

# INTERIM REPORT



30 SEPTEMBER 2003

 **KIWI INCOME**  
PROPERTY TRUST



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# CHAIRMAN'S LETTER

Dear Unit Holders

On 3 December 2003 Kiwi Income Property Trust (the Trust) celebrated the 10th anniversary of its listing on the New Zealand Exchange (NZX).

Now that the Trust has completed its first decade, it is appropriate to reflect on how we are meeting the objectives that we set for ourselves when the Trust first listed.

The Trust's objectives were simple – to maximise income and provide long-term sustainable returns to unit holders.

We are satisfied that we are meeting these objectives, both in terms of capital returns and the strength of the Trust's earnings. Over the past decade, the Trust's total pre-tax return (including dividends and capital growth) has averaged 10.6% per annum.

The latest interim results are consistent with our long-term sustainable earnings objective, with net income after tax for the first half up 8.6% to \$24.01 million when compared with the same period last year.

Directors of the Manager of Kiwi Income Property Trust consider this to be another strong result as we have grown profit while also investing capital in the Trust's assets for future growth.

During the first six months of this financial year, we have achieved a number of milestones that will ensure the Trust continues to be New Zealand's pre-eminent listed property trust. Those accomplishments included:

- Opening of the first stage of the Northlands Shopping Centre redevelopment in Christchurch on target and to budget
- A successful \$25 million placement of units
- Acquisition of Hamilton's Downtown Plaza Shopping Centre
- Successful resolution of planning issues for Auckland's Sylvia Park site
- Announcement of plans to refurbish North City Shopping Centre in Porirua

These achievements continue to improve the quality of the Trust's income and diversification of assets, by sector, region and quality of tenants. With prime assets located throughout New Zealand, the Trust after 10 years has grown into a vehicle that you as investors can be confident in.

The variety and diversity of the Trust's assets is outstanding, and is a testament to the continued commitment and enthusiasm of the Trust's management team.

Over the remaining six months of this financial year I am confident that the Trust will continue to maximise income and deliver the long-term sustainable returns that have been its trademark for the past decade. This has been, and will continue to be, achieved without exposing unit holders to unnecessary development exposure or high levels of debt.

I thank you for continuing to support Kiwi Income Property Trust, and hope you enjoy reading about the Trust's first-half achievements.

Yours sincerely



JIM SYME – CHAIRMAN  
KIWI INCOME PROPERTIES LIMITED

# CHIEF EXECUTIVE'S REPORT

Kiwi Income Property Trust continues to be acknowledged as New Zealand's leading listed property trust, and it is my pleasure to review the Trust's first half achievements.

It has been a first half of consolidation and advancement – with the Trust both building on existing assets and continuing to establish new opportunities.

## **Economic Environment**

It has been an interesting start to the financial year, with mixed performance within the office market, retailer demand for tenancies increasing with more intensive competition, and a shortage of quality industrial sector stock limiting investment opportunities.

The strong and stable growth of the New Zealand economy has continued to underpin the Trust's performance, with a relatively low interest rate environment and a vibrant tradeable goods sector supporting the market. It is fair to say, however, that there are some indications that we will face increasing pressure over the remainder of the financial year, with a rising exchange rate and declining global growth rates putting pressure on the export sector, and the Reserve Bank of New Zealand warning that interest rates are likely to face upward pressure.

Parts of the office sector are also continuing to experience some negative pressures, including the impact from the outbreak of the SARS Virus in Asia, particularly in the Auckland office sector where the market continues to be influenced by demand from the education industry. Demand in this sector has undoubtedly weakened and this is expected to impact upon rental growth expectations in the lower quality buildings with exposure to this sector.

## **Trust Performance**

The Trust performed strongly during the six months to 30 September 2003, achieving an after tax profit of \$24.01 million, representing an 8.6% increase over the same period the previous year. This was primarily a result of strong retail income and lower interest costs. The Trust will pay a gross interim dividend of 4.224 cents per unit for the half year, comprising 3.773 cents per unit in cash and 0.451 cents per unit in imputation credits.

The Trust's projection for the full year ending 31 March 2004 remains in line with that previously advised at between 8.30 cents per unit and 8.50 cents per unit gross.

The current strength and sturdy outlook for the Trust's portfolio continues to prove attractive for investors. The Trust is now firmly established as one of the most consistent performers on the NZX, with regular dividends paid out over the past 10 years.

