



Superstore Properties Limited

Annual Report for the year ended **31 March 2003**

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Management Report & Market Commentary

The previous 12 months has seen investment property as an asset class gaining favour among both institutional and private investors. Stable interest rates and the poor performance of equity markets on the back of an uncertain global political situation has driven increased demand for investment properties that enjoy long lease terms with strong tenant covenants. Despite an overall weak global economy the NZ domestic economy has remained reasonably buoyant fuelled by strong consumer spending. This in turn has led to firming rental rates and a corresponding strengthening of market capitalisation rates.

Accordingly, there was a total increase in the market value of all three properties within the syndicate of 7% over the previous year.

In respect of The Warehouse Tauranga a service lane between the loading dock at the rear of the store and an adjacent property, currently also leased by The Warehouse for storage, has been purchased from the City Council. This has been enclosed to provide a more efficient flow between the two buildings. The purchase cost and improvements totalling \$156,125 has been funded by the Lessor and capitalised at 11%. The improvements rent is payable for the duration of the initial term and subject to a percentage adjustment following any rent review of the initial premises. This improvement is proving of substantial operational benefit to the tenant.

As one of the main arterial routes Cameron Rd continues to be strongly favoured with most national brand retailers already represented or seeking sites in this area. Strong demand and the shortage of development land in this area continues to put pressure on land prices. These factors combined with the profile of the subject property should assist in the property holding value as the lease term shortens.

During the past year Fletcher Distribution Ltd have been progressively joint venturing its stores. This has occurred at PlaceMakers Westgate with the incumbent manager taking a 49.9% stake in the Joint Venture company. Fletcher Distribution Ltd retains a controlling holding and remains responsible for all lease obligations.

A rent review (6th May) was completed by negotiation resulting in an increase from \$425,000 p.a to \$437,500 p.a. With a general firming of rental rates the latest valuation (31 March 2003) would suggest that there is opportunity for moderate growth at future reviews.

In respect of PlaceMakers Cranford St the high profile, quality construction and long lease term to Fletcher Merchants Ltd will ensure investors interests are protected.

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 period ended 31 March 2003.

Activities

The Company is involved in the property rental business.

Dividends

No dividend was declared for the year ended 31 March 2003.

Directors

The following Directors held office during the year ended 31 March 2003.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2003.

Remuneration of employees

No employees' remuneration exceeded \$100,000.

Auditors

Richards Woodhouse were reappointed as the Company's auditors.

Interests register

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

Related party transactions

All transactions conducted by the Company with Investment Services Limited are related party transactions, as Michael Millar is a Director of, and Neil Barnes and Virginia Laughton employees of, Investment Services Limited.

Related party transactions were:

Investment Services Limited

Payment of fees for management,
accounting and registry services **\$137,198**

Share purchases

Michael Millar holds 8 parcels comprising 8,000 shares and 8 mortgage bonds.

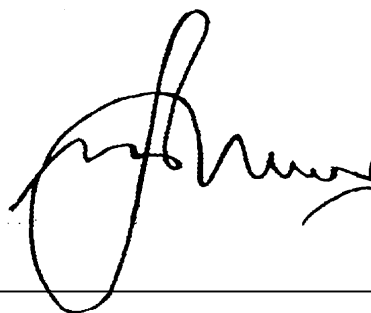
Directors' loans

There were no loans by the Company to the Directors.

Directors' indemnity and insurance

The Company's Directors and the Directors of its subsidiaries 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

