

A SPECIAL MEETING OF UNIT HOLDERS
OF KIWI INCOME PROPERTY TRUST
WILL BE HELD AT EDEN PARK STADIUM,
LEVEL 4 LOUNGE WEST, SOUTH STAND,
GATE G EDEN PARK, REIMERS AVENUE,
KINGSLAND, AUCKLAND ON 12 DECEMBER
2013, COMMENCING AT 2.30 PM

20 NOVEMBER 2013

NOTICE OF SPECIAL MEETING



KIWI INCOME
PROPERTY TRUST

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Dear Investor,

You are invited to attend a special meeting of Unit Holders, with the principal business of the meeting being to consider a proposal to internalise the management ("**Internalisation Proposal**") of Kiwi Income Property Trust ("**Trust**").

This is an important meeting as the Internalisation Proposal, if approved, will fundamentally change the management arrangements of the Trust. I encourage you to read the information contained in this notice and vote upon the proposals contained within it, either by proxy or in person.

Background to the Internalisation Proposal

Listed in 1993, the Trust was established as an externally managed property entity. Investors in the Trust pay a management fee to external entities to manage the investments and properties of the Trust. Consequently, the Trust has no direct employees and is instead supported by employees of the management company, Kiwi Income Properties Limited ("**Manager**") and property management company, Kiwi Property Management Limited ("**Property Manager**").

The Manager and Property Manager are owned by Commonwealth Bank of Australia ("**CBA**").

On 24 July 2013, CBA presented the board of the Manager with a proposal to internalise the management of the Trust. A sub-committee of Independent Directors was established to consider the proposal, and a conditional agreement has been entered into with CBA and the Trustee to effect the Internalisation. The Internalisation is conditional on Unit Holder approval, as described in this Notice of Meeting.

Terms of the Internalisation Proposal

At a high level, the Internalisation Proposal negotiated with CBA involves:

- A net payment of approximately \$70.6 million (plus GST) to CBA resulting from:
 - › A termination payment of \$72.5 million (plus GST) to CBA for the relinquishment of its fund and property management arrangements; and
 - › The acquisition by the New Manager of the business assets of the Manager and Property Manager associated with the Trust for approximately \$0.65 million (plus GST, if any) reduced by the assumption of approximately \$2.6 million (plus GST, if any) of employee liabilities of the Manager and the Property Manager;
- The Manager and Property Manager ceasing to hold office;
- The appointment of a New Manager, controlled by Unit Holders, to assume the fund management and property management roles;
- Existing management and other personnel transferring to the New Manager;
- Transitional arrangements implemented between the New Manager and CBA while standalone systems are established for the Trust; and
- Amendments to the Trust Deed to remove the current Manager's fee entitlements.

Benefits of Internalisation

The internalisation of the Trust's management is expected to deliver a number of tangible benefits to Unit Holders.

Cost savings

- The elimination of the Manager's present remuneration which includes base and performance fees, meaning pre-tax net expenditure savings of approximately \$8 million per annum (after funding costs)¹.
- The New Manager will operate on a break-even basis.

1 Based on 31 March 2013 financial information as a guide and excluding the impact of the Manager's performance fee (including any performance fees payable would increase the net expenditure savings).

Earnings accretion

- An expected increase in profit before tax equivalent to approximately 0.81 cents per unit as a result of the net expenditure savings to the Trust, based on 31 March 2013 financial information.

Alignment of interests

- Executives and other personnel responsible for managing the Trust will be employed by the New Manager and be accountable to the board of the New Manager.
- The initial directors of the New Manager will be the Independent Directors.
- Following implementation of the Internalisation, directors of the New Manager will be appointed at the direction of Unit Holders.

Removal of third party uncertainty

- Internalisation will remove the option CBA has to sell its fund and property management rights concerning the Trust to a third party, thereby creating more certainty for Unit Holders concerning the future management of the Trust.

Knowledge retention

- Management capability, institutional knowledge and systems and processes developed for the purposes of the Trust will be retained and controlled by the Trust, without risk of sale by CBA.
- The Internalisation Proposal will facilitate an orderly transfer of staff, information systems and banking arrangements.

The Independent Directors recommend you vote in favour of the Internalisation resolutions

The Independent Directors unanimously recommend that Unit Holders approve the Internalisation by voting in favour of the Internalisation resolutions. Robert Narev, as the only Independent Director with an interest in Units, intends to vote any Units he controls in favour of the Internalisation.

The Independent Directors firmly believe that Internalisation is in the best interests of Unit Holders.

Angus McNaughton is not an Independent Director given his employment relationship with CBA. He has not been involved in negotiations or discussions concerning the Internalisation, and will resign as a director of the Manager if the Internalisation is approved by Unit Holders.

The Independent Appraiser believes that the Internalisation is fair to Unit Holders

Deloitte has been appointed to prepare an Independent Appraisal Report which assesses the fairness of the Internalisation. In Deloitte's opinion, the proposed Internalisation is fair to Unit Holders not associated with the Manager and the Property Manager. The basis of Deloitte's opinion is summarised in Section 1.6 of the Independent Appraisal Report and includes the following factors:

- the value of the proposed Internalisation to the Trust is assessed to be in the vicinity of \$136 million to \$176 million;
- incorporating the risk factors that are faced by external owners of property fund management rights (i.e. a party other than the Trust), the fair market value of the management rights is assessed to be in the range of \$71 million to \$89 million. The proposed net termination payment of \$70.6 million is at the lower end of Deloitte's fair market valuation range;
- the expected after-tax cost of the termination payment (\$50.3 million) is materially lower than the value of the Internalisation to the Trust, therefore the proposed Internalisation provides the Trust with a net present value benefit estimated to be in the vicinity of \$86 million to \$126 million; and
- this benefit is evidenced by expected earnings accretion to the Trust, and the proposed Internalisation also provides other non-financial benefits for Unit Holders.

Internalisation is the first step towards corporatisation

“Corporatisation” is the changing of a unit trust to a company, a process which has been adopted by other unit trusts in conjunction with an internalisation. The Internalisation Proposal should be viewed as the first step towards corporatisation of the Trust, as it is the intention of the Independent Directors for corporatisation to be put forward to Unit Holders in due course. The Independent Directors have not proceeded with corporatisation at this time given the complexity, cost and time involved in such a process, and also because it would trigger an early conversion of the Trust’s Mandatory Convertible Notes, prior to their scheduled conversion in December 2014².

Additional Resolution - Directors’ Fees

Currently directors’ fees are paid by the Manager out of the proceeds of the Manager’s fees. Under the Internalisation directors’ fees will be paid out of the Trust Fund, in an amount equal to the fees now paid to the directors by the Manager. In conjunction with the Internalisation, the Independent Directors propose that the level of directors’ fees be increased, to ensure remuneration is consistent with market trends and the objective of attracting and retaining high calibre independent directors is met.

Additional Resolution - Borrowing Limits

The Independent Directors also seek Unit Holder approval to increase the amount the Trust may borrow from the current limit of 40% of the gross value of the Trust Fund, to 45% of the gross value of the Trust Fund. This change will align the Trust Deed with the Trust’s banking covenant limits and will provide increased headroom below borrowing covenants, thereby providing greater flexibility to cost-effectively fund attractive investment opportunities that may arise without the need to immediately raise equity or recycle capital through asset sales.

The Independent Directors unanimously recommend that Unit Holders vote in favour of this resolution to increase the Trust’s borrowing capacity.

Your vote is important

Voting at the meeting will be by way of a poll in writing. I urge Unit Holders to read the Notice of Meeting, the Explanatory Memorandum, the Independent Appraisal Report and Trustee’s Letter carefully before making a decision on the resolutions.

If you are unable to attend the meeting, you may appoint a proxy to attend and vote on your behalf.

Because of the nature of the resolutions involved to effect the Internalisation, the Trustee will nominate a chairperson for the meeting who is independent of the Manager. The chairperson for the meeting will not be the Chairman of the Manager.

How to obtain further information

If you have any queries on the resolutions or material contained in the attached documents, please contact your financial or legal adviser.

I look forward to your attendance at the meeting.

Yours faithfully



Mark Ford

Chairman
Kiwi Income Properties Limited

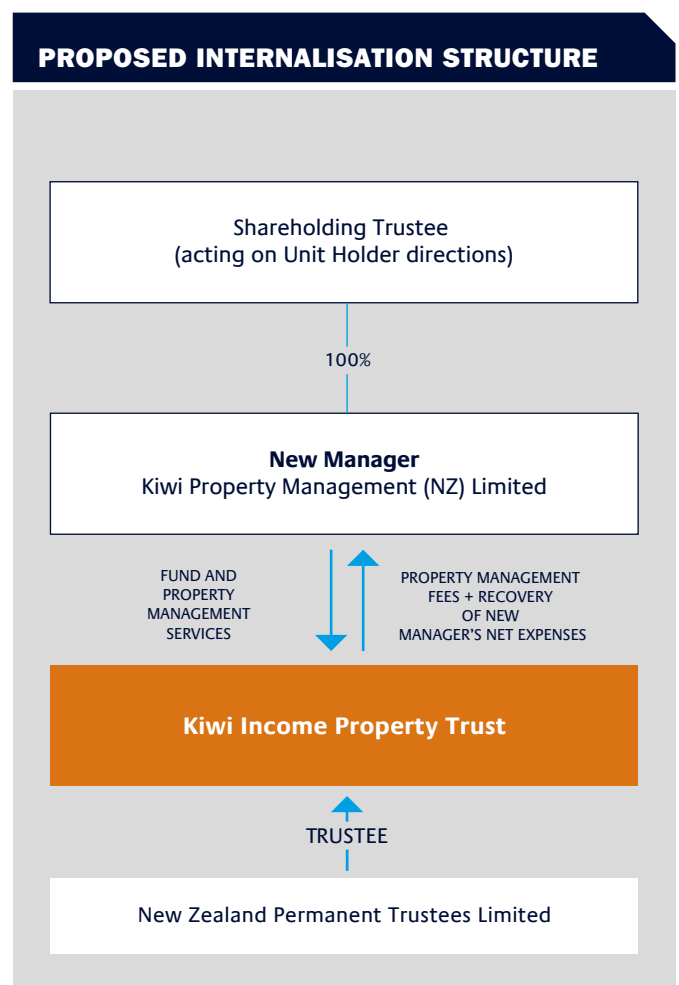
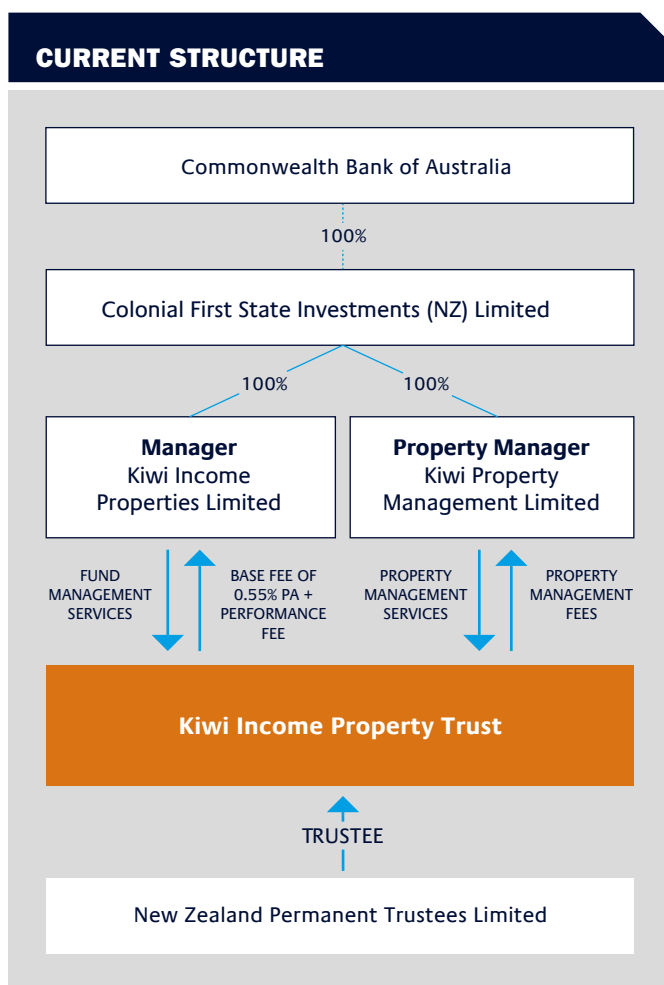
² The Trust issued \$120 million of Mandatory Convertible Notes in November and December 2009. They are due to convert into Units in December 2014.



INTERNALISATION AT A GLANCE

Terms of the Internalisation

- A net payment of approximately \$70.6 million (plus GST) to CBA resulting from:
 - > A termination payment of \$72.5 million (plus GST) to CBA for the relinquishment of its fund and property management arrangements; and
 - > The acquisition by the New Manager of the business assets of the Manager and Property Manager associated with the Trust for approximately \$0.65 million (plus GST, if any) reduced by the assumption of approximately \$2.6 million (plus GST, if any) of employee liabilities of the Manager and the Property Manager
- Payments to CBA will be financed by the Trust through debt facilities
- The Manager and Property Manager will cease to hold office
- The Trust Deed will be amended to remove the Manager's fee entitlements
- A New Manager, controlled by Unit Holders, will be appointed to assume the fund management and property management roles
- The New Manager will operate on a break-even basis
- Transitional arrangements will be implemented between the New Manager and CBA while standalone systems are established for the Trust
- Existing management and other personnel will transfer to the New Manager
- The termination payment of \$72.5 million should be deductible for tax purposes, meaning that the net cost of the Internalisation should equate to approximately \$50.3 million. As described at paragraph 19 of the Explanatory Memorandum, a binding ruling will be sought from Inland Revenue regarding this tax treatment
- The initial directors of the New Manager will be the Independent Directors
- Following implementation of the Internalisation, directors of the New Manager will be appointed at the direction of Unit Holders
- Directors' fees will be paid by the New Manager and recovered from the Trust Fund as part of the break-even arrangements
- The Trust otherwise continues as a trust established under the Act
- Unit Holder interests will not change. No new Units will be issued, and no Units cancelled, as a result of the Internalisation being approved
- The Independent Directors intend to put forward a corporatisation proposal to Unit Holders to vote on in due course



Purpose and effect of Internalisation

- Significant cost savings to the Trust going forward with the Manager's remuneration (base and performance fees) eliminated³:
 - > pre-tax net expenditure savings of approximately \$8 million per annum (after funding costs)
 - > an increase in profit before tax of approximately 0.81 cents per unit is expected as a result of the net expenditure savings to the Trust, based on 31 March 2013 financial information

- Greater control over management of the Trust with all directors of the New Manager to be appointed at the direction of Unit Holders
- Removal of the uncertainty arising from the option CBA has to sell the Manager and the Property Manager to a third party
- Management capability, institutional knowledge and systems and processes developed for the purposes of the Trust will be retained and controlled by the Trust

³ See paragraphs 13 to 17 of the Explanatory Memorandum for further information on the anticipated financial benefits of the transaction, including the assumptions used in forming these estimates.

