Shopping Centre Investments Ltd

15 November 2024

Dear Shareholder,

This report combines a brief commentary as to the results of the unaudited six-monthly financial statements for the period ended 31 August 2024 and also the Report for the quarter ended September 2024.
These interim financial statements have been sent to you by way of separate email.

I have delayed this report in anticipation of the following conclusion which took place on the 14 November 2024.
As a result of the Board's deliberations a successful sale and settlement of the properties comprising 7-11 Chalmers Street and 13-17 Chalmers Street were completed on that date. The net proceeds, to satisfy our Bank covenant, have been applied to the reduction of the term loan.
This was after careful deliberations of weighing up the savings in interest charges (due to the reduction in the term loan liability), the net loss in rentals as a result of sale, the rates of rentals being achieved, the difficulty in obtaining a satisfactory lease on the empty premises being part of 13-17 Chalmers Street.

Quarterly Report

Retail trading conditions remain problematic with Management and the Leasing Team focused on maintaining our existing tenancy base and minimising the number of vacancies. Despite our best endeavours there has been some attrition but this has been localised to mainly one sector of our operations. This industry has both National and International issues.
A number of our tenants continue to enjoy positive turnover increases and a substantial number of the lease renewals falling due have been concluded. We continue to explore the development of offering tenancies of a service nature and meaningful negotiations are taking place at the time of this report.

The Mall and its Management continue to ensure high standards of presentation and service. This is apparent with any visit to the complex.

The other significant factor which impacts on our operations is the reduction in our floating term loan rate, nationally some reductions were anticipated but probably not to such a degree. This has resulted in an immediate improvement to cash flow. We await with interest the next Reserve Bank declaration due at the end of this month.

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Six Monthly Interim Unaudited Financial Statements to 31 August 2024

These are attached to the separate email. Please note the valuation remains as that determined at year end 29 February 2024.

Despite difficult trading conditions rentals received exceed the total for the previous interim accounts [31 August 2023].

Other Income has improved but the Insurance recovery (Ram Raid) is countered by the “Other Expenses” costs inclusion. A full recovery of the ram raid costs less the small excess was obtained.

Other expenses [refer Note 10 on page 12] have been maintained at generally similar levels to the previous six months, the only notable exceptions being an increase in consultant fees and the reduction in repairs. The Board has budgeted for an annual cost of $300,000 for repairs and this consists mainly of the travellator improvements and replacements of air conditioning units. The cash funds held on reserve and accumulated from previous periods has assisted with these funding demands.

Interest on the Term Loan has reduced but the positive impact of the recent decreases in the interest rate have taken place after August.

The Net Operating Profit has increased from $631,838 to $1,260,621 when compared with the previous six-monthly period.

When analysing these accounts, it must be noted that the annual percentage rental income receipt is only recognised within the Annual Accounts, there is no accrual.

The Interpretation of the Derivative Financial Instruments total and the Deferred Tax provision remain complex, to place it in perspective, upon the conclusion of the $13.4 million swap this month, the net interest cash saving offset over the three-year term totalled $739,549.

There are Financial Reporting adjustments such as the Amortisation of Lease Incentives and Leasing Fees and the Interest on Lease Liabilities.

The net operating profit exceeded the dividend payout for the six months and I bring your attention to the percentage rental comments.

The ASB Term Loan continues to reduce with monthly principal repayments of $62,500. [$750,000 per annum]

Net Equity has reduced from $51,937,477 to $51,562,048 with the impact of the Derivative Instrument adjustment and the Deferred Tax calculation.

The Board has conservatively maintained a consistent dividend rate for the three instalments paid during the nine-month calendar year period. An assessment and declaration will be made during December.

Determination of Share Value and the lack of Liquidity

Explanations were made within the verbal addresses at the AGM with flowcharts supplied.

For those not present at the meeting a detailed summary, with flowcharts, was submitted to all shareholders by way of my communication on the 16 July 2024. This contained sensitive commercial information and candid comments and was not posted to the public website. The matters contained and the sources of information, the necessity for independent financial advice, remain pertinent today.

I am precluded from speculating upon the value of the shares but there have been a small number of transactions via the “Unlisted” facility which warrant comment .These reflect the lack of liquidity and perhaps the personal requirements of some of our shareholders.

To clarify part of the 16 July 2024 communication, the Net Tangible Asset backing per share as at 31 August comprises shareholder equity $51,562,048.

To the shareholder equity of $51,562,048 is added the determined excess deferred tax provision (due to depreciation not being recovered on wasting assets) $6,737,261 plus the net balance of the Lease Liability less the Right of Use Assets $982,425 equals $59,281,734.
$59,281,734 divided by 68,907,243 shares = 86.03 cents per share.

Compare the 86.03 cents with some of the small parcels on "Unlisted" that have traded as low as 35 cents
The Board is obviously concerned at the disappointing level of market sales and the limited demand which does not reflect the indicated value above.

I bring your attention to the positive impact upon the next valuation (28 Feb 2025) of a) lowering interest rates and b) the sale of the Chalmers Street properties with the resultant reduction in the term loan. Also, the addition to net equity with the inclusion at year end of the percentage rental amount.
Any small adjustment to the capitalisation rate employed by the valuers can have a profound effect upon the value determined.

<u>Final Remarks</u>
The optimism of Christmas trading, the hopeful anticipation of a positive outcome of the Reserve Bank November rate, these will be deciding factors when determining the measure of success for the next quarter.

Best wishes,

M J Keyse

Michael Keyse
Chair
Shopping Centre Investments Limited