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**INTERIM REPORT**  
30 SEPTEMBER 2008



**KIWI INCOME**  
**PROPERTY TRUST**



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# CHAIRMAN'S LETTER

## DEAR UNIT AND MANDATORY CONVERTIBLE NOTE HOLDERS

I am pleased to report a distributable profit of \$28.8 million for the half year to 30 September 2008. The Trust's operating performance remained solid with net rental income increasing 7.1% to \$65.0 million for the six month period, compared with the corresponding period the previous year. After allowing for non-cash adjustments totalling \$60.0 million, including a \$52.0 million (pre-tax) unrealised loss on revaluation of its property portfolio, the Trust posted an after tax loss of \$31.3 million for the half year to 30 September 2008.

The underlying operating earnings from the property portfolio remain robust. The Trust continues to benefit from the strength of its premium assets and its sector diversification in both retail and office properties. The portfolio enjoys a 99.1% occupancy level and continues to be supported by its diverse and high-quality base of over 850 tenants.

The Trust remains in a strong financial position with a healthy balance sheet and a conservative debt to total assets ratio of 29.2%. The \$52.0 million reduction in the value of the property portfolio to \$2.033 billion represents 2.5% of the portfolio and is testimony to the Trust's defensive qualities.

In recent months, we have witnessed unprecedented volatility in global financial markets. The action taken by central banks and governments worldwide to shore up confidence in the banking sector has been welcomed, but concerns remain about global economic conditions. As a commodity exporting nation, the fortunes of New Zealand are inherently tied to global growth. The Board of the Manager of the Trust considers that maintaining a strong balance sheet position is increasingly important given the likely continuation of recessionary conditions, financial markets uncertainty and a softening trend in property values. For these reasons it has been decided to fund the Trust's distribution wholly from operating earnings and to use existing retained earnings to maintain low debt levels.

On this basis we have revised the Trust's projected cash distribution for the full year to 8.0 cents per unit, which represents the projected distributable profit for the year. This is lower than previously forecast due to the decision to cease distributing the gain from the Trust's investment in Capital Properties New Zealand Limited at this stage.

An interim distribution of 4.60 cents per unit, comprising 4.00 cents in cash and 0.60 cents in imputation credits has been paid to Unit Holders for the half year to 30 September 2008.

The Trust will undertake another round of property valuations as at 31 March 2009 for full year reporting purposes, as is the normal practice. While it is difficult to forecast future movements in property values, particularly in the absence of significant comparable sales evidence, we do anticipate a continuation of the current softening trend in property values. However, we expect any further movement to be reasonably contained, given the quality of the Trust's portfolio. More importantly, any further valuation movements are not expected to adversely affect distributions to Unit Holders.

In these more uncertain times, the Trust benefits from the strength of its premium assets, its sector diversification in both retail and office properties and its diverse and high-quality tenant base.

I thank you for your continued support of the Trust.



SEAN WAREING – CHAIRMAN  
Kiwi Income Properties Limited  
Manager of Kiwi Income Property Trust

# CHIEF EXECUTIVE'S REPORT

THE TRUST CONTINUED ITS TRACK RECORD OF RENTAL GROWTH WITH A SOLID INCREASE IN NET RENTAL INCOME FOR THE LATEST SIX MONTH PERIOD. THE PORTFOLIO'S DEFENSIVE QUALITIES ARE UNDERPINNED BY DIVERSIFICATION OF INCOME RISK WITH AN INCOME BASE OF OVER 850 RETAIL AND OFFICE TENANTS SPREAD BETWEEN THE REGIONAL ECONOMIES OF AUCKLAND, WELLINGTON, CHRISTCHURCH, HAMILTON AND PALMERSTON NORTH.