Disadvantages if Internalisation not approved

- The Manager and Property Manager would continue to provide fund management and property management services to the Trust, and the cost savings described above would not be available to Unit Holders and the Trust
- CBA has publicly stated its objective of withdrawing from its real estate funds management business. If Internalisation is not approved CBA will continue to have the option to sell the Manager and Property Manager to a third party without Unit Holder approval, making the future management arrangements of the Trust less certain than if Internalisation is approved

Management of the Trust and the New Manager

- The Internalisation does not represent a change in strategy for the Trust, and the Trust's usual business operations will not change as a result of the Internalisation
- The existing executives and other personnel of the Trust are expected to continue in their current roles
- The directors of the New Manager will remain largely the same as the directors of the Manager, however:
 - › as previously indicated, Robert Narev intends to resign as a director (whether the Internalisation is approved or not) at the end of 2013; and
 - › Angus McNaughton will resign his position as a director if the Internalisation is approved
- Other directors, all of whom are independent, who will constitute the board of the New Manager, are:
 - › Mark Ford – Chairman
 - › Richard Didsbury
 - › Joanna Perry
 - › Mike Steur
- With the proposed resignations of Angus McNaughton and Robert Narev, the board of the Manager or the New Manager (as appropriate) will seek to appoint an additional director to fill the resulting casual vacancy in early 2014

What action do I need to take?

- A special meeting will be held at Eden Park Stadium, Level 4 Lounge West, South Stand, Gate G Eden Park, Reimers Avenue, Kingsland, Auckland on 12 December 2013, commencing at **2.30 pm**
- All investors in the Trust are entitled to attend but only Unit Holders on the register on 12 December 2013 will be entitled to vote at the meeting. See paragraphs 16 and 17 of the notes to the Notice of Meeting for voting restrictions in relation to CBA, the Manager, and directors
- If you are a Unit Holder and are unable to attend the meeting, you may appoint a proxy to attend and vote on your behalf (and direction) using the proxy form enclosed – a proxy need not be a Unit Holder and you may appoint the chairperson of the meeting (who will not be the Chairman of the Manager). If you appoint the chairperson of the meeting or a representative of the Trustee as your proxy and do not direct him/her how to vote, he/she will vote in favour of all the resolutions referred to in the Notice of Meeting
- Completed proxy forms must be received by the Registrar (in one of the methods specified on the proxy form) by no later than 2.30 pm on 10 December 2013 (being 48 hours before the meeting)

All Unit Holders are encouraged to read the Explanatory Memorandum, the Notice of Meeting, the Independent Appraisal Report and the Trustee's Letter carefully before making any decision on the proposal.

If you have any queries on the resolutions or material contained in the attached documents, please contact your financial or legal adviser.

The Independent Directors unanimously recommend that you approve the Internalisation by voting in favour of the resolutions.

In the opinion of the Independent Appraiser, the Internalisation Proposal is fair to Unit Holders not associated with the Manager and the Property Manager.

NOTICE OF MEETING

Notice is hereby given that a special meeting of Kiwi Income Property Trust Unit Holders will be held at Eden Park Stadium, Level 4 Lounge West, South Stand, Gate G Eden Park, Reimers Avenue, Kingsland, Auckland, on 12 December 2013, commencing at 2.30 pm.

AGENDA

PRESENTATIONS FROM THE MANAGER

INTERNALISATION (RESOLUTIONS 1, 2 AND 3)

None of resolutions 1, 2 or 3 shall take effect unless all of those resolutions are passed.

Resolution 1 - Approval of Internalisation

To consider and, if thought fit, pass the following as a resolution in accordance with section 18 of the Act:

That the Manager and the Trustee be authorised to do everything required to enter into and give effect to the transactions described in paragraph 3 of the Explanatory Memorandum, on such terms (not being inconsistent in any material respect with those so described) as the Trustee and the Manager consider appropriate. The Trustee is directed to do everything referred to in the preceding sentence, including without limitation to:

- (a) pay to the Manager from the Trust Fund the sum of \$46.4 million (plus GST);
- (b) pay to the Property Manager from the Trust Fund the sum of \$26.1 million (plus GST);
- (c) take all steps necessary to cause the Manager to cease to be manager of the Trust and Kiwi Property Management (NZ) Limited to be appointed as manager of the Trust in its place;
- (d) take all steps necessary to cause the Property Manager to cease to be property manager of the Trust and for Kiwi Property Management (NZ) Limited to assume the role of property manager of the Trust in its place;
- (e) enter into the amendments to the Trust Deed contemplated by Resolution 2, including the amendment to permit the payment of directors' fees out of the Trust Fund, in an amount equal to the amount of directors' fees which are currently paid to the directors of the Manager by the Manager (being approximately \$391,360); and
- (f) without limiting (a), (b), (c), (d) and (e), enter into, and perform its obligations under all documents which are necessary or desirable to give effect to those transactions, including those documents described in paragraph 29 of the Explanatory Memorandum.

Resolution 2 - Amendments to the Trust Deed to Effect Internalisation

To consider and, if thought fit, pass the following as an Extraordinary Resolution:

That pursuant to clause 38.1(c) of the Trust Deed, the Manager and the Trustee be authorised to make the amendments, additions and deletions to the Trust Deed shown in the revisions set out in Part 2 of Schedule 1 to this Notice of Meeting.

Resolution 3 - Approval of Internalisation – Listing Rule 9.2

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

That the transaction described in Resolution 1, including the payments referred to in paragraphs (a) and (b) of Resolution 1, be approved for the purposes of Rule 9.2.1 of the NZSX Listing Rules (Transactions with Related Parties).

Further information relating to resolutions 1, 2 and 3 is set out in Part A of the Explanatory Memorandum.

ADDITIONAL RESOLUTIONS

Resolution 4 - Directors' Remuneration

To consider and, if thought fit, pass the following as an Ordinary Resolution:

To authorise, for the purpose of NZSX Listing Rule 3.5.1, an increase in the total amount of remuneration payable to directors of the New Manager in their capacities as such from approximately \$391,360⁴ to \$585,000 plus GST (if any) per annum (such sum to be divided among the directors of the New Manager as the directors from time to time deem appropriate) for which the New Manager is entitled to be reimbursed out of the Trust Fund. This represents an increase of approximately \$194,000⁵ from the amount currently paid to the Independent Directors by the Manager.

Resolution 4 shall not take effect unless resolutions 1, 2 and 3 are also passed.

Further information relating to resolution 4 is set out in Part B of the Explanatory Memorandum.

^{4,5} Figures are approximate taking into account that certain fees are presently paid by the Manager to directors in Australian dollars, as described in Part B of the Explanatory Memorandum, and assuming an exchange rate of AU\$1:NZ\$1.15.

Resolution 5 - Borrowing Limits

To consider and, if thought fit, pass the following as an Extraordinary Resolution:

That pursuant to clause 38.1(c) of the Trust Deed, the Manager and the Trustee be authorised to amend clause 28.3(a) of the Trust Deed by deleting “40%” where it is used in clause 28.3(a) and replacing it with “45%”, such that the amended clause reads as follows:

No such Borrowing shall be made if the effect of that Borrowing would be such that immediately after that Borrowing, the total of money Borrowed by the Trust Fund and outstanding would exceed 45% of the Gross Value of the Trust Fund at that date (calculated taking account of the proceeds of the Borrowing) provided that, if at any time (due to circumstances outside the Manager’s control) the total Borrowings exceed 45% of the Gross Value of the Trust Fund, the Manager (in consultation with the Trustee) shall forthwith take such action (which may include the disposal of assets) as may be appropriate to generate sufficient Cash to repay, and the Manager shall apply that Cash in repaying Borrowings such that the total amount Borrowed immediately after such repayment does not exceed 45% of the Gross Value of the Trust Fund at that date.

Resolution 5 may take effect irrespective of whether any other resolutions are passed.

Further information relating to resolution 5 is set out in Part C of the Explanatory Memorandum.

By Order of the Manager



Mark Ford

Chairman
Kiwi Income Properties Limited

1. All Trust investors are entitled to attend the meeting. However, holders of Mandatory Convertible Notes are not entitled to vote.
2. A Unit Holder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of that Unit Holder. A proxy need not be a Unit Holder. A Unit Holder may appoint the chairperson of the meeting (who will not be the Chairman of the Manager), or another person, to act as proxy. A proxy form is enclosed. **If the chairperson of the meeting or a representative of the Trustee is appointed to act as proxy and is not directed how to vote, he/she will vote in favour of all of the resolutions referred to in this Notice of Meeting.** If a person who is prohibited from voting in favour of Resolution 3 or Resolution 4 is appointed as proxy, that person will not be permitted to vote an undirected proxy given in their favour by any other Unit Holder in respect of Resolution 3 or Resolution 4.
3. A Unit Holder wishing to appoint a proxy should complete the enclosed proxy form. All joint holders must sign the proxy form.
4. A proxy granted by a company must be signed by a duly authorised officer or attorney who is acting under the company's express or implied authority.
5. If the proxy is signed under a power of attorney or other authority, that power of attorney or other authority or a certified copy of that power of attorney or authority and a completed certificate of non-revocation, must accompany the proxy form (unless previously provided to the Registrar).
6. Completed proxy forms must be received by the Registrar, Link Market Services Limited, by no later than 2.30 pm on 10 December 2013 (being 48 hours before the meeting).
7. This Notice of Meeting has been approved by NZX Limited in accordance with Listing Rule 6.1.1. NZX Limited takes no responsibility for any statements in this Notice of Meeting.
8. The Internalisation Proposal constitutes a transaction governed by Listing Rule 9.2.1, dealing with requirements for approval of transactions with Related Parties (as defined in the Listing Rules). On that basis, an Ordinary Resolution approving the Internalisation Proposal for the purposes of that Listing Rule is contained in Resolution 3. The voting restrictions in respect of that resolution are described in paragraph 16 below.
9. Resolution 4 is an Ordinary Resolution for the purposes of Listing Rule 3.5.1, dealing with the approval of directors' remuneration. The voting restrictions in respect of that resolution are described in paragraph 17 below.
10. A glossary of the capitalised terms used in this Notice of Meeting is contained in Schedule 2.

Attendance and voting rights of Unit Holders

11. Every Unit Holder, or that Unit Holder's proxy or representative, is entitled to attend the meeting and vote. On a poll, each Unit Holder has one vote for each Unit. Other than as noted in paragraphs 16 and 17 below, there are no Unit Holders precluded from voting. Holders of Mandatory Convertible Notes are entitled to attend the meeting but are not entitled to vote.
12. If you are attending the meeting and voting in more than one capacity (eg also as proxy, attorney or representative for one or more other Unit Holders) you must fill out separate voting papers in respect of each capacity in which you vote.

Voting requirements

13. Resolution 1 is required to be passed as a resolution in accordance with section 18 of the Act. In order for a resolution to be passed in accordance with section 18 of the Act, it must be approved by the holders of 75 percent or more of Units entitled to vote and voting on the resolution, in person or by proxy, and representing 25 percent or more of the value of all the interests in the Trust held by Unit Holders.
14. Resolutions 2 and 5 are required to be passed as an Extraordinary Resolution. In order for an Extraordinary Resolution to be passed, it must be approved by 75 percent or more of the votes of Unit Holders who are entitled to vote and vote on the resolution, in person or by proxy.
15. Resolutions 3 and 4 are required to be passed as Ordinary Resolutions. In order for an Ordinary Resolution to be passed, it must be approved by a simple majority of the votes of Unit Holders who are entitled to vote and vote on the resolution, in person or by proxy.

16. The Manager, CBA and Associated Persons of both are prohibited by Listing Rule 9.3.1 from voting in favour of Resolution 3. NZX has granted a waiver which authorises Robert Narev and his Associated Persons (MFL Mutual Fund Limited and certain trustees of private trusts of which he is also a trustee) to vote as they see fit in respect of that resolution. That waiver is subject to the following conditions:

- (a) Mr Narev will abstain from all discussions and resolutions of the board of MFL Mutual Fund Limited concerning the proposed Internalisation;
- (b) the existence and effect of this waiver decision is disclosed in this Notice of Meeting;
- (c) Mr Narev has certified, in a form acceptable to NZX Regulation, that:
 - (i) he has made his decision with respect to the Internalisation without the undue influence of CBA or Associated Persons of CBA;
 - (ii) other than holding the office of director of the Manager, he has no relationship with CBA or the Manager which would make him an Associated Person of either party;
 - (iii) other than the directors' fees and reimbursement of expenses as a director of the Manager, he will not receive any remuneration or payment from either CBA or the Manager as a result of the Internalisation proceeding;
 - (iv) none of the associated entities of Mr Narev listed in paragraph 12 of Appendix One of the NZX waiver decision have any relationship with CBA or the Manager other than by reason of the interest of the Independent Director.
- (d) the waiver shall not apply if Mr Narev or any Associated Person of Mr Narev is a party to or beneficiary of a transaction effected for the purposes of the Internalisation Proposal, otherwise than as a result of the fact that Mr Narev is a director of the Manager (except for being party to or beneficiary of a transaction solely in its capacity as a Unit Holder); and
- (e) the waiver shall not apply to the extent that CBA is a beneficiary of any of the private trusts of which Mr Narev acts as trustee.

17. Subject to any waivers that may be granted by NZX, directors of the New Manager, and their Associated Persons, who hold Units are prohibited by Listing Rule 9.3.1 from voting in favour of Resolution 4.

PART A - INTERNALISATION (RESOLUTIONS 1 TO 3)

This Part provides an explanation of Resolutions 1 to 3 to authorise the Internalisation Proposal

INTERNALISATION PROPOSAL

1. In July 2013, the board of the Manager received a non-binding, indicative, incomplete and conditional proposal from CBA to internalise the management of the Trust. In general terms, CBA's proposal involved the transfer of the functions of the existing Manager and Property Manager which are owned by CBA to a New Manager controlled by Unit Holders. Following receipt of CBA's proposal the Independent Directors formed a sub-committee to evaluate and negotiate the terms on which an internalisation proposal might be developed to benefit Unit Holders. The Internalisation Proposal, if approved, will fundamentally change the financial, management and governance arrangements of the Trust.
2. A sub-committee of Independent Directors have negotiated with CBA a conditional agreement to internalise the management function of the Trust. The Trustee has agreed to give effect to Internalisation as agreed by the parties if Resolutions 1, 2 and 3 are approved by the requisite majority of Unit Holders at this meeting. This part of the Explanatory Memorandum provides background information in relation to the Internalisation, outlines the terms of the agreement and the basis for the recommendation by the Independent Directors.

THE TERMS OF THE INTERNALISATION

3. The proposal before Unit Holders involves the following key elements:

Trust Deed Amendments

- (a) A number of amendments to the existing Trust Deed, the principal effect of which is to remove the remuneration (base fee and performance fee⁶) entitlements of the Manager and its compensation rights if removed from office following implementation of the Internalisation Proposal. On implementation of these changes, the New Manager will operate on a break-even basis as described at (j) below. These amendments include a change to permit the payment of directors' fees out of the Trust Fund, in an amount equal to the amount of directors' fees which are currently paid to the directors of the Manager by the Manager (as described in paragraph 46). The Independent Directors consider these current amounts are less than the market rate for directors of comparable entities. A number of other consequential changes to the Trust Deed are required. All proposed amendments are set out and described in full in Schedule 1.

Payments

- (b) The Manager receives payment of the sum of \$46.4 million (plus GST of approximately \$7.0 million) out of the Trust Fund, payable on the date the transaction is implemented, in consideration for it relinquishing its entitlement to the ongoing fee entitlements, the termination of all management arrangements and the transfer of assets and staff associated with the management of the Trust.
- (c) The Property Manager receives payment of the sum of \$26.1 million (plus GST of approximately \$3.9 million) out of the Trust Fund, payable on the date the transaction is implemented, in consideration for the termination of the Property Manager's role (including relinquishment of the Property Manager's ongoing fee entitlements) and the transfer of assets and staff associated with the property management of the Trust.

