

Superstore Properties Limited



Annual Report for the year ended 31 March 2005

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Management Report and Market Commentary

Over the past 12 months property as an asset class has continued to be popular with the net yield on commercial properties staying at similar levels to last year. Quality commercial property has sold during the year at yields of between 8% and 9% net return. The New Zealand retail consumer market has continued to remain buoyant although as at March 2005 there are some pointers to it slowing. Over the last year the interest rates have increased with the 90 day bill rate moving from 5.51% to 7.08%. This has increased the cost of borrowing to a level where it is difficult to purchase a sound commercial building which will provide a margin between the borrowing rate and capitalisation rate.

Superstore Properties has continued to perform well in the last financial year. We have negotiated a successful rent review for the Placemakers in Christchurch, with an increase in the rental from \$505,878 to \$533,554 this represents a 5.4% increase in the rental. We are currently negotiating a rental increase for the Placemakers Westgate. The rent review was due on the 7th of May 2005, but has been delayed while Placemakers have a valuation completed.

The only significant work required this year was at The Warehouse in Tauranga. The local city council required the installation of a "Backflow Preventor" to the water main at the site. The cost of this item was \$8,266.

Over the last financial year the value of all of the properties has increased by an average of 8.3% adding a total of \$1,510,000 to the value of the portfolio. The portfolio now has a total value of \$19,670,000. We are actively seeking to purchase a further building for the portfolio of around \$6,000,000. The purchase of another building would be fully funded by debt financing. By using the increase in the equity to purchase a building we will be able to strengthen the portfolio so it is well placed for the future.

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 2005.

Activities

The Company is involved in the property rental business.

Dividends

No dividend was declared for the year ended 31 March 2005.

Directors

The following Directors held office during the year ended 31 March 2005.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2005.

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 \$152,769

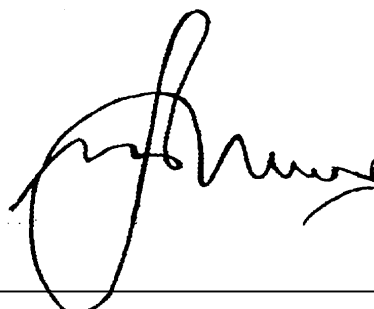
Directors' loans

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:

Statement of financial performance

For the year ended 31 March 2005

| | Note | Group | | Parent | |
|---|------|-------------------------|-----------------------|-------------------------|-------------------------|
| | | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| Income | | | | | |
| Rent received | | 1,733,237 | 1,703,090 | - | - |
| Interest received | | 14,313 | 9,359 | 1,276,102 | 1,246,342 |
| | | <u>1,747,550</u> | <u>1,712,449</u> | <u>1,276,102</u> | <u>1,246,342</u> |
| Less expenditures | | | | | |
| Accountancy | | 10,824 | 10,824 | 10,824 | 10,824 |
| Audit | | 1,778 | 2,028 | 1,778 | 2,028 |
| Insurance | | 5,145 | 3,496 | 5,145 | 3,496 |
| Interest – Loans | | 494,128 | 512,055 | 494,128 | 512,055 |
| – Mortgage Bonds | | 995,125 | 995,125 | 995,125 | 995,125 |
| Management fees | 3 | 134,025 | 130,425 | - | - |
| Miscellaneous expenses | | 4,037 | 3,000 | 4,037 | 3,090 |
| Printing, stationery & telephone | | 1,244 | 2,666 | 1,244 | 2,666 |
| Legal fees | | 3,782 | - | 3,782 | - |
| Registry fees | | 7,920 | 7,920 | 7,920 | 7,920 |
| Repairs & maintenance | | 2,191 | 1,140 | 2,191 | 1,140 |
| Trustees fees | | 7,500 | 5,000 | 7,500 | 5,000 |
| Valuation fees | | 7,448 | 4,756 | 7,448 | 4,756 |
| | | <u>1,675,147</u> | <u>1,678,525</u> | <u>1,541,122</u> | <u>1,548,100</u> |
| Net surplus/(deficit) before taxation | | 72,403 | 33,924 | (265,020) | (301,758) |
| Tax | 4 | - | - | - | - |
| Net surplus/(deficit) before revaluation | | 72,403 | 33,924 | (265,020) | (301,758) |
| Unrealised (decrease)/increase | | | | | |
| In value of investment properties | 11 | 1,457,487 | 353,875 | - | - |
| Net surplus/(deficit) | | <u>1,529,890</u> | <u>387,799</u> | <u>(265,020)</u> | <u>(301,758)</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 2005

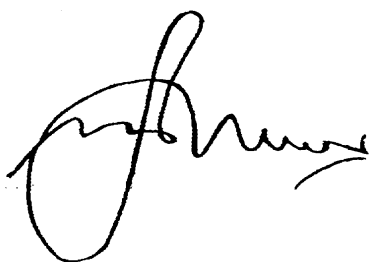
| | <i>Group</i> | | <i>Parent</i> | |
|--------------------------------------|------------------|------------------|---------------|----------------|
| | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| | \$ | \$ | \$ | \$ |
| Total equity at beginning of period | 2,834,972 | 2,447,173 | 273,202 | 574,960 |
| Net surplus/(deficit) for the period | 1,529,890 | 387,799 | (265,020) | (301,758) |
| Total equity at end of period | 4,364,862 | 2,834,972 | 8,182 | 273,202 |

