

28 October 2022

Dear Shareholder,

Please find attached to this report the Unaudited Financial Statements for the six month period ended 31 August 2022.

These detail a Net Operating Profit for the six month period of \$2,390,094 and the following items warrant explanation.

- 1) Rent received is similar to the previous six month period (31 August 2021) reflecting the maintenance of a high occupancy rate but with little movement in leasing rates. It is pleasing to note that there has been increased new tenancy interest in the past month.
- 2) Other Income – Insurance proceeds are the recovery of the additional dycore seismic improvements completed which were a late earthquake assessment. This is matched by the repairs undertaken which are identified under “Other Operating Expenses” and referenced under Note 10 (page 14).
- 3) The most significant increase is the interest paid on the term loan, refer to my comments subsequent. Interest rates have increased to a marked degree during this period, the difference of \$636,327 to the previous six month period is an increase of 67%.
- 4) The Net Operating Profit has decreased from \$2.68m to \$2.39m, taking into account the interest rate movement the net result is satisfactory.
- 5) A net change in the value of the Swap Facility adds \$377,707 to the profit, though this is recognition of a positive outcome to date it would be misleading to place too much emphasis on this inclusion which is driven by the financial reporting standards. The Board is not contemplating terminating and so realizing the arrangement.
- 6) Our cash balances remain strong despite regular monthly lift purchase and installation charges. As at today the projected lift costs to complete total \$345,609 and there is a final retention payment required for the seismic repairs completed in February 2022 of \$52,000
- 7) Capital works in Progress \$1,249,572, the net expenditure for the six months is \$792,336 the vast majority of which is the Lift cost
- 8) Total Shareholders Equity, despite the onerous interest rates, has increased from \$57.470m to \$57.654m

Since the Annual General Meeting, which took place on the 25 July 2022, and my Chairman's Update 29 July 2022, numerous events and initiatives have taken place.

- 1) The new lift is to be commissioned on the 4 November 2022 and this will add a further dimension to the accessibility to the Mall, it will promote greater use of the large upstairs carpark, it will provide another access point easing the load on the existing travellers, and importantly provide a further operating facility for one of our important anchor tenants. This is matched by the Company obtaining an extended lease term from that tenant.
- 2) The new Farmers style market is now in operation each Thursday night (commenced 6 October) and the first weeks have been successful despite the cold easterly winds we have been experiencing. Foot traffic on those nights have increased substantially and all tenants, even the Food Court tenants, have enjoyed the benefit. A younger customer base has been attracted and I recommend a visit to The Hub marketing website for photographs and commentary. A link is provided within our recently released Company website. The Hub closes at 9.00pm on a Thursday, the Market 11.00pm and a number of tenants have extended their hours on that day due to the activity.
- 3) A remarkable initiative is a "Speeds Jobs Event" which was hosted on the 8 September. This has a major "feel good factor" and is a signal to all in sundry that we are a Mall with a clear social conscience. The aim was to help tenants source staff as many stores are short staffed, which impacts their ability to trade at optimal capacity. This was a very successful event with over 80 attendees and a dozen retailers participating. It is proposed to hold this event annually.
- 4) The regular Fashion Show was hosted on the 22 September 2022 and again proved a major success, the level of tenancy participation and input is remarkable. Again, refer to The Hub Marketing website for interaction and photographs.

These participating events continue to raise the awareness of The Hornby Mall as a destination, it engenders good will from our tenants and customers, it highlights this Mall as being a point of difference. These endeavors not only assist our drive to attract new and sustainable tenants but maintain and improve a general level of professionalism and optimism. Such enterprise is noted by our Bankers and associated Professionals. Our shareholder base and the Board is indebted to Jason and his team for introducing such positive ideas and in successfully completing their implementation.

Renovations and Improvements

The Company has entered into a determined two year program of renovation and improvement to its escalator and traveller facilities which will complement the new lift install. There is also a measured program to replace and install new air conditioning units. A physical cash reserve fund is in place to meet these not inconsiderable anticipated costs.

Interest Rates

The derivative financial instrument entered into in November 2021 has proved, to date, to be beneficial to the Company especially as this is of a three year duration. We are now in a credit situation. Interest rate rises though continue to be a major concern and much time is spent deliberating our risk management in this regard. The general commentary is that increases will continue in the near future, probably at higher rates that were originally contemplated, then a period of consolidation hopefully followed by a decrease in such rates. The previous anticipated short sharp shock has been elongated, criticism could be levelled that the impact of the Reserve Bank previous actions have yet to take place and perhaps there should be some contemplation before further precipitous action is taken. For example, those

residential borrowers coming off short term fixed rates (New Zealanders are unable to enjoy the certainty of long term fixed rate facilities unlike other countries). will now only just be starting to bite!

Proposed Sale of Chalmers Street Properties

The Board has decided to sell two of its standalone properties in Chalmers Street. These were identified as no longer core items to our investment strategy. The net proceeds, if achieved, will be allocated to reduce our indebtedness to the ASB Bank.

The marketing publicity for the sale of these properties will be released by our selling agent on Monday 31 October 2022. Attached to this Memorandum to Shareholders are the summarized marketing documents, a full information Memorandum is available on request. This action is not identified as a “major transaction”.

Dividends

Despite the pressure on our cash flow we have maintained the policy of a quarterly dividend subject to final Board deliberation. The latest dividend release was on the 30 September 2022.

It is proposed that a further dividend will be completed just prior to the end of the calendar year, again subject to final deliberations and meeting the restrictive bank covenants and solvency test.

Summary

The National narrative is that there may be difficult times ahead. I can only repeat what I mentioned in my previous Chairman’s Report; “we have a high tenancy base, we have a modest swap arrangement in place to alleviate some of the interest rate hikes, we have completed our schedule of cash draining seismic improvements, a number of our leases are CPI adjusted, our demographics continue to improve, from November 2022 we have a budgeted allowance to commence term loan repayments to reduce our gearing ratio”.

Since that Report the swap arrangement is now placed in a credit position, the cash drain for the Lift is close to cessation, the two major tenants continue to enjoy increased turnovers, our foot traffic count has improved due to the Night Market commencement, at the immediate there is heightened new tenancy enquiry, the various successful events have raised morale and interest.

Spring and the prospect of Summer and its holidays are all positive factors, we look forward to the generation of such optimism to assist our Mall operations.

Best wishes



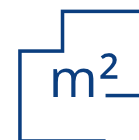
Michael Keyse
Chairman
Shopping Centre Investments Ltd

For Sale

By Deadline Private Treaty: 4pm, Thu 24 Nov 2022
(unless sold prior)



Your Share of Hornby Retail - 7-11 Chalmers Street



Land area
1,262 sqm



Approx 18
car parks



3 tenants



Fully leased

Noel Gilchrist 021 335 837

Luke Wishnowsky 021 370 181

colliers.co.nz/p-NZL67021152

South Island Commercial Limited.
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For Sale

By Deadline Private Treaty: 4pm, Thu 24 Nov 2022
(unless sold prior)



Position "A" - 13-17 Chalmers Street



Land area
1,378 sqm



Approx 13
car parks



Owner occupier
opportunity



Holding
income

Noel Gilchrist 021 335 837

Luke Wishnowsky 021 370 181

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