New Manager and Shareholding Trustee

- (d) A New Manager (Kiwi Property Management (NZ) Limited) is appointed, with its sole share being owned by the Shareholding Trustee. The New Manager's sole share is held by the Shareholding Trustee, as it is a requirement of the Act that the manager and the trustee of a unit trust are separate. The New Manager will assume the roles of the fund manager and property manager in relation to the Trust.
- (e) The Shareholding Trustee will hold the sole share of the New Manager and will act on the direction of Unit Holders on any voting or dealing in that share. The Shareholding Trustee will be paid a fee by the Trust for performing its role, and will be reimbursed for expenses out of the Trust Fund, and indemnified by the New Manager (which is in turn indemnified out of the Trust Fund). Further details are set out in paragraph 36.

Transitional Services and Asset Purchase

- (f) On resignation, the Manager and Property Manager will transfer their systems and records to the New Manager. Existing employees engaged in the management of the Trust (including senior management personnel) will (subject to their agreement) also transfer to the employment of the New Manager. CBA will provide some transitional services and assistance to the New Manager for a period of up to twelve months after the appointment of the New Manager (which may be extended for a further twelve months if required, subject to the payment of additional fees).

⁶ The "base fee" is paid in an amount equal to 0.55% per annum of the average gross value of the trust fund for the period, and the "performance fee" is calculated on Unit Holder returns above 10% per annum. The maximum "performance fee" payable in any year is capped at 0.15% per annum of the average gross value of the trust fund for the period.

- (g) Under the asset purchase agreement, the Trust will pay approximately \$0.65 million for the purchase of the business assets used by the Manager and Property Manager. In addition, the New Manager will receive payment of approximately \$2.6 million on account of the assumption by the New Manager of accrued employee liabilities of the Manager and Property Manager.
- (h) CBA may terminate its obligations to provide the transitional services prior to the end of the twelve month term on 40 business days' notice to the New Manager in the event that a change of control of the New Manager occurs. In addition, certain other provisions under the agreements relating to the transaction will cease to apply in the event of a change of control of the Trust or the New Manager.

Directors

- (i) Initially all of the Independent Directors will be the directors of the New Manager. As previously indicated, Robert Narev intends to resign as a director at the end of 2013. Angus McNaughton, a non-Independent Director will not be a director of the New Manager. The Independent Directors are satisfied that, on their appointment to the board of the New Manager, they will be independent in terms of the Listing Rules. Following these initial appointments, the Shareholding Trustee will act on the direction of Unit Holders with regard to the appointment and removal of directors. Under the constitution of the New Manager, directors may also be appointed by the board of the New Manager to fill a casual vacancy or as an addition to the existing directors. Directors appointed in this way are required to retire at the next annual meeting but may be re-appointed if Unit Holders so direct. There will also be provision for annual rotation of directors, consistent with companies listed on the NZX Main Board. Any increase in the directors' remuneration will be subject to approval by Unit Holders in accordance with Listing Rule 3.5.1 or as otherwise permitted by that Listing Rule.

Payments to New Manager

- (j) The New Manager will operate on a break-even basis. This means that the New Manager will only be reimbursed, by way of property management fees and other operating cost recoveries, in aggregate for its actual costs incurred each year, rather than paid a lump sum base fee and performance fees irrespective of its actual costs. These costs will include staff costs, occupancy costs, IT costs and directors' fees. The directors of the New Manager intend to benchmark regularly the operating costs of the New Manager against other comparable industry participants to ensure it is

operating in as cost efficient a manner as practicable. Under the terms of the revised Trust Deed, the New Manager will have the responsibility of approving costs and expenses. The Trustee will not have responsibility to verify or approve those costs but will have the right to do so.

Termination of liability to and of the Manager

- (k) The payment for termination of the existing appointments of the Manager and Property Manager will constitute a complete settlement of any present or future claims of the Manager and Property Manager against the Trust Fund, except that the Manager will retain its current right under the Trust Deed to be indemnified out of the Trust Fund for any claims arising in respect of the period up to completion of the proposal. The indemnity does not extend to circumstances where the Manager has failed to show the required levels of care and diligence. The Manager and Property Manager will also be released from all liability in respect of the Trust, other than for:

- (i) liability that cannot be excluded at law; and
- (ii) liability for fraudulent acts of the Manager or Property Manager (as applicable),

such that the Trustee retains its rights under the Trust Deed and Property Management Deeds against the Manager and Property Manager in respect of any such liability. None of the Trustee, or any directors of the Manager are aware of the existence of any material claims or potential material claims against the Manager. The Independent Directors understand that it is CBA's intention to wind up the Manager and the Property Manager promptly following completion. Following any such winding up, the Trust will no longer have any practical remedy against those entities for any breach of their obligations to the Trust.

4. The Trust will fund the payments described in paragraphs 3(b) and 3(c) above through its debt facilities.
5. The non-recurring transaction costs (including the Independent Appraiser's fee, share registry expenses, legal fees, accounting and tax advice fees, financial adviser fees, other professional consulting fees, printing costs and postage costs) related to evaluating and putting forward the Internalisation Proposal to Unit Holders are estimated to amount to an aggregate of approximately \$1.9 million, assuming the Internalisation proceeds. The non-recurring one off transition costs of implementing the Internalisation (primarily IT systems costs) are estimated to be approximately \$1.5 million. These costs have been taken into account in the Independent Appraisal Report. Under the Trust Deed, they are met out of the Trust Fund.

THE PURPOSE AND EFFECT OF THE INTERNALISATION

Why internalise?

6. The Act (the legislation under which the Trust, and unit trusts generally, are constituted and governed) provides for separation between the manager and the trustee. In practice, this separation requirement has seen the development of externally managed trusts where the manager is owned by a third party, with management fees payable to that manager on the basis recorded in a trust deed.
7. The management fee structures generally have enabled managers to operate profitably, and with a profit making motive. In addition, directors of the manager have generally been appointees of the manager's shareholders, rather than unit holders.
8. The relatively secure income stream that the manager is entitled to be paid under the trust deed also results in the management company having value. This value is captured by the shareholders of the management company (and not unit holders of the trust) through dividends and the ability to sell their shareholdings. Typically, trust deeds have not contained any restriction on the ability of shareholders of the manager to sell their shareholdings, resulting in changes of ownership of a manager in which unit holders have had little or no say.
9. This model has resulted in management capability, institutional knowledge, and systems and processes being developed by an entity which is not ultimately owned or controlled by unit holders.
10. These factors have caused a trend toward internalised management both in New Zealand and abroad.
11. Another benefit of internalised management is enhanced governance rights. Under the Internalisation, Unit Holders will have the ability to direct the appointment of all directors of the New Manager.
12. Internalisation also means that potential acquirers looking to obtain control of the governing body of the Trust would likely need to acquire control of the Trust through an acquisition of Units, rather than an acquisition of the Manager. This more closely aligns the position of the Trust with the position of a company in a takeover situation (although takeovers will continue to be subject to the notice and pause regime in the Listing Rules, rather than the Takeovers Code). This is likely to better facilitate Unit Holder participation in any takeover of the Trust.

Anticipated financial benefits of the Internalisation

13. As a result of the Internalisation, the Trust is expected to benefit from pre-tax expenditure savings (being the difference between the management fees currently paid to the Manager and the Property Manager and the underlying costs of operating the Manager and the Property Manager on a standalone basis), in part offset by additional funding costs related to the funding of the termination payments.
14. Based on 31 March 2013 financial information as a guide, pre-tax net expenditure savings (after funding costs) of approximately \$8 million per annum are expected from the Internalisation, assuming that no performance fees had been paid in the 31 March 2013 financial year. Including the impact of performance fees of \$3 million paid in the 31 March 2013 financial year would increase the benefit.
15. This saving in net expenditure leads to a similar increase in profit before tax for the year of approximately \$8 million. Based on the financial year ended 31 March 2013, all other things being equal, this equates to an increase in profit before tax of approximately 0.81 cents per Unit.
16. The above calculations assume that the termination fee payments, net of tax are 100% debt funded at an interest rate of 5.25%, and that the termination payments, one-off transition costs and transaction costs were excluded from the calculation of profit before tax.
17. The termination payment of \$72.5 million should be deductible for tax purposes as explained further in paragraph 19. This means that the net cost of the Internalisation (that is, the net payment after tax but before non-recurring items) should equate to approximately \$50.3 million.
18. Section 8 of the Independent Appraisal Report includes the Independent Appraiser's analysis of the financial impacts of the Internalisation.

Taxation position

19. The Manager has received advice that the aggregate termination payment of \$72.5 million to be made by the Trust should be deductible for tax purposes by the Trust. The payment of approximately \$0.65 million for the transfer of assets will not be deductible. A binding ruling will be sought from Inland Revenue to confirm that the payment of \$72.5 million will be deductible. If that ruling is not obtained (so that the payment is not deductible for tax purposes by the Trust) the transaction will still proceed.

20. The Trust will be required to pay GST of approximately \$10.9 million on the aggregate termination fees. This GST will be recoverable by the Trust as an input tax credit from Inland Revenue. The acquisition by the New Manager of the business assets of the Property Manager for approximately \$0.65 million and the assumption of the employee liabilities of approximately \$2.6 million from the Property Manager will have nil GST.
21. The Trust will likely be in a tax loss position for a period of time as a result of the tax deduction for the aggregate termination fee payments. The benefit of any unutilised tax losses could be lost if significant changes of ownership of Units took place to the extent that tax losses were no longer able to be carried forward by the Trust.
22. For the period that the Trust is in a tax loss position the Trust will not be making tax payments and therefore imputation credits will not be generated. This means that distributions paid during this period will be non-taxable excluded distributions under the portfolio investment entity regime.
23. While the circumstances of each Unit Holder will differ, the Internalisation Proposal is not expected to have any material adverse taxation implications for New Zealand resident Unit Holders. There may be short term adverse implications for non-resident Unit Holders depending on the tax rules in their home jurisdiction as there will not be any non-resident withholding tax on excluded distributions.

Is Internalisation the same as corporatisation?

24. No. A number of unit trusts which have proceeded down the internalisation path have done so by changing their fundamental nature from a unit trust to a company (i.e. a "corporatisation"). The proposal to which this Notice of Meeting relates does not involve a corporatisation of the Trust.
25. Proposals combining an internalisation with a corporatisation are relatively complex, costly, and time consuming to implement. A corporatisation at this time would also trigger early conversion of the Mandatory Convertible Notes, prior to their scheduled conversion in December 2014. However, the Internalisation should be seen as the first step towards corporatisation.
26. The proposal presented will have substantially the same financial and alignment outcomes for Unit Holders as a corporatisation, that is:
- (a) enhanced governance rights for Unit Holders, with appointment and removal rights in respect of all directors of the New Manager and an ability to direct the transfer of the share in the New Manager vesting in Unit Holders;

- (b) an orderly transfer of staff, information systems and banking arrangements;
- (c) management operates on a break-even basis with incentives to operate efficiently, rather than in a manner which generates returns to a third party external manager, and the proposal is able to be implemented more quickly and at a lower cost at this time.

THE STEPS NECESSARY TO BRING THE INTERNALISATION INTO EFFECT

Implementation Deed recording terms and agreement for Internalisation

27. On 8 November 2013, the Manager, CBA and the Trustee entered into an Implementation Deed under which the parties conditionally agreed to proceed with the steps required to implement the proposal. Under the Implementation Deed, the Trustee has agreed to give effect to Internalisation as contemplated by the deed if so directed by Unit Holders passing Resolutions 1 to 3.
28. The Implementation Deed is conditional on a number of matters, including Unit Holder approval and appropriate regulatory consents. Those conditions must be satisfied before 28 February 2014. The Implementation Deed may be terminated if those conditions are not met by 28 February 2014, if CBA or the Manager suffers an insolvency event, or if CBA or the Manager are in material breach of the Implementation Deed.
29. The Implementation Deed provides that upon approval of Internalisation, the parties will proceed with Internalisation and execute the following documents:
- (a) An Agreement for the Termination of Management Rights providing for termination of the Manager as manager of the Trust and the Property Manager as manager of the Trust's properties through termination of the Property Management Deeds.
 - (b) An Assets and Business Sale and Purchase Agreement, which deals with the acquisition of the assets of the Manager and the Property Manager by the New Manager and for the transfer of employees involved in the management of the Trust to the New Manager.
 - (c) A Transitional Services Agreement, principally providing for the provision of IT, communications and other transitional arrangements to the New Manager by CBA and its related companies so that the business of the Trust is not disrupted

while the New Manager establishes its own functionality in relation to those requirements on a standalone basis.

30. Under the Implementation Deed, a reimbursement fee (for out of pocket expenses incurred by CBA in relation to the Internalisation Proposal, including legal, financial and other advisor fees) is payable, if before 28 February 2014 (or the termination of the Implementation Deed, if earlier):
- (a) an Independent Director withdraws their support for the Internalisation or supports a competing proposal to the Internalisation; or
 - (b) a competing proposal to the Internalisation is announced, and within one year of the date of that announcement, a third party is appointed as the manager of the Trust or enters into an agreement with the Manager inconsistent with the Internalisation.
31. The reimbursement fee is capped at \$5 million. If the reimbursement fee is paid in conjunction with a payment to the Manager under the existing clause 27.4 of the Trust Deed (which provides for a termination payment equal to 0.85% of the gross value of the Trust Fund where the Manager is removed from office by Unit Holder resolution) to the extent that the reimbursement fee causes the aggregate payment to exceed 1% of the average market capitalisation⁷ of the Trust, the reimbursement fee will be reduced so that the reimbursement fee does not cause the aggregate payment to exceed 1% of the average market capitalisation⁷ of the Trust. Only the reimbursement fee would be reduced in these circumstances and the full amount under the existing clause 27.4 of the Trust Deed would remain payable. The reimbursement fee will not be payable if the Internalisation Proposal is approved by Unit Holders, or if Unit Holders do not approve Resolutions 1, 2 and 3 in circumstances where neither of the events contemplated by paragraphs 30 (a) or (b) have occurred.

Amendments to Trust Deed

32. The amendments to the Trust Deed which Unit Holders are being asked to approve are described in Part 1 of Schedule 1, and set out in full in Part 2 of Schedule 1.
33. A consolidated copy of the Trust Deed incorporating all the amendments proposed can be obtained from the Manager upon request by a Unit Holder at no charge.
34. In accordance with clause 38.1(c) of the Trust Deed, if Resolution 2 is passed, the Manager, the New Manager and the Trustee will execute a deed of variation and restatement to

effect the approved amendments to the Trust Deed. A copy of that deed will be registered with the Registrar of Companies and made publicly available on the Companies Office website at www.business.govt.nz/companies under the name of the Trust.

35. The amendments to the Trust Deed which are proposed by Resolution 2 have been approved by NZX Limited in accordance with Listing Rule 6.1.1.

Terms on which the Shareholding Trustee will hold the Share in the New Manager

36. The Shareholding Trustee will hold the share in the New Manager on the following principal terms:
- (a) The Shareholding Trustee will hold the share in the New Manager on trust for a charity selected by the board of the New Manager (the “Beneficiary”).
 - (b) All profits, gains and benefits received by the Shareholding Trustee in respect of the share in the New Manager will be paid to the Beneficiary. However, the intent is that, as the New Manager is to operate on a break-even basis only, profits will not be made by the New Manager.
 - (c) The Shareholding Trustee will appoint and remove all directors of the New Manager, and approve any increase in the remuneration of directors, in accordance with directions from Unit Holders given at a meeting of Unit Holders (by Ordinary Resolution). Director nomination rights and rotation provisions will be consistent with the standard Listing Rule provisions.
 - (d) The Shareholding Trustee will deal with and vote (except in respect of procedural or administrative matters) its share in the New Manager in accordance with directions from Unit Holders given at a meeting of Unit Holders (by Extraordinary Resolution). Unit Holders may also by Extraordinary Resolution direct the Shareholding Trustee to dispose of the share in the New Manager.
 - (e) The Shareholding Trustee has the right to be paid an establishment fee of \$2,500 plus GST, and an annual fee of \$7,500 per annum plus GST, together with an hourly charge based on hours spent in fulfilling its obligations and reimbursement for other expenses (eg legal fees, costs of attending Unit Holder meetings). This remuneration may be increased by agreement between the Shareholding Trustee and the New Manager.