## THE HALF YEAR AT A GLANCE

- › Net rental income increased by 7.1% to \$65.0 million.
- › Continued high portfolio occupancy at 99.1%.
- › 388 new leases or rent reviews completed for over 95,000m<sup>2</sup> of space (equating to 26.2% of the total portfolio area). This resulted in an overall rental increase of \$5.5 million (11.1% above previous rental levels), with an average compound annual growth rate of 6.8% recorded from rent reviews.
- › Distributable profit after tax of \$28.8 million, in line with the same period the previous year.
- › After tax loss of \$31.3 million, after accounting for non-cash charges totalling \$60.0 million including a \$52.0 million (pre-tax) unrealised loss on the revaluation of the property portfolio.
- › Gross interim distribution of 4.60 cents per unit, in line with the prior comparable period.
- › Cash distribution projection for the full year of 8.0 cents per unit, providing an attractive after tax return to investors.
- › Secured bank debt of \$598.0 million, representing a conservative debt to total assets ratio of 29.2%.
- › Total returns continue to outperform the NZX Property Gross and NZX 50 Indices.
- › The Trust has produced total annual returns of 10.3% per annum compounding from inception of the Trust in 1993.

## RETAIL PORTFOLIO

I am pleased to report that Sylvia Park has joined the world's elite shopping destinations with a Gold Award for Innovative Design and Development from the International Council of Shopping Centres (ICSC). As a Gold Award winner in Asia, Sylvia Park is automatically entered as a finalist in the ICSC 'best of the best' international awards to be held in Las Vegas in May 2009. As the Trust's flagship retail asset, Sylvia Park now accounts for 36.5% of the Trust's retail portfolio rental income (20.4% of total portfolio rent) and continues to outperform expectations with annual sales tracking at \$350 million.

The retail portfolio as a whole has traded solidly over the past six months, with occupancy remaining high at 99.2%. Overall sales for the retail portfolio were \$941 million for the year to 30 September 2008, representing an increase of 2.8% on the previous year on a like for like basis. Sales performance was assisted by strong sales in the latter part of the 2007 calendar year, but moderated by slower sales during 2008. The average specialty gross occupancy cost ratio across the portfolio is 15.7%.

The performance of the Trust's retail portfolio, which accounts for 55.9% of the total portfolio rental income, is underpinned by the quality of its retail tenants and by the competitiveness of the retail formats it provides those tenants. Well established supermarket and department stores together with specialty retail chains account for nearly 90% of our retail rental income. Only 10% of the retail portfolio net rent is derived from independent retailers (franchisees, single owner-operators).

Retail sales nationwide have softened during 2008 and the New Zealand Institute of Economic Research forecasts private consumption growth to fall to -0.1% in the year to March 2009 (down from 3.3% in the previous year). Pressure on household disposable income is expected to ease over coming months as fuel and food price increases reverse, interest rates fall and tax cuts take effect. However, the negative wealth effect from falling house prices and prospects for higher unemployment are expected to continue to constrain household spending.

In these more difficult times, the Trust's regional and sub-regional shopping centres provide competitive formats for retailers to access consumer spending. The Plaza Shopping Centre in Palmerston North, now undergoing a redevelopment, is a good example of a regionally dominant centre that provides a strong platform for a range of local, national and international retailers. The \$93.0 million redevelopment of The Plaza, as announced by the Trust in February 2008, will substantially increase the size of this shopping centre and consolidate its position as the leading retail destination in the Manawatu-Wanganui region.

Construction at The Plaza commenced in March 2008 and is scheduled for completion in the second quarter of 2010. With 18 months until completion, leasing progress has been solid with 61.1% of budgeted base rent on completion now secured. The first retail stage is on programme to open in March 2009 and will feature a new food court, specialty shops and a three level car park.

## OFFICE PORTFOLIO

The Trust's office portfolio, providing 44.1% of net rental income, is supported by a solid tenant base including central and local government, pre-eminent professional services firms, multi-national corporates and strong banking and insurance firms in Auckland, Wellington and Christchurch. The Trust's flagship office building in Auckland, the Vero Centre, continues to occupy its position as the best office building in New Zealand, and provides 34.8% of the office portfolio rental income (15.3% of total portfolio rent).

The office sector has performed robustly with demand for modern office accommodation resulting in high occupancy levels and strong rental growth. Occupancy across the Trust's office portfolio was 99.0%. In the latest six month period, rental reviews were completed for 39,535m<sup>2</sup> of office space resulting in a 27.0% rent increase and producing compound annual growth of 8.6% per annum.