## **Capital Management**

The Trust's market capitalisation as at 30 September 2003 was \$672.5 million, up \$8.8 million from the 31 March 2003 position. The Trust's ranking on the NZX's Top 50 Index of listed entities (NZSX 50 Index) was 14th at the end of the period.

Total assets at 30 September 2003 stood at \$960.4 million, up \$48.7 million from the 31 March 2003 position and investors' funds were \$692.9 million. Total debt was \$228.0 million, with the ratio of debt to total assets being 23.7% compared with 22.4% as at 31 March 2003.

In May 2003, \$25 million was successfully raised through a placement of units to institutional and other habitual investors. These funds were utilised for the acquisition of Downtown Plaza Shopping Centre in Hamilton, and the upgrade of North City Shopping Centre in Porirua.

The other major capital event during the period was the conversion in September of the Trust's converting notes into units. In accordance with the conversion terms, 71.1 million new units were issued on 30 September 2003 and allotted to the converting note holders in consideration of the redemption of their converting notes. The new units were not entitled to participate in the interim dividend payable for the first half of the financial year, and therefore traded on the NZX as new ordinary units. These new ordinary units automatically amalgamated with the ordinary units after the interim dividend record date on 5 December 2003. Conversion of the converting notes and amalgamation of the new ordinary units on 5 December 2003 results in a simplified capital structure for the Trust and an expanded unit holder base. The Trust now has in excess of 13,800 unit holders.

### **Retail Growth**

In the retail sector, sales remain robust with low interest rates and the buoyant economy supporting confidence. The market remains competitive with capital investment in the sector increasing.

The Trust is countering competitive pressures with the continued expansion, development and refurbishment of its retail assets. Demand for quality retail tenancies is likely to underpin continued rental growth in the Trust's retail shopping centres.

A major achievement in the half-year has been the continued diversification of the Trust's retail portfolio. Management has been able to focus on improving the income and quality of the Trust's retail centres, while also taking the opportunity to invest in new assets – thus gaining further exposure to one of the best performing sectors of the New Zealand property market.

Our retail portfolio accounted for 42% of the Trust's investment property portfolio at 30 September 2003 compared with 40% a year earlier. Excluding Northlands and North City which are under development and refurbishment, the occupancy of the retail assets was 98.6% as at 30 September 2003. Annual sales growth continued to be solid, up 4.3% and 3.3% respectively for Centre Place Shopping Centre and The Plaza Shopping Centre when compared with the previous year.

**NORTHLANDS** A major milestone for the Trust during the first half of the financial year was the opening of the first stage of the Northlands Shopping Centre redevelopment in Christchurch on 24 July.

The first stage included 54 new specialty stores, a new 7,000 square metre The Warehouse store and 400 car parking spaces.

Demand for retail space has been strong with this first stage being fully leased three months ahead of its opening, and the second stage of 47 stores also leased months before it opened in November. Leasing for the final 34 stores in Stage Three that is due to open in the first half of 2004 is also progressing well.

Northlands continues to be a strong core asset for the Trust, with the high quality of retailers and an outstanding yet simple design resulting in shopper demand exceeding the expectations of many retailers.

## CHIEF EXECUTIVE'S REPORT – CONTINUED

The \$91 million redevelopment is on time and on budget to be fully completed during the first half of 2004, at which time it will be New Zealand's largest enclosed shopping centre with 40,700 square metres of lettable area.

**DOWNTOWN PLAZA** A further significant step in the expansion of the Trust's retail portfolio was the purchase in July of Hamilton's landmark Downtown Plaza Shopping Centre for \$13.86 million. The Trust bought Downtown Plaza, which has 32 specialty retailers, at an initial yield of 10.5%.

Downtown Plaza has one of the highest pedestrian traffic counts in Hamilton and is located adjacent to the Trust's successful Centre Place Shopping Centre, which is already the pre-eminent retail centre in the Waikato region.

Opportunities to add value to the Trust's combined Hamilton retail investments are being realised, with management synergies occurring and cost efficiencies being achieved. These retail assets are expected to continue to benefit from continued population growth in that region.

**NORTH CITY** A \$10 million project at North City Shopping Centre in Porirua was also announced during the half year. The project has now commenced and is progressing on time and on budget.

Upgrading the 24,966 square metre Centre involves introducing new specialty shops on the ground level and creating a new 500-seat foodcourt on the upper level.