⁷ Average market capitalisation has the meaning given to it in the Listing Rules.

- (f) The Shareholding Trustee is also entitled to be indemnified by the New Manager (which is in turn indemnified out of the Trust Fund) in respect of any liability arising out of any action taken in connection with its obligations.
- (g) The Shareholding Trustee's appointment will terminate on the transfer of the share in the New Manager to another shareholder following a direction from Unit Holders. The Shareholding Trustee may retire at any time by giving 90 days' written notice to the New Manager and any retirement will only take effect on the appointment of a new shareholder of the New Manager. Any replacement shareholder must be an entity licensed under the Securities Trustees and Statutory Supervisors Act 2011 and independent of the Trustee. The Shareholding Trustee is licensed under the Securities Trustees and Statutory Supervisors Act. Its licence expires on 27 March 2017.
- (h) Under the Trust Deed (once it is amended), the New Manager will be responsible for approving all amounts payable from the Trust Fund to the Shareholding Trustee or a replacement shareholder.

A copy of the deed recording the terms on which the Shareholding Trustee will hold the share in the New Manager can be obtained from the Manager upon request by a Unit Holder at no charge.

OTHER ASPECTS OF INTERNALISATION

Distribution reinvestment plan

37. Internalisation is not expected to have any practical implications for the Trust's distribution reinvestment plan. Minor amendments to the terms of the distribution reinvestment plan will be made in accordance with the terms of the plan to record the appointment of the New Manager, which will be the "issuer" of Units under the plan following Internalisation. It is expected that participation in the Trust's distribution reinvestment plan will continue to be offered for the time being and that existing elections made by Unit Holders under the plan will continue to apply notwithstanding those amendments.

Securities Act 1978 exemption

38. Due to the various elements of the proposal, including the proposed amendments to the Trust Deed, the Internalisation Proposal involves a variation of the terms and conditions of the Units and the Mandatory Convertible Notes (each a "security" under the Securities Act 1978).

39. The FMA granted the Securities Act (Kiwi Income Properties Limited and Kiwi Income Property Trust Amendment) Exemption Notice 2013 on 18 November 2013, which provides an exemption from standard disclosure requirements under the Securities Act 1978 which are not considered necessary or appropriate in the context of the Internalisation Proposal. This exemption is subject to the inclusion in the Notice of Meeting of certain information in relation to the Internalisation, the New Manager and its directors. The required information is included in this Notice of Meeting (including Schedule 3).
40. The Securities Act (Kiwi Income Properties Limited and Kiwi Income Property Trust Amendment) Exemption Notice 2013 also includes an amendment to the Securities Act (Kiwi Income Property Trust) Exemption Notice (No 2) 2009 to ensure that the Trustee and the New Manager are able to rely on that exemption notice following implementation of Internalisation through to the conversion of the Mandatory Convertible Notes.

Timetable

41. If Unit Holder approval of the proposal is obtained, it is intended that settlement of the transactions required to implement the proposal will occur on or about 13 December 2013.

Recommendation

42. The Independent Directors believe that Internalisation is in the best interests of Unit Holders.
43. The Independent Directors unanimously recommend that Unit Holders approve the Internalisation by voting in favour of Resolutions 1, 2 and 3.
44. Robert Narev, as the only Independent Director with an interest in Units, intends to vote the Units he controls in favour of the Internalisation.

PART B - DIRECTORS REMUNERATION (RESOLUTION 4)

This part deals with Resolution 4 to authorise the proposed increase in directors' remuneration

45. As noted above, by approving Internalisation, Unit Holders are approving amendments to the Trust Deed which would provide for the reimbursement of directors' fees payable to the directors of the New Manager in an amount equal to the directors' fees currently paid to the directors of the Manager by the Manager. Any increase in the amount of directors' fees is subject to Unit Holder approval by an Ordinary Resolution under Listing Rule 3.5.1 or as otherwise permitted by that Listing Rule.
46. The aggregate amount presently payable to directors by the Manager is approximately \$391,360⁸ plus GST (if any) per annum. This is divided as follows:
- (a) The Independent Directors (other than the Chairman) have been paid at the annual rate of \$60,000 each per annum (or in the case of one Independent Director, \$49,000 Australian dollars), plus any applicable GST.
 - (b) The Chairman is paid \$113,052 Australian dollars per annum (including for membership of the Audit and Risk Committee) plus any applicable GST.
 - (c) Angus McNaughton (a non-Independent Director) does not receive directors' fees from the Manager.
 - (d) There is an Audit and Risk Committee which meets biannually, and in respect of which the members are paid an additional \$10,000 per annum and the Chair of the committee an additional \$15,000.
47. It is proposed that, if Internalisation is approved, the sum available for payment of directors' fees be increased to a maximum of \$585,000 plus GST (if any) per annum in accordance with Listing Rule 3.5.1 (such sum to be divided among the directors of the New Manager as the directors from time to time deem appropriate). Consistent with the Internalisation resolutions, this amount would be paid out of the Trust Fund. Presently directors' fees are paid by the Manager.
48. If the Internalisation is approved, an additional board committee, a Remuneration and Nomination Committee, will be appointed to deal with the remuneration of the employees of the New Manager. This function is currently not necessary as all employees of the Manager and Property Manager are employees of the CBA group of companies.
49. If Resolution 4 is passed and Resolutions 1, 2 and 3 are also passed, the Independent Directors intend to allocate the aggregate pool of directors' fees based on their responsibilities as set out below:
- (a) Chair - \$150,000 per annum
 - (b) Directors - \$80,000 per annum
 - (c) Chair of the Audit and Risk Committee - \$20,000 per annum
 - (d) Members of the Audit and Risk Committee - \$10,000 per annum
 - (e) Chair of the Remuneration and Nomination Committee - \$12,500 per annum
 - (f) Members of the Remuneration and Nomination Committee - \$6,250 per annum
 - (g) A discretionary pool of \$50,000 per annum
50. The Chairman will not receive any additional fees for committee membership.
51. The discretionary pool of \$50,000 referred to at paragraph 49(g) is to provide flexibility to remunerate non-executive directors who assume additional responsibilities, including for example, in connection with specific transactions and other duties not normally expected from non-executive directors in the ordinary course of business.
52. If the New Manager increases the number of directors, the New Manager may, under Listing Rule 3.5.1, without further authorisation from Unit Holders, increase the total amount of directors' fees by such amount as is necessary to enable a new director to receive remuneration not exceeding the average amount paid to each of the other existing non-executive directors (other than the Chairman).
53. If approved, such changes will be effective from the effective date of the Internalisation.
54. If Resolutions 1, 2 and 3 are not passed, irrespective of whether Resolution 4 is passed, Internalisation will not proceed and the directors' remuneration will continue to be determined by CBA and paid by the Manager out of the proceeds of the Manager's fees.
55. The Independent Directors have undertaken a detailed review of directors' remuneration, including benchmarking against relevant market data, aimed at ensuring the proposed director remuneration for the Trust is consistent with market trends and the objective of attracting and retaining high calibre individuals as directors. The amounts set out above reflect that review. The Independent Directors consider that the proposed increases in remuneration are appropriate and justified.
56. Subject to any waivers that may be granted by NZX, directors of the New Manager, or their Associated Persons, who hold Units are restricted from voting on this resolution by Listing Rule 9.3.1.

⁸ Assuming an exchange rate of AUS1:NZ\$1.15.

PART C - BORROWING LIMITS (RESOLUTION 5)

This part deals with Resolution 5 to authorise the proposed increase in the amount that the Trust may borrow as a proportion of the gross value of the Trust Fund from 40% to 45%.

57. It is proposed that the borrowing restrictions in the Trust Deed, which currently limit borrowing to 40% of the gross value of the Trust Fund be increased to 45% of the gross value of the Trust Fund. This amendment to the Trust Deed will:

- (a) align the Trust Deed with the Trust's existing banking covenant limit of 45%;
- (b) provide the Trust with greater flexibility to fund future capital requirements with debt rather than equity. As debt is generally a cheaper source of funding, it may in certain cases be the Trust's preferred source of funding with a view to enhancing Unit Holder returns;
- (c) provide the Trust with flexibility to increase borrowing levels to a higher level, while still maintaining sufficient headroom below borrowing covenants to accommodate external shocks or unexpected events. For example, it is proposed to debt fund the Internalisation payment to CBA, thereby increasing the borrowings of the Trust relative to the gross value of the Trust Fund to approximately 38%. Increasing the Trust Deed borrowing restrictions to 45%, to align with the Trust's existing banking covenant limit, provides the Trust with improved headroom against its borrowing limits;
- (d) provide the Trust with additional debt capacity to cost-effectively fund attractive investment opportunities that may arise without the need to immediately raise equity or recycle capital through asset sales; and
- (e) increase the borrowing restriction to a level closer to its listed property sector peers (which is generally 50% of total assets), to reduce any relative disadvantage.

Recommendation

58. The Independent Directors believe that the increase in the borrowing limit described above is in the best interests of Unit Holders.

59. The Independent Directors unanimously recommend that Unit Holders approve the increase in the borrowing limit by voting in favour of Resolution 5.

SCHEDULE 1 – PART 1 TRUST DEED AMENDMENTS

The amendments to the Trust Deed which Unit Holders are being asked to approve for the purposes of Resolution 2 are described below, and are set out in full in Part 2 of this Schedule 1.

The amendment to the Trust Deed for the purpose of Resolution 5 is set out in Resolution 5.

Description of amendments for Resolution 2:

- deletion of the provisions relating to the remuneration of the Manager and the insertion of provisions whereby the New Manager shall not be entitled, in respect of its services, to any fee in the nature of remuneration but shall be entitled to reimbursement and indemnification in accordance with the provisions of the Trust Deed;
- deletion of the provisions under which the manager of the Trust is entitled to receive a payment on cessation of office;
- clarification of the reimbursement of expenses provisions contained in the Trust Deed to provide that all costs, charges, disbursements and expenses incurred by the New Manager in performing its functions of and incidental to the management of the Trust are reimbursable out of the Trust Fund;
- Unit Holders are given the right, by means of an Ordinary Resolution, to direct the shareholder of the New Manager as to the individuals in respect of whom the shareholder of the New Manager shall exercise its right to appoint and remove as directors under the constitution of the New Manager;
- Unit Holders are given the right, by means of an Extraordinary Resolution, to direct the shareholder of the New Manager (including as to terms) to dispose of all or any of the shares in the New Manager or to vote its shares in the New Manager;
- express provisions to confirm that the payment of directors' fees to the directors of the New Manager would be reimbursable out of the Trust Fund. Initially, this would be equal to the amount of directors' fees which are currently paid to the directors of the Manager but which are currently borne by the Manager (being approximately \$391,360, taking into account that certain fees are paid in Australian dollars, as described in Part B of the Explanatory Memorandum). Any further increase in the directors' fees payable to the directors of the New Manager would require an Ordinary Resolution of Unit Holders in accordance with Listing Rule 3.5.1 or as otherwise permitted by that Listing Rule. A further increase in such fees is proposed through Resolution 4, as described in further detail in Part B of the Explanatory Memorandum;
- inclusion of an express provision entitling the New Manager to act as a property manager for the Trust, and receive and retain fees and other remuneration for acting in that capacity. It is the intention of the New Manager that these fees retained will be used by the New Manager to pay its ongoing operating expenses so that the New Manager operates on a break-even basis and if any profits are made they will be paid to the Trust; and
- other minor variations of a consequential nature, including updating current references to the Listing Rules and other relevant legislation and regulations.

**SCHEDULE 1 – PART 2
TRUST DEED
AMENDMENTS**

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 1.1	<p>“Annual Meeting” means an annual meeting of Unit Holders convened in accordance with clause 36.2(a).</p> <p>“Borrow” - Typographical correction.</p> <p>“Date of Enforcement” means the date on which the <u>Debt</u> Trustee makes a declaration pursuant to clause 35.2.</p> <p>“Director” means a director of the Manager.</p> <p>“Implementation Deed” has the meaning given to that term in clause 1.6.</p> <p>“Listing Rules” means the NZSX listing rules of NZX applicable to an issuer with securities listed on the NZX Main Board in force from time to time.</p> <p>“Manager” means the person appointed as manager of the Trust in accordance with this deed from time to time, being, at the date of this deed, Kiwi Income Properties Limited (a company duly incorporated under the Companies Act 1955 and re-registered under the Companies Act 1993).</p> <p>“Minimum Number” - Updated to refer to NZX Main Board (following name change from NZSX).</p> <p>“NZSX” means the main board equity security market operated by NZX.</p> <p>“NZX” - Updated to refer to current legal name of NZX.</p> <p>“NZX Main Board” means the main board equity security market operated by NZX.</p> <p>“Ordinary Resolution” means (subject to Listing Rule 4.1-7.1.6.8) a resolution that is approved by a simple majority of the Votes of those Unit Holders entitled to vote and voting on the question.</p> <p>“Registrar” means BK Registries <u>Link Market Services</u> Limited or such other registrar as the Manager and the Trustee may determine from time to time.</p> <p>“Shareholder” means the shareholder(s) for the time being of the Manager.</p> <p>“Shareholding Deed” means the deed or other document made between the Manager and the Shareholder recording (amongst other things) the terms on which the share(s) in the Manager are held by the Shareholder.</p> <p>“Trustee” means the person appointed as trustee of the Trust in accordance with this deed from time to time, being, at the date of this deed, New Zealand Permanent Trustees Limited.</p> <p>“Winding Up Event” - Number reference in definition consequently amended.</p>
Clause 1.6	<p><u>Upon Completion (as defined in an Implementation Deed dated 8 November 2013 to which Kiwi Income Properties Limited, the Trustee and others are party) (“Implementation Deed”) and notwithstanding any other provision of this deed:</u></p> <p>(a) <u>Kiwi Income Properties Limited shall cease to be the manager of the Trust in accordance with and subject to the terms of the Implementation Deed; and</u></p> <p>(b) <u>Kiwi Property Management (NZ) Limited shall become the Manager.</u></p>
Clause 6.2(ii)	Number reference in clause consequentially amended.
Clause 6.2(iii)	Number references in clause consequentially amended.
Clause 6.2(iv)	Number reference in clause consequentially amended.
Clause 7.1(a)	Updated to refer to NZX Main Board (following name change from NZSX).
Clause 7.3	Number reference in clause consequentially amended.

