Shopping Centre
Investments Limited
P O Box 4160, Christchurch 8140

the hub
HORNBY

12 June 2021

Shareholders and Noteholders
Shopping Centre Investments Limited

## CHAIRMAN'S REPORT

Dear Shareholders and Noteholders,

The attached audited financial statements for the twelve month period ended 28 February 2021 identify another year of upheaval and drama, again imposed on us from outside events.

The impact and recovery of the Company was detailed in my interim communication to you in December 2020 and since that date the Mall has continued to prosper due to the initial enterprise displayed by the Collier's in store Management team during those immediate periods of lockdown and uncertainty.
Though perhaps not immediately visible, the Board and Management has worked hard to identify the enterprise to its tenants and customers as a caring and proactive establishment, fully functionable from day one of the pandemic. The ongoing seismic improvements have also enhanced our standing with the Bank and associated parties and unlike many of our competitors we have not ignored this imposing National seismic rating challenge, to do so would be a recipe for disaster.

The proof of this enterprise is that dividends have been consistently maintained on a quarterly basis even during the lockdown period and details of this are listed below.

The audited financial statements for the accounting year ended 28 February 2021 have subsequently been filed with the Companies Office.
This report and the financial accounts will be e-mailed to you in the first instance, for those shareholders who do not have an e mail address or their inbox is limited in size, a hard copy will be sent in the post.

Communications will be sent to you advising the date and time of the impending Annual General Meeting, the latest events and strategic direction will be updated by commentary at the AGM. Therefore this Report will concentrate on the financial results for the past year.

### Governance

It is with a great deal of pleasure to advise that a new Director has been appointed in accordance with clause 17.9 of the Constitution, the new Director will hold office only until the next annual meeting. The Board has been mindful that succession and diversity are important considerations and after canvassing a substantial number of excellent applicants Ms Sarah Ott was appointed on the 30 March 2021. Ms Ott brings to the Board table a wide range of professional talents centred on investment management and governance with the discipline of appropriate professional qualifications and membership.

In accordance with the Company's constitution two Directors are due for rotation.
These Directors are David Rankin and Michael Keyse and they have indicated that they wish to put forward their names for re election at the AGM. The new Director, Ms Ott has also indicated that she wishes to put forward her name for election.

Financial Statements

An explanation as to the results and financial position of the Company will be presented at the meeting but I highlight the following:

1. Despite the loss of rentals during the lockdown period, the Company engaged in a policy of relief and deferment during that time and it is a measure of the goodwill generated that almost all of those rental deferments have been repaid. Rentals only decreased from $9.384m down to $9.260m, a percentage decrease of 1.32%.

   Since the last AGM the problematic Dick Smith space has been taken up by JapanMart and this is enhanced by a refreshing and attractive fitout. This is a prominent entry site and its occupation has improved the reputation of the Mall. There has been some small tenancy attrition but this has been replaced by new and varied tenants. Evan Harris will again give you an insight as to the local and National trends at the AGM, we are fortunate that Evan can provide such detail based on his interaction with Collier's infrastructure.

2. Operating contributions expensed by the Company, being the Landlord's share, again continue to decrease [in 2018 it was as high as $700,335 now down to $497,834]. Last year $628,059.

   The biggest movement has been the reduction in interest charges, the Company's risk profile has been assessed at each monthly Board meeting and to date the policy of maintaining floating rates on the total facility has been vindicated. At the immediate there is an indication that long term rates may be trending upwards despite recent OCR declarations, this present interest charge may be the lowest we may enjoy. A policy of whether to fix part of the loan will be determined in the near future.

   Though a modest amount the Company completed a voluntary loan principal reduction and this was well received by its ASB Bank lenders, the Loan to Value ratio is always under consideration and the Board has made provision, again on a voluntary basis, to continue with such reductions.
   This is tempered by the aims and objectives of a proactive dividend policy.

   Part of the composition of the interest rate is that associated with the risk premium and this is why the Board has maintained a timely and detailed seismic repair program to offset any argument for an increase in the premium.

3. Other Operating Expenses have increased from $608,537 to $795,285 but the increase has been mainly due to a bad debt write off of $186,608. The majority of this total was due to one delinquent tenant, this space has now been filled but for marketing purposes it was deemed prudent to maintain the space.

   Due to the proactive campaign of development the Mall has not been required to carry out any major repairs but a program of refurbishment of the travellators and escalators servicing mainly the Pak N Save upper carpark entry is due. The costs are substantial but necessary and will be spread over a three year program and funded from cash flow.

4. The complexities of the enforced introduction of NZ IFRS 16 were discussed at the last Annual General Meeting. This is to take into account the long term leases associated with the leasing of the undefined 212 carpark spaces with the Hornby Working Men's Club and the associated long term lease of reciprocal rights of 23 Carmen Road. You will therefore identify 1) "Interest Expense on Lease Liabilities $256,553 [P&L Account], 2) "Depreciation – Right of Use of Assets $120,594" [Note 13], 3) "Deferred Taxation of "Right of Use of Assets" $1,216,112 [Note 15], 4) Term Liability "Lease Liabilities" $5,074,743, 5) Non Current Asset "Right -of-Use Assets" $4,343,257.

5. The Deferred Taxation charge has again substantially increased, this non cash expense item totals $1,544,981 [last year $1,177,678] and I refer you to Note 14 and 15 which provides a breakdown, also refer to the comments above and the introduction of "Lease Liabilities" and "Right-of Use Assets' to the equation.

6. As a result of the 12 months trading, and despite COVID, it is very pleasing to report a further increase in Operating Income from $4,904,604 to $5,493,903, an increase of 12% [$589,299]
   The previous year the percentage increase was 30.59%.
   So for the past three years the Operating Profit has been as follows: $3,755,672 / $4,904,604 / $5,493,903.
   The reduction in interest charges has contributed to the outcomes but nevertheless these are pleasing results.

