

Superstore Properties Limited

Annual Report
for the year ended
31 March 2006

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Management Report and Market Commentary

The Market

Over the past 12 months property as an asset class has continued to be popular. The net yield on commercial properties has steadied at between an 8% and 9% return. The market for large buildings has been dominated by offshore funds continuing to purchase these types of property.

Over the last year interest rates have increased with the 90-day bank bill rate moving from 7.08% to a high of 7.69% around December and then easing off to 7.49% during March 2006. This increase has continued to make it difficult to purchase a sound commercial building which will provide a margin between the borrowing rate and capitalisation rate.

Your Properties

Superstore Properties has continued to perform well in the last financial year. We have negotiated a successful rent review for the Placemakers Westgate during May 2005, with an increase in the rental from \$439,721 to \$484,160. This represents a 10.1% increase. There was also a rent review for The Warehouse in Tauranga on the 1st January 2006. This increase was from \$767,173 to \$824,480 representing an improvement of 7.47%.

There was no significant capital work required at any of the sites this financial year.

A new property was purchased during November 2005. This property is located at 26 Waipareira Avenue in Henderson, Auckland. It is a large site of 1.202 hectares, with a modern building constructed in 2002 of 2179 metres squared. The tenant is a company called ICPBio Ltd. They manufacture sterile products from the site for the animal industry. The majority of the products are exported. The purchase price was \$4,470,000 with a net rental of \$380,000 per year. The lease is for a period of 12 years from the 1st March 2002. The next rent review is in March 2008. The new building has been funded entirely by debt.

At the beginning of the financial year the portfolio had a value of \$19,670,000. With the addition of the ICP Bio building and an increase in value on the other three properties of \$1,900,000. The value of the portfolio is now \$25,600,000. This represents an increase in the size of the portfolio of 30% over the last financial year.

Over the next year there are no opportunities to increase the rent on any of the properties. ICP Bio is currently listing on the stock exchange and have indicated they would like to lease additional space to increase the size of their operation. We are currently investigating the possibility of buying another site and constructing a building to suit their needs.

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 2006.

Activities

The Company is involved in the property rental business.

Dividends

No dividend was declared for the year ended 31 March 2006.

Directors

The following Directors held office during the year ended 31 March 2006.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton (Resigned)

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2006.

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 Investment Services Limited.

Related party transactions were:

Investment Services Limited

Payment of fees for management,
accounting and registry services \$176,850

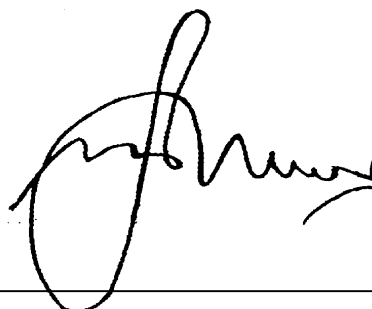
Directors' loans

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: 14 July 2006

Statement of financial performance

For the year ended 31 March 2006

	Note	Group		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
Income					
Rent received		1,937,505	1,733,237	-	-
Interest received		21,215	14,313	1,432,359	1,276,102
		<u>1,958,720</u>	<u>1,747,550</u>	<u>1,432,359</u>	<u>1,276,102</u>
Less expenditures					
Accountancy		11,142	10,824	11,142	10,824
Audit		1,828	1,778	1,828	1,778
Insurance		2,811	5,145	2,811	5,145
Interest – Loans		632,513	494,128	632,513	494,128
– Mortgage Bonds		995,125	995,125	995,125	995,125
Management fees	3	157,548	134,025	-	-
Miscellaneous expenses		6,210	4,037	6,210	4,037
Printing, stationery & telephone		1,846	1,244	1,846	1,244
Legal fees		14,247	3,782	14,247	3,782
Registry fees		8,160	7,920	8,160	7,920
Repairs & maintenance		429	2,191	429	2,191
Trustees fees		7,500	7,500	7,500	7,500
Valuation fees		14,400	7,448	14,400	7,448
		<u>1,853,759</u>	<u>1,675,147</u>	<u>1,696,211</u>	<u>1,541,122</u>
Net surplus/(deficit) before taxation		104,961	72,403	(263,852)	(265,020)
Tax	4	-	-	-	-
Net surplus/(deficit) before revaluation		104,961	72,403	(263,852)	(265,020)
Unrealised (decrease)/increase					
In value of investment properties	9	1,335,000	1,457,487	-	-
Net surplus/(deficit)		1,439,961	1,529,890	(263,852)	(265,020)

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 2006

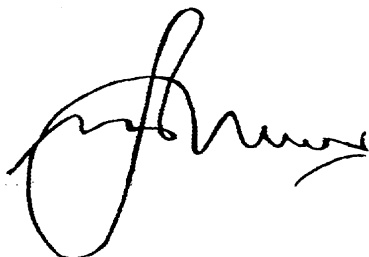
	<i>Group</i>		<i>Parent</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
Total equity at beginning of period	4,364,862	2,834,972	8,182	273,202
Net surplus/(deficit) for the period	1,439,961	1,529,890	(263,852)	(265,020)
Total equity at end of period	<u>5,804,823</u>	<u>4,364,862</u>	<u>(255,670)</u>	<u>8,182</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 2006