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 7.5	The Manager may require any applicant for Units to pay, in addition to the basic issue price of those Units, such fee as the Manager may fix as a condition of issue of those Units provided that, in respect of any particular issue of Units, each applicant shall be required to pay the same fee as each other applicant. The Manager may deduct and retain such fee from the subscription moneys received by the Manager in respect of those Units. In this event, the number of Units issued shall be that number which has an aggregate issue price equal to the subscription moneys received or receivable by the Manager less the amount of such fees.
Clause 7.6	All subscription moneys received by the Manager upon an issue of Units (other than including any amounts deducted fees received in accordance with clause 7.5) shall become subject to the trusts created by clause 3.1 upon receipt by the Manager. The Manager shall in accordance with section 14 of the Act pay all such moneys into a separate bank account and shall pay such moneys to the Trustee within seven days of receipt. If the Manager decides to reject any application for Units (in whole or in part) it shall forthwith return, or direct the Trustee to return, the subscription moneys (or the relevant portion thereof) to the applicant.
Clause 7.7	Typographical correction.
Clause 11.4	If the Manager determines to suspend the payment of interest in accordance with clause 11.3, the Manager shall give to the Debt Trustee notice to that effect. That notice shall incorporate a certificate signed by not less than two d Directors of the Manager on behalf of all of its the d Directors: <ul style="list-style-type: none"> (a) stating that one or more of the circumstances specified in clause 11.3 exists; and (b) if the circumstances specified in clause 11.3(b) exist, specifying details of the relevant default in payment of any Borrowings.
Clause 11.8	Typographical corrections.
Clause 13.1	Number references in clause consequentially amended.
Clause 13.11	Number reference in clause consequentially amended.
Clause 14.12	Notwithstanding any other provision of this deed, the Manager may direct the Trustee to pay such supplementary Distributions to Unit Holders resident outside New Zealand as may be provided for by Part LE-LP of the Income Tax Act 1994-2007 and as may be agreed by the Manager and the Trustee as being fair and equitable.
Clause 19.6	Updated to refer to NZX Main Board (following name change from NZSX).
Clause 22.4(c)(i)	be appointed by the Disinterested Directors (as defined in Listing Rule 4.5.9), if any, and otherwise by all the d Directors of the Manager after consultation with the Trustee and after approval by NZX; and
Clause 22.4(c)(ii)	Typographical correction.
Clause 24.1	The Trustee shall be paid out of the Trust Fund in respect of its services a fee equal to 0.1% per annum of the Gross Value of the Trust Fund provided that in any Financial Year the minimum fee paid to the Trustee in respect of the Trust shall be \$5,000, unless such Financial Year consists of a period of less than twelve months, in which event the minimum fee shall be that proportion of \$5,000 which equates to the proportion which the actual number of months in that Financial Year bears to twelve. The Trustee shall be entitled to receive, in addition to such fee, any value added tax or duty or similar tax or duty payable in respect of such fee. For the purposes of this clause 24.1 and clause 26.15 , "value added tax" shall include, but not be limited to, goods and services tax as that term is defined in the Goods and Services Tax Act 1985.
Clause 25.1	The Trustee may be removed from office as trustee by the <u>Manager with the approval of the High Court on the application of the Manager or the Minister of Justice pursuant to section 10 of the Act or under Part 2 of the Securities Trustees and Statutory Supervisors Act 2011</u> or by an Extraordinary Resolution of Unit Holders.

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 26.1	<p>26. REMUNERATION OF MANAGER</p> <p>26.1 The parties record that it is intended that the Manager operate on a “break-even” basis. Accordingly:</p> <p>(a) <u>the Manager shall be entitled to reimbursement and indemnification in accordance with clause 40 and the other applicable provisions of this deed; and</u></p> <p>(b) <u>the Manager shall also be entitled to act as a property manager, agent or consultant in relation to the management, development, acquisition, sale, leasing or other dealings with the real estate properties and other Authorised Investments of the Trust and charge fees and seek reimbursement of its expenses for the same from the counterparties to those transactions (including the Trust and its subsidiaries),</u></p> <p><u>provided that the Manager is subject to the obligations to refund amounts received or account for profits to the extent required by clause 40.13.</u></p> <p>In this section 26, unless the context otherwise requires:</p> <p>“Base Fee” has the meaning set out in clause 26.3 of this deed.</p> <p>“Cap” means, in respect of any Half Year, an amount in cents per Unit, determined as follows:</p> $C = T + (GV \times 0.15\% \text{ per annum} : WAU) : 10\%$ <p>where:</p> <p>C = Cap;</p> <p>T = Threshold (as defined in this section);</p> <p>GV = average Gross Value of the Trust Fund for that Half Year; and</p> <p>WAU = weighted average number of Units on issue over that Half Year.</p> <p>“Deficit” means, where the Unit Holder Return for the relevant Half Year is less than the Threshold, the difference, expressed in cents per Unit, between the Threshold and the Unit Holder Return for that Half Year.</p> <p>“Excess” means, where the Unit Holder Return for the relevant Half Year is more than the Cap, the difference, expressed in cents per Unit, between the Unit Holder Return and the Cap for that Half Year.</p> <p>“Half Year” means the six month periods ending 30 September and 31 March in each Financial Year.</p> <p>“Performance Fee” has the meaning set out in clause 26.5 of this deed.</p> <p>“Threshold” means, in respect of any Half Year, an amount calculated as 10% per annum of the opening Unit price for that Half Year (calculated in accordance with clause 26.7) and expressed in cents per Unit.</p> <p>“Unit Holder Return” means, in the relevant Half Year, an amount expressed in cents per Unit, being any Distribution(s) per Unit (including any imputation credits) declared in respect of that Half Year plus or minus (as the case may be) the change in Unit price of the Units of the Trust over the relevant Half Year (calculated in accordance with clause 26.7) plus or minus any Deficit or Excess arising in previous Half Years and applied pursuant to clause 26.8.</p>

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 26.2	<p>26.2 For the avoidance of doubt, the Trustee may pay the following amounts from the Trust Fund:</p> <p>(a) to Kiwi Income Properties Limited the fees, and the relevant portion of the Excess, payable in respect of the Half Year deemed to have ended on Completion under the Implementation Deed; and</p> <p>(b) to Kiwi Property Management Limited the amounts payable by the Trustee to Kiwi Property Management Limited in respect of the property management functions performed by Kiwi Property Management Limited up until Completion under the Implementation Deed;</p> <p>in each case calculated in accordance with the Agreement for Termination of Managements Rights between the Commonwealth Bank of Australia, the Trustee, Kiwi Income Properties Limited, Kiwi Property Management Limited and the Manager entered into on Completion under the Implementation Deed. The Trustee may make such payments notwithstanding that Kiwi Income Properties Limited has ceased to be manager of the Trust and Kiwi Property Management Limited has ceased to be the property manager of the Trust. In this clause 26.2, the terms “Excess” and “Half Year” have the meanings given to those terms in the Implementation Deed.</p> <p>The Manager shall be entitled, in respect of its services in respect of each Financial Year to a fee to be paid from the Trust Fund, such fee to comprise the aggregate of a Base Fee (plus GST) and a Performance Fee (plus GST), provided that the combined fee (excluding GST) will not exceed 0.70% of the average of the Gross Value of the Trust Fund in respect of any Financial Year.</p>
Clause 26.3	<p>26.3 The Base Fee for a Financial Year is 0.55% per annum of the average of the Gross Value of the Trust Fund for that Financial Year (“Base Fee”).</p>
Clause 26.4	<p>26.4 The Base Fee shall be calculated and paid in cash quarterly (in respect of the quarters ending March, June, September and December) in arrears by reference to the average of the Gross Value of the Trust Fund during the relevant preceding quarter (which average shall be determined from day to day or in such other manner as the Manager and the Trustee may agree).</p>
Clause 26.5	<p>26.5 The Performance Fee shall be calculated in respect of each Half Year of the relevant Financial Year in arrears (“Performance Fee”) as follows:</p> <p>(a) If the Unit Holder Return in the relevant Half Year is greater than the Threshold, the Performance Fee for the Half Year is the lower of:</p> <p>(i) 10% of the amount by which the Unit Holder Return is greater than the Threshold expressed in cents per Unit; and</p> <p>(ii) 10% of the amount by which the Cap exceeds the Threshold expressed in cents per Unit, multiplied by the weighted average number of Units on issue during the relevant Half Year.</p> <p>(b) If the Unit Holder Return in the relevant Half Year is less than or equal to the Threshold, no Performance Fee shall be payable.</p>
Clause 26.6	<p>26.6 Subject to clauses 26.11 and 26.12 the Performance Fee shall be calculated in respect of each Half Year and paid in Cash half-yearly in arrears on the same date as Distributions are paid in respect of the relevant Half Year.</p>

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 26.7	<p>26.7— For the purposes of calculating the opening price of Units and any change in the price of Units:</p> <ul style="list-style-type: none">(a) — the opening Unit price (subject to any adjustment provided for under this section 26 for a change to the issued capital) for the relevant Half Year shall be the volume weighted average of the prices at which Units were traded through the NZSX during the last five trading days of the previous Half Year; and(b) — the closing Unit price for the relevant Half Year shall be the volume weighted average of the prices at which Units were traded through the NZSX during the last five trading days of the relevant Half Year; <p>or, if no trades occurred during the relevant period, the volume weighted average of the prices at which Units were traded through the NZSX on the last five trading days on which trades occurred prior to that period:</p>
Clause 26.8	<p>26.8— In the event of there being any Deficit or Excess arising from any Half Year it shall be subtracted from or added to (as the case may be) the Unit Holder Return for the purposes of the calculation of the Performance Fee in respect of subsequent Half Year periods subject to the following:</p> <ul style="list-style-type: none">(a) — the oldest Deficit and/or Excess (as the case may be) shall be applied first, but subject thereto each Deficit and each Excess must be applied as soon as possible;(b) — if an Excess is to be applied, it shall be applied to determine Unit Holder Return in the relevant Half Year only to the extent of the Cap;(c) — a Deficit may only be applied to reduce the Unit Holder Return in the relevant Half Year to the extent that the Unit Holder Return is greater than or equal to the Threshold; and(d) — if a Deficit or Excess has not been applied in accordance with this clause 26.8 in the calculation of the Performance Fee in respect of any Half Year falling within the period of 24 months following the end of the Half Year in respect of which that Deficit or Excess arose, it shall be extinguished.

TRUST DEED CLAUSE REFERENCE	AMENDMENT
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Clause 26.9 26.9— Where there has been a Rights issue during the relevant Half Year the following adjustments will be made:

(a) — the opening price shall be calculated as follows:

$$\frac{(O \times n) + (P \times n_1)}{n + n_1}$$

where:

AP = adjusted opening price for the purposes of clause 26.7(a);

O = the opening price of Units on issue at the start of the relevant Half Year;

n = the number of Units on issue at the start of the relevant Half Year;

P = rights issue price; and

n1 = number of Units taken up under the rights issue.

(b) — an adjustment to each Excess and Deficit will be calculated as follows:

$$AED = ED \times \frac{AP}{O}$$

where:

AED = Adjustment to each Excess and Deficit;

ED = Excess or Deficit (as applicable, calculated in accordance with clause 26.8);

AP = adjusted opening price calculated in accordance with sub-paragraph (a) above; and

O = the opening price of Units on issue at the start of the relevant Half Year.

Clause 26.10 26.10 In the event of any other material change to the issued capital of the Trust (other than a rights issue but including, although not limited to, a subdivision, consolidation, cancellation of Units, a discounted issue of securities under a dividend reinvestment scheme, or an issue of securities under a unit purchase plan) during the relevant Half Year, the opening price and any Excess or Deficits being carried forward shall be adjusted by the Manager (in consultation with the Trustee) to fairly reflect the effect of the reorganisation on the price of the Units. The Manager shall ensure that the method of calculation is approved by a suitably qualified independent chartered accountant (appointed with the approval of the Trustee) as being fair and reasonable in the circumstances.

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 26.11	<p>26.11 On receipt of payment of any Performance Fee:</p> <p>(a) the Manager shall (subject to the approval of Unit Holders of the Trust or an appropriate waiver from the Listing Rules) immediately thereafter subscribe (or cause a person nominated by the Manager to subscribe) for, and shall issue to itself or such person, a number of Units (rounded down to the nearest whole number of Units) determined as follows:</p> $\frac{\text{Amount of Performance Fee}}{P}$ <p>where “P” is the volume weighted average price of the Units on the NZSX over the five trading days preceding the date of receipt of payment of the Performance Fee, provided that if no trades occurred during the relevant period, the volume weighted average of the prices at which Units were traded through the NZSX on the last five trading days on which trades occurred prior to that period.</p> <p>(b) The Manager or other person to whom the Units are issued shall immediately pay an amount equal to the Performance Fee to the Trustee as payment for the issue of the Units pursuant to clause 26.11(a). Units issued as part of these arrangements shall be issued on the same day as Distributions are paid in respect of that Half Year.</p>
Clause 26.12	<p>26.12 The obligation to subscribe for Units described in clause 26.11 above shall have no application:</p> <p>(a) to any Performance Fee or other amount paid in the event the Trust is terminated or the Manager ceases to hold office;</p> <p>(b) if the issue of any Units pursuant to that clause would breach the Listing Rules;</p> <p>(c) if the Manager, having taken legal advice from a firm experienced in matters of this nature, determines that it would be, or would likely be, a breach of any law to issue any Units pursuant to that clause; or</p> <p>(d) if a majority of the Independent Directors (as defined in the Listing Rules) of the Manager determine that the issue of Units pursuant to the above mechanism is not in the best interests of the Trust, provided that in such cases the Manager shall be entitled to be paid the Performance Fee for that Half Year in Cash.</p>
Clause 26.13	<p>26.13 If the Manager ceases to hold office as manager of the Trust the Manager will be entitled to the following:</p> <p>(a) all fees (in respect of the Base Fee and Performance Fee) which have accrued prior to the date of termination or cessation (as the case may be) in cash out of the Trust Fund in one lump sum within 14 days of the Manager ceasing to hold office. If the Manager ceases to hold office on a day other than the last day of a Half Year the Manager’s entitlement to remuneration under this clause 26.13 for the then current Half Year shall be calculated by reference to the date upon which it ceased to hold office and section 26 shall apply, with all necessary modifications;</p> <p>(b) 10% of the aggregate amount of all Excesses available to be applied under clause 26.8 (after deducting all Deficits available to be applied under that paragraph) multiplied by the number of Units on issue at the date the Manager ceases to hold office,</p> <p>provided that the aggregate of all payments to be made to the Manager pursuant to this clause 26.13 shall not exceed 0.85% per annum of the Gross Value of the Trust Fund (determined by reference to the Gross Value of the Trust Fund on the date on which the Manager ceases to hold office);</p>

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 26.14	26.14 The Manager shall be entitled to receive, in addition to any fees payable pursuant to this section 26, any value added tax or duty or similar tax or duty payable in respect of such fee.
Clause 26.15	26.15 The remuneration of the Manager may not be increased without the approval of the Trustee and of a meeting of Unit Holders duly convened and held.
Clause 27.2	The Trustee shall be entitled to remove the Manager if: <ul style="list-style-type: none"> (a) the Manager is materially in breach of its obligations under this deed; (b) the Manager fails to carry out its duties to the satisfaction of the Trustee; or (c) the Manager is wound up (except for the purposes of an amalgamation or reconstruction while solvent) or a receiver is appointed in respect of the Manager; or (d) the Manager or the Shareholder are in breach of their obligations under the Shareholding Deed, or agree to amend the Shareholding Deed, or waive any breach of the Shareholding Deed, without the approval of the Trustee.
Clause 27.3	If the Manager ceases to hold office pursuant to clauses 27.1, 27.2 or 27.4(27.5, the Manager shall immediately desist from all activities related to the Trust. The Manager shall be entitled to all fees payable in accordance with clause 26.13 to apply, with all necessary modifications);
Clause 27.4	In addition, if the Manager ceases to hold office pursuant to clause 27.1(c) (other than as a result of the Manager being in material breach of its obligations under this deed) the Manager shall be entitled to an additional fee equal to 0.85% of the Gross Value of the Trust Fund. Such fee shall be paid in Cash out of the Trust Fund in one lump sum and determined by reference to the Gross Value of the Trust Fund on the date on which the relevant resolution is passed. The fee shall be paid within 14 days of that date.
New numbering clause 27.4 (previously clause 27.5)	The Manager may retire at any time without assigning any reason upon giving 90 days', or such shorter period as the Trustee approves, notice in writing to the Trustee of its intention to do so. No such retirement shall take effect until a new Manager has been appointed and has executed the deed referred to in clause 27.7 27.8.
New numbering clause 27.5	Previously clause 27.6
New numbering clause 27.6 (previously clause 27.7)	Number reference in clause consequentially amended.
New numbering clause 27.7 (previously clause 27.8)	Number reference in clause consequentially amended.
Clause 28.3(a)	No such Borrowing shall be made if the effect of that Borrowing would be such that immediately after that Borrowing, the total of money Borrowed by the Trust Fund and outstanding would exceed 40 45% of the Gross Value of the Trust Fund at that date (calculated taking account of the proceeds of the Borrowing) provided that, if at any time (due to circumstances outside the Manager's control) the total Borrowings exceed 45 40% of the Gross Value of the Trust Fund, the Manager (in consultation with the Trustee) shall forthwith take such action (which may include the disposal of assets) as may be appropriate to generate sufficient Cash to repay, and the Manager shall apply that Cash in repaying Borrowings such that the total amount Borrowed immediately after such repayment does not exceed 45 40% of the Gross Value of the Trust Fund at that date.