**SYLVIA PARK** The project which has sparked a lot of attention from unit holders, analysts and observers of Kiwi Income Property Trust has been the proposal to develop the Trust's 24 hectare Sylvia Park site at Mount Wellington, Auckland.

It is pleasing to note that in June we overcame a significant hurdle towards the implementation of a plan change for the site, with an agreement being reached with the Ngati Maru Iwi Authority for the development. The rezoning will allow New Zealand's largest retail and mixed-use development to proceed.

Management is continuing to work with the parent of the Manager of the Trust, Colonial First State Property in Australia, to develop a long-term ownership strategy for Sylvia Park that addresses the risks associated with a project of this scale, with the objective of limiting the Trust's development exposure to an acceptable level.

Unit holders can be assured that we are mindful of the need to both maximise income and provide long-term sustainable returns for our investors, and the structure and funding of Sylvia Park will address these principles.

Major tenant discussions are continuing and we are reviewing opportunities to work with strategic partners.

The Manager expects Sylvia Park to be a landmark development, with a unique mix of retail, office, entertainment and community facilities.

## **Office Portfolio**

The Trust's office portfolio continued to benefit from sound economic growth, with a variety of rental reviews resulting in moderate gross rental income growth. At the end of September, occupancy levels within the Trust's eight office assets remained high at 96.9%.

In Auckland there is plenty of activity in both the leasing and investment markets. While the leasing market is dominated by smaller requirements, this has suited the Trust with part floors available in the National Bank Centre and Vero Centre (formerly Royal & SunAlliance Centre). Property values have seen some growth with a firming of yields brought about by strong demand for quality property investments. Some of the lower building grades, which the Trust is not exposed to, are under threat from overheated and weakening demand in the education sector.

The Trust's landmark tower in Shortland Street, Auckland was renamed the Vero Centre during the half year. The Centre is the premier office complex in New Zealand and continues to enjoy a very high occupancy rate at 98.4%.

A number of new leases totalling 1,683 square metres have been granted in The National Bank Centre in Auckland, increasing occupancy levels in this asset to 92.4%.

The Trust's management team is heavily focused on re-leasing the 7,600 square metres that will become available in Vodafone House in Auckland when Vodafone's lease expires in November 2004. This building enjoys superb views with excellent levels of exposure and accessibility. There are a number of tenants in the market seeking this type of exposure and the large efficient floor plates that this building offers.

The Wellington market continues to benefit from strong tenant demand from the Government sector. The benefits of this, combined with a limited supply of new properties, are partially offset by weakening demand from the corporate sector.

One of the most significant commercial achievements was finalised shortly after the half year, with the extension of the Trust's lease with accounting firm Ernst & Young for four floors (approximately 4,000 square metres) of the Majestic Centre occurring in early October. The lease with Ernst and Young has been extended by nine years to 2018. This is one of the major office lease agreements in New Zealand this year.

This long-term lease commitment will improve the Trust's weighted average lease term, providing long-term security and underpinning the ongoing sustainability of earnings for the Trust.

In Christchurch, the vacancy rate for prime office accommodation has fallen to 2.4%, and demand for space has resulted in some rental growth, which is expected to continue in the medium term. Over 2,300 square metres has been leased in the Trust's PricewaterhouseCoopers Centre, increasing the occupancy of the building to 97.1%, the highest occupancy level since the building was constructed in 1990.

# CHIEF EXECUTIVE'S REPORT – CONTINUED

From the Trust's perspective, the office portfolio is in strong shape with a quality portfolio and high occupancy levels standing the Trust in good stead. The Trust has limited exposure to the education sector, with most assets in the less risky, higher quality end of the market.

## **General**

In September 2003 the Trust relinquished its listing on the Australian Stock Exchange (ASX). With the Trust's very strong liquidity on the NZX, and the lack of trading on the ASX, it did not make sense for unit holders to incur the dual costs of listing in both markets. There is an obvious preference for investors to trade in the Trust's units on the NZX.

As mentioned by the Chairman, this year marked the 10th year of Kiwi Income Property Trust's existence as a listed trust on the New Zealand Exchange.

Over the past 10 years, management has strived to continually improve the quality of the Trust's assets and income streams through diversifying assets, improving the value of the portfolio and focusing on superior investment performance.

The objectives for the Trust over the next decade remain unchanged. That is, to maximise income and provide long term sustainable returns to unit holders. The focus of management will continue to be on maintaining a high quality, well-diversified portfolio, with well-managed risks.

