



**KIWI INCOME  
PROPERTY TRUST**

**INTERIM  
REPORT**

30 SEPTEMBER 2007



## CONTENTS

- 01 Chairman's Letter
- 02 Chief Executive's Report
- 04 Financial Statements
- 08 Notes to the Financial Statements
- IBC Directory



# CHAIRMAN'S LETTER

## Dear Unit and Mandatory Convertible Note Holders

I am pleased to report an after tax profit of \$43.6 million for the half year to 30 September 2007 which is 79.7% higher than for the corresponding period the previous year (after adjusting for Unit Holder finance charges).

This is the Trust's first Interim Result reported under New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and the maiden profit of \$43.6 million reflects an excellent first-half performance.

After allowing for NZ IFRS and other non-cash adjustments, the Trust posted a distributable profit of \$29.3 million which is in line with the distributable profit for the six months to 30 September 2006.

The strong performance during the reporting period combined with the positive outlook for the Trust's portfolio of premium-quality office and retail assets have put the Trust in a position to increase the projected cash distribution to 9.00 cents per unit for the full year ending 31 March 2008, an increase of 7.9% over the previous year. This projection is subject to a continuation of reasonable economic conditions.

Key factors behind the increase in distribution include strong rent reviews across the Trust's portfolio, significant tenant demand for high-quality office and retail space resulting in high occupancy levels, and in particular, a very positive outlook for rental growth at Sylvia Park.

An interim cash distribution of 4.50 cents per unit, together with imputation credits of 0.16 cents per unit, has been paid to Unit Holders.

This interim distribution is the Trust's first to be paid under the new Portfolio Investment Entity (PIE) regime. Consequently, no further New Zealand tax will be payable, which results in a significant improvement in after-tax returns for most New Zealand resident investors. For example, a New Zealand resident investor with a 39% tax rate will be 55% better off after tax when compared

with the interim distribution last year. More good news is to come with the Trust's tax rate dropping from 33% to 30% from 1 April 2008. This means that the Trust will pay less tax and be able to distribute a greater portion of its profit to Unit Holders, net of New Zealand tax.

Following a review of the MSCI Global Investable Market Indices, a number of significant New Zealand entities, including the Trust, will transfer from the MSCI Standard Index to the MSCI Small Cap Index in two stages. The first phase of this transition occurred on 30 November 2007 and the second will occur on 30 May 2008. While the overall impact of this change is uncertain, there will be some investors who use the MSCI Indices as the basis for investment decisions and, as a result, may reduce their investment in the Trust.

Notwithstanding the move to the MSCI Small Cap Index, a high interest rate environment and some uncertainty in global financial markets, the outlook for the Trust remains very positive. There is a shortage of high-quality office and retail space which continues to drive demand and rentals. The Trust remains well positioned to take advantage of these market conditions.

I would like to take this opportunity to thank you for continuing to support the Trust.

SEAN WAREING – CHAIRMAN  
Kiwi Income Properties Limited

# CHIEF EXECUTIVE'S REPORT

The Trust has produced another strong financial result to continue its solid track record of profitability and rental growth. The positive Interim Result for the six months to 30 September 2007 highlights the benefits of taking a long-term strategic view when investing in premium-quality retail and office assets throughout New Zealand.

## THE HALF YEAR AT A GLANCE

- > Maiden NZ IFRS profit after tax of \$43.6 million, up 79.7% on the comparable period in 2006.
- > Distributable profit of \$29.3 million, in line with the comparable period.
- > Increased cash distribution projection for the full year of 9.00 cents per unit – up 7.9% on the previous year.
- > Net rental income increased by 29.2% to \$60.6 million ('like for like' up 4.1%).
- > Total assets increased by \$37 million from 31 March 2007 to \$2.0 billion.
- > An annual total gross return to 31 October 2007 of 14.4%, two-year return of 19.4% per annum, and a three-year return of 18.3% per annum, all outperforming the NZX Property Gross and NZX 50 Indices.
- > Secured bank debt at 30 September 2007 of \$532 million, representing a conservative debt to total assets ratio of 26.9%.
- > Completion of New Zealand's largest and highest profile shopping centre, the 70,100m<sup>2</sup> Sylvia Park, on programme and within budget.
- > Continued high portfolio occupancy at 99.1%.

## NZ IFRS

These are the Trust's first financial statements prepared under New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). All New Zealand reporting entities are now required to adopt these standards. Under NZ IFRS, the figures for the previous corresponding period must be restated to allow the financial statements for each reporting period to be compared on a 'like for like' basis. In addition, reporting under NZ IFRS

ensures that the financial statements of New Zealand entities are more consistent with those of foreign organisations who also report under International Financial Reporting Standards. A significant number of countries including Australia, the United Kingdom and Singapore now report under these standards. While the new reporting framework impacts on the Trust's reported profits and net assets, it does not affect the performance of the Trust's underlying assets or the cash available for distribution.

## RETAIL PORTFOLIO

The retail portfolio has traded solidly over the past six months, with the occupancy level remaining high at 99.4%. The Trust is looking to meet the continued demand for retail space in its shopping centres and plans are progressing for the proposed \$90 million expansion of The Plaza Shopping Centre in Palmerston North.

During the reporting period, Sylvia Park, New Zealand's largest shopping centre at 70,100m<sup>2</sup>, continued to go from strength to strength with the final retail Stage IV of the landmark project opening on programme on 28 June 2007. In the build up to Christmas, retailers at Sylvia Park have been enjoying a significant increase in sales. September 2007 retail sales were 18.6% higher than the previous September for the 100 retailers who have been open for more than a year. Retail space at Sylvia Park is now fully leased to more than 200 tenants including around 50 who are either new to New Zealand or who have located in a shopping centre for the first time. The high quality of the buildings and amenities at Sylvia Park has set new benchmarks for retailing in New Zealand and the broad range of specialty shops give it a unique flavour.



One of the strongest, most diversified retail shopping precincts in the country



Another aspect of Sylvia Park that is proving to be successful is the Trust's programme of encouraging people to take the train to and from Sylvia Park. Auckland Regional Transport Authority figures indicate that about 1,000 people used the Sylvia Park train station during an average business day and almost 2,000 per day during the September 2007 school holidays. These figures have exceeded expectations.

