Springs Road Property Limited

Annual Report
for the year ended
31 March 2017

Contents

Management Report and Market Commentary

Market overview

Leasing activity in the commercial market has been buoyant over the last 12 to 18 months particularly in the main centres. Market sentiment remains good at the current time having improved markedly over the past few years. The strong economy and stimulated investment environment has provided the necessary business and consumer confidence that underpins positive property fundamentals. Landlords have had higher expectations of returns and better performing tenants have been able to cope with rental increased. This has boosted investor confidence and kept competition for good quality properties high.

The lift in capital values through both the rise in rents, together with the current low interest levels, has led to an imbalance in supply and demand leading to a lack of stock for purchasers to chase as owners hold on to their assets. Capitalisation rates have sharpened and it is your board's view that they will continue to do so as the relative certainty regarding interest rates and their current low levels should continue to put downward pressure on yields.

The property

The property is now fully tenanted for the first time for many years. The lease to the anchor tenant, Counties Manukau District Health Board expires in April 2018 and we will be working with them to secure a renewal. The property valuation increased $200,000 to $6.7m.

Results

Operating profit increased $264,000 to $230,000 from a 2016 loss of $34,000 due to increased rents (up 25%), reduced costs associating with leasing and the reduction in irrecoverable operating expenses now the property is fully tenanted.

The property valuation increased by $200,000, which, on top of the $900,000 increase last year represents a very healthy increase in the property valuation. This contributed to an increase in the NTA per parcel to $7,771 from $7,400.

This increase in valuation along with a strong special dividend of 40 cents per share makes this a very healthy investment. The total equivalent return was 13.1% based on the last trade price.
Liquidity in the secondary market has continued to be strong with demand outstripping supply. Latest sales have been at $5,000 per parcel.

Mortgage Bonds – Mandatory conversion

The mortgage bonds will be subject to a mandatory conversion to shares in January 2018 on the 20th anniversary of the Mortgage Bond Trust Deed. Each $4,000 mortgage bond will be settled by the issue of 4,000 shares. Future returns will then be by way of dividend. Provided the property remains fully tenanted it is expected that gross returns to investors will be unchanged following this conversion.

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 2017.

Activities
The company is involved in the property rental business.

Dividends
$231,200 was paid in dividends for the period ended 31 March 2017. There were no imputation credits attached.

Directors
The following persons held office as Directors during the year ended 31 March 2017.

Neil Allan Barnes
Michael John Millar

Remuneration of Directors
No Directors' remuneration was paid during the year ended 31 March 2017.

Remuneration of employees
No employee's remuneration exceeded $100,000.

Auditors
Crowe Horwath of Nelson 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.

All transactions conducted by the Company with Activa Consulting Limited are interested transactions, as Neil Barnes is a Director of Activa Consulting Limited.
Interested transactions were:

Investment Services Limited	
Payment of fees for Management services	32.500
	$32,500
Activa Consulting Limited	
Payment of fees for accounting And registry services	10,000
	$10.000

Share purchases
There were no related party share trades 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: 30 June 2017

Springs Road Property Limited
Statement of Comprehensive Income
For the year ended 31 March 2017

	Note	*2017* *$*	*2016* *$*
Revenue			
Rent revenue	2	560,296	447,012
Interest		1,420	3,179
		561,716	450,191
Less expenditure			
Accounting and Registry		10,000	9,200
Audit fees		6,950	7,688
Interest - Loans		108,297	120,107
- Mortgage Bonds		147,737	177,562
Custodian fees		1,500	1,500
Printing, postage and stationery		776	1,370
Management fees	11	32,500	28,000
Legal and professional fees		1,634	1,520
Insurance		2,440	3,008
Non-recoverable opex		9,509	62,037
Valuation fees		3,650	3,450
Leasing costs		-	65,343
General expenses		6,913	3,468
		331,906	484,253
Net Profit/(Loss) before taxation		**229,810**	**(34,062)**
Tax movement	4	(78,426)	9,538
Profit/(Loss) for the period before revaluations		**151,384**	**(24,524)**
Unrealised gain/(loss) on Interest Rate Swap		(21,718)	11,741
Release of sinking fund provision		116,533	-
Unrealised increase/(decrease) in value of Investment property	13	200,000	900,000
Total Profit/(Loss)		**446,199**	**887,217**
Earnings per share (cents)		77.2	153.5