Dated: 30 July 2003

Statement of financial performance

For the year ended 31 March 2003

	Note	Group		Parent	
		2003 \$	2002 \$	2003 \$	2002 \$
Income					
Rent received		1,695,569	1,686,403	-	-
Interest received		8,467	9,183	1,247,746	1,234,742
		<u>1,704,036</u>	<u>1,695,586</u>	<u>1,247,746</u>	<u>1,234,742</u>
Less expenditures					
Accountancy		9,840	6,650	9,840	6,650
Audit		1,778	1,500	1,778	1,500
Insurance		4,704	1,220	4,704	1,220
Interest – Loans		505,666	505,130	505,666	505,130
– Mortgage Bonds		995,125	995,125	995,125	995,125
Management fees	3	120,158	125,651	-	-
Miscellaneous expenses		1,572	1,636	1,572	1,636
Printing, stationery & telephone		2,672	2,868	2,672	2,868
Legal fees		3,050	1,480	3,050	1,480
Registry fees		7,200	5,496	7,200	5,496
Repairs & maintenance		920	2,623	920	2,623
Trustees fees		5,000	5,000	5,000	5,000
Valuation fees		3,250	5,800	3,250	5,800
		<u>1,660,935</u>	<u>1,660,179</u>	<u>1,540,777</u>	<u>1,534,528</u>
Net surplus/(deficit) before taxation		43,101	35,407	(293,031)	(299,786)
Tax	4	-	-	-	-
Net surplus/(deficit) before revaluation		43,101	35,407	(293,031)	(299,786)
Unrealised (decrease)/increase In value of investment properties	11	1,140,000	1,852	-	-
Net surplus/(deficit)		<u>\$1,183,101</u>	<u>\$37,259</u>	<u>(\$293,031)</u>	<u>(\$299,786)</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 page 14.

Statement of movements in equity

For the year ended 31 March 2003

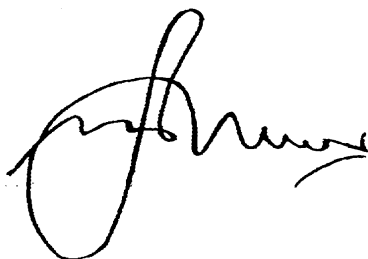
	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	\$	\$	\$	\$
Total equity at beginning of period	1,264,072	1,226,813	867,991	1,167,777
Net surplus/(deficit) for the period	1,183,101	37,259	(293,031)	(299,786)
Total recognised revenue and expenses for the period	1,183,101	37,259	(293,031)	(299,786)
Total equity at end of period	<u>\$2,447,173</u>	<u>\$1,264,072</u>	<u>\$574,960</u>	<u>\$867,991</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 page 14.

Statement of financial position

As at year ended 31 March 2003

	Note	Group		Parent	
		2003 \$	2002 \$	2003 \$	2002 \$
Equity	5&6	\$2,447,173	\$1,264,072	\$574,960	\$867,991
Represented by:					
Current assets					
Cash and bank balances	8	250,426	258,942	250,426	258,942
Accounts receivable		19,991	18,645	-	-
Income tax recoverable	4	3,442	1,791	3,442	1,791
		<u>273,859</u>	<u>279,378</u>	<u>253,868</u>	<u>260,733</u>
Non-current assets					
Investment properties	11	17,390,000	16,220,000	-	-
Shares in subsidiaries	14	-	-	300	300
Loan to subsidiaries	14	-	-	15,537,478	15,842,264
		<u>17,390,000</u>	<u>16,220,000</u>	<u>15,537,778</u>	<u>15,842,564</u>
Total assets		17,663,859	16,499,378	15,791,646	16,103,297
Less liabilities:					
Current liabilities					
Accounts payable		304,399	324,036	304,399	324,036
GST payable		32,287	31,270	32,287	31,270
		<u>336,686</u>	<u>355,306</u>	<u>336,686</u>	<u>355,306</u>
Non-current liabilities					
Bank term loan	7	6,500,000	6,500,000	6,500,000	6,500,000
Mortgage Bonds	5	8,380,000	8,380,000	8,380,000	8,380,000
Total non-current liabilities		14,880,000	14,880,000	14,880,000	14,880,000
Total liabilities		15,216,686	15,235,306	15,216,686	15,235,306
Net assets		\$2,447,173	\$1,264,072	\$574,960	\$867,991



