Superstore Properties Limited

Annual Report
for the year ended
31 March 2018

Contents

Management Report and Market Commentary

Market overview

Leasing activity in the commercial market has continued to be been buoyant over the last 12 months. Investor demand also remains high especially from offshore institutions looking for NZ Assets. Historically low interest rates, low inflation and general optimism in the New Zealand economy continues to contribute to positive returns.

We continue to see a lift in Capital values & rental income as the imbalance in supply & demand remains albeit with new supply arriving in the market during the next 12 – 24 months which will see tenants have a much greater choice.

The properties

The Warehouse in Tauranga has a lease in place until 2025 with renewal options available out to 2037. There has been little work required on the building during the year.

The property valuation increased $350,000 to $12.65m.

Placemakers in Christchurch has a lease in place until 2022 with renewal options available out to 2040. During the year, work was completed on the Logistics Service building with the exception of floor grouting. Further earthquake related repairs to underfloor voids are required and will be covered by insurance.

The property valuation increased $230,000 to $8.4m.

Results

Operating profit increased $244,150 over 2017 due to a number of factors including lower funding, legal & trustee costs. Following the repayment of mortgage bonds custodian fees have been eliminated.

The valuations of the two properties increased by $580,000, which, on top of the $600,000 increase last year, represents a very healthy increase in property valuations. This contributed to an increase in the NTA per share to $5.10 ($4.90: 2017)

These increases in valuations along with strong dividend returns makes this a healthy investment. Dividends totalling 12 cents per share along with the special dividend paid in February of 25 cents per share brought total returns to 37 cents per share or 8.51% based on the last trade price.

Liquidity in the secondary market has continued to be strong. Latest sales have been at $4.35 per share.

Report of the Directors to the Shareholders

Your Directors take pleasure in presenting their Annual Report including the financial statements of the Group for the year ended 31 March 2018.

Activities
The Group is involved in the property rental business.

Dividends
$775,026 was distributed in dividends for the period ended 31 March 2018. No imputation credits were attached.

Directors
The following Directors held office during the year ended 31 March 2018:

Neil Allan Barnes – Ceased 26/2/2018
Michael John Millar
Paul John Mephan – Appointed 13/2/2018

Remuneration of Directors
No Directors remuneration was paid during the year ended 31 March 2018.

Remuneration of employees
No employee's remuneration exceeded $100,000.

Auditors
Crowe Horwath of Nelson 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 Group with Investment Services Limited are related party transactions, as Michael Millar is a Director of Investment Services Limited.

All transactions conducted by the Group with Activa Consulting Limited are related party transactions, as Neil Barnes is a Director of Activa Consulting Limited.

All transactions conducted by the Group with Corvus Consulting Limited are related party transactions, as Paul Mephan is a Director of Corvus Consulting Limited.

Related party transactions were:

Investment Services Limited	
Fees for management services	$153,525
Activa Consulting Limited	
Accounting/registry services fees	25,667
Corvus Consulting Limited	
Accounting/registry services fees	2,069
	$27,736

Share Purchases
Investment Services Ltd increased its holdings by 71,111 shares (via SST Holdings Ltd which held 328,889 in the Prior Year). Investment Services Ltd now holds 400,000 shares at Balance date.

Directors' loans
There were no loans by the Group 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 Group or a related party of the Group) 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: 5th July 2018

Superstore Properties Limited
Statement of Comprehensive Income
For the year ended 31 March 2018

	Note	Group 2018 $	Group 2017 $
Revenue			
Rent revenue		1,518,861	1,498,766
Interest		1,239	2,707
		1,520,100	1,501,473
Less expenditures			
Accounting and registry		27,736	28,000
Audit		11,200	7,500
Insurance		6,007	7,886
Interest – Loans		415,353	514,348
– Mortgage Bonds		-	77,745
Legal fees		626	17,398
Management fees	2	153,525	149,025
Sundry expenses		4,819	9,435
Printing, stationery & telephone		1,714	4,549
Repairs and irrecoverable opex		14,784	6,505
Trustees fees		-	38,066
Valuation fees		6,400	7,230
		642,164	867,687
Net profit/(loss) before taxation		**877,936**	**633,786**
Tax movement	3	245,822	177,460
Profit/(Loss) before revaluation		**632,114**	**456,326**
Unrealised gain on Interest Rate swap		-	(105,428)
Unrealised increase in value of investment properties	10	580,000	600,000
Total Profit/(Loss)		**1,212,114**	**950,898**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 - 21.