An integral aspect of the Trust's performance involves the expansion, development and refurbishment of retail assets. Refurbishments either completed or currently underway include the \$5.1 million upgrade of Downtown Plaza and the \$1.2 million upgrade of Centre Place, both in Hamilton's Central Business District, and the \$4.3 million refurbishment and expansion of the Farmers store at Northlands in Christchurch. The Trust also acquired three properties adjoining Centre Place during the reporting period for \$9.8 million, providing an initial yield of 8.6%.

## OFFICE PORTFOLIO

The office sector remains buoyant and demand for top-quality office space has resulted in high occupancy levels and strong rental growth. Occupancy across the Trust's office portfolio, as at 30 September 2007, was 98.8%. Rental reviews completed within the past six months on 13,360m<sup>2</sup> of lettable space across the office portfolio have resulted in a 27% increase, or compound annual growth of 9.3% per annum. In the Trust's Vero Building in Auckland, premium rentals of \$580 per square metre are now being achieved.

At Sylvia Park, resource consents have been granted for two mid-rise office buildings, one with a net lettable area of 10,800m<sup>2</sup> and the other 7,600m<sup>2</sup>. Design work is progressing well for the smaller 7,600m<sup>2</sup> building with a decision to be made on the construction of this building in 2008.

## PIE

The Trust has announced an interim cash distribution of 4.50 cents per unit for the half year which has been paid under the new Portfolio Investment Entity (PIE) regime. The new tax regime, which treats investments in collective investment vehicles in a similar way to direct investments, is positive for New Zealand resident Unit Holders who will not be required to pay additional tax on cash distributions from the Trust.

## OUTLOOK

The outlook for the Trust remains encouraging with strong demand for superior quality office and retail space. The Trust is well positioned to meet this demand and we look forward to continuing the strong performance into the second half of the 2008 financial year.

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

ANGUS McNAUGHTON – CHIEF EXECUTIVE  
Kiwi Income Properties Limited

# CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	NOTE	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000
<b>Revenue</b>			
Gross rental income		83,438	66,032
Interest income		169	429
<b>Total revenue</b>		<b>83,607</b>	<b>66,461</b>
<b>Operating expenses</b>			
Property operating expenditure		(22,809)	(19,102)
Interest and finance charges		(21,749)	(8,614)
Manager's fees	3	(5,643)	(4,549)
Other		(1,330)	(1,293)
<b>Total operating expenses</b>		<b>(51,531)</b>	<b>(33,558)</b>
<b>Operating profit before tax</b>		<b>32,076</b>	<b>32,903</b>
<b>Non-operating income and expenses</b>			
Unit Holder finance charges <sup>1</sup>		–	(29,063)
Recognition of amortised interest expense on mandatory convertible notes		(665)	–
Fair value change to liability component of mandatory convertible notes		–	(4,267)
Fair value change to interest rate derivatives		3,636	6,252
Fair value change to investment properties		231	545
<b>Total non-operating income and expenses</b>		<b>3,202</b>	<b>(26,533)</b>
		<b>35,278</b>	<b>6,370</b>
<b>Income tax benefit/(expense)</b>			
Current tax		(2,661)	(1,791)
Deferred tax	7	10,978	(9,378)
<b>Total income tax benefit/(expense)</b>		<b>8,317</b>	<b>(11,169)</b>
Profit/(loss) after income tax and after Unit Holder finance charges		43,595	(4,799)
Unit Holder finance charges <sup>1</sup>		–	29,063
<b>Profit after income tax and before Unit Holder finance charges</b>		<b>43,595</b>	<b>24,264</b>
Undiluted earnings per unit (cents) <sup>2</sup>		6.10	3.41
Diluted earnings per unit (cents) <sup>2</sup>		5.76	3.69

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

1 Unit Holder finance charges of \$29,063,000 represents payments to Unit Holders during the period 1 April 2006 to 30 September 2006. Due to a technical and unintended consequence of adopting NZ IFRS, for this period Units are treated as a debt security with Unit Holder payments treated as a finance charge. On 28 March 2007, the Trust Deed was amended to correct this anomaly so that Units could be classified as equity, with Unit Holder payments treated as a distribution. This is consistent with the accounting treatment applied prior to the adoption of NZ IFRS. The Unit Holder finance charges in the comparative period have been added back in determining 'Profit after income tax and before Unit Holder finance charges' to provide a meaningful comparative with the current period profit after income tax.

2 Earnings per unit has been calculated based on profit after income tax and before Unit Holder finance charges. Diluted earnings per unit assumes conversion of the mandatory convertible notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000
Balance at the beginning of the period	1,043,480	831,711
<b>Earnings</b>		
Profit after income tax and before Unit Holder finance charges	43,595	24,264
<b>Total recognised earnings</b>	<b>43,595</b>	<b>24,264</b>
<b>Distributions<sup>1</sup></b>		
By way of finance charges	–	(29,063)
By way of distribution	(28,561)	–
<b>Total distributions</b>	<b>(28,561)</b>	<b>(29,063)</b>
<b>Other movements</b>		
Distributions reinvested	1,676	3,214
Performance fees reinvested	1,201	963
Movement in cash flow hedge reserve	(108)	(483)
<b>Total other movements</b>	<b>2,769</b>	<b>3,694</b>
<b>Balance at the end of the period</b>	<b>1,061,283</b>	<b>830,606</b>

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

1 Unit Holder finance charges of \$29,063,000 represents payments to Unit Holders during the period 1 April 2006 to 30 September 2006. Due to a technical and unintended consequence of adopting NZ IFRS, for this period Units are treated as a debt security with Unit Holder payments treated as a finance charge. On 28 March 2007, the Trust Deed was amended to correct this anomaly so that Units could be classified as equity, with Unit Holder payments treated as a distribution. This is consistent with the accounting treatment applied prior to the adoption of NZ IFRS.