	<i>Note</i>	<i>Group</i>		<i>Parent</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Equity	5&6	5,804,823	4,364,862	(255,670)	8,182
Represented by:					
Current assets					
Cash and bank balances		365,438	347,248	365,438	347,248
Accounts receivable		14,964	1,600	14,964	1,600
Income tax recoverable	4	4,137	2,791	4,137	2,791
		<u>384,539</u>	<u>351,639</u>	<u>384,539</u>	<u>351,639</u>
Non-current assets					
Investment properties	9	25,160,000	19,355,000	-	-
Shares in subsidiaries	13	-	-	400	300
Loan to subsidiaries	13	-	-	19,099,107	14,998,020
		<u>25,160,000</u>	<u>19,355,000</u>	<u>19,099,507</u>	<u>14,998,320</u>
Total non current assets		25,160,000	19,355,000	19,099,507	14,998,320
Total assets		25,544,539	19,706,639	19,484,046	15,349,959
Less liabilities:					
Current liabilities					
Accounts payable		348,844	303,734	348,844	303,734
GST payable		40,872	33,043	40,872	33,043
		<u>389,716</u>	<u>336,777</u>	<u>389,716</u>	<u>336,777</u>
Non-current liabilities					
Bank term loan	7	10,970,000	6,625,000	10,970,000	6,625,000
Mortgage Bonds	5	8,380,000	8,380,000	8,380,000	8,380,000
		<u>19,350,000</u>	<u>15,005,000</u>	<u>19,350,000</u>	<u>15,005,000</u>
Total non-current liabilities		19,350,000	15,005,000	19,350,000	15,005,000
Total liabilities		19,739,716	15,341,777	19,739,716	15,341,777
Net assets		5,804,823	4,364,862	(255,670)	8,182



Director
Dated: 14 July 2006



Director
Dated: 14 July 2006

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 2006

	Note	Group		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Rents received		1,937,505	1,733,237	-	-
Interest received		21,215	14,313	21,215	14,313
Tax refund received		2,791	1,825	-	-
		<u>1,961,511</u>	<u>1,749,375</u>	<u>21,215</u>	<u>14,313</u>
<i>Cash was applied to:</i>					
Payments to suppliers		(216,725)	(197,171)	(56,386)	(68,105)
Interest		(1,597,459)	(1,489,048)	(1,597,459)	(1,489,048)
Taxation paid		(4,137)	(2,791)	(4,137)	(2,791)
		<u>(1,818,321)</u>	<u>(1,689,010)</u>	<u>(1,657,982)</u>	<u>(1,559,944)</u>
Net cash flow from operating activities	8	143,190	60,365	(1,636,767)	(1,545,631)
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Repayment of loans from subsidiaries		-	-	1,779,957	1,578,483
<i>Cash was applied to:</i>					
Purchase of fixed assets		(4,470,000)	(27,513)	-	-
Advance of loans to subsidiaries		-	-	(4,470,000)	-
Net cash flows from investing activities		<u>(4,470,000)</u>	<u>(27,513)</u>	<u>(2,690,043)</u>	<u>1,578,483</u>
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Loan advance		4,470,000	6,500,000	4,470,000	6,500,000
<i>Cash was applied to:</i>					
Repayment of loan		(125,000)	(6,500,000)	(125,000)	(6,500,000)
Net cash flows from financing activities		<u>4,345,000</u>	<u>-</u>	<u>4,345,000</u>	<u>-</u>
Opening cash brought forward					
Total net (decrease)/increase in cash balances		18,190	32,852	18,190	32,852
Add Opening cash brought forward		<u>347,248</u>	<u>314,396</u>	<u>347,248</u>	<u>314,396</u>
Closing cash carried forward		<u>365,438</u>	<u>347,248</u>	<u>365,438</u>	<u>347,248</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 1999 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

	Note	Total \$	Cranford Street Properties Limited \$	Westgate Drive Properties Limited \$	Cameron Road Properties Limited \$	Henderson 26 Limited \$
Income						
Rental income		1,937,505	533,554	483,291	781,500	139,160
Expenses						
Management fees	3	157,548	44,625	37,275	63,263	12,385
Interest – Parent Company		1,411,144	384,214	357,229	573,801	95,900
Total expenses		1,568,692	428,839	394,504	637,064	108,285
Net surplus / (deficit)		368,813	104,715	88,787	144,436	30,875

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>2006</i> \$	<i>2005</i> \$	<i>2006</i> \$	<i>2005</i> \$
Profit before tax	104,961	72,403	(263,852)	(265,020)
Prima facie tax @ 33%	34,637	23,893	(87,071)	(87,456)
Plus tax effect of				
Permanent differences				
Timing differences not recognised	(121,708)	(111,349)	-	-
Benefit of tax losses not recognised	87,071	87,456	87,071	87,456
	-	-	-	-

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 \$99,794 (2005 – \$65,157) that is not recognised in the financial statements.