Superstore Properties Limited
Statement of Comprehensive Income
For the year ended 31 March 2018 (continued)

	Note		
Other Comprehensive Income Movements			
Movements that will be reclassified to profit or loss in subsequent periods		-	-
Movements that will not be reclassified to profit or loss in subsequent periods		-	-
Total Other Comprehensive Income Movements		**-**	**-**
Total Comprehensive Income for the Year		**1,212,114**	**950,898**
Basic and diluted earnings per share (cents)	**19**	**57.9**	**45.4**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 - 21.

Superstore Properties Limited
Statement of changes in equity
For the year ended 31 March 2018

2018	Share capital	Retained earnings	Total Equity
	$	$	$
Balance 1 April 2017	2,095,000	8,162,062	10,257,062
Profit/(loss) for the year	-	1,212,114	1,212,114
Distributions to shareholders	-	(775,026)	(775,026)
Balance 31 March 2018	**2,095,000**	**8,599,150**	**10,694,150**

2017	Share capital	Retained earnings	Total Equity
	$	$	$
Balance 1 April 2016	2,095,000	7,881,564	9,976,564
Profit/(loss) for the year	-	950,898	950,898
Distributions to shareholders	-	(670,400)	(670,400)
Balance 31 March 2017	**2,095,000**	**8,162,062**	**10,257,062**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 - 21.

CROWE HORWATH NEW ZEALAND

Superstore Properties Limited
Statement of Financial Position
As at year ended 31 March 2018

	Note	Group 2018 $	Group 2017 $
ASSETS			
Current assets			
Cash and bank balances		198,000	134,921
Accounts receivable		4,198	15,601
Income tax recoverable	3	253	2,730
		202,451	153,252
Non-current assets			
Investment properties	10	21,050,000	20,470,000
Future benefit of tax losses	3	311,156	556,978
Total non-current assets		21,361,156	21,026,978
Total assets		**21,563,607**	**21,180,230**
LIABILITIES			
Current liabilities			
Accounts payable		77,180	135,850
GST payable		34,432	29,473
Bank loan	6	9,924,000	
		10,035,612	165,323
Non-current liabilities			
Bank loan	6	-	9,924,000
Deferred tax	3	833,845	833,845
Total non-current liabilities		833,845	10,757,845
Total liabilities		**10,869,457**	**10,923,168**
NET ASSETS		**10,694,150**	**10,257,062**
EQUITY			
Issued share capital	4	2,095,000	2,095,000
Retained earnings		8,599,150	8,162,062
TOTAL EQUITY		**10,694,150**	**10,257,062**

Director
Dated: 5th July 2018

Director
Dated: 5th July 2018

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 - 21.

Superstore Properties limited
Statement of cash flows
For the year ended 31 March 2018

	Note	Group 2018 $	Group 2017 $
Cash flows from operating activities			
Cash was provided from:			
Rents received		1,518,861	1,498,766
Interest received		1,239	2,707
		1,520,100	1,501,473
Cash was applied to:			
Payments to suppliers		304,474	282,794
Interest		379,997	669,434
Taxation paid		(2,476)	468
		681,995	952,696
Net cash flow from operating activities	9	838,105	548,777
Cash flows from financing activities			
Cash was provided by:			
Bank loan		-	2,500,000
Cash was applied to:			
Payment of dividend		(775,026)	(670,400)
Repayment of mortgage bonds		-	(2,618,750)
Net cash flows from financing activities		(775,026)	(789,150)
Opening cash brought forward			
Total net (decrease)/increase in cash balances		63,079	(240,373)
Add Opening cash brought forward		134,921	375,294
Closing cash carried forward		**198,000**	**134,921**

These statements are to be read in conjunction with the notes and accounting policies on pages 8 to 18 and the audit report on pages 19 - 21.