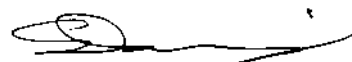
# CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2007

	NOTE	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000	AUDITED 12 MONTHS 31 MAR 07 \$000
<b>Current assets</b>				
Cash and cash equivalents		2,461	4,070	3,183
Trade and other receivables		6,019	7,191	6,295
Income tax receivable		–	132	614
Other investments		252	95	147
		8,732	11,488	10,239
<b>Non-current assets</b>				
Property investments	4	1,950,991	1,539,439	1,916,519
Other investments		527	278	487
Derivative financial instruments		20,654	7,595	16,542
		1,972,172	1,547,312	1,933,548
<b>Total assets</b>		<b>1,980,904</b>	<b>1,558,800</b>	<b>1,943,787</b>
<b>Current liabilities</b>				
Trade and other payables		32,960	40,322	48,609
Income tax payable		370	–	–
		33,330	40,322	48,609
<b>Non current liabilities (excluding net assets attributable to Unit Holders)</b>				
Trade and other payables		–	–	1,540
Secured bank loans	6	532,000	344,500	486,000
Mandatory convertible notes		140,823	160,768	140,142
Deferred income tax	7	212,227	182,531	223,251
Derivative financial instruments		1,241	73	765
		886,291	687,872	851,698
<b>Total liabilities (excluding net assets attributable to Unit Holders)</b>		<b>919,621</b>	<b>728,194</b>	<b>900,307</b>
<b>Net assets attributable to Unit Holders</b>		<b>1,061,283</b>	<b>830,606</b>	<b>1,043,480</b>
Represented by:				
Units <sup>1</sup>		663,650	660,362	661,974
Mandatory convertible notes revaluation reserve		482	(12,872)	948
Retained earnings		397,253	182,748	380,552
Cash flow hedge reserve		(102)	368	6
<b>Total funds attributable to Unit Holders of the Trust</b>		<b>1,061,283</b>	<b>830,606</b>	<b>1,043,480</b>

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

The Board of Kiwi Income Properties Limited, the Manager of Kiwi Income Property Trust, authorised these financial statements for issue on 13 November 2007.



S P WAREING – CHAIRMAN OF THE BOARD  
13 November 2007



R NAREV – CHAIRMAN OF THE AUDIT COMMITTEE  
13 November 2007

<sup>1</sup> Due to a technical and unintended consequence of adopting NZ IFRS, Units are treated as a debt security during the period 1 April 2006 to 28 March 2007. On 28 March 2007, the Trust Deed was amended to correct this anomaly. Accordingly, from 28 March 2007 Units are classified as equity which is consistent with the accounting treatment applied prior to the adoption of NZ IFRS.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	NOTE	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000
<b>Cash flows from operating activities</b>			
Gross rental income		84,839	65,657
Interest income		168	427
Property operating expenditure		(23,687)	(18,552)
Interest and finance charges		(21,638)	(8,681)
Income tax expense		(860)	(1,100)
Manager's fees and other operating expenses		(7,115)	(5,279)
Net Goods and Services Tax		1,422	290
<b>Net cash flows from operating activities</b>	8	<b>33,129</b>	<b>32,762</b>
<b>Cash flows from investing activities</b>			
Expenditure on investment properties		(15,502)	(11,966)
Expenditure on investment properties under development		(35,018)	(95,947)
Interest and finance charges capitalised		(2,688)	(7,206)
Other investment activities		(143)	118
<b>Net cash flows used in investing activities</b>		<b>(53,351)</b>	<b>(115,001)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		2,877	4,177
Proceeds from borrowings		46,000	108,500
Unit Holder payments		(29,377)	(29,482)
<b>Net cash flows from financing activities</b>		<b>19,500</b>	<b>83,195</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(722)</b>	<b>956</b>
Cash and cash equivalents at the beginning of the period		3,183	3,114
<b>Cash and cash equivalents at the end of the period</b>		<b>2,461</b>	<b>4,070</b>

The Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

## 1. STATEMENT OF ACCOUNTING POLICIES

### GENERAL INFORMATION

The financial statements presented are those of Kiwi Income Property Trust (the Trust) and its subsidiaries (the Group). The Trust is a unit trust established under the Unit Trusts Act 1960 by a Deed of Trust dated 21 August 1992 (as amended).

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Kiwi Income Properties Limited, the Manager of the Trust, on 13 November 2007.

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) for interim financial statements. These are the Group's first interim financial statements prepared in accordance with NZ IAS34 – Interim Financial Reporting (NZ IAS34). NZ IFRS1 – First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied. The interim financial statements do not include all of the information required for annual financial statements.

As these are the first financial statements prepared under NZ IFRS, there have been several changes to the Trust's accounting policies. An explanation of how these changes and the transition to NZ IFRS have affected the reported profit and loss, financial position and cash flows of the Group is provided in Note 2. This note also explains how comparative financial information has been transitioned to NZ IFRS.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group as amended under NZ IFRS are set out below and have been consistently applied to all periods presented in these financial statements and in preparing an opening NZ IFRS Balance Sheet as at 1 April 2006 for the purposes of the transition to NZ IFRS.

#### Basis of preparation

The Trust is a reporting entity for the purposes of the Financial Reporting Act 1993 and the Trust and Group are designated as profit-oriented entities for financial reporting purposes.

The financial statements have been prepared in accordance with NZ IFRS, the Financial Reporting Act 1993 and the Companies Act 1993. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards.

The financial statements are prepared on the historical cost basis, except where otherwise identified. The financial statements are presented in New Zealand dollars.

#### Critical judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### Principles of consolidation

The consolidated financial statements include the Trust and its controlled entities at balance date (together referred to as the Group). The balances and effects of transactions between controlled entities are eliminated in full.

#### Financial instruments

##### *i. Non-derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, other investments, amounts due from related parties, trade and other payables and secured bank loans. Secured bank loans are initially measured at the fair value of funds received, less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums are spread over the expected life of the loans.

##### *ii. Derivative financial instruments*

The Group is exposed to changes in interest rates and uses interest rate derivatives to mitigate these risks.

Such derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value each balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains or losses arising from changes in fair value are recognised in the Income Statement.

##### *iii. Mandatory convertible notes (MCNs)*

*Treatment for the period 1 April 2006 to 28 March 2007 (prior to amendments to the Trust Deed regarding units)*  
MCNs containing an option component are recognised initially at fair value, including any directly attributable transaction costs. Subsequent to initial recognition, the instruments, including both the liability and the option component, are recognised at fair value with any change in fair value recognised immediately in the Income Statement, then transferred within equity to the mandatory convertible note revaluation reserve. The fair value of the MCNs is calculated with reference to their quoted bid price at balance sheet date.

*Treatment subsequent to 28 March 2007 (subsequent to amendments to the Trust Deed regarding units)*  
MCNs are accounted for as compound financial instruments. The equity value, representing the value of the option component of the instrument at 28 March 2007, was transferred from liabilities to equity in the mandatory convertible note revaluation reserve. The equity component was calculated as the excess of the fair value of the total instrument at 28 March 2007 less the debt component which was determined as the present value of the future interest and principal repayments, discounted at the market rate of interest applicable to similar debt instruments that do not have a conversion feature.