Again, I thank you for your continued support of the Trust and wish you all the best for Christmas and the New Year.

Regards



ANGUS MCNAUGHTON – CHIEF EXECUTIVE

KIWI INCOME PROPERTIES LIMITED

# CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

		UNAUDITED 6 MONTHS 30 SEP 03 \$000	UNAUDITED 6 MONTHS 30 SEP 02 \$000	AUDITED 12 MONTHS 31 MAR 03 \$000
<b>INCOME</b>				
Rental Income	10	35,602	35,983	70,698
Interest Income		250	295	436
		35,852	36,278	71,134
<b>DIRECT COSTS</b>				
Audit Fees		83	65	160
Interest Expense		4,045	6,215	11,487
Legal & Professional Fees		137	111	222
Manager's Fees		3,342	3,317	6,629
Registry & Stock Exchange Fees		138	115	265
Trustee's Fees		135	128	278
Unit Holder Communication		201	175	290
Other Operating Expenses		360	188	366
		8,441	10,314	19,697
<b>Net Operating Income before Income Tax</b>		27,411	25,964	51,437
Add: Gains on Realisation of Investments		187	151	548
<b>Net Income before Income Tax</b>		27,598	26,115	51,985
Less: Income Tax	8	3,593	4,007	7,239
<b>Net Income after Income Tax</b>		24,005	22,108	44,746
Less: Gains on Realisation of Investments		(187)	(151)	(548)
<b>Income Available for Distribution</b>		23,818	21,957	44,198

The notes form part of and are to be read in conjunction with these interim financial statements.

# CONSOLIDATED STATEMENT OF MOVEMENTS IN INVESTORS' FUNDS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	UNAUDITED 6 MONTHS 30 SEP 03 \$000	UNAUDITED 6 MONTHS 30 SEP 02 \$000	AUDITED 12 MONTHS 31 MAR 03 \$000
Investors' Funds at Start of the Period	665,913	585,865	585,865
<b>EARNINGS AND REVALUATIONS</b>			
Income Available for Distribution	23,818	21,957	44,198
Revaluation of Investment Properties	–	–	6,132
Gains on Realisation of Investment Properties	187	151	548
<b>Total Recognised Earnings and Revaluations</b>	<b>24,005</b>	<b>22,108</b>	<b>50,878</b>
<b>CAPITAL MOVEMENTS</b>			
Rights Issue	2	–	69,368
Placement of Units	2	24,549	–
Dividend Reinvestment	2	2,271	3,384
<b>Total Capital Movements</b>	<b>26,820</b>	<b>72,752</b>	<b>73,368</b>
<b>DISTRIBUTIONS</b>			
Converting Note Interest	(2,993)	(2,993)	(5,985)
Income Tax Benefit on Converting Note Interest	988	988	1,975
Distributions to Unit Holders	(21,813)	(19,952)	(40,188)
<b>Total Distributions</b>	<b>(23,818)</b>	<b>(21,957)</b>	<b>(44,198)</b>
Investors' Funds at End of the Period	<b>692,920</b>	<b>658,768</b>	<b>665,913</b>

The notes form part of and are to be read in conjunction with these interim financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2003

		UNAUDITED AS AT 30 SEP 03 \$000	UNAUDITED AS AT 30 SEP 02 \$000	AUDITED AS AT 31 MAR 03 \$000
<b>INVESTORS' FUNDS</b>				
Units	2	597,104	505,490	506,107
Reserves		95,816	89,101	95,629
		692,920	594,591	601,736
Converting Notes	3	–	64,177	64,177
<b>Total Investors' Funds</b>		692,920	658,768	665,913
<b>Represented by:</b>				
<b>NON-CURRENT ASSETS</b>				
Investment Property	4	824,774	802,130	809,969
Investment Property Under Development	6	124,985	60,760	88,738
Investments		487	423	358
Future Income Tax Benefit		854	402	950
		951,100	863,715	900,015
<b>CURRENT ASSETS</b>				
Cash and Deposits		2,521	3,587	5,281
Income Tax Receivable		127	–	965
Accounts Receivable and Prepayments		4,955	3,284	2,951
Investments		73	91	91
Investment Property Intended for Sale	5	1,604	4,201	2,338
		9,280	11,163	11,626
<b>Total Assets</b>		960,380	874,878	911,641
<b>NON-CURRENT LIABILITIES</b>				
Term Liabilities	7	228,000	195,000	204,500
<b>CURRENT LIABILITIES</b>				
Distribution Payable		21,813	8,167	20,281
Income Tax Payable		–	370	–
Accounts Payable		15,765	11,870	20,297
Advance Rentals		1,882	703	650
		39,460	21,110	41,228
<b>Total Liabilities</b>		267,460	216,110	245,728
<b>Net Assets</b>		692,920	658,768	665,913

The Board of Kiwi Income Properties Limited, the Manager of Kiwi Income Property Trust, authorised these interim financial statements for issue on 18 November 2003.