Superstore Properties Limited
Notes to the financial statements
For the year ended 31 March 2018

1 Statement of significant accounting policies

Basis of preparation

The Company, Superstore Properties Limited is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. Its principal activity is property rental. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The financial statements were authorised for issue by the Board of Directors on 5th July 2018. The financial statements have been prepared on the historical cost basis with the exception of the investment properties, which are revalued. The presentation currency is New Zealand Dollars. All numbers presented have been rounded to the nearest dollar.

Basis of consolidation

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

Investment property

The investment properties are revalued annually and are recorded at an estimate of fair value, which is market value. The properties are held for both capital appreciation and rental income purposes. Revaluation gains or losses are included in the Statement of Comprehensive Income in the Profit/(Loss). The investment properties are not depreciated for accounting purposes however depreciation is claimed for taxation purposes.

Leases

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Critical accounting estimates, assumptions and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. All judgements and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a high degree of judgement or areas where assumptions are significant to the company include the valuation of investment properties (Note 10)

Notes to the financial statements (continued)

1 Statement of significant accounting policies (continued)

Fair value measurement

A number of the Group's accounting policies and disclosures require measurement at fair value. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique adopted as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs), or where there are significant adjustments to market data.

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 income tax expense recognised for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Current assets and liabilities

Current assets and liabilities are stated at estimated realisable value.

Financial instruments

All financial instruments of the Group are recognised in the Statement of Financial Position. The Group has no off-balance sheet financial instruments. Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of asset and liability. Annual movements in the value of financial instruments are recognised in the Statement of Comprehensive Income.

Bank loans

Bank loans are measured at the principal amount owed to the bank. Interest costs are expensed in the year in which they are incurred.

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 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.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Going concern assumption

These financial statements have been prepared on the assumption that the loan will be renegotiated on expiry on 30 November 2018.

Notes to the financial statements (continued)

1 Statement of significant accounting policies (continued)

Revenue Recognition
Rental income is recognised in the income statement on a straight line basis over the term of the lease. Interest received is recognised in the income statement using effective interest method.

Statement of compliance
The financial statements comply with New Zealand generally accepted accounting practice, which include New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the Financial Statements comply with International Financial Reporting Standards ("IFRS").

2 Management fees

The Investment Manager's fee is based on 0.75% of the net capital value of the properties. The management agreement also provides of a performance fee of 5% of any gain arising from the sale of a property.

3 Taxation

	2018 $	***2017 $***
Accounting profit/(loss)	877,936	633,786
Tax profit/(loss) for year	877,936	633,786
Tax charge		
Tax for year at 28%	245,822	177,460
	245,822	**177,460**
Tax payable	245,822	177,460
Less tax effective losses utilised	(245,822)	(177,460)
	-	-

	2018 $	***2017 $***
Imputation Credit Account		
Balance at beginning of year	2,729	2,261
Less:		
Refunds received in year	(2,692)	-
Resident withholding tax paid	215	468
Balance at end of year	**253**	**2,729**

The Group has recognised a deferred tax asset and liability on the basis of expected future profits.

Notes to the financial statements (continued)

3 Taxation (continued)

Deferred Tax

The deferred tax liability relates to timing difference relating to the tax on the depreciation claimed on the properties. The amount reported as deferred tax as at the balance date was $833,845 (2017: $833,845).

The deferred tax asset arises from the losses carried forward in the amount of $1,111,265 creating a deferred tax asset at balance date of $311,156 (2017: $1,989,201 losses and $556,978 asset).

4 Share capital

At 31 March 2018 the total number of shares on issue comprises 2,095,000 shares of $1 each authorised, issued and fully paid (2017: 2,095,000 shares of $1 each authorised, issued and fully paid) rating equally for dividends & other distributions.