SCHEDULE 1 – PART 2/

CONTINUED

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 29.5	Number reference in clause consequentially amended.
New clause 29.7 (previously 29.6)	<u>The Manager shall keep or cause to be kept records of all sums of money paid in accordance with clause 40.5 of this deed. The records kept by the Manager pursuant to this clause shall contain such details as the Manager considers appropriate, having regard to its obligations under this deed. The Trustee may require the records to be audited by the Auditor and reported on to the Trustee on such terms as the Trustee reasonably requests.</u>
Clause 31.8	Number reference in clause consequentially amended.
Clause 32.1	Number reference in clause consequentially amended. Also updated to refer to NZX Main Board (following name change from NZSX).
Clause 33.1	The Manager covenants with the Debt Trustee that it will within three months after the end of each financial quarter of the Trust, or within such further time as the Debt Trustee may in writing permit, provide to the Debt Trustee a certificate signed by not less than two Directors of the Manager on behalf of all of the Directors , in such form and with such qualifications (if any) as the Debt Trustee may in its discretion approve, stating to the best of the Directors' knowledge and belief after having made all due enquiry, whether or not since the date as at which the last such certificate was given, or, in the case of the first such certificate, since the first date of allotment of outstanding Convertible Obligations:
Clause 33.3(iii)	Typographical correction.
Clause 34.4(ii)	Typographical correction.
Clause 36.3	Unit Holders of all Classes are entitled to attend meetings of Unit Holders and to receive copies of all notices, reports and financial statements issued generally to Unit Holders entitled to vote at meetings of Unit Holders but are not entitled to vote at any such meeting unless the terms of the relevant Units so provide. This clause is subject to clause 38.937-9 . <u>The Shareholder is entitled to attend meetings of Unit Holders and to receive copies of all notices, reports and financial statements issued to Unit Holders. For the avoidance of doubt, the Shareholder may not vote at a meeting of Unit Holders except as proxy for a Unit Holder or Unit Holders or when acting in a capacity other than as the Shareholder.</u>

TRUST DEED CLAUSE REFERENCE	AMENDMENT
New section 37	37. DIRECTORS OF THE MANAGER
	<u>37.1 Unit Holders shall be entitled to control the appointment and removal of Directors in accordance with the provisions of this clause 37 and paragraph 12(e) of Schedule 1.</u>
	<u>37.2 The parties record that the constitution of the Manager requires that:</u>
	<u>(a) at the time of each Annual Meeting certain of the Directors are required to retire from office, but are eligible to be reappointed as Directors in accordance with directions given at that Annual Meeting;</u>
	<u>(b) any person who is appointed as a Director by the Directors is required to retire from office at the time of the next Annual Meeting, but is eligible to be reappointed in accordance with directions given at that Annual Meeting.</u>
	<u>37.3 The parties record that the Shareholding Deed provides that the Shareholder shall exercise its rights to appoint and remove Directors in accordance with the directions of Unit Holders by Ordinary Resolution.</u>
	<u>37.4 The Manager shall cause resolutions to be put to Unit Holders, to be considered as Ordinary Resolutions, at each Annual Meeting:</u>
	<u>(a) to direct the Shareholder to reappoint as a Director any person who is required to retire at the time of that Annual Meeting in accordance with the provisions referred to in clause 37.2; and</u>
	<u>(b) to direct the Shareholder to appoint as a Director any person who is nominated as a Director in accordance with clause 37.5.</u>
	<u>37.5 No person (other than a person retiring as a Director at the time of the Annual Meeting in accordance with the provisions referred to in clause 37.2) may be considered for election as a Director at an Annual Meeting unless that person has been nominated by a Unit Holder entitled to attend and vote at that Annual Meeting. The Manager shall make an announcement to NZX, in respect of each Annual Meeting, of the closing date for Director nominations and contact details for making nominations, not less than 10 Business Days before the closing date for nominations. The closing date for nominations shall be fixed by the Manager, but shall be not more than two months before the date of the Annual Meeting. If the aggregate of the number of nominations received, and the number of Directors retiring in accordance with the provisions referred to in clause 37.2 and seeking reappointment, exceeds the number of Director vacancies available, the persons to be appointed as Directors in accordance with clause 37.4(b) shall be those persons approved by Unit Holders at the relevant Annual Meeting corresponding to the number of vacancies available, and who receive the greatest number of votes of Unit Holders at the relevant Annual Meeting, as determined by the chairman of the Annual Meeting.</u>
	<u>37.6 The Manager may propose to any meeting of Unit Holders an Ordinary Resolution to approve an increase in remuneration payable to the Directors. That resolution shall specify the amount of the proposed increase.</u>
New numbering section 38	Previously section 37.
Clause 38.2	Number reference in clause consequentially amended.
Clause 38.4	Number reference in clause consequentially amended.
New numbering section 39	Previously section 38.
Clause 39.2	Number reference in clause consequentially amended.

TRUST DEED CLAUSE REFERENCE	AMENDMENT
New numbering section 40	Previously section 39.
Clause 40.2	Number references in clause consequentially amended.
Clause 40.4	<p>The Trustee and the Manager shall each be entitled to be reimbursed out of the Trust Fund for all expenses, costs or liabilities incurred by them respectively in or about acting as Trustee or Manager (as the case may be) under this deed. Without prejudice to the generality of the foregoing, the Trustee and the Manager shall be entitled to be indemnified against:</p> <ul style="list-style-type: none"> (a) all costs, charges, disbursements and expenses incurred in connection with the investigation, negotiation, acquisition, registration, custody, disposal of or other dealing with an Authorised Investment, including, without limitation, commission, bank charges and stamp duty; (b) all income tax, capital gains tax, stamp duties, and all other duty, tax or impost properly charged to or payable by the Trustee or Manager (whether by any taxing authority or any other person) in connection with and for the account of the Trust; (c) interest on Borrowings, Convertible Obligations, discounts, acceptance underwriting and commitment fees in respect of finance and underwriting facilities; (d) costs of postage in respect of all cheques, accounts, certificates, distribution statements, notices, reports and other documents sent to all or any Unit Holders; (e) costs of convening and holding any meeting of Unit Holders; (f) costs of preparing and printing cheques, accounts, certificates, distribution statements, notices, reports and other documents required to be prepared in connection with the Trust, pursuant to this deed, the rules or requirements of any stock exchange on which the Units are listed or any relevant law; (g) all costs, charges and expenses of and incidental to the preparation, execution and stamping of this deed and any supplemental deeds; (h) fees and expenses of any valuer, auditor, solicitor, barrister, property manager, agent or consultant, computer expert or other expert from time to time engaged by the Manager or by the Trustee in the discharge of their respective duties and exercise of powers under this deed; (i) expenses in connection with the establishment and maintenance of accounting systems and the keeping of accounting records and the Register; (j) all costs, charges and expenses incurred in the advertising and promotion of the Trust; (k) all costs, charges and expenses incurred in connection with or which are incidental to the application for the listing of the Units on any stock exchange and the costs of the maintenance of such listing; and

TRUST DEED CLAUSE REFERENCE	AMENDMENT
	<p>(l) <u>any expense or liability which may be incurred by the Trustee or the Manager (as the case may be) in bringing or defending any action or suit in respect of the Trust or the provisions of this deed;</u></p> <p>(m) <u>in the case of the Manager, the fees payable to Directors in their capacities as such, up to a maximum aggregate of \$391,360 per Financial Year (or such higher amount as may be approved in the manner contemplated by clause 37.6 or otherwise in accordance with Listing Rule 3.5);</u></p> <p>(n) <u>all costs, charges, disbursements and expenses incurred by the Manager in performing its functions of and incidental to the management of the Trust, including (without limitation) in relation to the employment and remuneration of any employee (including without limitation any amounts relating to redundancy), travel and transport, communications and administration; and</u></p> <p>(o) <u>all costs, charges, disbursements and expenses incurred by the Manager in indemnifying or effecting insurance for the Directors in accordance with the constitution of the Manager.</u></p>
Clause 40.5	<p>In addition to the entitlements to reimbursement and indemnity under clause 40.4, the Manager is entitled to:</p> <p>(a) <u>seek and obtain, in accordance with a process from time to time agreed with the Trustee, including (without limitation), as to accounting, verification, receipting and invoicing and in lieu of reimbursement under clause 40.4, funds from the Trust Fund to enable the Manager to meet its costs, charges, disbursements, expenses and liabilities as they fall due and to ensure the Manager is able to carry on business in a solvent manner;</u></p> <p>(b) <u>pay and obtain reimbursement of, and shall take all responsibility for approving, such amounts (whether in the nature of remuneration, reimbursement of expenses, payments due on any indemnification or otherwise) as are from time to time payable by the Manager to the Shareholder under the Shareholding Deed; and</u></p> <p>(c) <u>in the event that the Manager ceases to hold office as manager of the Trust, all costs, charges, disbursements and expenses incurred by the Manager in facilitating an orderly wind-up or dissolution of its activities,</u></p> <p><u>and the Trustee shall be entitled to (but shall not be required to) enquire as to or verify or approve, the payment of any such amounts. The Manager records that it is intended that the Manager shall first use any amounts received on account of the property management activities for which the Manager is entitled to obtain payment pursuant to clause 26.1(b) to meet its costs, charges, disbursements, expenses and liabilities, before seeking reimbursement under this clause 40.5.</u></p>
Clause 40.6	All such items specified in clauses 40.4 and 40.5 shall, unless the Manager in consultation with the Auditor determines otherwise, be chargeable against the Gross Income.
Clause 40.8	If the Manager does not pay to the Shareholder any amount (whether in the nature of remuneration, reimbursement of expenses, payments due on any indemnification or otherwise) payable by the Manager to the Shareholder under the Shareholding Deed (whether by reason of the Manager having ceased to hold office as manager of the Trust or otherwise) the Trustee shall, on being satisfied that any such amount is properly payable to the Shareholder under the Shareholding Deed, pay that amount to the Shareholder from the Trust Fund.
Clause 40.10	Number references in clause consequentially amended and typographical correction.
Clause 40.11	Number references in clause consequentially amended.

SCHEDULE 1 – PART 2/

CONTINUED

TRUST DEED CLAUSE REFERENCE	AMENDMENT
Clause 40.13	<u>The Manager shall operate its own business efficiently, with a view to maintaining its costs at a minimum level consistent with the effective conduct of its business, with no intention for the Manager to operate at a profit over the course of any Financial Year. If the Manager at any time holds money surplus to its requirements to operate its business (including its estimated future requirements over the next six months) the Manager shall pay that money to the Trustee on account of the Trust Fund, by way of refund of amounts received by the Manager under clause 40.5 or as an account of any profits made by the Manager in furtherance of any property management activities for which the Manager is entitled to obtain payment pursuant to clause 26.1(b) (as applicable).</u>
Clause 40.15	Number references in clause consequentially amended.
Clause 40.16	Subject to clause 40.1539-10, <u>but without limitation to clause 26.1(b)</u> , the Manager may on behalf of the Trust engage any Person who is a Related Company of the Manager <u>or the Trust</u> , or who is otherwise associated with the Manager <u>or the Trust</u> , to provide services to the Trust (including, without limitation, as a property manager, agent or consultant) provided that the fees to be charged do not exceed then prevailing market rates and are first approved by the Trustee.
Clause 40.17	Updated to refer to NZX Main Board (following name change from NZSX).
New numbering section 41 (previously section 40)	Number references in section consequentially amended.
New numbering section 42	Previously section 41.
Clause 42.1	The Trust shall be managed by the Manager (with full power to delegate to its officers and employees all acts, matters and things whether or not requiring or involving the Manager's judgment or discretion) which hereby agrees to carry out and perform the duties and obligations on its part contained in this deed during the period of the Trust. <u>Without limiting the generality of the foregoing, the Manager shall have the power to:</u> (a) <u>appoint a replacement shareholder of the Manager (who must be the holder of a licence under the Securities Trustees and Statutory Supervisors Act 2011). No person may be appointed as a replacement shareholder of the Manager if that appointment would cause the Manager and the Trustee to be associated with each other under subpart YB of the Income Tax Act 2007 or otherwise contravene section 3(4) of the Act;</u> (b) <u>direct the transfer of the shares in the Manager to that party in accordance with a direction of Unit Holders; and</u> (c) <u>execute, on behalf of the retiring Shareholder, a share transfer form transferring the shares in the Manager from the retiring Shareholder to the replacement shareholder of the Manager.</u>
Clause 42.2	<u>The Manager's sole function shall be the management of the Trust, its assets and the Trust Fund in accordance with the provisions of this deed and all activities incidental thereto (which, for the avoidance of doubt, may include owning shares in any subsidiary or other entity which performs management or other services necessary or desirable in connection with the management of the Trust).</u>
Clause 42.3	Nothing contained in this deed shall be construed to prevent the Manager and the Trustee in conjunction or the Manager or the Trustee separately from establishing or acting as manager or trustee for trusts whether of a nature similar to or different from the trusts of this deed.
New numbering section 43	Previously section 42.

TRUST DEED CLAUSE REFERENCE	AMENDMENT	
New numbering section 44	Previously section 43	
Clause 44.1	Number reference in clause consequentially amended.	
New numbering section 45	Previously section 44.	
Clause 45.3	Number reference in clause consequentially amended.	
New numbering section 46	Previously section 45	
First Schedule - clause 2	2.	<p>(a) Notice of every meeting shall be given in the manner provided in the Trust Deed to:</p> <p>(i) every Unit Holder who has supplied to the Manager an address for the giving of notices to him; and;</p> <p>(ii) every Person upon whom the ownership of any Unit devolves by reason of such Person being a legal personal representative or an assignee in bankruptcy of a Unit Holder where the Unit Holder would otherwise be entitled to receive notice; and;</p> <p>(iii) <u>the Shareholder.</u></p> <p>and all such Persons shall be entitled to attend meetings of Unit Holders.</p>
First Schedule - clause 4	4.	<p>(a) <u>Any director, officer or solicitor of the Trustee and any other person authorised in that behalf by the Trustee and any Director, officer or solicitor of the Manager or any other person authorised in that behalf by the Manager may attend any meeting and all such persons shall have the right to speak at the meeting.</u></p> <p>(b) <u>The Shareholder may attend any meeting of Unit Holders. For the avoidance of doubt, the Shareholder may not vote at a meeting of Unit Holders except as proxy for a Unit Holder or Unit Holders, or when acting in a capacity other than as the Shareholder.</u></p>
First Schedule - clause 7(b)(ii)(bb)	Updated to refer to NZX Main Board (following name change from NZSX).	