Top end prime net rentals in the Auckland CBD now exceed \$600/m<sup>2</sup>, with the Trust's Vero Centre achieving some of the highest rents in the city. The overall Auckland CBD vacancy rate is 7.4%.

In Wellington, premium grade net rents increased 11.0% in the year to September 2008. While growth has slowed, rents are still trending upwards. Overall vacancy rates in Wellington are now 2.5%, the lowest level recorded in five years.

## PORTFOLIO REVALUATION

Following the Annual Meeting in August 2008, the Board of the Manager announced its intention to commission independent external valuations of the portfolio as at 30 September 2008. At that time, the Board advised that, whilst property valuations are usually updated on an annual basis, the Board considered it prudent and appropriate to keep Unit Holders fully informed in the current environment by undertaking an additional round of valuations at the half year.

The valuations were determined by independent valuers and resulted in a net reduction of \$52.0 million (pre-tax) in the value of the Trust's portfolio of prime office and retail assets for the six months ended 30 September 2008.

The reduction decreases the value of the Trust's total property portfolio by 2.5% to \$2.033 billion. As at 30 September 2008, the Trust's adjusted undiluted net tangible asset backing per unit was \$1.64.<sup>1</sup>

Rental growth partially offset the effect of softening capitalisation rates. The weighted average cap rate increased from 7.0% as at 31 March 2008 to 7.3% as at 30 September 2008, with the valuers assessing the portfolio to be under-rented by an average of 5.0%. Stronger than expected rental growth led to increases in value for Sylvia Park, The Majestic Centre and Unisys House in Wellington.

## OUTLOOK

The Trust continues to benefit from the strength of its premium assets, its sector diversification in both retail and office properties and its high occupancy levels due to continued solid demand from tenants. The portfolio's defensive characteristics should position it to continue to perform solidly in the current economic environment.

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



CHRIS GUDGEON – CHIEF EXECUTIVE  
Kiwi Income Properties Limited  
Manager of Kiwi Income Property Trust

<sup>1</sup> The adjusted undiluted net tangible assets per unit calculation excludes deferred tax on items which will not crystallise.

# CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	NOTE	UNAUDITED 6 MONTHS 30 SEP 08 \$000	UNAUDITED 6 MONTHS 30 SEP 07 \$000
<b>REVENUE</b>			
Gross rental income		89,158	83,438
Interest income		152	169
<b>Total revenue</b>		<b>89,310</b>	<b>83,607</b>
<b>OPERATING EXPENSES</b>			
Property operating expenditure		(24,199)	(22,809)
Interest and finance charges		(26,863)	(21,749)
Manager's fees	3	(4,752)	(5,643)
Other		(1,616)	(1,330)
<b>Total operating expenses</b>		<b>(57,430)</b>	<b>(51,531)</b>
<b>Operating profit before tax</b>		<b>31,880</b>	<b>32,076</b>
<b>NON-OPERATING INCOME AND EXPENSES</b>			
Recognition of amortised interest expense on mandatory convertible notes		(746)	(665)
Fair value change to interest rate derivatives	6	(20,553)	3,636
Net change in value of property investments	5	(52,036)	231
<b>Total non-operating income and expenses</b>		<b>(73,335)</b>	<b>3,202</b>
<b>Profit/(loss) before income tax</b>		<b>(41,455)</b>	<b>35,278</b>
<b>INCOME TAX BENEFIT/(EXPENSE)</b>			
Current tax		(4,225)	(2,661)
Deferred tax	8	14,409	10,978
<b>Total income tax benefit/(expense)</b>		<b>10,184</b>	<b>8,317</b>
<b>Profit/(loss) after income tax</b>		<b>(31,271)</b>	<b>43,595</b>
Basic and diluted earnings per unit (cents)		(3.2)	5.8