5 Equity

	Group	
	2018	***2017***
	$	***$***
Paid in Capital	2,095,000	2,095,000
Retained Earnings (Losses)	8,599,150	8,162,062
	10,694,150	**10,257,062**
Retained Earnings (Losses)		
Opening balance	8,162,062	7,881,564
Net movement before property revaluation	(142,912)	(319,502)
Movement in value of properties	580,000	600,000
Closing balance	**8,599,150**	**8,162,062**

Retained earnings includes accumulated revaluation gains of $8,992,184 (2017: $8,412,184).

Notes to the financial statements (continued)

6 Loans

	2018 $	2017 $
Current		
ANZ Bank	9,924,000	-
Term		
ANZ Bank	-	9,924,000

ANZ Bank repayment terms – terminating at 30 November 2018 with floating interest. The loan is secured by a first ranking debenture over the assets and undertakings of the companies and a first ranking mortgage over the two properties.

7 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
Interest rate risk is the that movements in interest rates will affect the companies' performance. The company has interest rate risk through its bank loans. Loans are subject to floating interest rates. The company continually reviews these rates and may use interest rate derivates to manage this risk.

Credit risk
The Group in the normal course of business has credit risk from accounts receivable mainly for rent and bank balances. The Group manages bank balance credit risk through transacting only with major trading banks. The Group manages accounts receivable credit risk through accepting only reputable tenants and performing credit assessments prior to accepting the tenancy. 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. The fair value of each financial asset is the same as the carrying value.

Liquidity risk
If the company were put in the position of having to repay its bank loan at short notice it would first enter into negotiations with its bank to renegotiate terms failing which the company would look to sell its investment property. However, this is unlikely to make funds available immediately. Cashflow is managed to ensure that all creditors are met as and when they fall due.

Apart from the risks detailed above, the Group has no other risks which require disclosure. No collateral is required in respect of financial assets.

Notes to the financial statements (continued)

8 Lease Agreements

The Group's two leases have the following terms:

Tauranga – The Warehouse

- 10.5 year term expiring March 2025.
- Three rights of renewal of four years each.
- Three yearly rent reviews based on lesser of current market rental or CPI, and encompassing a ratchet clause.

Christchurch – Placemakers

- Nine year term expiring February 2022.
- Three rights of renewal of six years each.
- Three yearly rent reviews based on current market rentals and encompassing a ratchet clause.

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

	Group	
	2018	***2017***
	$	***$***
Net profit / (loss)	1,212,114	950,898
Non cash items		
(Less)/Add Property revaluation	(580,000)	(600,000)
*(Less)/Add (Loss)/*Gain on Swap	-	105,428
	632,114	456,326
Add/(less) movements in working capital items		
(Increase)/Decrease in accounts receivable relating to operating activities	11,403	(1,597)
(Increase)/Decrease in tax recoverable	248,299	176,991
Increase/(Decrease) in GST payable relating to operating activities	4,959	721
Increase/(Decrease) in accounts payable relating to operating activities	(58,670)	(83,664)
	205,991	92,451
Net cash flow from operating activities	**838,105**	**548,777**

Notes to the financial statements (continued)

10 Valuations

Investment property comprises two bulk retail buildings, one at Cameron Road, Tauranga occupied by The Warehouse and the second at Cranford Street, Christchurch occupied by Placemakers. The properties are currently leased under the terms and to the tenants disclosed in Note 8. They have been provided as security for the borrowings referred to in Note 6.

The investment properties are measured at fair value and were valued as at 31 March 2018 by external, independent property valuers, having appropriately recognised professional qualifications and recent experience in the location and categories of the properties being valued.

The latest revaluation of the investment properties is summarised as follows;