These statements are to be read in conjunction with the accounting policies and notes on pages 8 to 19 and the audit report on pages 20 to 22

Springs Road Property Limited
Statement of Changes in Equity
For the year ended 31 March 2017

2017

	Share capital $	Retained earnings $	Total Equity $
Balance 1 April 2016	578,000	1,386,628	1,964,628
Profit/(loss) for the year	-	446,199	446,199
Dividends to shareholders	-	(231,200)	(231,200)
Balance 31 March 2017	**578,000**	**1,601,627**	**2,179,627**

2016

	Share capital $	Retained earnings $	Total Equity $
Balance 1 April 2015	578,000	499,411	1,077,411
Profit/(loss) for the year	-	887,217	887,217
Dividends to shareholders	-	-	-
Balance 31 March 2016	**578,000**	**1,386,628**	**1,964,628**

These statements are to be read in conjunction with the accounting policies and notes on pages 8 to 19 and the audit report on pages 20 to 22

Springs Road Property Limited
Statement of Financial Position
As at 31 March 2017

	Note	2017 $	2016 $
ASSETS			
Current assets			
Cash and bank balances	12	135,273	149,221
Accounts receivable		48,514	15,107
Tax refund due		1,287	2,634
Fair value of interest rate swap		-	21,718
		185,074	188,680
Non-current assets			
Investment property	13	6,700,000	6,500,000
Future benefit of tax losses	20	309,057	382,715
		7.009,057	6,882,715
Total assets		**7,194,131**	**7,071,395**
LIABILITIES			
Current liabilities			
Accounts payable		153,631	147,142
GST payable		9,008	10,995
Mortgage bonds - Secured	7	2,312,000	-
Bank Loan	7	1,950,000	1,950,000
		4,424,639	2,108,137
Non-current liabilities			
Mortgage bonds - Secured	7	-	2,312,000
Property sinking fund	15	-	101,533
Deferred tax	20	589,865	585,097
		589,865	2,998,630
Total liabilities		**5,014,504**	**5,106,767**
NET ASSETS		**2,179,627**	**1,964,628**

These statements are to be read in conjunction with the accounting policies and notes on pages 8 to 19 and the audit report on pages 20 to 22

Springs Road Property Limited
Statement of Financial Position (continued)
As at 31 March 2017

	Note	*2017* $	*2016* $
NET ASSETS		**2,179,627**	**1,964,628**
EQUITY			
Issued share capital	6	578,000	578,000
Retained earnings		1,601,627	1,386,628
TOTAL EQUITY		**2,179,627**	**1,964,628**

These financial statements have been authorised for issue by the Board of Directors on xx June 2017

Director
Dated: 30 June 2017

Director
Dated: 30 June 2017

These statements are to be read in conjunction with the accounting policies and notes on pages 8 to 19 and the audit report on pages 20 to 22

Springs Road Property Limited
Statement of cash flows
As at 31 March 2017

Cash flows from operating activities	Note	2017 $	2016 $
Cash was provided from:			
Rents received		560,296	458,375
Net interest received		1,420	3,179
		561,716	461,554
Cash was applied to:			
Operating expenses		79,737	210,973
Income tax paid		397	890
Interest		264,330	296,295
		344,464	508,158
Net cash flow from operating activities	8	217,252	(46,604)
Cash flows from financing activities			
Cash was applied to:			
Payment of dividends		231,200	-
Net cash flow from financing activities		(231,200)	-
Total net (decrease)/increase in cash balances		(13,948)	(46,604)
Add opening cash brought forward		149,221	195,825
Closing cash carried forward	**12**	**135,273**	**149,221**

These statements are to be read in conjunction with the accounting policies and notes on pages 8 to 19 and the audit report on pages 20 to 22

Springs Road Property Limited
Notes to the financial statements
For the year ended 31 March 2017

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. Its principal activity is property rental. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The financial statements were authorised for issue by the Board of Directors on 30 June 2017. 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. All numbers presented have been rounded to the nearest dollar.

