 \$
ANZ National Bank	1,950,000	-
Mortgage Bonds	2,312,000	2,312,000
	<u>4,262,000</u>	<u>2,312,000</u>

ANZ National Bank repayment terms - at end of 2 years being 1 November 2011 with fixed interest rate of 7.01% per annum for the term of the loan. The 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 2010 the rate was 7.37%
 - 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)

9 Proposed dividend

No dividend has been proposed for the year ended 31 March 2010 (2009 : 25 cents per share).

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

	2010 \$	2009 \$
Net profit (deficit) after taxation	(599,155)	(792,091)
Decrease/(Increase) in Swap valuation	(28,765)	159,643
Decrease/(Increase) in property valuation	660,000	734,775
	<u>32,080</u>	<u>102,327</u>
<i>Add/(less) movements in working capital items</i>		
(Increase)/decrease in accounts receivable	(13,511)	45,347
Increase/(decrease) in accounts payable	26,569	24,006
Increase/(decrease) in net GST	4,209	(8,192)
(Increase)/decrease in tax refund due	4,892	1,363
	<u>22,159</u>	<u>62,524</u>
Net cash inflow from operating activities	<u>54,239</u>	<u>164,851</u>

11 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 entering into an Interest Rate Swap fixing the interest rate associated with those borrowings for the life of the loan at an interest rate of 7.01%. The rate of interest on convertible mortgage bonds was 7.37% for the year ended 31 March 2010.

Gain or losses arising from the annual revaluation of the interest rate swap are shown in the Income Statement.

Notes to the financial statements (continued)

11 Financial instruments (continued)

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.

Apart from the risks detailed above, the company has no other risks which require disclosure.

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 Balance Sheet. The fair value of each financial asset is the same as the carrying value

12 Investment property valuation

The investment property was valued by Colliers Interational, registered property valuers of Auckland, on 31 March 2010 at a market value of \$5,800,000. The amount of \$5,700,000 included in the Balance Sheet is calculated by taking this amount and deducting an allowance for disposal costs assessed at \$100,000.

	2010 \$	2009 \$
Valuation brought forward	6,360,000	6,960,000
Capitalised additions	-	134,775
	<u>6,360,000</u>	<u>7,094,775</u>
Current valuation	5,800,000	6,500,000
Less Disposal costs	(100,000)	(140,000)
	<u>5,700,000</u>	<u>6,360,000</u>
Change in value of property	<u>(660,000)</u>	<u>(734,775)</u>

13 Property Sinking Fund

In August 2009, Manukau Water paid \$75,000 as a contribution to delapidations at the end of their lease. This amount has been held as a Sinking Fund pending works which will be required when a new tenant occupies that office space. The balance as at 31 March 2010 was \$75,000 (2009 : nil).

Notes to the financial statements (continued)

14 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	39,258
	<u>\$39,258</u>

There were no amounts due to the related party as at the balance date.

15 Contingent liabilities

The company had no contingent liabilities as at 31 March 2010 (2009 : nil)

16 Capital Commitments

The company had no capital commitments as at 31 March 2010 (2009 nil)

17 Operating lease commitments

The company has granted commercial property leases on its investment property. These non-cancellable leases have remaining lease terms of between two and five years. All leases include a clause to enable upward revision of the rental charge on various review dates based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable leases at the balance sheet date are as follows:

	2010	2009
	\$	\$
Not later than one year	369,053	369,053
Later than one year but not later than five years	345,593	714,646
	<u>714,646</u>	<u>1,083,699</u>

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REPORT OF THE AUDITORS

To the Readers of the Financial Statements of Springs Road Property Limited ("the Company").

We have audited the Financial Statements on pages 3 to 13. The Financial Statements provide information about the past financial performance of the Company and its financial position as at 31 March 2009. This information is stated in accordance with the accounting policies set out on pages 7 and 8.

Directors' Responsibilities

The Directors are responsible for the preparation of Financial Statements that comply with generally accepted accounting practice in New Zealand, and that give a true and fair view of the financial position of the Company as at 31 March 2009 and of its financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the Financial Statements presented by the Directors and report 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:

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

We conducted our audit in accordance with auditing standards issued by the New Zealand Institute of Chartered Accountants. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order 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.

Other than in our capacity as Auditors we have no relationship with or interests in the Company.


Unqualified Opinion

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

In our opinion:

- Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- The financial statements on pages 3 to 13:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the financial position of the Company as at 31 March 2009 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 11 September 2009 and our unqualified opinion is expressed as at that date.


Carran Miller Strawbridge
Chartered Accountants
NELSON

Directory

Nature of business	Property rental	Bankers	ANZ National Bank 1 Victoria Street Wellington
Paid in capital	\$578,000		
Registered office	L1, 3/237 Queen Street Richmond Nelson	Auditors	Carran Miller Strawbridge 38 Halifax Street PO Box 210 Nelson
Registered under	The Companies Act 1993	Solicitors	McFadden McMeeken Phillips 187 Bridge Street PO Box 656 Nelson
Incorporation number	WN886293		
I.R.D. number	69-248-896	Share Register	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson
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	Secondary Market	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson
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		