	Cameron Road	Cranford Street
Purpose	Financial reporting	Financial reporting
Amount of valuation	$12,650,000 (2017: $12,300,000)	$8,400,000 (2017: $8,170,000)
Valuer	Colliers International	Colliers International
Basis of valuation	The determination of the values stated were market value subject to existing tenancies and occupational arrangements.	The determination of the values stated were market value subject to existing tenancies and occupational arrangements.
Assessment approach	Discounted cash flow Capitalisation approach	Discounted cash flow Capitalisation approach
Vacancy rate	Nil (2017: Nil)	Nil (2017: Nil)
Weighted average lease term	7 years (2017: 8 years)	3.85 years (2017: 4.85 years)
Value per square metre	$2,504 (2017: $2,435)	$1,892 (2017: $1,840)
Capitalisation rate	6.625% (2017: 6.875%)	7.75% (2017: 7.75%)
Discount rate	7.750% (2017: 8.25%)	8.5% (2017: 8.6%)
Terminal yield	7.25% (2017: 7.25%)	8.0% (2017: 8.00%)
Net market rent	$825,168 (2017: $824,480)	$610,819 (2017: $610,819)
Net passing rent	$865,168 (2017: $864,480)	$610,819 (2017: $610,819)

The valuations reflect the quality of tenants in occupation, the allocation of maintenance and insurance responsibilities between the Group and the tenant and the remaining economic life of the properties. The valuations also assume on expiry of the current lease terms the company will be able to re-tenant the properties at or above market rates. The valuations assume the buildings meet the minimum seismic ratings requirements and that no capital expenditure is required on earthquake strengthening.

Notes to the Financial Statements (continued)

10 Valuation (continued)

The fair value measurement for the investment properties has been categorised as a level 3 fair value (refer to Note 1) based on the inputs to the valuation technique used being based on unobservable inputs.

The following table outlines the valuation techniques measuring fair value of the investment properties, as well as the unobservable inputs used and the inter-relationship between the key unobservable inputs and fair value measurement.

Valuation technique	Unobservable inputs	The estimated fair value would increase/(decrease) if
Discounted cash flow approach The discounted cash flow method adopts a 10 year investment horizon and makes appropriate allowances for rental growth and leasing costs on lease expiries, with an estimated terminal value at the end of the investment period. The present value is a reflection of market based income (inflows) and expenditure (outflows) projections over the 10 year period discounted at a market analysed return.	Discount rates of 8.5% and 7.75% Terminal yields of 8.0% and 7.25% at the end of the 10 year period Assessed market rentals of $825,168 and $610,819	Discount rate was lower/(higher) The yield was lower/(higher) The assessed market rental was higher/(lower)
Capitalisation approach This approach is considered a "point in time" view of the investment properties' value, based on the current contract and market income and an appropriate market yield or return for the properties. Capital adjustments are then made to the value to reflect under or over renting, pending capital expenditure and upcoming expiries, including allowances for lessee incentives and leasing costs.	Net rental income has been capitalised in perpetuity at capitalisation rates of 6.625% and 7.75% Assessed market rentals of $825,168 and $610,819	Capitalisation rate in perpetuity was lower/(higher) The assessed market rental was higher/(lower)

In deriving the market value under each approach, all assumptions are based, where possible, on market based evidence and transactions for properties with similar locations, construction detail and quality of lease covenant. The adopted market value is a judgemental combination of both the Capitalisation and the Discounted Cash Flow approaches.

11 Minimum lease income

The Group has entered into commercial property leases on its investment properties. These non-cancellable leases have remaining lease terms of between four and seven years. All leases include a clause to enable upward revision of the rental charge on various review dates based on prevailing market conditions.

Future minimum net rentals receivable, after incentive rebates, under non-cancellable leases at the balance sheet date are as follows:

Notes to the financial statements (continued)

11 Minimum lease income (continued)

	2018 $	2017 $
Not later than one year	1,518,860	1,454,428
Later than one year but not later than five years	5,308,173	5,726,089
Greater than five years	1,722,402	2,572,570
	8,549,435	**9,753,087**

12 Related parties

Investment Services Limited provides management services to the Group. All transactions conducted by the Group with Investment Services Limited are related party transactions as Michael Millar is a Director of Investment Services Limited. The Group paid Investment Services Limited $153,525 (2017: $149,025) in management fees during the year.

Investment Services Limited under its management agreement is entitled to be paid a fee equal to 5% of any capital gains realised on the sale of the property at any time.

Activa Consulting Limited provides accounting and registry services to the Group. All transactions conducted by the Group with Activa Consulting Limited are related party transactions as Neil Barnes is a Director of Activa Consulting Limited. The Group paid Activa Consulting Limited $25,667 (2017: $28,000) in accounting and registry fees during the year. Activa Consulting & Neil Barnes ceased providing services to the company at the end of February 2018.