Subsequent to the units reverting to equity, the debt component is held at amortised cost. The interest expense is initially recognised in the Income Statement using the effective interest rate method, then transferred within equity to the mandatory convertible note revaluation reserve, reducing it to nil by the date that the MCNs convert. The equity component is not re-measured. On conversion, the balance of the liability will be converted into units in the Trust.

##### *iv. Units*

Units are recognised at the fair value of the consideration received by the Trust. Costs relating to the issue of new units have been charged against units on issue.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

## 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### Investment properties

Investment properties are initially brought to account at cost, plus related costs of acquisition.

After initial recognition, investment properties are stated at fair value as determined by registered valuers. Investment properties are valued annually and may not be valued by the same valuer for more than two consecutive years. In determining the fair value, the expected net cash flows are discounted to their present value using a market determined risk adjusted rate.

Any gains or losses from changes in the fair value of investment properties are included in the Income Statement in the reporting period in which they arise.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The net gain or loss on disposal of assets is calculated as the difference between the carrying amount of the investment property at the time of the disposal and the proceeds on disposal and is included in the Income Statement in the reporting period in which the disposal occurred.

### Investment properties under development

Properties that are being developed for future use as investment properties are classified as 'investment properties under development' and stated at cost until the development is complete, at which time they are reclassified and subsequently accounted for as investment properties. At the date of transfer, the difference between fair value and cost is recorded in the Income Statement.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditures for the development qualifying as acquisition costs, are capitalised.

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of an asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalisation of borrowing costs will cease, or will cease in relation to a completed stage, when substantially all the activities necessary to prepare it for its intended use, or necessary to prepare that part for its intended use, are completed.

### Revenue

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Trust and the amount can be measured reliably. Rental income from investment properties, including fixed rental increases, are recognised in the Income Statement on a straight line basis over the lease or over the period until the next market review date. Contingent rentals are recognised as income in the reporting period in which they are earned.

### Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

### Goods and Services Tax

The financial statements have been prepared on a Goods and Services Tax exclusive basis, with the exception of receivables and payables which are inclusive of Goods and Services Tax.

## 2. IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

These are the Group's first interim financial statements prepared in accordance with NZ IFRS for interim financial statements.

The accounting policies set out in the Statement of Accounting Policies have been applied in preparing the interim financial statements for the six months ended 30 September 2007, the comparative information presented for the six months ended 30 September 2006 and for the year ended 31 March 2007 and in the preparation of an opening NZ IFRS Balance Sheet at 1 April 2006 (the Group's date of transition).

In preparing its opening NZ IFRS Balance Sheet and in restating the comparative information for the six months ended 30 September 2006 and for the year ended 31 March 2007, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous New Zealand Financial Reporting Standards (previous NZ FRS).

An explanation of how the transition from previous NZ FRS to NZ IFRS has affected the Group's total equity and profit after tax is set out in the following tables and notes that accompany the tables.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

## 2. IMPACT OF ADOPTING NZ IFRS (CONTINUED)

### A. Reconciliation of Unit Holders' funds as presented under previous NZ FRS to that under NZ IFRS

	NOTE	OPENING BALANCE SHEET AS AT 1 APRIL 2006			COMPARATIVE HALF YEAR BALANCE SHEET AS AT 30 SEPTEMBER 2006			IMMEDIATELY PRECEDING FINANCIAL YEAR BALANCE SHEET AS AT 31 MARCH 2007		
		PREVIOUS NZ FRS	EFFECT OF TRANSITION TO NZ IFRS	NZ IFRS	PREVIOUS NZ FRS	EFFECT OF TRANSITION TO NZ IFRS	NZ IFRS	PREVIOUS NZ FRS	EFFECT OF TRANSITION TO NZ IFRS	NZ IFRS
<b>Assets</b>										
Property investments	a	1,431,655	2,372	1,434,027	1,538,317	1,122	1,539,439	1,912,452	4,067	1,916,519
Other assets	b	14,156	(3,804)	10,352	15,559	(3,793)	11,766	14,958	(4,232)	10,726
Derivative financial instruments	c	–	2,427	2,427	–	7,595	7,595	–	16,542	16,542
<b>Total assets</b>		<b>1,445,811</b>	<b>995</b>	<b>1,446,806</b>	<b>1,553,876</b>	<b>4,924</b>	<b>1,558,800</b>	<b>1,927,410</b>	<b>16,377</b>	<b>1,943,787</b>
<b>Liabilities</b>										
Mandatory convertible notes	d	140,704	15,796	156,500	141,618	19,150	160,768	142,308	(2,166)	140,142
Secured bank loans		236,000	–	236,000	344,500	–	344,500	486,000	–	486,000
Deferred income tax liability	e	815	172,575	173,390	2,428	180,103	182,531	2,823	220,428	223,251
Other liabilities		48,048	–	48,048	40,322	–	40,322	50,149	–	50,149
Derivative financial instruments	c	–	1,157	1,157	–	73	73	–	765	765
<b>Total liabilities</b>		<b>425,567</b>	<b>189,528</b>	<b>615,095</b>	<b>528,868</b>	<b>199,326</b>	<b>728,194</b>	<b>681,280</b>	<b>219,027</b>	<b>900,307</b>
<b>Unit Holders' funds</b>										
Units	d	657,148	–	657,148	660,362	–	660,362	661,974	–	661,974
Mandatory convertible notes revaluation reserve	d	–	(10,583)	(10,583)	–	(12,872)	(12,872)	–	948	948
Retained earnings	g	32,769	151,526	184,295	35,191	147,557	182,748	36,146	344,406	380,552
Cash flow hedge reserve	c	–	851	851	–	368	368	–	6	6
Asset revaluation and realisation reserves	f	330,327	(330,327)	–	329,455	(329,455)	–	548,010	(548,010)	–
<b>Total Unit Holders' funds</b>		<b>1,020,244</b>	<b>(188,533)</b>	<b>831,711</b>	<b>1,025,008</b>	<b>(194,402)</b>	<b>830,606</b>	<b>1,246,130</b>	<b>(202,650)</b>	<b>1,043,480</b>
<b>Total Unit Holders' funds and liabilities</b>		<b>1,445,811</b>	<b>995</b>	<b>1,446,806</b>	<b>1,553,876</b>	<b>4,924</b>	<b>1,558,800</b>	<b>1,927,410</b>	<b>16,377</b>	<b>1,943,787</b>
Undiluted net tangible assets per unit		1.439	(0.266)	1.173	1.440	(0.274)	1.166	1.745	(0.284)	1.461
Adjusted undiluted net tangible assets per unit <sup>1</sup>		1.439	(0.089)	1.350	1.440	(0.097)	1.343	1.745	(0.102)	1.643