Investment property

The investment property is revalued annually and is recorded at an estimate of fair value, which is market value. The property is held for both capital appreciation and rental income purposes. Revaluation gains or losses are included in the Statement of Comprehensive Income in the Profit/(Loss). The investment property is not depreciated for accounting purposes however depreciation is claimed for taxation purposes.

Leases

The Company has entered into commercial property leases on its investment property. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Fair value measurement

A number of the company's accounting policies and disclosures require measurement at fair value. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique adopted as follows.
Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 : Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs), or where there are significant adjustments to market data.

Debtors

Debtors are stated at estimated realisable value.

Notes to the financial statements (continued)

1 Statement of significant accounting policies (continued)

Critical accounting estimates, assumptions and judgements
The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of the company's accounting policies and the reported amounts of assets. liabilities, income and expenses. All judgements and assumptions made are believed to be reasonable based on the most current set of circumstances available to the company.

The estimates and underlying assumptions are reviewed on an ongoing basis. Although the company has internal control systems in place to ensure that estimates can be reliably measured, actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods. The areas involving a high degree of judgement or areas where assumptions are significant to the company include the valuation of investment properties (Note 13).

Property operating expenses
The operating expenses of the property are bourne by the tenants. Management manages the operating expense account on behalf of the tenants and such costs are therefore not included in the financial statements except where a cost is not fully recoverable from the tenants in which case it is reported as irrecoverable opex.

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 Statement of Financial Position. 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.

Bank loans
Bank loans are measured at the principal amount owed to the bank. Interest costs are expensed in the year in which they are incurred.

Mortgage Bonds
Mortgage bonds are measured at face value of the aggregate amount of the bonds in issue. Associated interest costs are charged to profit and Loss in the year they are incurred.

Going concern assumption
These financial statements have been prepared on the assumption that the loan will be renegotiated on expiry on 30 November 2017.

Notes to the financial statements (continued)

1 Statement of significant accounting policies (continued)

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").

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 below tenants have leases with the following terms:

Counties Manukau District Health Board
Levels 2 & 3.
- Six year lease term from 5 April 2006 with Rights of Renewal exercised to 5 April 2018.
- Three yearly rent reviews based on market rentals and encompassing a ratchet clause.

Part Ground floor
- Three year lease term from 1 September 2016
- One, three year Right of Renewal remaining
- Rent review based on market rentals at time of lease renewal

2 Rents received (continued)

DAS Training
First floor
- Three year lease expiring 31 December 2018
- One Right of Renewal, one of three years

Ministry of Pacific Island Affairs
Part Ground floor
- Six-year term expiring 30 September 2016 extended to 31 July 2017
- Rights of Renewal of three years.not exercised

Cafe Concepts
Rear Annex
- Seven year lease expiring 31 January 2022
- Two Rights of Renewal, one of seven years and one of five years
- Three yearly rent reviews

3 Taxation

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

	2017	***2016***
	$	***$***
Net surplus (deficit) before taxation and revaluation	229,810	(34,062)
Adjusted for:		
Depreciation claim	(17,031)	(18,881)
Tax Profit/(Loss) for year	**212,779**	**(52,943)**

4 Tax charge

	2017	***2016***
	$	***$***
Tax for the year at 28%	59,577	(14,824)
Deferred tax provision	4,769	5,286
Alignment adjustment	14,080	-
Tax (charge)/refund for the year	**78,426**	**(9,538)**
Tax payable	78,426	9,538
Less tax effective losses utilised	(78,426)	(9,538)
	-	-