J M R Syme  
Chairman  
18 November 2003



R Narev  
Chairman of the Audit Committee  
18 November 2003

The notes form part of and are to be read in conjunction with these interim financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	UNAUDITED 6 MONTHS 30 SEP 03 \$ 000	UNAUDITED 6 MONTHS 30 SEP 02 \$ 000	AUDITED 12 MONTHS 31 MAR 03 \$ 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Rental Income & Operating Expense Recoveries	50,296	47,712	96,590
Interest Received	249	294	466
Goods and Services Tax Received	830	–	–
	51,375	48,006	97,056
Cash was applied to:			
Tenants' Operating Expenses	8,331	7,722	15,587
Other Property & Operating Expenses	10,392	9,650	16,194
Interest Paid	4,299	6,582	11,887
Income Tax Paid	1,503	692	5,551
Goods and Services Tax Paid	–	–	1,031
	24,525	24,646	50,250
Net Cash Flows available from/(used in)			
Operating Activities	9	26,850	23,360
		46,806	46,806
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was provided from:			
Sale of Investment Property	–	13,855	16,145
Repayment of Investments	–	–	53
Repayment of Fitout Advances	–	31	–
Other Investments	13	–	–
	13	13,886	16,198
Cash was applied to:			
Cost of Investment Property	14,207	3,932	6,063
Cost of Investment Property Under Development	36,220	3,628	24,922
Interest Capitalised to Investment			
Property Under Development	3,366	2,013	4,306
Fitout Advances	124	–	–
Other Investments	–	44	31
	53,917	9,617	35,322
Net Cash Flows available from/(used in)			
Investing Activities	(53,904)	4,269	(19,124)
		(19,124)	(19,124)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash was provided from:			
Issue of Units	25,000	71,277	71,277
Increase in Borrowings	23,500	–	–
	48,500	71,277	71,277
Cash was applied to:			
Costs Associated with Issuing New Units	451	1,910	1,959
Distributions to Unit Holders	18,216	29,476	36,809
Converting Note Interest	5,539	2,993	3,470
Decrease in Borrowings	–	62,200	52,700
	24,206	96,579	94,938
Net Cash Flows available from/(used in)			
Financing Activities	24,294	(25,302)	(23,661)
Net (Decrease)/Increase in Cash	(2,760)	2,327	4,021
Add: Cash at Start of the Period	5,281	1,260	1,260
Cash at End of the Period	2,521	3,587	5,281

The notes form part of and are to be read in conjunction with these interim financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

## 1. PREPARATION OF ACCOUNTS

These interim financial statements have been prepared in accordance with FRS 24: Interim Financial Statements, and should be read in conjunction with the previous annual report.

The accounting policies used are consistent with those used in the previous annual and interim reports. Where necessary, comparative figures have been adjusted to conform with changes in presentation in these interim financial statements.

	UNAUDITED 30 SEP 03	UNAUDITED 30 SEP 03	UNAUDITED 30 SEP 02	UNAUDITED 30 SEP 02	AUDITED 31 MAR 03	AUDITED 31 MAR 03
DATE	NO. OF UNITS	VALUE	NO. OF UNITS	VALUE	NO. OF UNITS	VALUE
	000	\$000	000	\$000	000	\$000

## 2. UNITS

Balance of Units as at beginning of period		552,415	506,107	461,086	432,739	461,086	432,739
Issue of Units:							
1:6 Rights Issue	26-Jul-02	–	–	86,923	69,367	86,923	69,318
Dividend Reinvestment	31-Jul-02	–	–	3,760	3,384	3,760	3,384
Dividend Reinvestment	13-Dec-02	–	–	–	–	646	666
Placement of Units	28-May-03	23,585	24,549	–	–	–	–
Dividend Reinvestment	27-Jun-03	2,183	2,271	–	–	–	–
Conversion of Converting Notes	30-Sep-03	71,139	64,177	–	–	–	–
Balance of Units as at end of period		649,322	597,104	551,769	505,490	552,415	506,107

In accordance with a prospectus dated 14 June 2002, 86,923,399 new units were issued on 26 July 2002. The issue raised \$69,317,758 net of issue costs of \$1,959,429. The new units ranked pari passu with existing units in all respects except that they were not entitled to participate in the special dividend paid on 31 July 2002.

