

Superstore Properties Limited



Annual Report for the year ended 31 March 2004

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Management Report & Market Commentary

Over the past 12 months property as an asset class has continued to gain in popularity. As the demand for commercial properties has increased, the yield on purchase price has reduced. Quality commercial property has sold during the year at yields of between 7.5% and 8.5% net return. The same standard of property may have achieved a net return of 8.5% to 9.5% in 2002. The New Zealand retail market has continued to remain buoyant. The continued strength of the domestic economy and lower interest rates has further encouraged investment in property.

Over the last year the value of the three properties has increased by 2.6%. Rent reviews are due for Placemakers Cranford Street later this year and Placemakers Westgate mid way through 2005. The next rent review for the Warehouse Tauranga is due in early 2006. Superstore with its significant and well-leased properties situated in prime locations in Christchurch, Tauranga and Auckland is well positioned to realise further increases in the value of the buildings over the next couple of years.

The Warehouse Tauranga has continued to perform well following the opening of a second larger format Warehouse in Tauranga. The location on the main arterial route of Cameron Road has helped maintain its presence.

Placemakers Westgate has continued to perform well, with the ongoing growth of housing in the area.

Placemakers Cranford Street is benefiting from the increase in demand for housing in the Christchurch region. This year a Bunnings Warehouse has been opened in Riccarton. Fletchers have commenced construction on the new Placemakers Riccarton outlet and this work is well underway. This further investment reflects the confidence in the region.

The overall cash return on investment of 9.5% before tax, on the purchase price per parcel of \$5000, continues to be competitive when compared to the alternatives.

Property Management

Until the end of 2003 the Manager, Investment Services Limited, had contracted the property management operation of the three properties to The Franklin Company, who were based in Auckland. This contract has now been terminated in favour of employing an 'in house' property manager whose primary function is the management of the commercial properties within Investment Services management portfolio.

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 2004.

Activities

The Company is involved in the property rental business.

Dividends

No dividend was declared for the year ended 31 March 2004.

Directors

The following Directors held office during the year ended 31 March 2004.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2004.

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 \$149,169

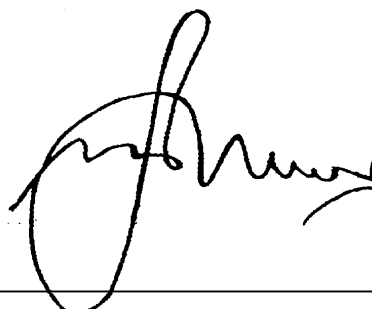
Directors' loans

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: 23 July 2004

Statement of financial performance

For the year ended 31 March 2004

	Note	Group		Parent	
		2004 \$	2003 \$	2004 \$	2003 \$
Income					
Rent received		1,703,090	1,695,569	-	-
Interest received		9,359	8,467	1,246,342	1,247,746
		<u>1,712,449</u>	<u>1,704,036</u>	<u>1,246,342</u>	<u>1,247,746</u>
Less expenditures					
Accountancy		10,824	9,840	10,824	9,840
Audit		2,028	1,778	2,028	1,778
Insurance		3,496	4,704	3,496	4,704
Interest – Loans		512,055	505,666	512,055	505,666
– Mortgage Bonds		995,125	995,125	995,125	995,125
Management fees	3	130,425	120,158	-	-
Miscellaneous expenses		3,090	1,572	3,090	1,572
Printing, stationery & telephone		2,666	2,672	2,666	2,672
Legal fees		-	3,050	-	3,050
Registry fees		7,920	7,200	7,920	7,200
Repairs & maintenance		1,140	920	1,140	920
Trustees fees		5,000	5,000	5,000	5,000
Valuation fees		4,756	3,250	4,756	3,250
		<u>1,678,525</u>	<u>1,660,935</u>	<u>1,548,100</u>	<u>1,540,777</u>
Net surplus/(deficit) before taxation		33,924	43,101	(301,758)	(293,031)
Tax	4	-	-	-	-
Net surplus/(deficit) before revaluation		33,924	43,101	(301,758)	(293,031)
Unrealised (decrease)/increase					
In value of investment properties	11	353,875	1,140,000	-	-
Net surplus/(deficit)		387,799	1,183,101	(301,758)	(293,031)