<sup>1</sup> The adjusted undiluted net tangible assets per unit calculation excludes deferred tax on items which will not crystallise. The undiluted and adjusted undiluted net tangible assets per unit at 30 September 2007 is \$1.483 and \$1.634 respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

### 2. IMPACT OF ADOPTING NZ IFRS (CONTINUED)

#### B. Reconciliation of Profit after Tax under previous NZ FRS to that under NZ IFRS

COMPARATIVE HALF YEAR INCOME STATEMENT SIX MONTHS ENDED 30 SEPTEMBER 2006				
	NOTE	PREVIOUS NZ FRS	EFFECT OF TRANSITION TO NZ IFRS	NZ IFRS
<b>Revenue</b>				
Gross rental income	b	66,736	(704)	66,032
Interest income	c	429	–	429
<b>Total revenue</b>		67,165	(704)	66,461
<b>Operating expenses</b>				
Property operating expenditure		(19,272)	170	(19,102)
Interest and finance charges	c	(8,997)	383	(8,614)
Manager's fees		(4,549)	–	(4,549)
Other		(1,293)	–	(1,293)
<b>Total operating expenses</b>		(34,111)	553	(33,558)
<b>Non-operating income and expenses</b>				
Unit Holder finance charges	d	–	(29,063)	(29,063)
Fair value change to liability component of mandatory convertible notes	d	–	(4,267)	(4,267)
Fair value change to interest rate derivatives	c	–	6,252	6,252
Fair value change to investment properties	a, g	–	545	545
<b>Total non-operating income and expenses</b>		–	(26,533)	(26,533)
		33,054	(26,684)	6,370
Income tax benefit/(expense)	e	(3,404)	(7,765)	(11,169)
Profit/(loss) after income tax and after Unit Holder finance charges		29,650	(34,449)	(4,799)
Unit Holder finance charges	d	–	29,063	29,063
<b>Profit after income tax and before Unit Holder finance charges</b>		29,650	(5,386)	24,264

IMMEDIATELY PRECEDING FINANCIAL YEAR INCOME STATEMENT YEAR ENDED 31 MARCH 2007				
	NOTE	PREVIOUS NZ FRS	EFFECT OF TRANSITION TO NZ IFRS	NZ IFRS
<b>Revenue</b>				
Gross rental income	b	142,181	(2,024)	140,157
Interest income	c	716	–	716
<b>Total revenue</b>		142,897	(2,024)	140,873
<b>Operating expenses</b>				
Property operating expenditure		(41,480)	888	(40,592)
Interest and finance charges	c	(24,349)	1,224	(23,125)
Manager's fees		(9,720)	–	(9,720)
Other		(2,177)	–	(2,177)
<b>Total operating expenses</b>		(77,726)	2,112	(75,614)
<b>Non-operating income and expenses</b>				
Unit Holder finance charges	d	–	–	–
Fair value change to liability component of mandatory convertible notes	d	–	(21,339)	(21,339)
Fair value change to interest rate derivatives	c	–	14,507	14,507
Fair value change to investment properties	a, g	–	223,694	223,694
<b>Total non-operating income and expenses</b>		–	216,862	216,862
		65,171	216,950	282,121
Income tax benefit/(expense)	e	(5,960)	(35,793)	(41,753)
Profit/(loss) after income tax and after Unit Holder finance charges		59,211	181,157	240,368
Unit Holder finance charges	d	–	–	–
<b>Profit after income tax and before Unit Holder finance charges</b>		59,211	181,157	240,368

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

### 2. IMPACT OF ADOPTING NZ IFRS (CONTINUED)

#### C. Reconciliation of Profit after Tax to Distributable Profit

	NOTE	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000
Profit after income tax and before Unit Holder finance charges		43,595	24,264
NZ IFRS adjustments:			
Fair value change to interest rate derivatives	c	(3,636)	(6,252)
Unwind of cash flow hedge reserve	c	(154)	(721)
Recognition of previously capitalised revenues and costs	a	817	1,240
Fair value change to liability component of mandatory convertible notes	d	–	4,267
Reverse amortisation of issue costs, conversion premium and accrued interest on mandatory convertible notes	d	(961)	(913)
Recognise amortised interest expense on mandatory convertible notes	d	665	–
Deferred tax on investment property revaluations	e	1,142	(637)
Deferred tax on depreciation	e	6,389	4,596
Deferred tax on other temporary differences	e	2,262	3,806
Impact on deferred tax of change in tax rate from 33% to 30%	7	(20,840)	–
Distributable profit		29,279	29,650

#### NOTES TO THE ABOVE NZ IFRS RECONCILIATIONS:

##### a. Property investments

	NOTE	AUDITED 1 APR 06 \$000	UNAUDITED 30 SEP 06 \$000	AUDITED 31 MAR 07 \$000
Reversal of previously recognised disposal costs	[i]	8,932	8,932	12,163
Other adjustments	[ii]	(6,560)	(7,810)	(8,096)
		2,372	1,122	4,067

##### [i] Fair value of investment properties

Under previous NZ FRS, investment properties were valued annually at market value less estimated disposal costs. Under NZ IFRS, investment properties are measured at fair value (without deduction of disposal costs).

On transition to NZ IFRS, the value of investment properties was increased by the value of previously recognised disposal costs, with contra entries taken to deferred tax and retained earnings. In other comparative periods, the value of investment properties was increased by the value of previously recognised disposal costs, with a contra entry being taken to fair value change to investment properties in the Income Statement. On an on-going basis, no allowance will be made for disposal costs.

##### [ii] Other adjustments

Under NZ IFRS there are a number of other changes to the way costs are able to be capitalised to investment properties (including those under development). These changes impact accounting for borrowing costs, lease incentives, leasing fees and capitalised income.