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	UNAUDITED 6 MONTHS 30 SEP 08 \$000	UNAUDITED 6 MONTHS 30 SEP 07 \$000
<b>Balance at the beginning of the period</b>	<b>1,135,240</b>	<b>1,066,300</b>
<b>EARNINGS</b>		
Profit/(loss) after income tax	(31,271)	43,595
<b>OTHER RECOGNISED EXPENSE</b>		
Movement in cash flow hedge reserve	(29)	(108)
<b>Total recognised earnings for the period</b>	<b>(31,300)</b>	<b>43,487</b>
<b>DISTRIBUTIONS</b>		
Distributions to Unit Holders	(32,346)	(28,561)
<b>Total distributions</b>	<b>(32,346)</b>	<b>(28,561)</b>
<b>OTHER MOVEMENTS</b>		
Distributions reinvested	3,879	1,676
Performance fees reinvested	-	1,201
<b>Total other movements</b>	<b>3,879</b>	<b>2,877</b>
<b>Balance at the end of the period</b>	<b>1,075,473</b>	<b>1,084,103</b>

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

# CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2008

	NOTE	UNAUDITED 30 SEP 08 \$000	UNAUDITED 30 SEP 07 \$000	AUDITED 31 MAR 08 \$000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		2,494	2,461	2,659
Trade and other receivables		5,609	6,019	7,288
Income tax receivable		-	-	1,447
Other investments		207	252	257
		<b>8,310</b>	<b>8,732</b>	<b>11,651</b>
<b>NON-CURRENT ASSETS</b>				
Property investments	5	2,033,430	1,953,531	2,060,580
Other investments		355	527	365
Derivative financial instruments	6	3,756	20,654	18,676
		<b>2,037,541</b>	<b>1,974,712</b>	<b>2,079,621</b>
<b>Total assets</b>		<b>2,045,851</b>	<b>1,983,444</b>	<b>2,091,272</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		30,409	32,960	35,942
Income tax payable		890	370	-
		<b>31,299</b>	<b>33,330</b>	<b>35,942</b>
<b>NON-CURRENT LIABILITIES</b>				
Secured bank loans	7	598,000	532,000	571,000
Mandatory convertible notes		142,314	140,823	141,537
Deferred tax liability	8	191,892	191,947	206,313
Derivative financial instruments	6	6,873	1,241	1,240
		<b>939,079</b>	<b>866,011</b>	<b>920,090</b>
<b>Total liabilities</b>		<b>970,378</b>	<b>899,341</b>	<b>956,032</b>
<b>Net assets attributable to Unit Holders</b>		<b>1,075,473</b>	<b>1,084,103</b>	<b>1,135,240</b>
Represented by:				
Units		670,111	663,650	666,233
Retained earnings		403,577	420,073	469,207
Mandatory convertible notes revaluation reserve		1,984	482	(29)
Cash flow hedge reserve		(199)	(102)	(171)
<b>Total funds attributable to Unit Holders of the Trust</b>		<b>1,075,473</b>	<b>1,084,103</b>	<b>1,135,240</b>

The Board of Kiwi Income Properties Limited, the Manager of Kiwi Income Property Trust, authorised these financial statements for issue on 12 November 2008.



**S P Wareing – Chairman of the Board**  
12 November 2008



**R Narev – Chairman of the Audit Committee**  
12 November 2008

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

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	NOTE	UNAUDITED 6 MONTHS 30 SEP 08 \$000	UNAUDITED 6 MONTHS 30 SEP 07 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Gross rental income		91,748	84,839
Interest income		150	168
Property operating expenditure		(22,729)	(23,687)
Interest and finance charges		(26,441)	(21,638)
Income tax expense		(1,700)	(860)
Manager's fees and other operating expenses		(4,284)	(7,115)
Net Goods and Services Tax		(1,026)	1,422
<b>Net cash flows from operating activities</b>	9	<b>35,718</b>	<b>33,129</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure on investment properties		(28,845)	(15,502)
Expenditure on investment properties under development		(3,256)	(35,018)
Interest and finance charges capitalised		(1,641)	(2,688)
Other investment activities		(485)	(143)
<b>Net cash flows used in investing activities</b>		<b>(34,227)</b>	<b>(53,351)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of units		-	2,877
Increase in secured bank loans		27,000	46,000
Unit Holder payments		(28,656)	(29,377)
<b>Net cash flows from/(used in) financing activities</b>		<b>(1,656)</b>	<b>19,500</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(165)</b>	<b>(722)</b>
Cash and cash equivalents at the beginning of the period		2,659	3,183
<b>Cash and cash equivalents at the end of the period</b>		<b>2,494</b>	<b>2,461</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 2008