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 2005

| | Note | Group | | Parent | |
|--------------------------------------|----------------|-------------------|-------------------|-------------------|-------------------|
| | | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| Equity | 5&6 | 4,364,862 | 2,834,972 | 8,182 | 273,202 |
| Represented by: | | | | | |
| Current assets | | | | | |
| Cash and bank balances | 8 | 347,248 | 314,396 | 347,248 | 314,396 |
| Accounts receivable | | 1,600 | 6,784 | 1,600 | - |
| Income tax recoverable | 4 | 2,791 | 1,825 | 2,791 | 1,825 |
| | | <u>351,639</u> | <u>323,005</u> | <u>351,639</u> | <u>316,221</u> |
| Non-current assets | | | | | |
| Investment properties | 11 | 19,355,000 | 17,870,000 | - | - |
| Shares in subsidiaries | 14 | - | - | 300 | 300 |
| Loan to subsidiaries | 14 | - | - | 14,998,020 | 15,314,714 |
| Total non current assets | | <u>19,355,000</u> | <u>17,870,000</u> | <u>14,998,320</u> | <u>15,310,014</u> |
| Total assets | | 19,706,639 | 18,193,005 | 15,349,959 | 15,631,235 |
| Less liabilities: | | | | | |
| Current liabilities | | | | | |
| Accounts payable | | 303,734 | 302,959 | 303,734 | 302,959 |
| GST payable | | 33,043 | 50,074 | 33,043 | 50,074 |
| Bank term loan | 7 | - | 6,500,000 | - | 6,500,000 |
| | | <u>336,777</u> | <u>6,853,033</u> | <u>336,777</u> | <u>6,853,033</u> |
| Non-current liabilities | | | | | |
| Bank term loan | 7 | 6,625,000 | 125,000 | 6,625,000 | 125,000 |
| Mortgage Bonds | 5 | 8,380,000 | 8,380,000 | 8,380,000 | 8,380,000 |
| Total non-current liabilities | | <u>15,005,000</u> | <u>8,505,000</u> | <u>15,005,000</u> | <u>8,505,000</u> |
| Total liabilities | | 15,341,777 | 15,358,033 | 15,341,777 | 15,358,033 |
| Net assets | | 4,364,862 | 2,834,972 | 8,182 | 273,202 |



Director
Dated:



Director
Dated:

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 2005

| | <i>Note</i> | <i>Group</i> | | <i>Parent</i> | |
|--|-------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| | | <i>\$</i> | <i>\$</i> | <i>\$</i> | <i>\$</i> |
| Cash flows from operating activities | | | | | |
| <i>Cash was provided from:</i> | | | | | |
| Rents received | | 1,733,237 | 1,719,930 | - | - |
| Interest received | | 14,313 | 9,359 | 14,313 | 9,359 |
| Tax refund received | | 1,825 | 3,442 | - | - |
| | | <u>1,749,375</u> | <u>1,732,731</u> | <u>14,313</u> | <u>9,359</u> |
| <i>Cash was applied to:</i> | | | | | |
| Payments to suppliers | | (197,171) | (157,938) | (68,105) | (20,438) |
| Interest | | (1,489,048) | (1,507,873) | (1,489,048) | (1,507,873) |
| Taxation paid | | (2,791) | (1,825) | (2,791) | (1,825) |
| | | <u>(1,689,010)</u> | <u>(1,667,636)</u> | <u>(1,559,944)</u> | <u>(1,530,136)</u> |
| Net cash flow from operating activities | 9 | 60,365 | 65,095 | (1,545,631) | (1,520,777) |
| Cash flows from investing activities | | | | | |
| <i>Cash was provided from:</i> | | | | | |
| Repayment of loan from subsidiary | | - | - | 1,578,483 | 1,409,747 |
| <i>Cash was applied to:</i> | | | | | |
| Purchase of fixed assets | | (27,513) | (126,125) | - | - |
| Net cash flows from investing activities | | <u>(27,513)</u> | <u>(126,125)</u> | | <u>1,409,747</u> |
| Cash flows from financing activities | | | | | |
| <i>Cash was provided from:</i> | | | | | |
| Loan advance | | 6,500,000 | 125,000 | 6,500,000 | 125,000 |
| <i>Cash was applied to:</i> | | | | | |
| Repayment of loan | | (6,500,000) | - | (6,500,000) | - |
| Net cash flows from financing activities | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Opening cash brought forward | | | | | |
| Total net (decrease)/increase in cash balances | | 32,852 | 63,970 | 32,852 | 63,970 |
| Add Opening cash brought forward | | 314,396 | 250,426 | 314,396 | 250,426 |
| Closing cash carried forward | | <u>347,248</u> | <u>314,396</u> | <u>347,248</u> | <u>314,396</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 trade 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 | | 1,733,237 | 445,497 | 768,605 | 519,135 |
| Expenses | | | | | |
| Management fees | 3 | 134,025 | 33,675 | 60,600 | 39,750 |
| Interest - Parent Company | | 1,261,789 | 323,035 | 563,763 | 374,991 |
| Total Expenses | | 1,395,814 | 356,710 | 624,363 | 414,741 |
| Net surplus (deficit) | | 337,423 | 88,787 | 144,242 | 104,394 |