Corvus Consulting Limited commenced providing accounting and registry services to the Group in March 2018. All transactions conducted by the Group with Corvus Consulting Limited are related party transactions as Paul Mephan is a Director of Corvus Consulting Limited. The Group paid Corvus Consulting Limited $2,069 (2017:$Nil) in accounting and registry fees during the year.

There were no amounts due to the related parties as at the balance date.

At balance date the following investments, both direct and indirect, were held by the directors and the Manager:

Neil Barnes	21,000 shares
Michael Millar	12,000 shares
Investment Services Limited	400,000 shares

13 Contingent Liabilities

There were no contingent liabilities at balance date (2017: Nil)

14 Capital commitments

There were no capital commitments at balance date (2017: Nil).

Notes to the financial statements (continued)

15 Adoption of new and revised reporting standards

NZ IFRS 9 Financial Instruments comes into effect on 1 January 2018. Superstore Properties Ltd is required to adopt NZIFRS 9 for the financial year end 31 March 2019. Management have assessed NZ IFRS 9 and have found that the impact will be minimal.

NZ IFRS 15 Revenue from Customer Contracts comes into effect on 1 January 2018. Superstore Properties Ltd is required to adopt NZIFRS 15 for the financial year end 31 March 2019. Management have assessed NZ IFRS 15 and have found that the impact will be minimal.

NZ IFRS 16 Leases comes into effect on 1 January 2019 replacing the current standard IAS 17 Leases. Superstore Properties Ltd is required to adopt NZ IFRS 16 for the financial year end 31 March 2020. Superstore Properties is a lessor of investment property, accounting for leases as lessor under the current standards is similar to the new standard and we see minimal impact to recognition, measurement and reporting.

16. Investment in subsidiaries

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

	2018	***2017***
	$	***$***
Cranford Street Properties Limited	100	100
Westgate Drive Properties Limited	100	100
Cameron Road Properties Limited	100	100
Whakakake Limited	100	100
Henderson Property 26 Limited	100	100
	500	**500**

17. Group information

The consolidated financial statements of the group include:

Name	**Principal activity**
Parent	
Superstore Properties Limited	Property investment and management
Subsidiaries	
Cranford Street Properties Limited	Property investment
Cameron Road Properties Limited	Property investment
Westgate Drive Properties Limited	Dormant
Henderson Property 26 Limited	Dormant
Whakakake Limited	Dormant

All group members are incorporated in New Zealand.

The ultimate controlling entity and parent company of the group is Superstore Properties Limited which owns 100% of each subsidiary company.

CROWE HORWATH NEW ZEALAND

Notes to the financial statements (continued)

18. Events occurring after balance date

There have been no events subsequent to the balance date which require disclosure in or adjustment to the financial statements.

19. Earnings per share

	2018	*2017*
Reconciliation of those amounts used as the numerator to profit or loss:		
Profit for the year and earnings used in basic and diluted EPS	**1,212,114**	**950,898**
Reconciliation of the weighted average number of shares used as the denominator:		
Weighted average number of shares used in basic and diluted EPS	**2,095,000**	**2,095,000**
Basic and diluted earnings per share (cents)	**57.9**	**45.4**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Superstore Properties Limited

Opinion

We have audited the financial statements of Superstore Properties Limited (the Company) on pages 3 to 18, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Information Other Than the Financial Statements and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Management Report and Market Commentary, Report of the Directors to the Shareholders, and Directory on pages 1 to 2, and page 22, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The Directors are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the Directors with a statement that the we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that are of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ken Sandri.

For and on behalf of:

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS

Dated at Nelson this 26th day of July 2018

Directory

Nature of business Property rental

Paid in capital $2,095,000

Registered office Level One
3/237 Queen Street
Richmond 7020

Registered under The Companies Act 1993

Incorporation number WN942750

I.R.D. number 71-404-544

Directors Paul John Mephan
Michael John Millar

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