On transition to NZ IFRS, the net effect of these changes was to increase the value of investment properties with contra entries being taken to deferred tax and retained earnings. In other comparative reporting periods, the value of investment properties was increased or decreased as appropriate by the value of costs or revenues not meeting the criteria for capitalisation, with contra entries taken to gross rental income or property operating expenditure in the Income Statement. On an on-going basis, costs or revenues not able to be capitalised under NZ IFRS will be immediately expensed or recognised as income in the Income Statement.

##### b. Other assets

Under NZ IFRS, leasing fees and lease incentives, regardless of their type, are recognised as part of each investment property. Accordingly, on transition to NZ IFRS, amounts previously recognised within prepayments have been transferred to the value of investment properties.

On an on-going basis, the value of lease incentives and leasing fees are amortised on a straight-line basis over the term of the respective lease agreements. The amortisation of lease incentives is recognised as a reduction of gross rental income. The amortisation of leasing fees is recognised as a property operating expense in the Income Statement.

##### c. Derivative financial instruments

The Group uses interest rate derivatives to manage its interest rate risks. Under previous NZ FRS, the net differential paid or received on those derivatives was recognised as a component of interest expense over the life of the contract. The fair value of derivative instruments was disclosed in the Notes to the Financial Statements, but was not recognised in the Balance Sheet.

Under NZ IFRS, the fair values of all derivative financial instruments are recognised in the Balance Sheet. Changes in the fair value of the derivatives are recognised as a fair value change to interest rate derivatives in the Income Statement.

On transition to NZ IFRS, the fair value of derivative financial assets and derivative financial liabilities were recognised, with contra entries taken to deferred tax and a cash flow hedge reserve. This reserve will be released to interest and finance charges in the Income Statement as the underlying borrowing interest occurs.

On an on-going basis, the derivative instruments are fair valued at each reporting period, with movements taken to the fair value change to interest rate derivatives in the Income Statement.

##### d. Units and Mandatory Convertible Notes (MCNs)

Due to a technical and unintended consequence of adopting NZ IFRS, units became a debt security on transition to NZ IFRS. Accordingly, on 28 March 2007, the Trust Deed was amended to correct this anomaly so that units could continue to be classified as equity which is consistent with the accounting treatment adopted prior to the adoption of NZ IFRS. The accounting impact of this change is as follows:

##### Prior to 28 March 2007

- Units on issue were treated as a debt security.
- Payments to Unit Holders were recognised as a finance charge in the Income Statement.
- The conversion feature of the MCNs was considered an embedded liability derivative and was held at fair value. On transition, the change in fair value was recognised immediately in the mandatory convertible notes revaluation reserve. From transition until 28 March 2007, the change in fair value was recognised in the Income Statement then transferred to the mandatory convertible notes revaluation reserve.

##### Subsequent to 28 March 2007

Units meet the definition of equity and payments to Unit Holders are recorded as distributions. At 28 March 2007, the option component within the MCNs was transferred from liabilities to the mandatory convertible notes revaluation reserve and is not subject to further revaluations. The debt component of the MCNs is held at amortised cost and an interest expense is initially recognised in the Income Statement using the effective interest rate method, then transferred to the mandatory convertible notes revaluation reserve.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

### 2. IMPACT OF ADOPTING NZ IFRS (CONTINUED)

The application of NZ IFRS to the Trust's situation produces a result that the members of the International Accounting Standards Board (IASB) have acknowledged is unsatisfactory. The IASB issued an exposure draft in June 2006 which reinforces the equity treatment of the Trust's units, but will not retrospectively correct the requirement to revalue the MCNs during the period prior to 28 March 2007.

#### e. Deferred income tax

	NOTE	NZ IFRS ADJUSTMENTS		
		AUDITED 1 APR 06 \$000	UNAUDITED 30 SEP 06 \$000	AUDITED 31 MAR 07 \$000
Recognition of deferred tax on:				
Investment property revaluations	[i]	94,269	93,632	113,233
Depreciation	[ii]	62,190	66,786	72,370
Other temporary differences	[iii]	16,116	19,685	34,825
		172,575	180,103	220,428

Under NZ IFRS, deferred tax is calculated in accordance with the 'balance sheet' approach, which recognises deferred tax assets and deferred tax liabilities by reference to the differences between the accounting and tax book values of balance sheet items. Under previous NZ FRS, deferred tax was recognised on a partial basis. The partial basis of accounting for deferred tax is not allowed under NZ IFRS. Accordingly, three key adjustments arise on adoption of NZ IFRS.

#### [i] Deferred tax on investment property revaluations

Under previous NZ FRS, the Group did not recognise a deferred tax liability on investment property revaluations in excess of cost, as such gains on investment properties are not taxable. NZ IFRS requires the recognition of a deferred tax liability on the building component of such gains.

On transition to NZ IFRS, a deferred tax liability was established representing 33% of the value of the building component of past revaluation gains, with a contra entry to retained earnings.

On an on-going basis, a deferred tax expense/benefit, and a corresponding liability or asset (as appropriate) will be recognised on the building component of investment property revaluations recorded for that period.

This deferred tax liability will not crystallise. On disposal of a property, the deferred tax liability in respect of that property will be reversed back to the Income Statement.

#### [ii] Deferred tax on depreciation

Under previous NZ FRS, the Group did not recognise a deferred tax liability in respect of tax depreciation claimed on investment properties as it is not intended that the investment properties will be sold. Under NZ IFRS, depreciation claimed for tax purposes is considered a temporary difference resulting in a deferred tax liability.

On transition to NZ IFRS, a deferred tax liability was established representing 33% of the value of accumulated tax depreciation claimed on existing properties, with a contra entry to retained earnings.

On an on-going basis, a deferred tax expense and a corresponding liability will be recognised on tax depreciation claimed for that period.

#### [iii] Other temporary differences

Under NZ IFRS, other tax deductible expenses will give rise to temporary differences resulting in a deferred tax liability.

On transition to NZ IFRS, a deferred tax liability was established representing the value of deferred tax on past deductible expenses, with a contra entry to retained earnings. In subsequent periods, a deferred tax expense or benefit, and a corresponding liability or asset (as appropriate), will be recognised on other temporary differences arising in that period.

Some of these deferred tax liabilities will not crystallise. On disposal of a property, the deferred tax liability that does not crystallise in respect of that property will be reversed back to the Income Statement.