The balance is made up of a deferred tax liability for the Group of \$786,418 (2005 – \$664,710) that arises from depreciation claimed for tax purposes, and a future tax benefit for the Group of \$686,624 (2005 – \$599,553). 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 \$510,654 (2005 – \$423,583). The carrying forward of tax losses is subject to continuing to meet shareholder continuity requirements under the Income Tax Act 1994.

	<i>2006</i> \$	<i>2005</i> \$
Imputation Credit Account		
Balance at beginning of year	2,791	1,825
Less:		
Refund	(2,791)	(1,825)
Resident withholding tax paid	4,137	2,791
Balance at end of year	4,137	2,791

Notes to the financial statements (continued)

5 Share capital & convertible mortgage bonds

	2006 \$	2005 \$
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>	
	2006 \$	2005 \$	2006 \$	2005 \$
Paid in Capital	2,095,000	2,095,000	2,095,000	2,095,000
Retained Earnings (Deficit)	(500,383)	(605,344)	(2,350,670)	(2,086,818)
Investment Property Revaluation Reserve	4,210,206	2,875,206	-	-
	<u>5,804,823</u>	<u>4,364,862</u>	<u>(255,670)</u>	<u>8,182</u>
<u>Retained Earnings (Deficit)</u>				
Opening balance	(605,344)	(677,747)	(2,086,818)	(1,821,798)
Net surplus before revaluation for period	104,961	72,403	(263,852)	(265,020)
Closing balance	<u>(500,383)</u>	<u>(605,344)</u>	<u>(2,350,670)</u>	<u>(2,086,818)</u>
<u>Investment Property Revaluation Reserve</u>				
Opening balance	2,875,206	1,417,719	-	-
Increase/(decrease) in value of properties for year	1,335,000	1,457,487	-	-
Closing balance	<u>4,210,206</u>	<u>2,875,206</u>	<u>--</u>	<u>-</u>

Notes to the financial statements (continued)

7 Loans

	2006 \$	2005 \$
Non-current liabilities		
ASB Bank Limited	10,970,000	6,625,000

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 \$4,470,000 at a rate of 8.17% per annum, which is the effective interest rate. The loan is due for repayment in November 2008.

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

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

	<i>Group</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Net surplus/(deficit)	1,439,961	1,529,890	(263,852)	(265,020)
Non cash items				
<i>(Less)/Add Property (revaluation)/devaluation</i>	(1,335,000)	(1,457,487)	-	-
<i>Less Interest received from subsidiaries</i>		-	(1,411,144)	(1,261,789)
	104,961	72,403	(1,674,996)	(1,526,809)
<i>Add/(less) movements in working capital items</i>				
<i>(Increase)/Decrease in accounts receivable relating to operating activities</i>	(13,364)	5,184	(13,364)	(1,600)
<i>(Increase)/Decrease in tax recoverable</i>	(1,346)	(966)	(1,346)	(966)
<i>Increase/(Decrease) in GST payable relating to operating activities</i>	7,829	(17,031)	7,829	(17,031)
<i>Increase/(Decrease) in accounts payable relating to operating activities</i>	45,110	775	45,110	775
	38,229	(12,038)	38,229	(18,822)
Net cash flow from operating activities	143,190	60,365	(1,636,767)	(1,545,631)

9 Investment properties valuation

The investment properties were valued by DTZ, Registered Valuer, Auckland, on 31 March 2006 at a market value of \$25,600,000. The net current value amount of \$25,160,000 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)

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 November 2008.

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 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.

Henderson – 26 Waipareira Avenue

- Fifteen year term expiring February 2017.
- Two Rights of renewal of six years each.
- Three yearly rent reviews on current market rentals and encompassing a ratchet clause

Notes to the financial statements (continued)

12 Related parties

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

13 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>	
	2006	2005
	\$	\$
Shares	400	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 2006 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 2006 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 judgments 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 2006 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 14th July 2006 and our unqualified opinion is expressed as at that date.

Richards Woodhouse
Nelson

Maurice F. Woodhouse B.Com, C.A.P.P. • Trevor Cameron, C.A.P.P.
Tony Healey, B.Com, C.A.P.P. • Helen McEwan, B.Com, C.A.P.P. • Francesco Pessione B.Com, Dip Bus, C.A.P.P.



Directory

Nature of business	Property rental		
Paid in capital	\$2,095,000	Bankers	ASB Bank Limited 143 Armagh Street Christchurch
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	Share Register	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031
Investment Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031 Phone (03) 544 2005 Fax (03) 544 2300	Secondary Market	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 7031
Property Manager	Investment Services Limited L1, 3/237 Queen Street P O Box 3637 Richmond Nelson 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 Nelson 7031		