TRUST DEED CLAUSE REFERENCE	AMENDMENT
First Schedule - clause 12(d)	<p>(d) Subject to section 10 of this deed a meeting of Unit Holders shall have the following powers exercisable by Extraordinary Resolution:</p> <ul style="list-style-type: none"> (i) power to sanction the exchange of Units for, or the conversion of Units into shares, stock, debentures, debenture stock or other obligations or securities of any company formed or to be formed; (ii) power to sanction any alteration, release, modification, waiver, variation or compromise or any arrangement in respect of the rights of the Unit Holders howsoever such rights shall arise; (iii) subject to paragraph 12(f) of this schedule, power to assent to any alteration, modification of, variation, or addition to the provisions contained in this deed, or the conditions attaching to the Units and to authorise the Manager and Trustee to concur in and execute any supplemental trust deed or other document embodying any such alteration or addition; (iv) power to give any sanction, assent, release or waiver of any breach or default by the Manager, the Trustee or the Debt Trustee under any of the provisions of this deed; (v) subject to the Act and the Securities Act (where applicable), power to discharge, release or exonerate the Manager, the Trustee or the Debt Trustee from all liability in respect of any act of commission or omission for which the Manager, the Trustee or the Debt Trustee has or may become responsible under this deed; (vi) power to give directions to the Trustee as to the appointment of a new Manager in accordance with clause 27.627.7; and (vii) power to sanction the exchange of Units for, or the conversion of Units into, units or interests in any other unit trust or similar entity (whether established in New Zealand or elsewhere) on such basis as may be approved by the Extraordinary Resolution; <u>and</u> (viii) <u>power to approve the making of any payment, or the entering into any transaction, by the Trustee on behalf of the Trust.</u>

TRUST DEED CLAUSE REFERENCE	AMENDMENT
First Schedule - clause 12(e)	<p>(e) <u>Without limiting any other provision of this deed, a meeting of Unit Holders shall have the following powers:</u></p> <p>(i) <u>the Unit Holders shall, by means of an Ordinary Resolution passed at a meeting of Unit Holders, have the power:</u></p> <p>(aa) <u>to direct the Shareholder as to the individuals in respect of whom the Shareholder shall exercise its rights to appoint and remove as Directors under the constitution of the Manager; and/or</u></p> <p>(bb) <u>to approve an increase in the remuneration payable to the Directors; and</u></p> <p>(ii) <u>subject to sub-paragraph (e)(i) above, the Unit Holders shall, by means of an Extraordinary Resolution passed at a meeting of Unit Holders, have the power to direct the Shareholder:</u></p> <p>(aa) <u>to dispose of all or any of the shares in the Manager (whether by sale, transfer or otherwise), and effect the appointment of a replacement shareholder of the Manager (who must be the holder of a licence under the Securities Trustees and Statutory Supervisors Act 2011);</u></p> <p>(bb) <u>to approve the entry into any reconstruction, reorganisation, amalgamation or liquidation of the Manager;</u></p> <p>(cc) <u>to authorise any amendment to, direct the termination of, and/or the entry into by the Manager of a replacement or supplemental Shareholding Deed;</u></p> <p>(dd) <u>to vote its shares in the Manager; and/or</u></p> <p>(ee) <u>to give effect to any other matter on which direction from Unit Holders is sought by the Shareholder or Directors of the Manager,</u></p> <p><u>in each case, on such terms and subject to such conditions as are stated in the direction, provided that Unit Holders are not entitled to give any direction, and no direction shall be effective or binding on the Shareholder, which purports to give any direction, and no direction shall be effective or binding on the Shareholder, which purports to direct the Shareholder to transfer the shares in the Manager to or for the benefit of Unit Holders in their capacity as such or which would result in a breach of section 3(4) of the Act. For the avoidance of doubt, nothing in this paragraph 12(e)(ii) shall prevent the Shareholder voting its rights in respect of the shares in the Manager on procedural or administrative matters other than at a meeting of Unit Holders.</u></p>
First Schedule - clause 12(g)	Number references in clause consequentially amended.

“**Act**” means the Unit Trusts Act 1960.

“**Associated Persons**” has the meaning given to that term in rule 1.8 of the Listing Rules.

“**Extraordinary Resolution**” means a resolution passed at a meeting duly convened and held in accordance with the provisions of the Schedule to the Trust Deed and carried by a majority of not less than 75% of the persons entitled to vote and voting thereat (either personally or by representative) on a show of hands, or if a poll is duly demanded, by a majority consisting of not less than 75% of the votes given on such poll.

“**CBA**” means Commonwealth Bank of Australia Limited, ABN 48 123 123 124.

“**FMA**” means the Financial Markets Authority.

“**Independent Appraisal Report**” means the independent appraisal report from the Independent Appraiser enclosed with this Notice of Meeting.

“**Independent Appraiser**” means Deloitte.

“**Independent Directors**” means Mark Ford, Richard Didsbury, Robert Narev, Joanna Perry, and Michael Steur, the independent directors of the Manager.

“**Internalisation**” means the internalisation of the rights to manage the Trust currently held by the Manager and the property management rights currently held by the Property Manager via the termination of those rights and the appointment of the New Manager to manage the Trust, as well as the other transactions described in paragraph 3 of the Explanatory Memorandum to this Notice of Meeting.

“**Internalisation Proposal**” means the proposal for Internalisation to occur.

“**Listing Rules**” means the NZSX Listing Rules.

“**Manager**” means Kiwi Income Properties Limited.

“**Mandatory Convertible Notes**” means the unsecured subordinated mandatory convertible notes issued by the Trust under a simplified disclosure prospectus dated 10 November 2009.

“**New Manager**” means Kiwi Property Management (NZ) Limited.

“**Notice of Meeting**” means this Notice of Special Meeting dated 20 November 2013.

“**NZX**” means NZX Limited.

“**NZX Main Board**” means the main board equity securities market operated by NZX.

“**Ordinary Resolution**” means a resolution that is approved by a simple majority of the votes of those holders of securities of the Trust which carry votes, are entitled to vote and do vote on the resolution.

“**Property Management Deeds**” means the property management deeds between the Property Manager, the Manager and each of Kiwi Property Holdings Limited and Sylvia Park Business Centre Limited.

“**Property Manager**” means Kiwi Property Management Limited.

“**Registrar**” means Link Market Services Limited.

“**Shareholding Trustee**” means the party which holds the share in the New Manager which will initially be Corporate Trust Limited trading as Foundation Corporate Trust.

“**Trust**” means Kiwi Income Property Trust.

“**Trust Deed**” means the Trust Deed, under which the Trust is established.

“**Trust Fund**” has the meaning given to that term in the Trust Deed.

“**Trustee**” means New Zealand Permanent Trustees Limited.

“**Trustee’s Letter**” means the letter from the Trustee included with this Notice of Meeting.

“**Unit Holder**” means the holder of a Unit.

“**Unit**” means an undivided part or share in the Trust Fund.

References to \$ or money in this Notice of Meeting are to New Zealand dollars unless expressly stated otherwise.

Additional information required by the Securities Act (Kiwi Income Properties Limited and Kiwi Income Property Trust Amendment) Exemption Notice 2013 in respect of the New Manager if Resolutions 1 to 3 are passed

1. Manager

1. The manager of the Trust will be Kiwi Property Management (NZ) Limited (ie the New Manager), which has its registered office at the address set out in the directory section of this Notice of Meeting. The names of the directors of the Manager and the New Manager are also set out in the directory section of this Notice of Meeting. It is intended that, on implementation of the Internalisation Proposal, the existing directors of the Manager (other than Angus McNaughton) who are not already directors of the New Manager will be appointed as directors of the New Manager.
2. The share in the New Manager is owned by the Shareholding Trustee, on the trust described in paragraph 36 of this Explanatory Memorandum.
3. There are no other unit trusts managed by the New Manager.
4. None of the New Manager or any of its directors have been adjudged bankrupt or insolvent, convicted of any crime involving dishonesty, prohibited from acting as a director of a company, or placed in statutory management, voluntary administration, liquidation or receivership.

2. Interested Persons

1. Each of the Trustee, the New Manager and its directors are entitled to remuneration for services, and/or to recover expenses, in respect of the Trust out of the Trust Fund. The Shareholding Trustee will be reimbursed for its expenses, costs and liabilities incurred in acting as shareholder of the New Manager by the New Manager (which is in turn indemnified for those amounts out of the Trust Fund). The nature of the services or expenses and whether or not the amount of remuneration or expenses is limited and, if so, the limits are set out below in respect of each of the Trustee, the New Manager, its directors and the Shareholding Trustee:
 - (a) The Trustee's role is to supervise the administration and management of the Trust in accordance with the Trust Deed, and to ensure that the New Manager complies with its duties and responsibilities under the Trust Deed. For undertaking its duties, the Trustee is entitled to be paid fees for its services equal to 0.1% per annum of the gross value of the Trust Fund, provided that in any financial year the minimum fee paid to the Trustee shall be \$5,000⁹. The Trustee shall also be entitled to receive any value added tax or duty similar to tax or duty payable in respect of such fee. In addition, the Trustee is entitled to be reimbursed and indemnified in accordance with the Trust Deed in respect of its expenses, costs and liabilities incurred in acting as Trustee of the Trust. There is no limit on the amount of reimbursement of costs which may be provided to the Trustee.
 - (b) The New Manager, as manager of the Trust, has responsibility for management of the Trust in accordance with the Trust Deed. The New Manager is not entitled to any fee in the nature of remuneration for its services, but is entitled to be reimbursed and indemnified in accordance with the Trust Deed in respect of its expenses, costs and liabilities incurred in acting as manager of the Trust, including to enable the New Manager to carry on business in a solvent manner and to pay any amounts payable to the Shareholding Trustee for its services as shareholder of the New Manager. There is no limit on the amount of reimbursement of costs which may be provided to the New Manager in accordance with the Trust Deed. However, under the Trust Deed the New Manager is obliged to use its best endeavours to ensure that its business is operated efficiently, with a view to maintaining costs at a minimum level with no intention of operating at a profit.

⁹ The Trustee is presently paid a fee of \$250,000 per annum plus 0.02% per annum of the average gross value of the Trust Fund in excess of \$750 million for the year.

- (c) The directors of the New Manager will be entitled to directors' fees in respect of their acting as directors of the New Manager, and are entitled to reimbursement of expenses incurred in connection with their performance of that role. These fees would be equivalent to the directors' fees paid to directors of the Manager (but which are borne by the Manager and not the Trust). Any increase in those directors' fees is required to be approved by Unit Holders and is the subject of Resolution 4 to be proposed at the special meeting. Full particulars of the relevant amounts are set out in Part B of the Explanatory Memorandum.
- (d) The Shareholding Trustee holds the share in the New Manager on trust with the beneficiary of that trust being a charity selected by the board of the New Manager. The Shareholding Trustee is to act on the direction of Unit Holders with regard to the appointment and removal of the directors of the New Manager and on any voting or dealing in shares in the New Manager (except in respect of procedural or administrative matters). The Shareholding Trustee is paid an establishment fee of \$2,500 plus GST, and an annual fee of \$7,500 per annum plus GST, together with an hourly charge based on hours spent in fulfilling its obligations. The Shareholding Trustee is entitled to be reimbursed and indemnified in respect of its expenses, costs and liabilities incurred in acting as shareholder of the New Manager by the New Manager (which is in turn indemnified out of the Trust Fund). There is no limit on the amount of reimbursement of costs which may be provided to the Shareholding Trustee.
2. The Trustee and the New Manager each have a material interest in the Trust Deed, being a contract entered into in respect of the Trust that is material to both the Trustee and the New Manager. The Trustee and the New Manager are parties to the Trust Deed which governs the operation and management of the Trust.
3. The New Manager has a material interest in a shareholding deed, recording the arrangements described in paragraph 36 of the Explanatory Memorandum, being a contract entered into in respect of the Trust that is material to the New Manager.

1. NZX has granted a waiver from Listing Rule 3.4.3 so that the board of the Manager may pass resolutions in connection with the Internalisation Proposal, on the following conditions:
 - (a) The Independent Directors of the Manager are only permitted to vote on such resolutions as are necessary to:
 - (i) put the Internalisation Proposal before a meeting of Unit Holders; and
 - (ii) give effect to the Internalisation, if that has been approved by Unit Holders.
 - (b) the waiver will only apply to any director of the Manager who is considered to be an “interested” person within the meaning assigned to that term in section 139 of the Companies Act 1993, where that person is “interested” solely because that person is a director of the Manager and/or a related company of the Manager, but for no other reason.
2. NZX has granted a waiver from Listing Rule 3.5.1 so that the directors of the New Manager may be paid remuneration out of the Trust Fund at the same level as is currently paid by the Manager, without seeking separate Unit Holder approval under Listing Rule 3.5.1. That waiver is subject to the following conditions:
 - (a) Unit Holders approve the Internalisation Proposal;
 - (b) the amendment to the Trust Deed which authorises the reimbursement of the directors fees from the Trust Fund on a similar basis to what is currently paid by the Manager is explicitly outlined in the resolution in the Notice of Meeting seeking Unit Holder approval of the Internalisation;
 - (c) the existence and effect of this waiver decision is disclosed in the Notice of Meeting;
 - (d) any increase in the existing level of directors’ remuneration (beyond what is permitted by Listing Rule 3.5.1) is approved by Unit Holders in accordance with Listing Rule 3.5.1;
 - (e) the Notice of Meeting discloses:
 - (i) the quantum of directors’ current remuneration;
 - (ii) a statement to the effect that this level of remuneration is at or below market rate, and
 - (iii) the fact that the Trust will bear the cost of directors’ fees going forward if Internalisation is approved,and NZX Regulation has an opportunity to review and approve the Notice of Meeting.
3. NZX has granted a waiver from Listing Rule 9.3.1 which authorises Robert Narev and his Associated Persons (MFL Mutual Fund Limited and certain trustees of private trusts of which he is also a trustee) to vote as they see fit in respect of Resolution 3. That waiver is subject to the following conditions:
 - (a) Mr Narev will abstain from all discussions and resolutions of the board of MFL Mutual Fund Limited concerning the proposed Internalisation;
 - (b) the existence and effect of this waiver decision is disclosed in this Notice of Meeting;
 - (c) Mr Narev has certified, in a form acceptable to NZX Regulation, that:
 - (i) he has made his decision with respect to the Internalisation without the undue influence of CBA or Associated Persons of CBA;
 - (ii) other than holding the office of director of the Manager, he has no relationship with CBA or the Manager which would make him an Associated Person of either party;
 - (iii) other than the directors’ fees and reimbursement of expenses as a director of the Manager, he will not receive any remuneration or payment from either CBA or the Manager as a result of the Internalisation proceeding;
 - (iv) none of the associated entities of Mr Narev listed in paragraph 12 of Appendix One of the NZX waiver decision have any relationship with CBA or the Manager other than by reason of the interest of the Independent Director.
 - (d) the waiver shall not apply if Mr Narev or any Associated Person of Mr Narev is a party to or beneficiary of a transaction effected for the purposes of the Internalisation Proposal, otherwise than as a result of the fact that Mr Narev is a director of the Manager (except for being party to or beneficiary of a transaction solely in its capacity as a Unit Holder); and
 - (e) the waiver shall not apply to the extent that CBA is a beneficiary of any of the private trusts of which Mr Narev acts as trustee.

