

Springs Road Property Limited

Annual Report
for the year ended
31 March 2011

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Management Report and Market Commentary

The commercial property market has continued to operate in a depressed state over the past year. With global uncertainty affecting all capital markets this has had a knock on effect within New Zealand albeit we have been sheltered from the worst of the effects.

With interest rates at historically low levels, and, following the US credit downgrade, the US Federal Reserve stating it will hold interest rates at almost zero through to 2013, the timing of interest rate rises here in New Zealand should be pushed out further than economic commentators originally thought.

Your company has mitigated its interest rate risk by operating interest rate swaps. These currently expire in November 2011, and we will be well placed at that time to take advantage of the current low rates available.

Your Property

The two tenants which we have occupying the building are Counties Manakau District Health Board ("CMDHB") and the Ministry of Pacific Island Affairs ("MOPIA").

CMDHB's lease for floors 2 and 3 runs to April 2012 and they have already taken up their remaining three year right of renewal through to 2015.

MOPIA are a new tenant who commenced occupation of half of the ground floor in October 2010 on a six year lease with two further rights of renewal. As a government body they are proving to be an excellent tenant and it is hoped that we may be able to attract further government tenants in the future.

At the end of 2010, Goodman Fielder terminated their lease of the test bakery as they combined this function with their new head office. This lease was due to expire in December 2011. A payment in lieu of the early termination was negotiated which covered rents, contributions to operating expenses as well as the cost of making good the space which they would have incurred at the end of their tenancy. Further information on these funds is included in the body of this Report.

A number of leading commercial real estate firms have been engaged to actively fill the vacant space which we have following the departure of Goodman Fielder and the earlier departure of Manakau Water. The rental market in Auckland remains depressed with very few new tenancies being taken out. Your Directors consider that once the economy starts showing significant signs of recovery that opportunities will present themselves to fill the vacant space. The building remains attractive with significant on site parking available. This, combined with the ability to offer incentives and refurbishment packages, should make attracting new tenants possible. Your Board is aware of the need to get the building back to full occupation but is also mindful of the need for quality tenants to fit in with the existing ones.

The Investment

The company made an operating loss of \$60,000 during the year primarily due to carrying significant operating costs which were irrecoverable due to vacancy levels. This combined with a small reduction in the property valuation from \$5.8m to \$5.7m has seen the overall NTA per parcel fall slightly from \$6,407 to \$6,262.

In line with the Prospectus, the interest rate on mortgage bonds reduced slightly for the year to 31 March 2012 to 6.63% from 6.78%. This will rise as and when interest rates start to increase. Additionally, once the issue of vacant tenancies is resolved, the Board intends to resume the payment of discretionary dividends in addition to the mortgage band interest.

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 2011.

Activities

The company is involved in the property rental business.

Dividends

No dividend has been declared for the year ended 31 March 2011.

Directors

The following persons held office as Directors during the year ended 31 March 2011.

Neil Allan Barnes
Michael John Millar

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2011.

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	35,975
	<u>\$35,975</u>

Share purchases

Investment Services Limited made no transactions during the year.

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: 12 August 2011

Springs Road Property Limited

Statement of Comprehensive Income

For the year ended 31 March 2011

	Note	2011 \$	2010 \$
Income			
Rent received	2	424,923	483,806
Interest received		15,979	13,214
Other Income		-	-
		440,902	497,020
Less expenditure			
Accountancy		4,675	4,668
Audit fees		1,924	2,000
Interest - Loans		167,472	148,790
- Mortgage Bonds		156,754	170,394
Custodian fees		1,500	1,500
Printing, postage and stationery		937	914
Registry fees		2,800	2,789
Management fees	3	28,500	31,800
Legal and professional fees		8,839	6,882
Insurance		2,521	2,417
Non-recoverable opex		108,868	71,165
Valuation fees		2,850	2,370
Leasing costs		9,487	-
General expenses		3,857	5,502
		500,984	451,191
Net Profit/(Loss) before taxation		(60,082)	45,829
Tax movement	5	41,219	(13,749)
Profit/(Loss) for the period before revaluations		(18,863)	32,080
Unrealised gain/(loss) on Interest Rate Swap		34,586	28,765
Unrealised increase/(decrease) in value of Investment property	11	(100,000)	(660,000)
Total Comprehensive Income for the period		(84,277)	(599,155)

These statements are to be read in conjunction with the accounting policies and notes on pages 7 to 13 and the audit report on pages 14 to 15.