Notes to the financial statements (continued)

5 Imputation Credit Account

	2017 $	2016 $
Balance at beginning of year	2,634	1,744
Refunds received in year	(1,744)	-
Resident withholding tax paid	397	890
Balance at end of year	**1,287**	**2,634**

6 Share capital

At 31 March 2017 the total number of shares authorised, issued and fully paid comprised 578,000 ordinary shares of $1 each (2016: 578,000 shares authorised, issued and fully paid to $1 each) rating equally for dividends and other distributions.

7 Loans and Mortgage Bonds

	2017 $	2016 $
Current liabilities		
ANZ Bank	1,950,000	1,950,000
Mortgage Bonds	2,312,000	-
	4,262,000	**1,950,000**
Term liabilities		
Mortgage Bonds	-	2,312,000
	-	**2,312,000**

ANZ Bank repayment terms – the facility has been extended to 30 November 2017 with a floating interest rate. The loan is secured by a first ranking mortgage over the property plus a General Security Agreement over present and acquired property.

The terms of the convertible mortgage bonds are as follows:

Each mortgage bond has a face value of $4,000.

Mortgage Bonds are secured by way of a second mortgage over the property owned by the company.

Interest paid of 12.5% per annum (pre-tax) from date of issue to 31 March 2001. Thereafter the rate is to be set 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 2017 the rate was 6.39%

7 Loans and Mortgage Bonds (continued)

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 being 18 January 2018. Each $4,000 mortgage bond will be converted to 4,000 ordinary shares.

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

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

	2017	***2016***
	$	***$***
Net profit (deficit) after taxation	**446,199**	**887,217**
Decrease/(Increase) in Swap valuation	21,718	(11,741)
Decrease/(Increase) in sinking fund	(116,533)	-
Decrease/(Increase) in property valuation	(200,000)	(900,000)
	151,384	(24,524)
Add/(less) movements in working capital items		
(Increase)/decrease in accounts receivable	45,019	825
Increase/(decrease) in accounts payable	21,489	(31,650)
Increase/(decrease) in net GST	(1,987)	8,635
(Increase)/decrease in tax refund due	1,347	(890)
	65,868	**(23,080)**
Net cash inflow from operating activities	**217,252**	**(47,604)**

Notes to the financial statements (continued)

9 Equity

	2017 $	2016 $
Paid in Capital	578,000	578,000
Retained Earnings (Deficit)	1,601,627	1,716,996
	2,179,627	**1,964,628**

<u>**Retained Earnings (Deficit)**</u>		
Opening balance	1,386,628	499,411
Net movement before property revaluation	246,199	(12,783)
Movementin value of property	200,000	900,000
Dividends	(231,200)	-
Closing balance	**1,601,627**	**1,716,996**

Retained earnings includes accumulated revaluation gains of $1,916,996 (2016 : $1,716,996).

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 had minimised interest rate risk though entering into an interest rate swap arrangement, effectively fixing the interest rate to November 2016, at an interest rate of 6.15%. The value of the interest rate swap as disclosed in the Statement of Financial Position has been valued by the bank and reflects a level 1 fair value. No hedging has been put in place to replace the swap however if market conditions change this will be reviewed.The rate of interest on convertible mortgage bonds was 6.39% for the year ended 31 March 2017.

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

10 Financial instruments (continued)

Liquidity risk

If the company were put in the position of having to repay its bank loan at short notice it would first enter into negotiations with its bank to renegotiate terms failing which the company would look to sell its investment property. However this is unlikely to make funds available immediately. Cashflow is manged to ensure that all creditors are met as and when they fall due. At the balance date accounts payable exceeded bank funds available however this is purely a timing difference. In the event of a liquidity issue the Mortgage Bonds are capable of immediate conversion to ordinary shares resulting in there being no liability to pay interest. It is not intended or envisaged that this is the case.