## 1. STATEMENT OF ACCOUNTING POLICIES

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 in New Zealand under the Unit Trusts Act 1960 by a Deed of Trust dated 21 August 1992. The Trust is an issuer in terms of the Financial Reporting Act 1993 and is listed on the New Zealand Stock Exchange. The principal activity of the Group is to invest in New Zealand real estate.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the March 2008 Annual Report. The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and NZ IAS34 – Interim Financial Statements and should be read in conjunction with the 2008 Annual Report. The interim financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993. The Group is designated as a profit-oriented entity for financial reporting purposes. To ensure consistency with the current period, comparative figures have been restated where appropriate.

During the preparation of the annual financial statements for the year ended 31 March 2008, two amendments were made to the Trust's opening balance sheet on transition to NZ IFRS which impacted the previously disclosed Balance Sheet as at 30 September 2007. The first amendment was due to the reversal of a previous revaluation gain and resulted in an increase in investment properties under development of \$2.5 million with contra entries to deferred tax and retained earnings. The second amendment resulted from the availability of further information on the split between the land and building component of investment property valuations. This resulted in a decrease in the deferred tax liability of \$20.8 million with a corresponding increase in retained earnings. These amendments have no impact on previously disclosed basic and diluted earnings per unit for the period ended 30 September 2007.

## 2. SEGMENT INFORMATION

Segment information is presented in the 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 retail nor office). The Group operates in New Zealand only.

	UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2008			
	RETAIL \$000	OFFICE \$000	UNALLOCATED \$000	TOTAL \$000
<b>REVENUE</b>				
Gross rental income	50,855	38,303	-	89,158
Interest income	-	-	152	152
<b>Total revenue</b>	<b>50,855</b>	<b>38,303</b>	<b>152</b>	<b>89,310</b>
<b>RESULTS</b>				
Profit/(loss) before income tax	(1,605)	9,776	(49,626)	(41,455)
Income tax benefit	-	-	10,184	10,184
<b>Segment result</b>	<b>(1,605)</b>	<b>9,776</b>	<b>(39,442)</b>	<b>(31,271)</b>
<b>Total assets</b>	<b>1,159,971</b>	<b>873,459</b>	<b>12,421</b>	<b>2,045,851</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>970,378</b>	<b>970,378</b>
<b>Unit Holders' funds</b>	<b>-</b>	<b>-</b>	<b>1,075,473</b>	<b>1,075,473</b>

	UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2007			
	RETAIL \$000	OFFICE \$000	UNALLOCATED \$000	TOTAL \$000
<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/(loss) before income tax	30,377	24,609	(19,708)	35,278
Income tax benefit	-	-	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>32,453</b>	<b>1,983,444</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>899,341</b>	<b>899,341</b>
<b>Unit Holders' funds</b>	<b>-</b>	<b>-</b>	<b>1,084,103</b>	<b>1,084,103</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

## 3. MANAGER'S FEES

	UNAUDITED 6 MONTHS 30 SEP 08 \$000	UNAUDITED 6 MONTHS 30 SEP 07 \$000
Manager's fees comprises:		
Base fees	5,687	5,287
Rebate of base fees	(805)	(900)
Performance fees	-	1,443
	<b>4,882</b>	5,830
Capitalised to property investments	<b>(130)</b>	(187)
	<b>4,752</b>	5,643

Performance fees are calculated at 30 September and 31 March each year, with a liability, if any, recorded in the financial statements on that date. Payment of performance fees occurs on the date distributions are paid to Unit Holders for the relevant period. The Manager reinvests performance fees by subscribing for new units in the Trust. At 30 September 2008, the Manager held 3,442,568 units (30 September 2007 2,372,658 units). Units have been issued to the Manager as follows:

	NUMBER OF UNITS	PRICE \$	VALUE \$
16 December 2005	83,141	\$1.26	104,524
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
14 December 2007	1,069,910	\$1.35	1,444,379
	<b>3,442,568</b>		<b>4,809,052</b>

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 2008 deficit performance of 15.89 cents per unit exists (30 September 2007 excess performance of 18.24 cents per unit). Subject to the two year expiry criterion, this will be applied in the calculation of future performance fees.