Springs Road Property Limited
Statement of changes in equity
For the year ended 31 March 2011

	2011	2010
	\$	\$
Total equity at beginning of period	1,391,437	1,990,592
Total Comprehensive Income for the period	(84,277)	(599,155)
Total equity at end of period	<u>1,307,160</u>	<u>1,391,437</u>

These statements are to be read in conjunction with the accounting policies and notes on pages 7 to 13 and the audit report on pages 14 to 15.

Springs Road Property Limited

Statement of Financial Position

As at 31 March 2011

	Note	2011 \$	2010 \$
Equity		1,307,160	1,391,437
Represented by:			
Current assets			
Cash and bank balances	6	579,388	564,491
Accounts receivable		39,883	18,106
Tax refund due		8,846	4,331
Future benefit of tax losses		226,857	194,865
		<u>854,974</u>	<u>781,793</u>
Non-current assets			
Investment property	11	5,600,000	5,700,000
		<u>5,600,000</u>	<u>5,700,000</u>
Total assets		<u>6,454,974</u>	<u>6,481,793</u>
Less liabilities:			
Current liabilities			
Accounts payable		99,301	98,792
GST payable		5,229	8,802
Bank Loan		1,950,000	-
Fair value of Interest Rate Swap		50,358	-
		<u>2,104,888</u>	<u>107,594</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
Property sinking fund	12	179,335	75,000
Deferred tax		551,591	560,818
		<u>3,042,926</u>	<u>4,982,762</u>
Total liabilities		<u>5,147,814</u>	<u>5,090,356</u>
Net assets		<u>1,307,160</u>	<u>1,391,437</u>



Director

Dated: 12 August 2011



Director

Dated: 12 August 2011

These statements are to be read in conjunction with the accounting policies and notes on pages 7 to 13 and the audit report on pages 14 to 15.

Springs Road Property Limited

Statement of cash flows

As at 31 March 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Rents received		424,923	483,806
Net interest received		<u>15,967</u>	<u>13,123</u>
		440,890	496,929
<i>Cash was applied to:</i>			
Operating expenses		202,802	95,492
Interest		<u>327,526</u>	<u>347,198</u>
		<u>530,328</u>	<u>442,690</u>
Net cash flow from operating activities	9	(89,438)	54,239
Cash flows from financing activities			
<i>Cash was applied to</i>			
Bank loan repayment		-	(1,950,000)
Dividend payment			-
<i>Cash was provided by</i>			
Bank loan		-	1,950,000
		<u>-</u>	<u>-</u>
Net cash flows from financing activities		<u>-</u>	<u>-</u>
Cash flows from investing activities			
<i>Cash was applied to</i>			
Capital expenditure			-
<i>Cash was provided by</i>			
Sinking Fund Contribution		<u>104,335</u>	<u>75,000</u>
Net cash flows from investing activities		<u>104,335</u>	<u>75,000</u>
Total net (decrease)/increase in cash balances		14,897	129,239
Add opening cash brought forward		<u>564,491</u>	<u>435,252</u>
Closing cash carried forward		<u>579,388</u>	<u>564,491</u>

These statements are to be read in conjunction with the accounting policies and notes on pages 7 to 13 and the audit report on pages 14 to 15.

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 Statement of Comprehensive Income following the Profit/(Loss) for the period 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.
- Three year Right of Renewal agreed to 5 April 2015
- One, three year Rights of Renewal remains.
- Three yearly rent reviews based on market rentals and encompassing a ratchet clause.

Ministry of Pacific Island Affairs

Part Ground floor

- Six-year term expiring 30 September 2016.
- Two Right of Renewal of three years.
- Two yearly rent reviews to levels agreed in advance.

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.