#### f. Asset revaluation and realisation reserves

Under previous NZ FRS, the Group recorded changes in the valuation of investment properties in equity as an asset revaluation reserve. Under NZ IFRS, both upward and downward revaluations of investment properties are recognised directly in the Income Statement, which will flow through to Unit Holders' funds as retained earnings.

On transition to NZ IFRS, the asset revaluation and asset realisation reserves were transferred to retained earnings.

#### g. Retained earnings

The effect of the opening NZ IFRS adjustments on retained earnings are as follows:

	NOTE	AUDITED 1 APR 06 \$000
Reversal of previously recognised disposal costs	a	8,932
Recognition of previously capitalised revenues and costs	a	(10,364)
Recognition of deferred tax on investment property revaluations	e	(94,269)
Recognition of deferred tax on depreciation	e	(62,190)
Recognition of deferred tax on other temporary differences	e	(20,910)
Transfer of asset revaluation and asset realisation reserves to retained earnings	f	330,327
		151,526

### 3. MANAGER'S FEE

Manager's fee comprises:

	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000	AUDITED 12 MONTHS 31 MAR 07 \$000
Base fees	4,387	4,018	8,422
Performance fees	1,443	1,096	2,297
	5,830	5,114	10,719
Capitalised to investment properties under development	(187)	(565)	(999)
	5,643	4,549	9,720

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

### 3. MANAGER'S FEE (CONTINUED)

The Manager reinvests performance fees by subscribing for new units in the Trust. At 30 September 2007, the Manager held 2,372,658 units (30 September 2006 824,155 units). These units were issued to the Manager as follows:

	UNITS NO.	PRICE \$	VALUE \$
16 December 2005	83,141	1.26	104,758
16 June 2006	741,014	1.30	963,318
15 December 2006	788,441	1.39	1,095,933
15 June 2007	760,062	1.58	1,200,898
	2,372,658		3,364,907

The maximum performance fee payable in any year is capped at 0.15% per annum of the gross average value of the Trust fund. The performance fee calculation may give rise to excess or deficit performance. At 30 September 2007 excess performance of 18.2 cents per unit (30 September 2006 42.9 cents per unit) was available. Subject to the two year expiry criteria, this may be applied in the calculation of future performance fees.

### 4. PROPERTY INVESTMENTS

	UNAUDITED 30 SEP 07 \$000	UNAUDITED 30 SEP 06 \$000
Investment properties	1,880,019	1,190,921
Investment properties under development	70,972	348,518
	1,950,991	1,539,439

The movement in property investments comprises:

UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2007			
	INVESTMENT PROPERTIES \$000	INVESTMENT PROPERTIES UNDER DEVELOPMENT \$000	TOTAL \$000
Balance at the beginning of the period	1,863,079	53,440	1,916,519
Property acquisitions	–	10,759	10,759
Capitalised costs	16,940	6,773	23,713
Amortisation of lease incentives, fees and straight-line rental income	(231)	–	(231)
Fair value changes to investment properties	231	–	231
Balance at the end of the period	1,880,019	70,972	1,950,991

UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2006			
	INVESTMENT PROPERTIES \$000	INVESTMENT PROPERTIES UNDER DEVELOPMENT \$000	TOTAL \$000
Balance at the beginning of the period	1,190,921	243,107	1,434,028
Property acquisitions	–	8,348	8,348
Capitalised costs	–	97,063	97,063
Amortisation of lease incentives, fees and straight-line rental income	(545)	–	(545)
Fair value changes to investment properties	545	–	545
Balance at the end of the period	1,190,921	348,518	1,539,439

### 5. SEGMENT INFORMATION

Segment information is presented in the interim financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The Group's business segments comprise Retail (representing the Group's investment in retail property), Office (representing the Group's investment in office property) and Unallocated (representing those items which are neither Office nor Retail).

UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2007				
	RETAIL	OFFICE	UNALLOCATED	TOTAL
<b>Revenue</b>				
Gross rental income	47,735	35,703	–	83,438
Interest income	–	–	169	169
<b>Total revenue</b>	<b>47,735</b>	<b>35,703</b>	<b>169</b>	<b>83,607</b>
<b>Results</b>				
Profit before income tax and Unit Holder finance charges	30,377	24,609	(19,708)	35,278
Income tax benefit/(expense)	–	–	8,317	8,317
<b>Segment result</b>	<b>30,377</b>	<b>24,609</b>	<b>(11,391)</b>	<b>43,595</b>
<b>Total assets</b>	<b>1,155,591</b>	<b>795,400</b>	<b>29,913</b>	<b>1,980,904</b>
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>919,621</b>	<b>919,621</b>
<b>Unit Holders' funds</b>	<b>–</b>	<b>–</b>	<b>1,061,283</b>	<b>1,061,283</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

### 5. SEGMENT INFORMATION (CONTINUED)

	UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2006			
	RETAIL	OFFICE	UNALLOCATED	TOTAL
<b>Revenue</b>				
Gross rental income	33,771	32,261	–	66,032
Interest income	–	–	429	429
<b>Total revenue</b>	<b>33,771</b>	<b>32,261</b>	<b>429</b>	<b>66,461</b>
<b>Results</b>				
Profit before income tax and Unit Holder finance charges	19,940	22,441	(6,948)	35,433
Income tax benefit/(expense)	–	–	(11,169)	(11,169)
<b>Segment result</b>	<b>19,940</b>	<b>22,441</b>	<b>(18,117)</b>	<b>24,264</b>
<b>Total assets</b>	<b>915,219</b>	<b>624,220</b>	<b>19,361</b>	<b>1,558,800</b>
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>728,194</b>	<b>728,194</b>
<b>Unit Holders' funds</b>	<b>–</b>	<b>–</b>	<b>830,606</b>	<b>830,606</b>

### 6. SECURED BANK LOANS

ANZ National Bank, Bank of New Zealand, Westpac Banking Corporation and Commonwealth Bank of Australia have provided the Group with a revolving loan facility of \$650 million (30 September 2006 \$650 million) of which \$532 million (30 September 2006 \$344.5 million) had been drawn down at balance date.

### 7. DEFERRED INCOME TAX

In May 2007, the Government announced a reduction in the tax rate applicable to the Trust from 33% to 30% with effect from 1 April 2008. As temporary differences at 30 September 2007 are not expected to reverse in the foreseeable future, the deferred tax liability is calculated at 30% of all temporary differences. At 30 September 2006 and 31 March 2007, the deferred tax balances were calculated at 33% of all temporary differences. The tax change has contributed to a reduction in the deferred tax liability in the current period of \$20,840,000.