In accordance with clause 5(c) of the Kiwi Income Property Trust Deed of Trust and Rule 7.3.5 of the New Zealand Exchange Listing Rules, 23,584,906 new units were issued on 28 May 2003. The issue raised \$24,548,551 net of issue costs of \$451,449. The new units ranked pari passu with existing units in all respects.

In accordance with clause 9 of the Kiwi Income Property Trust Converting Note Trust Deed, 71,138,608 new units were issued on 30 September 2003 and allotted to Converting Note Holders in consideration for the redemption of all Converting Notes. The new units ranked pari passu with existing units in all respects except that they were not entitled to participate in the interim dividend payable for the six month period ended 30 September 2003.

	UNAUDITED 30 SEP 03	UNAUDITED 30 SEP 03	UNAUDITED 30 SEP 02	UNAUDITED 30 SEP 02	AUDITED 31 MAR 03	AUDITED 31 MAR 03
DATE	NO. OF NOTES	VALUE	NO. OF NOTES	VALUE	NO. OF NOTES	VALUE
	000	\$000	000	\$000	000	\$000

## 3. CONVERTING NOTES

Balance of Notes as at beginning of period		60,455	64,177	60,455	64,177	60,455	64,177
Conversion of Converting Notes	30-Sep-03	(60,455)	(64,177)	–	–	–	–
Balance of Notes as at end of period		–	–	60,455	64,177	60,455	64,177

The subordinated Converting Notes (the Notes) were unsecured and carried a fixed coupon of 9% per annum. The Notes were constituted under a Trust Deed dated 7 November 1996. Interest was payable semi annually on 31 March and 30 September. Note holders were entitled to convert the Notes into Units in the Trust on a one for one basis on 30 September 1999 and were entitled to convert on 30 September in every subsequent year up to and including 30 September 2002. On 30 September 2003 all Converting Notes not previously converted into Units mandatorily converted into Units on a basis which ensured that the minimum conversion value of each Note was \$1.23. The final conversion ratio was 1.176724 Units for each Converting Note. The Notes did not carry voting rights in the meetings of Unit Holders, but they participated in rights and bonus issues as described in the Trust Deed. No note holders elected to convert the Notes into Units prior to the mandatory conversion on 30 September 2003.

# NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

## 4. INVESTMENT PROPERTY

	UNAUDITED 30 SEP 03 \$000	UNAUDITED 30 SEP 02 \$000	AUDITED 31 MAR 03 \$000
<b>Office Property</b>			
Vero Centre, Auckland (formerly Royal & SunAlliance Centre)	204,500	201,500	204,500
Majestic Centre, Wellington	71,000	71,500	71,000
National Bank Centre, Auckland (50% interest)	46,400	46,000	46,400
Vodafone House, Auckland	38,000	39,600	38,000
PricewaterhouseCoopers Centre, Christchurch	33,200	33,000	33,200
AUT Faculty of Arts Building, Auckland	26,750	26,750	26,750
HP House, Auckland	25,300	25,300	25,300
BP House, Wellington	22,770	22,275	22,770
Total Office Property	<u>467,920</u>	<u>465,925</u>	<u>467,920</u>
<b>Retail Property</b>			
Northlands Shopping Centre, Christchurch	85,550	85,550	85,550
North City Shopping Centre, Porirua	82,500	82,750	82,500
Centre Place Shopping Centre, Hamilton	77,900	74,250	77,900
The Plaza Shopping Centre, Palmerston North	63,950	58,500	63,950
Downtown Plaza Shopping Centre, Hamilton	13,863	–	–
Countdown, Christchurch	6,175	6,175	6,175
Farmers, Palmerston North	5,110	5,480	5,110
The Warehouse, Christchurch	4,210	4,215	4,210
Beattie Rickman, Hamilton	3,000	2,940	3,000
FTC Warehouse, Christchurch	2,780	2,780	2,780
Countrywide Building, Hamilton	450	420	450
Total Retail Property	<u>345,488</u>	<u>323,060</u>	<u>331,625</u>
<b>Industrial Property</b>			
77 Carbine Road, Auckland	6,390	6,540	6,390
Total Industrial Property	<u>6,390</u>	<u>6,540</u>	<u>6,390</u>
Work in Progress	4,976	6,605	4,034
Total Investment Property	<u>824,774</u>	<u>802,130</u>	<u>809,969</u>