#### 4. RECONCILIATION OF PROFIT AFTER TAX TO DISTRIBUTABLE PROFIT

Distributable profit consists of profit/(loss) after income tax, adjusted for certain non-cash items as follows:

	UNAUDITED 6 MONTHS 30 SEP 08 \$000	UNAUDITED 6 MONTHS 30 SEP 07 \$000
Profit/(loss) after income tax	(31,271)	43,595
Non-cash adjustments:		
Fair value change to interest rate derivatives	20,553	(3,636)
Net change in value of property investments	52,036	(231)
Deferred tax on change in value of property investments	(9,799)	1,142
Deferred tax on depreciation	5,441	6,389
Deferred tax on fair value change to interest rate derivatives	(6,154)	1,091
Deferred tax on deductible capitalised costs	533	1,282
Other non-cash and deferred tax adjustments	(2,583)	487
Impact on deferred tax of change in tax rate from 33% to 30%	-	(20,840)
Distributable profit	<b>28,756</b>	<b>29,279</b>
Distributable profit per unit (calculated on weighted average units on issue)	<b>4.0 cpu</b>	4.1 cpu

#### 5. PROPERTY INVESTMENTS

	UNAUDITED 30 SEP 08 \$000	UNAUDITED 30 SEP 07 \$000	AUDITED 31 MAR 08 \$000
<b>BALANCES</b>			
Investment properties	1,983,850	1,880,019	2,005,210
Investment properties under development	49,580	73,512	55,370
	<b>2,033,430</b>	1,953,531	2,060,580

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

## 5. PROPERTY INVESTMENTS (CONTINUED)

### COMPOSITION

	VALUERS REFERENCE	BOOK VALUE 31 MAR 08 \$000	ADDITIONS / DISPOSALS \$000	FAIR VALUE CHANGES \$000	BOOK VALUE 30 SEP 08 \$000	BOOK VALUE 30 SEP 07 \$000
<b>INVESTMENT PROPERTIES</b>						
<b>Office</b>						
Vero Centre	2	334,500	(192)	(6,308)	<b>328,000</b>	302,000
National Bank Centre	1	123,800	803	(6,803)	<b>117,800</b>	121,000
The Majestic Centre	1	111,400	516	584	<b>112,500</b>	105,000
Unisys House	2	83,000	58	2,942	<b>86,000</b>	74,500
21 Pitt Street	1	59,200	(34)	(1,066)	<b>58,100</b>	55,500
PricewaterhouseCoopers Centre	3	60,800	(5)	(3,795)	<b>57,000</b>	58,400
Vector Building	2	34,900	-	-	<b>34,900</b>	31,500
BP House	1	28,300	-	(900)	<b>27,400</b>	27,500
Fisher & Paykel Finance Building	1	13,720	-	(130)	<b>13,590</b>	13,700
50 The Terrace	2	6,550	117	(167)	<b>6,500</b>	6,300
		856,170	1,263	(15,643)	<b>841,790</b>	795,400
<b>Retail</b>						
Sylvia Park Shopping Centre	2	471,400	5,695	2,105	<b>479,200</b>	441,186
Northlands Shopping Centre	2	258,000	(315)	(7,685)	<b>250,000</b>	250,000
The Plaza Shopping Centre	2	110,190	15,400	2,510	<b>128,100</b>	84,000
Centre Place Shopping Centre	3	128,500	784	(6,484)	<b>122,800</b>	122,500
North City Shopping Centre	1	128,000	(152)	(14,848)	<b>113,000</b>	136,100
Downtown Plaza Shopping Centre	3	34,500	(228)	(2,772)	<b>31,500</b>	32,233
Langdons Road	2	7,600	1	(501)	<b>7,100</b>	7,650
PricewaterhouseCoopers Building	3	5,600	-	(100)	<b>5,500</b>	5,600
The Farmers Building	2	4,420	-	(420)	<b>4,000</b>	4,400
Countrywide Building	3	830	(1)	31	<b>860</b>	950
		1,149,040	21,184	(28,164)	<b>1,142,060</b>	1,084,619
<b>Total investment properties</b>		2,005,210	22,447	(43,807)	<b>1,983,850</b>	1,880,019
<b>INVESTMENT PROPERTIES UNDER DEVELOPMENT</b>						
		55,370	2,439	(8,229)	<b>49,580</b>	73,512
		2,060,580	24,886	(52,036)	<b>2,033,430</b>	1,953,531

