



SPRINGS ROAD PROPERTY LIMITED



This management report (“Report”) provides key information about Springs Road Property Limited. This report covers the period between 01 January 2022 to 31 March 2022.

Fourth Quarter, FY 2021/2022

9 May 2022

Dear Shareholder

SPRINGS ROAD PROPERTY LIMITED (COMPANY) - SHAREHOLDER UPDATE

High Court Proceedings – Investment Services Ltd, M Millar and P Mephan

In December 2020 proceedings were issued in the High Court (Nelson registry) against Michael Millar, Investment Services Limited and Paul Mephan. A mediation using Nicolas Till QC as mediator took place on 24 November 2021. Subsequently discussions between the respective legal representatives took place regarding the settlement of the fraud aspect of the claim and the assignment of rights of recovery against Neil Barnes. By an agreement dated 21 February 2022 settlement was reached with the payment of \$162,500.09. An amended statement of claim has been filed in the High Court and defences to that claim have been filed. A case management conference with the Court was to occur on 26 April however all parties agreed to joint memorandum regarding the ongoing conduct of the case and therefore this was not required. A trial commencing on 1 May 2023 for a period of 10 days has been allocated. A process is now underway to finalise the expert accounting evidence ahead of an agreed consultation process with the expert for Michael Millar, Investment Services Limited and Paul Mephan. It is also likely that there will be a dispute regarding the adequacy of the defences filed by Michael Millar, Investment Services Limited and Paul Mephan

Springs Road Property Ltd - Investment Property

7 Springs Road East Tamaki, Auckland

In late January the Directors requested a Strategic Asset Management Plan report for the property. The report was received in late February and offered seven options for the property ranging from minor refurbishment to a change of use into specialist areas. This report analysed the estimated cost and return for each of the options. Three of the options were analysed in greater detail being: 1) minor office refurbishment, 2) refurbishment of internal areas, upgrades to structure and services and 3) upgrade base build services and return to shell.

All three options were considered further, with more emphasis on refurbishing the existing office space to attract more tenants and to enhance the capital value through increasing current rents. The directors considered the cost for these refurbishments along with the relevant payback periods.

Having considered the costs of the refurbishments, the directors then requested a review of options for sale of the property. The review suggested several methods of sale were appropriate for this site including private treaty, informal tender, formal tender, and auction however an “off market” sale with a limited number of real estate agents targeting possible buyers was recommended.

The directors invited several agents to send in a marketing proposal and the Company has entered into agency agreements with three of these agents with the intention that the agents seek “off market” proposals for sale of the property. The agents are required to have any proposal to the directors by 20 May for consideration by the board at the board’s meeting in May.



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The directors will consider any proposals at this meeting and a decision will be made to either complete the office refurbishment, recommend a sale to the shareholders or formulate another course of action.

If a sale is recommended, this will be a major transaction and a special resolution of shareholders will be required for the transaction to proceed. At the same time, a recommendation may be put forward to reinvest the funds into a new property or to liquidate the Company.

Current Tenancies

Counties Manukau District Health Board (levels 2 and 3)

- Three-year lease term expiring 5 April 2024 with one right of renewal of three years remaining.
- Fixed annual rent increase of 3% on each anniversary of the date of commencement.

Armourguard Security (level 1)

- A new tenant with a lease renewal in March 2023.

Cafe Concepts (rear annex)

- A new 3 year lease with a 3 year renewal in 2025. CPI rent review due upon renewal.

Kingslea School (ground floor North)

- The tenant has renewed the lease at full rent and opex for one year to 31st December 2022. They have accepted a change of carparking spaces to facilitate Café Concepts proposed additional carparks and fencing.
- Full rent, opex and recharges have been paid up to date.

Agents are continuing to show prospective tenants through the remaining vacant Ground Floor south office area. The building consent approval for the seismic improvement works has been extended for one year to April 2023. The full cost of the work including accessibility and fire escape upgrade quote has increased to \$887,500.

Unaudited Financial Report on 31 March 2022

This is an unaudited update of the Company's 12-month financial information.

This information is directly from our Xero system as at 31 March 2022. It is expected that there will be changes to these numbers following an update to the year-end accounts. These are preliminary and for your information only. Confirmed numbers will be available following the audit by BDO Christchurch.

Financial information summary	2022 (1 April to 31 March 2022)	2021 (1 April to 31 March 2021 for comparison)
Total rental income	\$ 536,088	\$ 715,719
Net profit before tax (NPBT)	\$ 290,061	\$ 525,893
Ending equity	\$ 5,345,147	\$ 5,243,055

These figures have not yet been audited.

Unsolicited offer by CNP Investment Holdings LP (CNP)

An unsolicited offer for shares at a price of \$1.30 per share was made to shareholders of the Company by CNP. The date of the offer was 24 February 2022 with an expiry date of 27 March 2022. Following the expiry of this unsolicited offer CNP (and its associates) now hold 24.36% of the shares in the Company.

Dividend – No dividend payment in May

The dividend policy of the Company is to distribute to its shareholders a part dividend in May and then a final dividend in November, after the finalisation of the annual accounts. The dividend payout is subject to the directors of the Company having considered several financial issues including imputation credits being available to fully impute the proposed dividend amount.

In recent years tax has been prepaid to fund the imputation credits attached to dividends. This is a temporary measure and it has allowed previous dividend payments to be imputed. As there are no imputation credits available, the Directors resolved not to continue to prepay tax and, as a result, no dividend will be paid in May. Once the Company has sufficient imputation credits available dividend payments may resume subject to the other requirements of the dividend policy.



Website

Springs Road Property has a website available at www.fssmanagement.co.nz.

There is information on the website that covers all of the companies managed by FSS Management. The information includes current and historic audited annual financial reports and other information that maybe of interest. <https://www.fssmanagement.co.nz/about>

Managing your shares on Syndex

Shareholders can now log onto Syndex and view their shareholdings, last sale prices, and buy and sell shares. You should have received an invitation to go onto the Syndex website and complete your set up. If you haven't completed your set up yet we can help you through the process. Let us know if you need this invitation resent so you can get started. You will need your current driver's licence or passport so that your identity can be verified. This is a legal requirement to comply with anti-money laundering legislation. Alternatively, you can send us copies of your current driver's licence or passport by post or email, along with a copy of a document which shows your address (such as a power bill) and we can complete the verification process on your behalf.

If you need any assistance, please contact us on info@fssmanagement.co.nz

Yours faithfully

John Murray

Chair

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