   Despite the COVID lockdown, the Directors not only maintained the quarterly dividend payment but increased it. Assuming a share value of $1.00, which is now somewhat arbitrary, the previous gross annual dividend yield of 4 cents was maintained for the March 2020 and critical June 2020 quarter and then increased to an annual gross rate of 4.5% in the third and fourth quarters. Each dividend was subject to the deduction of RWT, no imputation credits were available for allocation.

   This equates to an annual gross rate for the year of 4.25 cents per share.

   You will be pleased to note that for the quarterly dividend payment for the first quarter in the new year (March 2021) there was a further annual rate increase from 4.5 cents to 5.0 cents per share. This 5.0 cent rate will be maintained for the June 2021 quarter.
   An increase from 4 cents to 5 cents yield represents a 25% increase.

7. After these results the Company has now offset all of its taxable losses. Note 14 Taxation, the amounts are calculated at the tax rate of 28 cents, these are not gross figures. Due to the pre payment of provisional tax it is projected that any terminal tax liability will be offset by these credits for the next two to three years.

8. Despite maintaining rental levels similar to last year, the further improvement in the Operating Profit, the maintenance of tenancy levels and tenant trading during a period of grave international certainty, the continuance with the program of seismic improvement, an improved dividend yield, the valuation has placed greater emphasis on outside factors in determining the appropriate capitalisation rate to be applied. We have not escaped the influences of some local lower performing Malls that are still faced with the cost of seismic correction but especially the uncertainty of COVID has been the mitigating factor in the valuation reduction.
   A rate of 7.40% has been applied, last year the capitalisation rate was 7.15%.
   The unrealised value has decreased from $128,300,000 to $125,580,000.

   The net negative change in the value of the investment properties identified within the Profit and Loss Statement also takes into account the cost of the seismic repairs incurred during the year.

   The valuation high of $134.650m in the year 2018 was matched by a gross rental of $7.9m, the gross rental is now $9.26m.

9. A modest voluntary principal term loan repayment of $525,000 was completed. The term advance of $67,000,000 remains at floating rates of interest but with very recent publicised indications this policy is to be addressed and most likely some degree of fixing will result. All the ASB Bank covenants were met as at balance date.

10. Due to the unrealised re valuation reduction net equity has decreased from $57,257 million to $54,143 million.

11. The 13,781,449 Notes will compulsorily convert into ordinary shares on the 11 September 2021. From that date there will be an anticipated cash saving being the difference between the present interest rate of 6.75% and an anticipated dividend rate of less than that percentage. The requirements of the licenced supervisor, on behalf of the Noteholders, have been met.

12. Within the Statement of Financial Position Current Liabilities have reduced with all creditor's payments up to date, a small reduction in current assets due to cash reserves being used to fund the ongoing seismic repairs and I have already commented on the Non Current Asset property item.

Future Developments

The Company is about to enter into a new dimension with the impending completion of the seismic repairs in late July. The impact of the earthquakes has been long term with recent National structural promulgations extending the recovery phase.
Since 2018 the Company has expended $8.7 million dollars on seismic repairs, and for the new year to date a further $2.1 has been paid, the majority of the funding for this has been sourced from cash resources. From now to the late July 2021 completion a further $1.37m is required.
The Board has been frustrated that such funds have not been available for more visible objectives including the reduction of debt and further shareholder distributions.

As illustrated, from early August 2021 the advantage of the cessation of this cash drain is obvious.

There are a further number of positive prospects, the Company is completing an extension of the lease with one of its major anchor tenants. This has been facilitated by the agreement to construct a large customer lift which will deposit customers close to the centre of the Mall from the top carpark. This will reduce the use of the travellators and greatly improve trolley access.

A major program of refurbishment to the escalators at the Southern end is underway, this being essential to maintain traffic flows.

The Board though will have to turn its attention to ensure sufficient cash flow funds are available to complete the Lift completion and escalator repairs, satisfy any amended Bank covenants, meet any immediate interest fluctuations and to maintain a program of modest term loan repayments, all of these, apart from the unknown covenant dynamics, are factored within the constructed projected cash flow for the immediate year.

Strategy

Whilst the Board has maintained a strategic focus of ensuring a positive and progressive environment, getting on top of seismic repairs, assisting our ever dynamic Management to expand the shopping experience, making every effort to improve the yield to its investors, it has now turned its focus to some structural financial issues.
The liquidity of its shares is an inherent consideration for all of us and to that end a secondary listing is about to take place, with a number of Board members meeting with local stockbroker firms to facilitate this action. We are also in direct discussion with Computershare and Link Services to improve the Registry dynamics. Further to that we have engaged professional advice to explore the possibility of a restructure with a view to attracting syndication interest to allow perhaps an alternative complementary development exercise. This, and the first step at

present underway to facilitate this, is the overhaul of the Constitution, all such matters requiring shareholder approval.

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Dividend Policy

This has been covered in the details above which illustrates positive aspects. Taking into account the recent dividend increases, the policy of the Board is to maintain quarterly dividends at the present increased rate provided the cash flow requirements are satisfactory, the present covenants are being met, the anchor tenants trading patterns are positive and the solvency test is adhered to. If, and where possible, after applying prudent governance, the Board is always keen to improve its yield to its shareholders.

Acknowledgements

An overrated term but I sincerely think that we have a harmonious and focused "team" comprising the Board, Colliers Management, Andy Wilkinson the Project Manager and Andrew Kidd of Nexia International.
Personal recognition will be recorded at the impending AGM.

Best wishes

Yours sincerely,

M J Keyse

Michael Keyse
Chairman of Directors.