11 Management fees

The Investment Manager's fee is based on 0.5% of the opening net capital value of the property. The management agreement also provides for a performance fee of 5% of any gain arising on the sale of the property.

12 Cash and bank balances

	2017	*2016*
	$	*$*
ANZ Bank accounts	135,273	149,221
	135,273	**149,221**

13 Valuation

Investment property comprises a three storey office block with substantial car parking at Springs Road, Auckland. The property is currently leased under the terms and to the tenants disclosed in Note 2. They have been provided as security for the borrowings referred to in Note 7.

The investment property is measured at fair value and was valued as at 31 March 2017 by external, independent property valuers, having appropriately recognised professional qualifications and recent experience in the location and categories of the properties being valued.

Notes to the financial statements (continued)

13 Valuation (continued)

The latest revaluation of the investment properties is summarised as follows;

Purpose	Financial reporting
Amount of valuation	$6,700,000 (2016;$6,500,000)
Valuer	Colliers International
Basis of valuation	The determination of the values stated were market value subject to existing tenancies and occupational arrangements.
Assessment approach	Discounted cash flow Capitalisation approach
Vacancy rate	Nil (2016 : Nil)
Weighted average lease term	2.08 years (2016 ; 2.11 years)
Value per square metre	$1,678 (2016 : $1,628)
Capitalisation rate	8.5% (2016 : 9.0%)
Discount rate	9.0% (2016 : 9.0%)
Terminal yield	9.0% (2016 : 8.75%)
Net market rent	$643,052 (2016 : 624,750)
Net passing rent	$587,977 (2016 : 587,977)

The valuation reflects the quality of tenants in occupation, the allocation of maintenance and insurance responsibilities between the company and the tenant and the remaining economic life of the properties. The valuation also assumes on expiry of the current lease terms the company will be able to re-tenant the properties at or above market rates. The valuation assumes the building meets the minimum seismic ratings requirements and that no capital expenditure is required on earthquake strengthening.

The fair value measurement for the investment property has been catagorised as a level 3 fair value (refer to Note 1) based on the inputs to the valuation technique used being based on unobservable inputs.

The following table outlines the valuation techniques measuring fair value of the investment properties, as well as the unobservable inputs used and the inter-relationship between the key unobservable inputs and fair value measurement.

Notes to the Financial Statements (continued)

13 Valuation (continued)

Valuation technique	Unobservable inputs	The estimated fair value would increase/(decrease) if
Discounted cash flow approach The discounted cash flow method adopts a 10 year investment horizon and makes appropriate allowances for rental growth and leasing costs on lease expiries, with an estimated terminal value at the end of the investment period. The present value is a reflection of market based income (inflows) and expenditure (outflows) projections over the 10 year period discounted at a market analysed return.	Discount rate of 9.0% Terminal yield of 9.0% at the end of the 10 year period Assessed market rental of $643.052	Discount rate was lower/(higher) The yield was lower/(higher) The assessed market rental was higher/(lower)
Capitalisation approach This approach is considered a "point in time" view of the investment properties' value, based on the current contract and market income and an appropriate market yield or return for the properties. Capital adjustments are then made to the value to reflect under or over renting, pending capital expenditure and upcoming expiries, including allowances for lessee incentives and leasing costs.	Net rental income has been capitalised in perpetuity at a capitalisation rate of 8.5% Assessed market rental of $643,052	Capitalisation rate in perpetuity was lower/(higher) The assessed market rental was higher/(lower)

In deriving the market value under each approach, all assumptions are based, where possible, on market based evidence and transactions for properties with similar locations, construction detail and quality of lease covenant. The adopted market value is a judgemental combination of both the Capitalisation and the Discounted Cash Flow approaches.