## 5. INVESTMENT PROPERTY INTENDED FOR SALE

99 Carbine Road, Auckland	1,604	4,201	2,338
Total Investment Property Intended for Sale	<u>1,604</u>	<u>4,201</u>	<u>2,338</u>

## 6. INVESTMENT PROPERTY UNDER DEVELOPMENT

Sylvia Park Lots 1 & 2, Auckland	59,617	55,751	57,762
Northlands Shopping Centre, Christchurch	64,383	5,009	30,976
North City Shopping Centre, Porirua	985	–	–
Total Investment Property under Development	<u>124,985</u>	<u>60,760</u>	<u>88,738</u>

## 7. TERM LIABILITIES

Syndicated Bank Debt	228,000	195,000	204,500
	<u>228,000</u>	<u>195,000</u>	<u>204,500</u>

The ANZ Banking Group, Bank of New Zealand, The Hongkong and Shanghai Banking Corporation and Citibank, N.A. (the Banks) have provided the Trust with \$300 million of revolving loans for a term of five years expiring on 13 October 2004. The loans are secured by a Global Security Deed, dated 13 October 1999, between the Trust and the Bank of New Zealand (as security agent) which provides for a composite fixed and floating charge over the assets of the Trust and all of its charging subsidiaries (the Charging Group). As well, further security is provided by a Master Banking Agreement, dated 5 November 1998, between the Charging Group and the Banks, whereby the Charging Group has given a negative pledge that (with certain exceptions) it will not create or allow any security interest over its charged assets. Further negative and positive undertakings have been given as to the nature and conduct of its business.

	UNAUDITED 6 MONTHS 30 SEP 03 \$000	UNAUDITED 6 MONTHS 30 SEP 02 \$000	AUDITED 12 MONTHS 31 MAR 03 \$000
<b>8. INCOME TAX</b>			
Net Income before Income Tax	27,598	26,115	51,985
Permanent and Non Reversing Timing Differences:			
Gain on Realisation of Investments	(187)	(151)	(70)
Tax Depreciation net of Depreciation Recovered	(11,761)	(11,243)	(23,385)
Deductible Expenses Capitalised (net of non-deductible capital expenditure)	(4,762)	(2,578)	(6,594)
Taxable Income	10,888	12,143	21,936
Income Tax at 33%	3,593	4,007	7,239
<b>9. RECONCILIATION OF NET INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income after Income Tax	24,005	22,108	44,746
Add Non Cash Items:			
(Gains)/Losses on Realisation of Investment Properties	(187)	(151)	(548)
Movement in Future Income Tax Benefit	95	80	(468)
Income Tax Benefit on Converting Note Interest	988	988	1,975
	24,901	23,025	45,705
Add/(Less) Movements Relating to Operating Activities in Working Capital Items:			
Income Tax Receivable/Payable	1,007	1,685	181
Accounts Receivable	(949)	(253)	111
Accounts Payable	659	(837)	1,122
Advance Rentals	1,232	(260)	(313)
Net Cash Inflow from Operating Activities	26,850	23,360	46,806
<b>10. RENTAL INCOME</b>			
Gross Rental Income & Operating Expense Recoveries	48,538	47,390	94,786
Less:			
Tenants' Operating Expenses	(8,331)	(7,722)	(15,587)
Owners' Operating Expenses	(4,459)	(3,634)	(8,111)
Bad Debts	(146)	(51)	(390)
	(12,936)	(11,407)	(24,088)
Rental Income	35,602	35,983	70,698
<b>11. COMMITMENTS</b>			
<b>(a) Capital Commitments</b>			
Development costs at			
Northlands Shopping Centre, Christchurch	20,847	66,219	51,844
Development costs at			
North City Shopping Centre, Porirua	5,029	–	–
Development costs at			
Plaza Shopping Centre, Palmerston North	–	1,185	–
Other Capital Expenditure	–	812	–
<b>(b) Ground Leases</b>			
Ground leases exist over North City Shopping Centre, Centre Place Shopping Centre, National Bank Centre, Countrywide Building and HP House. The amount paid in respect of ground leases during the period was \$505,818 (September 2002 \$535,841, March 2003 \$1,045,852). The leases terminate between November 2089 and June 2179. Due to the duration of the leases and the different methods of calculating the lease payments, the total value of the commitment has not been calculated.			

# NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

**(c) Contingencies**

There are no material contingencies as at 30 September 2003 (30 September 2002 nil, 31 March 2003 nil).

**12. ADDITIONAL INFORMATION AS REQUIRED BY THE TRUST DEED AND THE UNIT TRUSTS ACT 1960**

**(a) Termination Date**

The Trust will terminate after the expiration of 40 years from 21 August 1992 provided that the Unit Holders may, by Extraordinary Resolution passed at any time before the expiration of such 40 year period, extend the Trust for a further period of 39 years.

**(b) Units held by the Manager**

The Manager held no Units in the Trust at 30 September 2003 (September 2002 Nil, March 2003 Nil).

UNAUDITED	UNAUDITED	AUDITED
6 MONTHS	6 MONTHS	12 MONTHS
30 SEP 03	30 SEP 02	31 MAR 03

**(c) Other Financial Information**

Net Tangible Asset Backing per Unit-Undiluted	\$1.067	\$1.078	\$1.089
Net Tangible Asset Backing per Unit-Diluted	\$1.067	\$1.053	\$1.071
Earnings per Unit after Tax-Undiluted	\$0.039	\$0.041	\$0.078
Earnings per Unit after Tax-Diluted	\$0.037	\$0.039	\$0.076

The calculation of the diluted Net Tangible Asset Backing per unit for 30 September 2002 and 31 March 2003 has assumed that the Converting Notes converted on the basis of the unit prices prevailing at 30 September 2002 and 31 March 2003 respectively.

# ACCOUNTANTS' REVIEW ENGAGEMENT REPORT



## **To the unit holders of Kiwi Income Property Trust**

We have reviewed the interim financial statements on pages 7 to 14. The interim financial statements provide information about the past financial performance and cash flows of the Group comprising the Trust and its subsidiaries for the six months ended 30 September 2003 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 11.

### **Manager's responsibilities**

The Manager is responsible for the preparation and presentation of the interim financial statements that present fairly the financial position of the Group as at 30 September 2003 and its financial performance and cash flows for the six months ended on that date.

### **Accountants' responsibilities**

We are responsible for reviewing the interim financial statements presented by the Manager in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

### **Basis of opinion**

A review is limited primarily to enquiries of the Manager's personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the six months ended 30 September 2003 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

Our firm has a tenancy relationship with the Group on normal terms within the ordinary course of trading activities. We have no further relationships with or interests in the Trust or any of its subsidiaries other than in our capacity as auditor, and the provider of accounting, tax and financial advisory services.

### **Review opinion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not present fairly the financial position of the Group as at 30 September 2003 and its financial performance and cash flows for the six months ended on that date.

Our review was completed on 18 November 2003 and our review opinion is expressed as at that date.

A handwritten signature in cursive script that reads "Price Waterhouse Coopers". A horizontal line is drawn underneath the signature.

Chartered Accountants

Auckland

# DIRECTORY

## **DIRECTORS OF TRUST MANAGER**

J M R Syme  
R Narev  
R J Didsbury  
W L C Edgell  
J W Duncan  
R T Kelly

## **TRUST MANAGER**

Kiwi Income Properties Limited  
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## **UNIT TRUSTEE**

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## **CONVERTING NOTE TRUSTEE**

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## **UNIT & CONVERTING NOTE REGISTRAR**

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## **AUDITORS**

PricewaterhouseCoopers  
188 Quay Street,  
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## **BANKERS**

ANZ Banking Group (NZ) Limited  
Bank of New Zealand Limited  
Citibank, N.A.  
The Hongkong & Shanghai Banking  
Corporation Limited

## **LEGAL ADVISORS**

To the Trust, the Manager and the Trustees  
Russell McVeagh, Auckland  
Glaister Ennor, Auckland  
Bell Gully Buddle Weir, Auckland

## **VALUATION PANEL**

CB Richard Ellis Limited  
Colliers International New Zealand Limited  
DTZ New Zealand Limited  
Jones Lang LaSalle Limited