Director
Dated: 30 July 2003



Director
Dated: 30 July 2003

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

Statement of cash flows

For the year ended 31 March 2003

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Rents received		1,694,472	1,683,588	-	-
Interest received		8,467	9,183	8,467	9,183
Tax refund received		-	1,557	-	-
		<u>1,702,939</u>	<u>1,694,328</u>	<u>8,467</u>	<u>9,183</u>
<i>Cash was applied to:</i>					
Payments to suppliers		(179,013)	(146,279)	(58,606)	(20,628)
Interest		(1,500,791)	(1,500,255)	(1,500,791)	(1,500,255)
Taxation paid		(1,651)	(1,791)	(1,651)	(1,791)
		<u>(1,681,455)</u>	<u>(1,648,325)</u>	<u>(1,561,048)</u>	<u>(1,522,674)</u>
Net cash flow from operating activities	9	21,484	46,003	(1,552,581)	(1,513,491)
Cash flows from investing activities					
<i>Cash was applied to:</i>					
Purchase of fixed assets		30,000	17,773	-	-
Repayment of loan from subsidiary		-	-	1,544,065	1,541,721
Net cash flows from investing activities		<u>30,000</u>	<u>17,773</u>	<u>1,544,065</u>	<u>1,541,721</u>
Opening cash brought forward					
Total net (decrease)/increase in cash balances		(8,516)	28,230	(8,516)	28,230
Add Opening cash brought forward		258,942	230,712	258,942	230,712
Closing cash carried forward		<u>\$250,426</u>	<u>\$258,942</u>	<u>\$250,426</u>	<u>\$258,942</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 page 14.

Notes to the financial statements

1 Statement of significant accounting policies

Basis of preparation

The Company, Superstore Properties Limited, was incorporated in January 2000 and is registered under the Companies Act 1993. The financial statements of the Company have been prepared in accordance with the Financial Reporting Act 1993, and comprise statements of the following: significant accounting policies, financial performance, movements of equity, financial position, cash flows, as well as the notes to these statements contained on pages 7 to 13 of this Annual Report.

The financial statements have been prepared on the historical cost basis with the exception of the investment properties, which are revalued.

Basis of consolidation

Subsidiaries are those entities controlled directly by the Company. The financial statements of the three wholly owned subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

Intra-group balances and transactions, and unrealised gains resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

Investment property

The investment properties are recorded at net current value, which is market value less estimated costs of disposal. Revaluation gains or losses are included in the statement of Financial Performance following the net profit/(loss) before revaluation. The investment properties are not depreciated.

Shares in, and loans to subsidiaries

In the parent company Statement of Financial Position the shares in, and loans to subsidiaries are stated at the asset backing of the subsidiary companies.

Taxation

The tax expense charged against the surplus for the year is the estimated liability in respect of that surplus after allowance for permanent differences plus any adjustments arising from prior years.

Superstore Properties Limited follows the liability method of accounting for deferred tax applied on a partial basis.

The partial basis considers the cumulative income tax effect of all timing differences. The income tax effect of timing differences is only recognised as deferred tax for those timing differences that can be expected to crystallise in the foreseeable future.

A net future tax benefit will be recognised only where it is virtually certain that it will be realised.

Notes to the financial statements (continued)

1 Statement of significant accounting policies (continued)

Accounts receivable

Accounts receivable are stated at estimated realisable value.

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.

Goods and services tax

The financial statements have been prepared on a GST exclusive basis, except for accounts receivable and payable.

Statement of cash flows

Investing activities in the statement of cash flows comprise of acquisition of property. Financing activities comprise movements in shareholders equity, debt and dividends paid on equity, which provides the financial resources of the Company and Group. Operating activities include all transactions and other events that are not investing or financing activities. Cash is considered to be cash on hand, and bank balances.

Changes in accounting policies

There have been no changes in accounting policies during the year.

2 Subsidiaries' statement of financial performance

	<i>Note</i>	<i>Total</i>	<i>Westgate Drive Properties Limited</i>	<i>Cameron Road Properties Limited</i>	<i>Cranford Street Properties Limited</i>
Income					
Rental income		1,695,569	439,553	750,000	506,016
		<hr/>	<hr/>	<hr/>	<hr/>
Expenses					
Management fees	3	120,157	31,149	53,149	35,860
Interest - Parent Company		1,239,279	263,849	608,064	367,366
		<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses		1,350,437	294,998	661,213	403,226
		<hr/>	<hr/>	<hr/>	<hr/>
Net surplus (deficit)		\$345,132	\$144,555	\$88,787	\$102,790
		<hr/>	<hr/>	<hr/>	<hr/>

3 Management fees

The Investment Manager's fee is based on 0.75% of the net capital value of the properties, less appropriate expenses as detailed in the Prospectus.