Notes to the Financial Statements (continued)

14 Minimum lease income

The company has granted commercial property leases on its investment property. These non-cancellable leases have remaining lease terms of between two and six 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:

	2017	***2016***
	$	***$***
Not later than one year	543,570	468,658
Later than one year but not later than five year	387,847	759,508
Greater than five years	-	61,367
	931,417	**1,289,533**

15 Property Sinking Fund

A Sinking Fund has been held pending building works which may be required to attract a new tenant to the vacant space. However as no commitment is in place to expend this fund it has been released to profit and loss. The balance as at 31 March 2016 $101,533.

16 Related party transactions

Investment Services Limited provides management services to the company. All transactions conducted by the Company with Investment Services Limited are related party transactions as Michael Millar is a Director of Investment Services Limited. The company paid Investment Services Limited $32,500 (2016:$28,000) in management fees during the year.

Activa Consulting Limited provides accounting and registry services to the company. All transactions conducted by the Company with Activa Consulting Limited are related party transactions as Neil Barnes is a Director of Activa Consulting Limited. The company paid Activa Consulting Limited $10,000 (2016:$9,200) in accounting and registry fees during the year.

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

At balance date the following investments, both direct and indirect, were held by the directors and the Manager:

Neil Barnes	16 stapled parcels
Michael Millar	4 stapled parcels
Investment Services Limited	13 stapled parcels

Each parcel comprises 1,000 ordinary shares and a $4,000 mortgage bond.

Notes to the financial statements (continued)

17 Capital Commitments

The company had no capital commitments as at 31 March 2017 (2016: nil)

18 Adoption of new and revised reporting standards

NZ IFRS 9 Financial Instruments comes into effect on 1 January 2018. Management have yet to assess the impact the standard is likely to have on the financial instruments.

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NZ IFRS 15 Revenue from Customer Contracts comes into effect on 1 January 2018. Management have yet to assess the impact the standard is likely to have on the current contracts.

NZ IFRS 16 Leases comes into effect on 1 January 2019 replacing the current standard IAS 17 Leases. Management have yet to assess the impact the standard is likely to have on the current leases.

19 Contingent Liabilities

The company has no contingent liabilities as at 31 March 2017. (2016: $nil)

20 Deferred Tax

The deferred tax liability relates to timing difference relating to the tax on the deprecation claimed on the properties. The amount reported as deferred tax as at the balance date was $589,865 (2016: $585,097).

The deferred tax asset arises from the losses carried forward in the amount of $1,103,776 creating a deferred tax asset at balance date of $309,057 (2016: $1,366,841 losses and $382,715 asset).

21 Events occurring after balance date

There have been no events subsequent to the balance date which require disclosure in or adjustment to the financial statements.

Crowe Horwath
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Springs Road Property Limited

Independent Auditor's Report to the Shareholders of **Springs Road Property Limited**

Opinion

We have audited the financial statements of Springs Road Property Limited (the Company) on pages 3 to 19, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with *New Zealand equivalents to International Financial Reporting Standards* (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Directors to the Shareholders on page 2, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Management Report and Market Commentary, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. If we read the Management Report and Market Commentary, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 company's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the directors with a statement that the we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that are of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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CHARTERED ACCOUNTANTS

Ken Sandri

Partner

Dated at Nelson this 30 day of June 2017

Directory

Nature of business	Property rental
Paid in capital	$578,000
Registered office	L1, 3/237 Queen Street Richmond Nelson
Registered under	The Companies Act 1993
Incorporation number	WN886293
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 7050 Phone (03) 544 2005 Fax (03) 544 2300
Property Manager	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050
Accountant	Activa Consulting Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050
Bankers	ANZ Bank 1 Victoria Street Wellington
Auditors	Crowe Horwath 72 Trafalgar Street Nelson
Solicitors	Pitt & Moore 78 Selwyn Place PO Box 42 Nelson 7040
Share Register	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050
Secondary Market	Investment Services Ltd L1, 3/237 Queen Street PO Box 3637 Richmond Nelson 7050