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>2005</i> \$ | <i>2004</i> \$ | <i>2005</i> \$ | <i>2004</i> \$ |
| Profit before tax | 72,403 | 33,924 | (265,020) | (301,758) |
| Prima facie tax @ 33% | 23,893 | 11,195 | (87,456) | (99,580) |
| Plus tax effect of Permanent differences | | | | |
| Timing differences not recognised | (111,349) | (110,775) | - | - |
| Benefit of tax losses not recognised | 87,456 | 99,580 | 87,456 | 99,580 |
| | - | - | - | - |

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 \$65,157 (2004 – \$41,264) that is not recognised in the financial statements.

The balance is made up of a deferred tax liability for the Group of \$664,710 (2004 – \$553,361) that arises from depreciation claimed for tax purposes, and a future tax benefit for the Group of \$599,553 (2004 – \$512,097). 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 \$599,553 (2004 – \$512,097). The carrying forward of tax losses is subject to continuing to meet shareholder continuity requirements under the Income Tax Act 1994.

| | <i>2005</i> \$ | <i>2004</i> \$ |
|----------------------------------|-------------------|-------------------|
| Imputation Credit Account | | |
| Balance at beginning of year | 1,825 | 3,442 |
| Less: | | |
| Refund | (1,825) | (3,442) |
| Resident withholding tax paid | 2,791 | 1,825 |
| Balance at end of year | 2,791 | 1,825 |

Notes to the financial statements (continued)

5 Share capital & convertible mortgage bonds

| | 2005 \$ | 2004 \$ |
|--------------------------------------|-------------------|-------------------|
| 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> | |
|---|------------------|------------------|--------------------|--------------------|
| | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| Paid in Capital | 2,095,000 | 2,095,000 | 2,095,000 | 2,095,000 |
| Retained Earnings (Deficit) | (605,344) | (677,747) | (2,088,818) | (1,821,798) |
| Investment Property Revaluation Reserve | 2,875,206 | 1,417,719 | - | - |
| | <u>4,364,862</u> | <u>2,834,972</u> | <u> </u> | <u>273,202</u> |
| <u>Retained Earnings (Deficit)</u> | | | | |
| Opening balance | (677,747) | (711,671) | (1,821,798) | (1,520,040) |
| Net surplus before revaluation for period | 72,403 | 33,924 | (265,020) | (301,758) |
| Closing balance | <u>(605,344)</u> | <u>(677,747)</u> | <u>(2,088,818)</u> | <u>(1,821,798)</u> |
| <u>Investment Property Revaluation Reserve</u> | | | | |
| Opening balance | 1,417,719 | 1,063,844 | - | - |
| Increase/(decrease) in value of properties for year | 1,457,487 | 353,875 | - | - |
| Closing balance | <u>2,875,206</u> | <u>1,417,719</u> | <u>--</u> | <u>-</u> |

Notes to the financial statements (continued)

7 Loans

| | 2005 \$ | 2004 \$ |
|--------------------------------|------------|------------|
| Current liabilities | | |
| ASB Bank Limited | - | 6,500,000 |
| Non-current liabilities | | |
| ASB Bank Limited | 6,625,000 | 125,000 |

Loan 1 - Interest only loan of \$6,500,000 at a rate of 7.51% per annum, which is the effective interest rate. The loan is due for repayment in July 2007.

Loan 2 – Interest only loan of \$125,000 at a rate of 7.89% 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> | |
|---|---------------|---------------|--------------------|--------------------|
| | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| Net surplus/(deficit) | 1,529,890 | 387,799 | (265,020) | (301,758) |
| Non cash items | | | | |
| (Less)/Add Property (revaluation)/devaluation | (1,457,487) | (353,875) | - | - |
| Less Interest received from subsidiaries | | - | (1,261,789) | (1,236,983) |
| | 72,403 | 33,924 | (1,526,809) | (1,538,741) |
| <i>Add/(less) movements in working capital items</i> | | | | |
| (Increase)/Decrease in accounts receivable relating to operating activities | 5,184 | 13,207 | (1,600) | - |
| (Increase)/Decrease in tax recoverable | (966) | 1,617 | (966) | 1,617 |
| Increase/(Decrease) in GST payable relating to operating activities | (17,031) | 17,787 | (17,031) | 17,787 |
| Increase/(Decrease) in accounts payable relating to operating activities | 775 | (1,440) | 775 | (1,440) |
| | (12,038) | 31,171 | (18,822) | 17,964 |
| Net cash flow from operating activities | 60,365 | 65,095 | (1,545,631) | (1,520,777) |

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 \$19,670,000. The net current value amount of \$19,355,000 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>2005</i> | <i>2004</i> |
| | \$ | \$ |
| Shares | 300 | 300 |

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 | |