	2011 \$	2010 \$
Net surplus (deficit) before taxation	(60,082)	45,829
<i>Adjusted for:</i> Depreciation claim	<u>(100,573)</u>	<u>(107,559)</u>
Tax Profit/(Loss) for year	<u>(160,655)</u>	<u>(61,730)</u>

5 Tax charge

	2011 \$	2010 \$
Tax on loss for the year	48,196	18,519
Deferred tax provision for the year	(30,172)	(32,268)
Effect of tax rate change on deferred tax	39,399	-
Effect of tax rate change on future tax benefit	(16,204)	-
Tax charge/(refund) for the year	<u>41,219</u>	<u>(13,749)</u>

6 Cash and bank balances

	2011 \$	2010 \$
ANZ National Bank accounts	<u>579,388</u>	<u>564,491</u>
	<u>579,388</u>	<u>564,491</u>

Notes to the financial statements (continued)

7 Share capital

At 31 March 2011 the total number of shares authorised, issued and fully paid comprised 578,000 ordinary shares of \$1 each (2010: 578,000 shares authorised, issued and fully paid to \$1 each) rating equally for dividends and other distributions.

8 Non-current liabilities

	2011 \$	2010 \$
ANZ National Bank	-	1,950,000
Mortgage Bonds	2,312,000	2,312,000
	<u>2,312,000</u>	<u>4,262,000</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 2011 the rate was 6.78%
- 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 Reconciliation of net profit / (deficit) to net cashflows from operating activities

	2011 \$	2010 \$
Net profit (deficit) after taxation	(84,277)	(599,155)
Decrease/(Increase) in Swap valuation	(34,586)	(28,765)
Decrease/(Increase) in property valuation	100,000	660,000
	<u>(18,863)</u>	<u>32,080</u>
<i>Add/(less) movements in working capital items</i>		
(Increase)/decrease in accounts receivable	(53,769)	(13,511)
Increase/(decrease) in accounts payable	(8,718)	26,569
Increase/(decrease) in net GST	(3,573)	4,209
(Increase)/decrease in tax refund due	(4,515)	4,892
	<u>(70,575)</u>	<u>22,159</u>
Net cash inflow from operating activities	<u>(89,438)</u>	<u>54,239</u>

10 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 6.78% for the year ended 31 March 2011.

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)

10 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

11 Investment property valuation

The investment property was valued by Colliers Interational, registered property valuers of Auckland, on 31 March 2011 at a market value of \$5,700,000. The amount of \$5,600,000 included in the Balance Sheet is calculated by taking this amount and deducting an allowance for disposal costs assessed at \$100,000.

	2011 \$	2010 \$
Valuation brought forward	5,700,000	6,360,000
	<u>5,700,000</u>	<u>6,360,000</u>
Current valuation	5,700,000	5,800,000
Less Disposal costs	(100,000)	(100,000)
	<u>5,600,000</u>	<u>5,700,000</u>
Change in value of property	<u>(100,000)</u>	<u>(660,000)</u>

12 Property Sinking Fund

Goodman Fielder terminated their lease of the Test Bakery effective 31 December 2010. An amount of \$104,335 was paid by them towards dilapidation costs which would have arisen at the end of their lease. This amount has been held in the Sinking Fund pending building works which may be required to attract a new tenant to the vacant space. The balance as at 31 March 2011 was \$179,335 (2010 : \$75,000).

Notes to the financial statements (continued)

13 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	35,975
	<u>\$35,975</u>

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

14 Contingent liabilities

The company had no contingent liabilities as at 31 March 2011 (2010 : nil)

15 Capital Commitments

The company had no capital commitments as at 31 March 2011 (2010 nil)

16 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:

	2011 \$	2010 \$
Not later than one year	324,393	369,053
Later than one year but not later than five years	964,204	345,593
	<u>1,288,597</u>	<u>714,646</u>

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INDEPENDENT AUDITOR'S REPORT

To the Readers of the financial report of the Springs Road Property Limited

Report on the Financial Statements

We have audited the financial statements of the Springs Road Property Limited on pages 3 to 13, which comprise the statement of financial position as at 31 March 2011 and the statement of comprehensive income; statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors's Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that gives a true and fair view of the matters to which they relate, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Springs Road Property Limited.

Opinion

In our opinion, 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 Springs Road Property Limited as at 31 March 2011, and its financial performance and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

In our opinion proper accounting records have been kept by the Springs Road Property Limited as far as appears from an examination of those records.



Carran Miller Strawbridge
Chartered Accountants
NELSON

12 August 2011

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 7050
Directors	Michael John Millar Neil Allan Barnes		
Investment Manager	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050 Phone (03) 544 2005 Fax (03) 544 2300	Secondary Market	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050
Property Manager	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050		
Accountant	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050		