Valuers reference

1 - CB Richard Ellis Limited

2 - Colliers International New Zealand Limited

3 - Jones Lang LaSalle Limited

The valuations are effective 30 September 2008.

## MOVEMENT

	UNAUDITED 6 MONTHS ENDED 30 SEPTEMBER 2008		
	INVESTMENT PROPERTIES \$000	INVESTMENT PROPERTIES UNDER DEVELOPMENT \$000	TOTAL \$000
Balance at the beginning of the period	2,005,210	55,370	2,060,580
Property acquisitions	1,100	-	1,100
Capitalised costs (including fees, incentives & capitalised income)	23,325	1,773	25,098
Capitalised interest and finance charges	880	625	1,505
Capitalised management and trustee fees	90	46	136
Amortisation of lease incentives, fees & straight-line rental income	(2,948)	(5)	(2,953)
Fair value changes to investment properties	(43,807)	-	(43,807)
Impairment of investment properties under development	-	(8,229)	(8,229)
Balance at the end of the period	1,983,850	49,580	2,033,430

	AUDITED YEAR ENDED 31 MARCH 2008		
	INVESTMENT PROPERTIES \$000	INVESTMENT PROPERTIES UNDER DEVELOPMENT \$000	TOTAL \$000
Balance at the beginning of the year	1,863,079	55,980	1,919,059
Property acquisitions	14,513	12,403	26,916
Capitalised costs (including fees, incentives & capitalised income)	48,641	1,833	50,474
Capitalised interest and finance charges	1,759	2,178	3,937
Capitalised management and trustee fees	114	187	301
Transfer to investment properties	6,593	(6,593)	-
Amortisation of lease incentives, fees & straight-line rental income	(4,808)	-	(4,808)
Fair value changes to investment properties	75,319	-	75,319
Impairment of investment properties under development	-	(10,618)	(10,618)
Balance at the end of the year	2,005,210	55,370	2,060,580

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

## 5. PROPERTY INVESTMENTS (CONTINUED)

	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	55,980	1,919,059
Property acquisitions	-	10,759	10,759
Capitalised costs (including fees, incentives & capitalised income)	15,698	5,327	21,025
Capitalised interest and finance charges	1,167	1,324	2,491
Capitalised management and trustee fees	75	122	197
Amortisation of lease incentives, fees & straight-line rental income	(231)	-	(231)
Fair value changes to investment properties	231	-	231
Impairment of investment properties under development	-	-	-
<b>Balance at the end of the period</b>	<b>1,880,019</b>	<b>73,512</b>	<b>1,953,531</b>

Property investments are stated at fair value as determined by independent registered valuers as at 30 September 2008. Whilst property valuations are usually updated on an annual basis, the Board of the Manager considered it prudent and appropriate, in the current economic environment, to undertake an additional round of valuations at the half year.

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

	UNAUDITED 30 SEP 08 \$000	UNAUDITED 30 SEP 07 \$000	AUDITED 31 MAR 08 \$000
Interest rate swap assets	<b>3,756</b>	20,654	18,676
Interest rate swap liabilities	<b>(6,873)</b>	(1,241)	(1,240)
<b>Net interest rate swaps</b>	<b>(3,117)</b>	19,413	17,436

Due to the drop in floating interest rates, there has been a fair value loss on interest rate derivatives reflected in the Income Statement for the period ended 30 September 2008.