Notes to the financial statements (continued)

4 Taxation

	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Profit before tax	43,101	35,407	(293,031)	(299,786)
Prima facie tax @ 33%	14,223	11,684	(96,700)	(98,929)
Plus tax effect of				
Permanent differences	-	-	-	-
Timing differences not recognised	(110,923)	(110,613)	-	-
Benefit of tax losses not recognised	96,700	98,929	96,700	98,929
	-	-	-	-

Permanent differences arise from preliminary expenses associated with the setup of the Company, and in the parents books, provision for write down /up of loans to subsidiaries.

The Group has a potential net deferred tax liability of \$30,217 (2002 – \$15,994 deferred tax benefit) that is not recognised in the financial statements.

The balance is made up of a deferred tax liability for the Group of \$442,586 (2002 – \$331,811) that arises from depreciation claimed for tax purposes, and a future tax benefit for the Group of \$412,517 (2002 – \$315,817). The net deferred tax benefit tax liability is not expected to become realised in the foreseeable future and has therefore not been recorded in the financial statements.

The future tax benefit above comprises of tax losses available to carry forward for the Group of \$412,517 (2002 – \$315,817). The carrying forward of tax losses is subject to continuing to meet shareholder continuity requirements under the Income Tax Act 1994.

	<i>2003</i>	<i>2002</i>
	<i>\$</i>	<i>\$</i>
Imputation Credit Account		
Balance at beginning of year	1,791	1,557
Less:		
Refund	-	(1,557)
Resident withholding tax paid	1,651	1,791
Balance at end of year	\$3,442	\$1,791

Notes to the financial statements (continued)

5 Share capital & convertible mortgage bonds

	2003	2002
	\$	\$
2,095,000 Ordinary shares fully paid	2,095,000	2,095,000
2,095 Convertible mortgage bonds	8,380,000	8,380,000
	<u>\$10,475,000</u>	<u>\$10,475,000</u>

Shares may only be transferred as part of a parcel of 1,000 shares and one convertible mortgage bond.

The terms of the convertible mortgage bonds are as follows:

- Each mortgage bond has a face value of \$4,000.
- Each mortgage bond is secured over the properties owned by the group.
- Interest paid of 11.875% per annum (pre-tax).
- Bonds will be redeemed:
 - (i) 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.
 - (ii) by conversion to ordinary shares at the option of the Company at any earlier time upon giving notice to bond holders.

6 Equity

	<i>Group</i>		<i>Parent</i>	
	2003	2002	2003	2002
	\$	\$	\$	\$
Paid in Capital	2,095,000	2,095,000	2,095,000	2,095,000
Retained Earnings (Deficit)	(711,671)	(754,772)	(1,520,040)	(1,227,009)
Investment Property Revaluation Reserve	1,063,844	(76,156)	-	-
	<u>\$2,447,173</u>	<u>\$1,264,072</u>	<u>\$574,960</u>	<u>\$867,991</u>
<u>Retained Earnings (Deficit)</u>				
Opening balance	(754,772)	(790,179)	(1,227,009)	(927,223)
Net surplus before revaluation for period	43,101	35,407	(293,031)	(299,786)
Closing balance	<u>(\$711,671)</u>	<u>(\$754,772)</u>	<u>(1,520,040)</u>	<u>(\$1,227,009)</u>
<u>Investment Property Revaluation Reserve</u>				
Opening balance	(76,156)	(78,008)	-	-
Increase/(decrease) in value of properties for year	1,140,000	1,852	-	-
Closing balance	<u>\$1,063,844</u>	<u>(\$76,156)</u>	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

7 Loans

	2003 \$	2002 \$
Long term loan		
ASB Bank Limited	<u>\$6,500,000</u>	<u>\$6,500,000</u>

The loan is an interest only loan at a rate of 7.75% per annum, which is the effective interest rate. The loan is secured by a debenture over the assets and undertakings of the companies and a mortgage over land and buildings of the three properties. The loan is due for repayment in August 2004.