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 2004

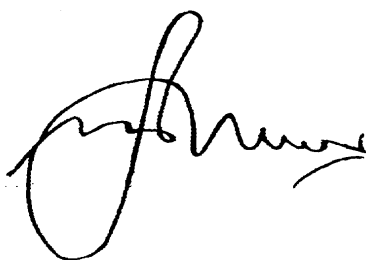
	<i>Group</i>		<i>Parent</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	\$	\$	\$	\$
Total equity at beginning of period	2,447,173	1,264,072	574,960	867,991
Net surplus/(deficit) for the period	387,799	1,183,101	(301,758)	(293,031)
Total recognised revenue and expenses for the period	387,799	1,183,101	(301,758)	(293,031)
Total equity at end of period	2,834,972	2,447,173	273,202	574,960

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 2004

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Equity	5&6	2,834,972	2,447,173	273,202	574,960
Represented by:					
Current assets					
Cash and bank balances	8	314,396	250,426	314,396	250,426
Accounts receivable		6,784	19,991	-	-
Income tax recoverable	4	1,825	3,442	1,825	3,442
		<u>323,005</u>	<u>273,859</u>	<u>316,221</u>	<u>253,868</u>
Non-current assets					
Investment properties	11	17,870,000	17,390,000	-	-
Shares in subsidiaries	14	-	-	300	300
Loan to subsidiaries	14	-	-	15,314,714	15,537,478
		<u>17,870,000</u>	<u>17,390,000</u>	<u>15,310,014</u>	<u>15,537,778</u>
Total assets		18,193,005	17,663,859	15,631,235	15,791,646
Less liabilities:					
Current liabilities					
Accounts payable		302,959	304,399	302,959	304,399
GST payable		50,074	32,287	50,074	32,287
Bank term loan	7	6,500,000	-	6,500,000	-
		<u>6,853,033</u>	<u>336,686</u>	<u>6,853,033</u>	<u>336,686</u>
Non-current liabilities					
Bank term loan	7	125,000	6,500,000	125,000	6,500,000
Mortgage Bonds	5	8,380,000	8,380,000	8,380,000	8,380,000
Total non-current liabilities		8,505,000	14,880,000	8,505,000	14,880,000
Total liabilities		15,358,033	15,216,686	15,358,033	15,216,686
Net assets		2,834,972	2,447,173	273,202	574,960



Director
Dated: 23 July 2004



Director
Dated: 23 July 2004

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 2004

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Rents received		1,719,930	1,694,472	-	-
Interest received		9,359	8,467	9,359	8,467
Tax refund received		3,442	-	-	-
		<u>1,732,731</u>	<u>1,702,939</u>	<u>9,359</u>	<u>8,467</u>
<i>Cash was applied to:</i>					
Payments to suppliers		(157,938)	(179,013)	(20,438)	(58,606)
Interest		(1,507,873)	(1,500,791)	(1,507,873)	(1,500,791)
Taxation paid		(1,825)	(1,651)	(1,825)	(1,651)
		<u>(1,667,636)</u>	<u>(1,681,455)</u>	<u>(1,530,136)</u>	<u>(1,561,048)</u>
Net cash flow from operating activities	9	65,095	21,484	(1,520,777)	(1,552,581)
Cash flows from investing activities					
<i>Cash was applied to:</i>					
Purchase of fixed assets		(126,125)	(30,000)	-	-
<i>Cash was provided from:</i>					
Repayment of loan from subsidiary		-	-	1,409,747	1,544,065
Net cash flows from investing activities		<u>(126,125)</u>	<u>(30,000)</u>	<u>1,409,747</u>	<u>1,544,065</u>
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Loan advance		125,000	-	125,000	-
Net cash flows from financing activities		<u>125,000</u>	<u>-</u>	<u>125,000</u>	<u>-</u>
Opening cash brought forward					
Total net (decrease)/increase in cash balances		63,970	(8,516)	63,970	(8,516)
Add Opening cash brought forward		250,426	258,942	250,426	258,942
Closing cash carried forward		<u>314,396</u>	<u>250,426</u>	<u>314,396</u>	<u>250,426</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 trade receivables and payables.