## 7. SECURED BANK LOANS

Secured bank loans are provided by ANZ National Bank, Bank of New Zealand, Commonwealth Bank of Australia and Westpac Banking Corporation. At balance date the following facilities were available and drawn down:

	UNAUDITED 30 SEP 08 \$000	UNAUDITED 30 SEP 07 \$000	AUDITED 31 MAR 08 \$000
Facility drawn down	<b>598,000</b>	532,000	571,000
Undrawn facility available	<b>202,000</b>	118,000	179,000
<b>Total facility available</b>	<b>800,000</b>	650,000	750,000

Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	<b>7.52%</b>	7.55%	7.62%
Weighted average term to maturity for the combined facilities	<b>3.4 years</b>	3.1 years	3.9 years

## 8. DEFERRED TAX LIABILITY

	BALANCE 1 APR 08 \$000	RECOGNISED IN INCOME \$000	RECOGNISED IN EQUITY \$000	BALANCE 30 SEP 08 \$000	BALANCE 30 SEP 07 \$000
Change in value of property investments	93,647	(9,799)	–	83,848	88,362
Depreciation	78,038	5,441	–	83,479	72,180
Derivative financial instruments	5,231	(6,154)	(12)	(935)	5,824
Mandatory convertible notes	995	(495)	–	500	1,243
Other temporary differences	28,402	(3,402)	–	25,000	24,338
	<b>206,313</b>	<b>(14,409)</b>	<b>(12)</b>	<b>191,892</b>	<b>191,947</b>

Balances at 1 April 2008 have been amended to correctly reflect the classification of individual components of deferred tax. The net impact on the deferred tax liability is nil.

## 9. CASH FLOW RECONCILIATION

	UNAUDITED 6 MONTHS 30 SEP 08 \$000	UNAUDITED 6 MONTHS 30 SEP 07 \$000
Profit/(loss) after income tax	(31,271)	43,595
Items classified as investing or financing activities:		
Movements in working capital items relating to investing and financing activities	10,378	19,974
Non-cash items:		
Movement in deferred tax liability	(14,421)	(11,024)
Fair value change to interest rate derivatives	20,553	(3,636)
Net change in value of property investments	52,036	(231)
Release of cash flow hedge reserve	(40)	(154)
Other	–	534
Movements in working capital items:		
Trade and other receivables	1,679	276
Income tax receivable/payable	2,337	984
Trade and other payables	(5,533)	(17,189)
Net cash flows from operating activities	<b>35,718</b>	<b>33,129</b>

## 10. COMMITMENTS

	UNAUDITED 30 SEP 08 \$000	UNAUDITED 30 SEP 07 \$000
The following amounts have been committed to but not recognised in the financial statements:		
Development costs at Sylvia Park, Auckland	10,019	8,902
Development costs at The Plaza Shopping Centre, Palmerston North	56,549	–

## 11. SUBSEQUENT EVENTS

On 12 November 2008 the Board of the Manager declared an interim distribution of \$28,878,236 to Unit Holders for the six months ended 30 September 2008. This represents a cash distribution of 4.0 cents per unit.

The distribution will be paid on 15 December 2008 to all Unit Holders on the Trust's register at the close of business on 27 November 2008. The distribution is eligible for reinvestment in accordance with the terms of the Trust's Distribution Reinvestment Plan.

# ACCOUNTANTS' REPORT

TO THE UNIT HOLDERS OF KIWI INCOME PROPERTY TRUST



We have reviewed the interim financial statements (the financial statements) on pages 4 to 15. 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 2008 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 8.

## 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 2008 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 company 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 2008 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 2008 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 2008 and its financial performance and cash flows for the six months ended on that date in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34, Interim Financial Reporting.

Our review was completed on 12 November 2008 and our review opinion is expressed as at that date.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

Chartered Accountants

Auckland

# DIRECTORY

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## 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



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