### 8. CASH FLOW RECONCILIATION

	UNAUDITED 6 MONTHS 30 SEP 07 \$000	UNAUDITED 6 MONTHS 30 SEP 06 \$000
Profit after income tax and before Unit Holder finance charges	43,595	24,264
Items classified as investing or financing activities:		
Movements in working capital items relating to investing and financing activities	19,155	10,373
Non-cash items:		
Movement in deferred income tax	(11,024)	9,141
Fair value change to liability component of mandatory convertible notes	–	4,267
Fair value change to interest rate derivatives	(3,636)	(6,252)
Fair value change to investment properties	(231)	(545)
Mandatory convertible notes amortised interest expense	665	–
Other non-cash items	534	(248)
Movements in working capital items:		
Trade and other receivables	276	(846)
Income tax payable/receivable	984	272
Trade and other payables	(17,189)	(7,664)
<b>Net cash flows from operating activities</b>	<b>33,129</b>	<b>32,762</b>

### 9. COMMITMENTS

The following amounts have been committed to but not recognised in the financial statements:

	UNAUDITED 30 SEP 07 \$000	UNAUDITED 30 SEP 06 \$000
Development costs at Sylvia Park, Auckland	8,902	74,525

### 10. SUBSEQUENT EVENT

#### Declaration of interim distribution

On 13 November 2007 the Board of the Manager declared an interim distribution of \$32,212,510 to Unit Holders for the six months ended 30 September 2007. This represents a cash distribution of 4.50 cents per unit. The distribution will be paid on 14 December 2007 to all Unit Holders on the Trust's register at the close of business on 30 November 2007. The distribution is eligible for reinvestment in accordance with the terms of the Trust's Dividend Reinvestment Scheme.

# ACCOUNTANTS' REPORT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007



## TO THE UNIT HOLDERS OF KIWI INCOME PROPERTY TRUST

We have reviewed the interim financial statements (financial statements) on pages 4 to 23. The financial statements provide information about the past financial performance and cash flows of the Group, comprising Kiwi Income Property Trust and its subsidiaries for the six months ended 30 September 2007 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 8 to 11.

### Manager's responsibilities

The Manager is responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2007 and its financial performance and cash flows for the six months ended on that date.

### Accountants' responsibilities

We are responsible for reviewing the 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 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 financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the six months ended 30 September 2007 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

Our firm has tenancy relationships with the Group on normal terms within the ordinary course of trading activities. We have no further relationship with or interests in Kiwi Income Property Trust or its subsidiaries other than in our capacity as accountants conducting this review, auditors under the Companies Act 1993 and accounting advisors.

### Review opinion

We have reviewed the financial performance and cash flows of the Group for the six months ended 30 September 2007 and its financial position as at that date.

Based on our review nothing has come to our attention that causes us to believe that the financial statements do not present fairly the financial position of the Group as at 30 September 2007 and its financial performance and cash flows for the six months ended on that date in accordance with both International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34, Interim Financial Reporting and International Financial Reporting Standard 1 and New Zealand Equivalent to International Financial Reporting Standard 1, First-time Adoption of International Financial Reporting Standards.

Our review was completed on 13 November 2007 and our review opinion is expressed as at that date.

Chartered Accountants

Auckland

## DIRECTORY

### TRUST

**Kiwi Income Property Trust**  
Level 14, DLA Phillips Fox Tower  
National Bank Centre  
205 Queen Street  
PO Box 2071  
Shortland Street  
AUCKLAND 1140  
  
Telephone: +64 9 359 4000  
Facsimile: +64 9 359 3997  
Website: [www.kipt.co.nz](http://www.kipt.co.nz)  
Email: [info@kipt.co.nz](mailto:info@kipt.co.nz)

### MANAGER

**Kiwi Income Properties Limited**  
Level 14, DLA Phillips Fox Tower  
National Bank Centre  
205 Queen Street  
PO Box 2071  
Shortland Street  
AUCKLAND 1140  
  
Telephone: +64 9 359 4000  
Facsimile: +64 9 359 3997  
Website: [www.kipt.co.nz](http://www.kipt.co.nz)  
Email: [info@kipt.co.nz](mailto:info@kipt.co.nz)

### TRUSTEE

**New Zealand Permanent Trustees Limited**  
Level 10, 141 Willis Street  
PO Box 5067  
WELLINGTON 6145  
  
Telephone: +64 4 978 4497  
Facsimile: +64 4 978 4480  
Website: [www.trustee.co.nz](http://www.trustee.co.nz)  
Email: [enquiry@trustee.co.nz](mailto:enquiry@trustee.co.nz)

### REGISTRAR

**Link Market Services Limited**  
138 Tancred Street  
PO Box 384  
ASHBURTON 7740  
  
Telephone: +64 3 308 8887 or 0800 377 388  
Facsimile: +64 3 308 1311  
Website: [www.linkmarketservices.com](http://www.linkmarketservices.com)  
Email: [lmsenquiries@linkmarketservices.com](mailto:lmsenquiries@linkmarketservices.com)

### AUDITORS

**PricewaterhouseCoopers New Zealand**  
PricewaterhouseCoopers Tower  
188 Quay Street  
Private Bag 92162  
AUCKLAND 1142  
  
Telephone: +64 9 355 8000  
Facsimile: +64 9 355 8001  
Website: [www.pwc.co.nz](http://www.pwc.co.nz)

### LEGAL ADVISOR TO THE MANAGER

**Russell McVeagh**  
Vero Centre  
48 Shortland Street  
PO Box 8  
AUCKLAND 1140  
  
Telephone: +64 9 367 8000  
Facsimile: +64 9 367 8163  
Website: [www.russellmcveagh.com](http://www.russellmcveagh.com)

### LEGAL ADVISOR TO THE TRUSTEE

**Kensington Swan**  
89 The Terrace  
PO Box 10246  
WELLINGTON 6143  
  
Telephone: +64 4 472 7877  
Facsimile: +64 4 472 2291  
Website: [www.kensingtonswan.com](http://www.kensingtonswan.com)

### BANKERS

ANZ National Bank  
Bank of New Zealand  
Commonwealth Bank of Australia  
Westpac Banking Corporation

### VALUATION PANEL

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



[www.kipt.co.nz](http://www.kipt.co.nz)