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>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Income					
Rental income		1,703,090	435,648	766,433	501,010
Expenses					
Management fees	3	130,425	32,325	59,850	38,250
Interest - Parent Company		1,236,983	259,218	617,796	359,970
Total Expenses		1,367,408	291,543	677,646	398,220
Net surplus (deficit)		335,682	144,105	88,787	102,790

3 Management fees

The Investment Manager's fee is based on 0.75% of the net capital value of the properties.

Notes to the financial statements (continued)

4 Taxation

	<i>Group</i>		<i>Parent</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Profit before tax	33,924	43,101	(301,758)	(293,031)
Prima facie tax @ 33%	11,195	14,223	(99,580)	(96,700)
Plus tax effect of				
Permanent differences				
Timing differences not recognised	(110,775)	(110,923)		-
Benefit of tax losses not recognised	99,580	96,700	99,580	96,700
	-	-	-	-

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 \$41,264 (2003 – \$30,069) that is not recognised in the financial statements.

The balance is made up of a deferred tax liability for the Group of \$553,361 (2003 – \$442,586) that arises from depreciation claimed for tax purposes, and a future tax benefit for the Group of \$512,097 (2003 – \$412,517). 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 \$512,097 (2003 – \$412,517). The carrying forward of tax losses is subject to continuing to meet shareholder continuity requirements under the Income Tax Act 1994.

	<i>2004</i>	<i>2003</i>
	<i>\$</i>	<i>\$</i>
Imputation Credit Account		
Balance at beginning of year	3,442	1,791
Less:		
Refund	(3,442)	-
Resident withholding tax paid	1,825	1,651
Balance at end of year	1,825	3,442

Notes to the financial statements (continued)

5 Share capital & convertible mortgage bonds

	2004 \$	2003 \$
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>	
	2004 \$	2003 \$	2004 \$	2003 \$
Paid in Capital	2,095,000	2,095,000	2,095,000	2,095,000
Retained Earnings (Deficit)	(677,747)	(711,671)	(1,821,798)	(1,520,040)
Investment Property Revaluation Reserve	1,417,719	1,063,844	-	-
	<u>2,834,972</u>	<u>2,447,173</u>	<u>273,202</u>	<u>574,960</u>
<u>Retained Earnings (Deficit)</u>				
Opening balance	(711,671)	(754,772)	(1,520,040)	(1,227,009)
Net surplus before revaluation for period	33,924	43,101	(301,758)	(293,031)
Closing balance	<u>(677,747)</u>	<u>(711,671)</u>	<u>(1,821,798)</u>	<u>(1,520,040)</u>
<u>Investment Property Revaluation Reserve</u>				
Opening balance	1,063,844	(76,156)	-	-
Increase/(decrease) in value of properties for year	353,875	1,140,000	-	-
Closing balance	<u>1,417,719</u>	<u>1,063,844</u>	<u>--</u>	<u>-</u>

Notes to the financial statements (continued)

7 Loans

	2004 \$	2003 \$
Current liabilities		
ASB Bank Limited (Loan 1)	<u>6,500,000</u>	<u>-</u>
Non-current liabilities		
ASB Bank Limited (Loan 2)	<u>125,000</u>	<u>6,500,000</u>

Loan 1 - Interest only loan at a rate of 7.75% per annum, which is the effective interest rate. The loan is due for repayment in August 2004.