9 Reconciliation of net deficit to net cash flows from operating activities

	<i>Group</i>		<i>Parent</i>	
	2003 \$	2002 \$	2003 \$	2002 \$
Net surplus/(deficit)	1,428,101	37,259	(293,031)	(299,786)
Non cash items				
<i>(Less)/Add Property (revaluation)/devaluation</i>	(1,385,000)	(1,852)	-	-
<i>Less Interest received from subsidiaries</i>	-	-	(1,239,279)	(1,230,016)
	<u>43,101</u>	<u>35,407</u>	<u>(1,532,310)</u>	<u>(1,529,802)</u>
<i>Add/(less) movements in working capital items</i>				
<i>(Increase)/Decrease in accounts receivable relating to operating activities</i>	(1,346)	(5,715)	-	-
<i>(Increase)/Decrease in tax recoverable</i>	(1,651)	(234)	(1,651)	(234)
<i>Increase/(Decrease) in GST payable relating to operating activities</i>	1,017	(815)	1,017	(815)
<i>Increase/(Decrease) in accounts payable relating to operating activities</i>	(19,637)	17,360	(19,637)	17,360
	<u>(21,617)</u>	<u>10,596</u>	<u>(20,271)</u>	<u>16,311</u>
Net cash flow from operating activities	<u>\$21,484</u>	<u>\$46,003</u>	<u>(\$1,552,581)</u>	<u>(\$1,513,491)</u>

Notes to the financial statements (continued)

10 Financial instruments

This note deals with exposures to interest rate and credit risk arising in the normal course of the Group's business as follows.

Interest rate risk

The Company has long term borrowings. The rate of interest on convertible mortgage bonds is capped at 11.875%. The Company has minimised interest rate risk through the interest rate associated with the long term bank loan being for a period to August 2004.

Credit risk

The Company in the normal course of business has credit risk from accounts receivable mainly for rent and bank balances.

The Company manages credit risk through transacting only with major trading banks.

At balance date, there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

11 Investment properties valuation

The investment properties were valued by DTZ, Registered Valuer, Auckland on 31 March 2003 at a market value of \$17,700,000. The net current value amount of \$17,390,000 included in the statement of financial position is calculated by taking this amount and deducting an allowance for disposal costs.

Notes to the financial statements (continued)

12 Rental agreements

The Company's three leases have the following terms:

Westgate - Placemakers

- Nine year term expiring April 2008.
- Two rights of renewal of six years each.
- Three yearly rent reviews based on current market rentals and encompassing a ratchet clause.

Tauranga – The Warehouse

- Ten year term expiring April 2009.
- Four rights of renewal of three years each.
- One rent review after four years. Three yearly rent reviews after that based on current market rentals and encompassing a ratchet clause.

Christchurch – Placemakers

- Twelve year term expiring September 2010.
- Two rights of renewal of four years each.
- Three yearly rent reviews based on current market rentals and encompassing a ratchet clause.

13 Related parties

All transactions conducted by the Company with Investment Services Limited are related party transactions as Michael Millar is a Director of, and Neil Barnes and Virginia Laughton, employees of Investment Services Limited. Transactions are detailed in the Report of the Directors to the Shareholders.

14 Shares in subsidiaries

All subsidiaries are wholly owned, have a principal activity of being property owning companies and have a balance date of 31 March.

	<i>Parent</i>	
	2003	2002
	\$	\$
Shares	300	300

Directory

Nature of business	Property rental	Accountants	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031 Phone (03) 544 2005 Fax (03) 544 2300
Paid in capital	\$2,095,000	Bankers from 1 June 2002	The National Bank Limited PO Box 540 1 Victoria Street Wellington
Registered office	Level One 3/237 Queen Street Richmond 7031	Bankers to 1 June 2002	ASB Bank PO Box 858 Trafalgar Street Nelson
Registered under	The Companies Act 1993	Auditors	Richards Woodhouse PO Box 98 9 Buxton Square Nelson
Incorporation number	WN942750	Solicitors	McFadden McMeeken Phillips PO Box 656 187 Bridge Street Nelson
I.R.D. number	71-404-544	Share Register	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031 Phone (03) 544 2005 Fax (03) 544 2300
Directors	Michael John Millar Neil Allan Barnes Virginia Anne Laughton	Secondary Market	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031 Phone (03) 544 2005 Fax (03) 544 2300
Investment Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031 Phone (03) 544 2005 Fax (03) 544 2300		
Property Manager	The Franklin Company P O Box 3618 Shortland Street Auckland		
Trustee	Trustees Executors Ltd P O Box 3222 Wellington		