Loan 2 – Interest only loan at a rate of 6.7% per annum, which is the effective interest rate. The loan is due for repayment in April 2006.

Both loans are secured by a debenture over the assets and undertakings of the companies and a mortgage over land and buildings of the three properties.

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

	<i>Group</i>		<i>Parent</i>	
	2004 \$	2003 \$	2004 \$	2003 \$
Net surplus/(deficit)	387,799	1,183,101	(301,758)	(293,031)
Non cash items				
(Less)/Add Property (revaluation)/devaluation	(353,875)	(1,140,000)		-
Less Interest received from subsidiaries		-	(1,236,983)	(1,239,279)
	<u>33,924</u>	<u>43,101</u>	<u>(1,538,741)</u>	<u>(1,532,310)</u>
<i>Add/(less) movements in working capital items</i>				
(Increase)/Decrease in accounts receivable relating to operating activities	13,207	(1,346)	-	-
(Increase)/Decrease in tax recoverable	1,617	(1,651)	1,617	(1,651)
Increase/(Decrease) in GST payable relating to operating activities	17,787	1,017	17,787	1,017
Increase/(Decrease) in accounts payable relating to operating activities	(1,440)	(19,637)	(1,440)	(19,637)
	<u>31,171</u>	<u>(21,617)</u>	<u>17,964</u>	<u>(20,271)</u>
Net cash flow from operating activities	<u>65,095</u>	<u>21,484</u>	<u>(1,520,777)</u>	<u>(1,552,581)</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 at a market value of \$18,160,000. The net current value amount of \$17,870,000 included in the statement of financial position is calculated by taking this amount and deducting an allowance for disposal costs.

12 Rental agreements

The Company's three leases have the following terms:

Westgate - Placemakers

- Nine year term expiring 6 May 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 three months term expiring 31 March 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.

Notes to the financial statements (continued)

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>	
	<i>2004</i>	<i>2003</i>
	<i>\$</i>	<i>\$</i>
Shares	300	300



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RichardsWoodhouse

Auditors' Report to the Shareholders of Superstore Properties Limited

We have audited the financial statements on pages 3 to 13. The financial statements provide information about the past financial performance and cash flows of the company and group for the year ended 31 March 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 7 to 13.

Directors' Responsibilities

The company's directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the company and group as at 31 March 2004 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:-

- (a) the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the company other than in our capacity as auditors.

Unqualified opinion

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

In our opinion:

- (a) proper accounting records have been kept by the company and group as far as appears from our examination of those records; and
- (b) the financial statements on pages 3 to 13
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the company as at 31 March 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 July 2004 and our unqualified opinion is expressed as at that date.

Richards Woodhouse
Nelson

Maurice F. Woodhouse B.Com., C.A.P.P. • Robin Whalley, C.A.P.P., ACCM, AINZ • Trevor Cameron, C.A.P.P. • Tony Healey, B.Com., C.A.P.P.



Directory

Nature of business	Property rental	143 Armagh Street Christchurch
Paid in capital	\$2,095,000	
Registered office	Level One 3/237 Queen Street Richmond 7031	Auditors Richards Woodhouse PO Box 98 Trafalgar Street Nelson
Registered under	The Companies Act 1993	Solicitors McFadden McMeeken Phillips PO Box 656 187 Bridge Street Nelson
Incorporation number	WN942750	
I.R.D. number	71-404-544	
Directors	Michael John Millar Neil Allan Barnes Virginia Anne Laughton	Share Register Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031
Investment Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031 Phone (03) 544 2005 Fax (03) 544 2300	Secondary Market Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031
Property Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031	
Trustee	Trustee Executors Limited Level 1 50-64 Customhouse Quay Wellington	
Accountants	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond 7031	
Bankers	ASB Bank Limited	