Appraisal Report

Kiwi Income Property Trust
Proposed Management Internalisation

19 November 2013

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Abbreviations and Definitions

\$	New Zealand dollars
CBA	Commonwealth Bank of Australia Limited
CFSIL	Colonial First State Investments (NZ) Limited
DCF	discounted cash flows
EBIT	earnings before interest and tax
EBITDA	earnings before interest, tax, depreciation and amortisation
EV	enterprise value, being the ungeared value of a business
Explanatory Memorandum	the explanatory memorandum to Unit Holders regarding the Internalisation
FUM	funds under management
FY	financial year ending 31 March (in relation to KIPT) or 30 June (in relation to the Manager)
GFC	global financial crisis
Gross Value of the Trust Fund	has the meaning given to that term in the Trust Deed, being effectively the assessed market value of the Trust's investments plus cash (commonly referred to as FUM)
Independent Directors	Mark Ford, Joanna Perry, Robert Narev, Richard Didsbury and Michael Steur, the independent directors of the Manager
Internalisation	the internalisation of the management functions currently performed by the Manager and the Property Manager, as described in the Notice of Meeting and the Explanatory Memorandum
KIPL	Kiwi Income Properties Limited, the Manager of KIPT
KIPT	Kiwi Income Property Trust
KPML	Kiwi Property Management Limited, the Property Manager of KIPT
Listing Rules	the NZSX Listing Rules
LPV	listed property vehicle

Management Rights	together, KIPL's right to act as fund manager for the Trust under the Trust Deed and KPML's right to act as property manager for the Trust under the Property Management Deeds
Manager	KIPL
Mandatory Convertible Notes or MCNs	the unsecured subordinated mandatory convertible notes issued by the Trust under a simplified disclosure prospectus dated 10 November 2009
New Manager	Kiwi Property Management (NZ) Limited
Notice of Meeting	the notice of special meeting of Unit Holders regarding the Internalisation
NTA	net tangible assets
NZX	NZX Limited
NZX Main Board	the main board equity securities market operated by NZX
Property Management Deeds	the property management deeds between the Property Manager, the Manager and each of Kiwi Property Holdings Limited and Sylvia Park Business Centre Limited
Property Manager	KPML
Shareholding Trustee	the party which holds the share in the New Manager (only one share will be on issue)
Trust	KIPT
Trust Deed	the Trust Deed, under which the Trust is established
Trustee	New Zealand Permanent Trustees Limited
Unit	an undivided part or share in KIPT's trust fund
Unit Holder	the holder of a Unit
WACC	weighted average cost of capital
WALT	weighted average lease term

1. Executive Summary

1.1. Introduction

Kiwi Income Property Trust (“KIPT” or the “Trust”), an NZX Main Board-listed office and retail property fund, is proposing to internalise the management of the Trust (the “Internalisation”). Deloitte has been engaged to provide the unit holders of KIPT (the “Unit Holders”) with an independent appraisal report on the proposed Internalisation.

KIPT is managed by Kiwi Income Properties Limited (“KIPL” or the “Manager”), and its assets are managed by Kiwi Property Management Limited (“KPML” or the “Property Manager”). KIPL and KPML are both subsidiaries of Commonwealth Bank of Australia (“CBA”).

Internalisation involves the transition of the fund and property management functions for the Trust from these externally controlled parties to a newly-formed company, Kiwi Property Management (NZ) Limited (the “New Manager”) controlled by Unit Holders. New Manager will operate on a breakeven basis, rather than the current arrangements whereby KIPT pays fund and property management fees and expenses to KIPL and KPML respectively.

1.2. Proposed Internalisation of Management

A subcommittee of KIPL’s independent directors have negotiated with CBA a proposal whereby KIPT would internalise its management by:

- making payments that net to \$70.6 million to CBA, comprising:
 - termination payments totalling \$72.5 million to KIPL and KPML for the relinquishment of their current fund and property management arrangements (collectively, the “Management Rights”), less
 - payments that net to approximately \$1.9 million back to New Manager related to the acquisition of certain business assets and the assumption of employee liabilities of KIPL and KPML;
- appointing New Manager to undertake KIPT’s fund and property management functions going forward;
- transitioning existing KIPL and KPML staff and facilities to New Manager; and
- amending the provisions in the Trust Deed relating to the Manager’s remuneration to remove the current fee arrangements and provide that New Manager operates on a breakeven basis going forward.

New provisions in the Trust Deed will also provide that all directors of New Manager are to be appointed at the direction of Unit Holders, and New Manager cannot be sold without Unit Holder approval.

The Internalisation will result in cost savings for the Trust going forward, being the difference between the fees and expenses paid to KIPL and KPML under the current arrangements and the cost of performing the management functions (i.e. the Trust will essentially save the profits otherwise earned by KIPL and KPML).

As consideration for foregoing these future profits, the Trust proposes to make termination payments of \$72.5 million in aggregate to KIPL and KPML for the Management Rights. The Trust will finance this payment through debt facilities. Taking into account other aspects of the transaction, the net cost of Internalisation is \$70.6 million.

The \$72.5 million termination payment is potentially tax deductible to the Trust. When the potential benefit of tax deductibility is taken into account, the net payment is \$50.3 million.

1.3. Regulatory Requirements

Under Rule 9.2.1 of the NZSX Listing Rules (the “Listing Rules”), and using the terms defined therein, Kiwi Income Property Trust may not enter into a Material Transaction with a Related Party unless that transaction is approved at a meeting of Unit Holders by an Ordinary Resolution, the notice of meeting for which is accompanied by an Appraisal Report for the purposes of the Listing Rules.

Based on the approach taken by NZX Market Supervision in precedent transactions, the appropriate threshold to apply when assessing whether the internalisation is a “Material Transaction” for the purposes of the Listing Rules, is the threshold contained in Listing Rule 9.2.2(e), which relates to providing or obtaining services in respect of which the actual gross cost to the Trust exceeds 1% of the average market capitalisation of the Trust. Under Internalisation, the Trust would make payments of \$46.4 million to the Manager and \$26.1 million to the Property Manager for the termination of the management arrangements with those entities. Those payments exceed the Listing Rule 9.2.2(e) threshold and accordingly, an Appraisal Report under Listing Rule 9.2.5 is required.

Accordingly, the independent directors of the Manager (the “Independent Directors”) have requested Deloitte prepare an Appraisal Report stating whether the consideration and the terms and conditions of the Internalisation are fair to the Unit Holders not associated with KIPL and KPML (the “Non-associated Unit Holders”) pursuant to Listing Rule 9.2.5.

Deloitte has been approved by NZX to prepare the Appraisal Report.

1.4. Purpose of the Report

Deloitte issues this Appraisal Report to the Independent Directors to assist, and for the benefit of, the Non-associated Unit Holders in forming their own opinion on whether to vote in favour of or against the resolutions relating to the Internalisation.

We note that each Unit Holder’s circumstances and objectives are unique. It is not possible to report on the fairness of the Internalisation in relation to each Unit Holder. This Appraisal Report is therefore necessarily general in nature.

This Appraisal Report is also prepared for, and will be provided to, the holders of the Trust’s mandatory convertible notes (“MCNs”). This reflects the requirement under Listing Rule 1.7.2 that the Appraisal Report is to be for the benefit of the holders of the Trust’s equity securities (i.e. Units and MCNs) not associated with KIPL and KPML.

This Appraisal Report is not to be used for any other purpose without Deloitte’s prior written consent.

1.5. Basis of Evaluation

Listing Rule 1.7 requires an Appraisal Report to consider the “fairness” of a transaction or proposal. The term “fair” has no legal definition in New Zealand either in the Listing Rules or in any statute dealing with securities or commercial law. Furthermore, overseas regulations provide minimal guidance in respect of how fairness should be determined in the context of a material transaction with a related party.

Guidance Note Number 10 issued by the New Zealand Institute of Chartered Accountants (“Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders”) states *“the expression of an opinion as to fairness will generally involve an assessment as to whether a transaction or proposal is just, impartial and equitable”*.

For the purpose of this Appraisal Report, we have assessed the fairness of the proposed Internalisation by considering:

- the value of the proposed Internalisation to the Trust;
- the fair market value of the Management Rights (i.e. the value of KIPL and KPML to a third party buyer); and
- other financial and non-financial impacts of the proposed Internalisation.

1.6. Deloitte’s Opinion on Internalisation of Management

In Deloitte’s opinion the proposed Internalisation is fair to the Unit Holders not associated with KIPL and KPML.

The basis for our opinion is set out in more detail in sections 7 - 9 of this report. In summary, the key factors we have taken into account in forming our opinion are:

- the value of the proposed Internalisation to the Trust (i.e. the discounted present value of the forecast future cash savings) is assessed to be in the vicinity of \$136 million to \$176 million. This value is only available to the Trust, as it does not incorporate the risk factors that are faced by external owners of property fund management rights;
- taking into account these risks, the fair market value of the Management Rights is assessed to be in the range of \$71 million to \$89 million. The proposed net termination payment of \$70.6 million is at the lower end of Deloitte’s fair market valuation range, and is therefore fair to Unit Holders (i.e. Unit Holders are not paying more than third party buyers would be expected to pay);
- more importantly in our view, the expected after-tax cost of the termination payment (\$50.3 million) is materially lower than the value of the Internalisation to the Trust (\$136 million - \$176 million). The proposed Internalisation therefore provides the Trust with a net present value benefit estimated to be in the vicinity of \$86 million to \$126 million;

- this benefit is evidenced by expected increases in the Trust's cash flows and earnings, because the annual cost savings from internalising the management are greater than the annual funding cost of making the termination payment. We estimate that pre-tax cash earnings will increase by approximately 10.8%, and pre-tax distributable earnings will increase by approximately 6.5% as a result of the Internalisation (on a normalised pro forma FY2013 basis);
- while the proposed Internalisation will initially increase gearing by 3% to 38%, and reduce KIPT's net tangible assets ("NTA") by 5.2 cents per Unit or 4.5%, in our view these impacts are more than outweighed by the significant net present value benefit and associated earnings accretion. Overall, we believe Internalisation will be financially beneficial for Unit Holders;
- other (non-financial) benefits for Unit Holders if the Internalisation proceeds include:
 - the removal of the potential for conflicts of interest between Unit Holders and KIPL/KPML;
 - greater control over the management of the Trust; and
 - the removal of risks associated with CBA selling the Management Rights to a third party; and
- there are no negative impacts on the rights of or protections available to Unit Holders as a result of Internalisation.

1.7. Acceptance or Rejection of Resolutions

Voting for or against the resolutions in respect of the Internalisation is a matter for individual Unit Holders based on their own views of the proposal. Unit Holders should consult their own professional advisors if appropriate.

In the event that any of the resolutions in respect of the Internalisation are not approved by Unit Holders, then the fund and property management functions for the Trust would continue to be provided externally by KIPL and KPML. The implication of this situation is that the benefits of the Internalisation will not be available to the Trust.

The potential would then exist for CBA to sell KIPL and KPML to a third party. In this situation the Trust's management would remain external and the benefits to the Trust of the Internalisation would again be foregone.

1.8. Adequacy of Information

We have obtained all the information that we believe is necessary for the purpose of preparing this Appraisal Report.

In our opinion, the information set out in the Explanatory Memorandum and this Appraisal Report is sufficient to enable KIPT's Unit Holders to understand all the relevant factors and to make an informed decision in respect of the Internalisation.

2. Overview of the Property Fund Sector

2.1. Listed Property Vehicles

Listed property vehicles (“LPVs”) are professionally managed real estate investment vehicles that allow investors to purchase an equity interest in a portfolio of properties. Currently there are ten NZX listed LPVs, including KIPT, with a range of different property category focuses, corporate structures and management arrangements (i.e. internally or externally managed).

LPVs provide an opportunity for investors to hold stakes in investment-grade property portfolios, with professionals maintaining and improving the buildings, retaining tenants and actively managing the property portfolio and capital structure so as to maximise risk-adjusted returns.

An investment in an LPV is different to a direct investment in property. The LPV investor has an interest in a diverse portfolio of properties, as opposed to a single property, and the units or shares can be traded on the NZX Main Board and therefore have greater liquidity.

Investors evaluate LPVs by reference to the level of cash distributions and movements in share prices, and by assessing the security of the LPV’s income stream, the quality of the fund’s properties and tenants, the length of tenant leases, rental yields, appropriateness of the capital structure, the quality of the management, and the management arrangements (internal or external; fee structures; etc).

2.2. Key LPV Metrics

We discuss below some of the key metrics commonly used to describe and compare LPVs. We focus on the largest eight LPVs (i.e. excluding Augusta Capital Limited and CDL Investments New Zealand Limited).

Scale

The following table provides information on the size of New Zealand LPVs' property portfolios. Greater scale typically provides an entity with advantages such as greater diversity of earnings, a stronger capital base to fund developments, and better share liquidity and access to capital. KIPT is New Zealand's largest diversified LPV in terms of total assets.

NZ Property Entities - Asset Base

\$ millions	Total Assets	NTA	Portfolio Value ²	No. of properties	Average property value
Kiwi Income Property Trust	2,188.2	1,172.0	2,082	12	173.5
Goodman Property Trust	2,052.3	1,185.9	1,703	22	77.4
Precinct Properties New Zealand	1,658.5	983.8	1,640	18	91.1
Argosy Property	992.7	601.3	977	63	15.5
Property for Industry	838.8	496.5	814	83	9.8
DNZ Property Fund	684.0	408.4	659	48	13.7
Vital Healthcare Property Trust	629.5	309.0	619	26	23.8
NPT	156.6	129.7	116	4	29.1

1. Entities presented at their most recent available interim or annual report

2. Excludes adjoining properties, and development land.

Source: Annual reports, Deloitte analysis

Property Mix

The properties owned by LPVs are often classified into four categories: office, industrial, retail, and other (such as specialist healthcare properties).

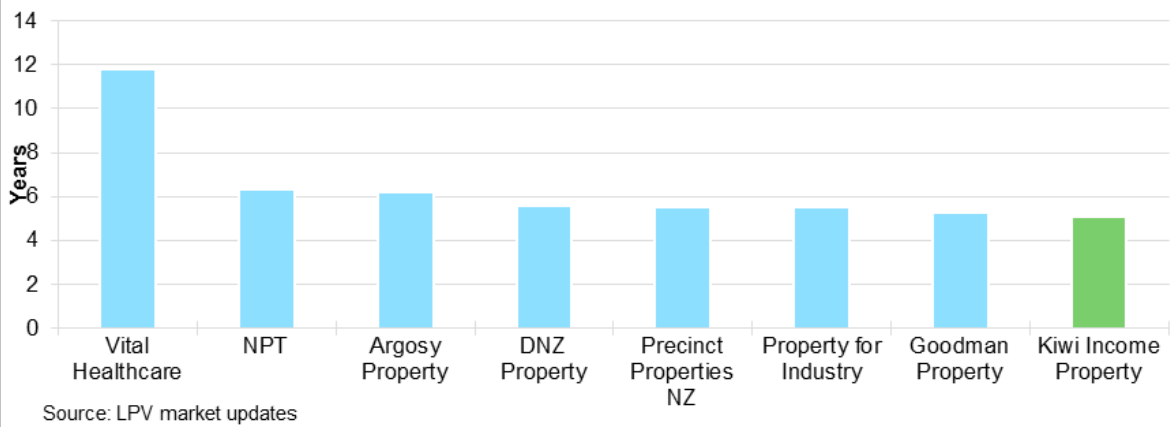
Some LPVs have a primary focus on one property category, for example Vital Healthcare (medical properties), Precinct Properties (Office) and Property for Industry (Industrial). The remainder are diversified across a combination of categories, albeit different combinations and relative focuses. KIPT's main focus is office and retail properties.

WALT and Lease Expiry

One of the key factors that managers of property entities focus on is their portfolio's lease profile. Generally, they seek to extend the weighted average lease term ("WALT") of the portfolio and smooth the lease expiry profile.

The following chart shows the WALT for selected New Zealand property entities. KIPT's WALT is at the lower end of the LPV sector due to the relatively high proportion of retail tenancies in KIPT's properties. Retail tenancies are generally of shorter duration than commercial or industrial tenancies.

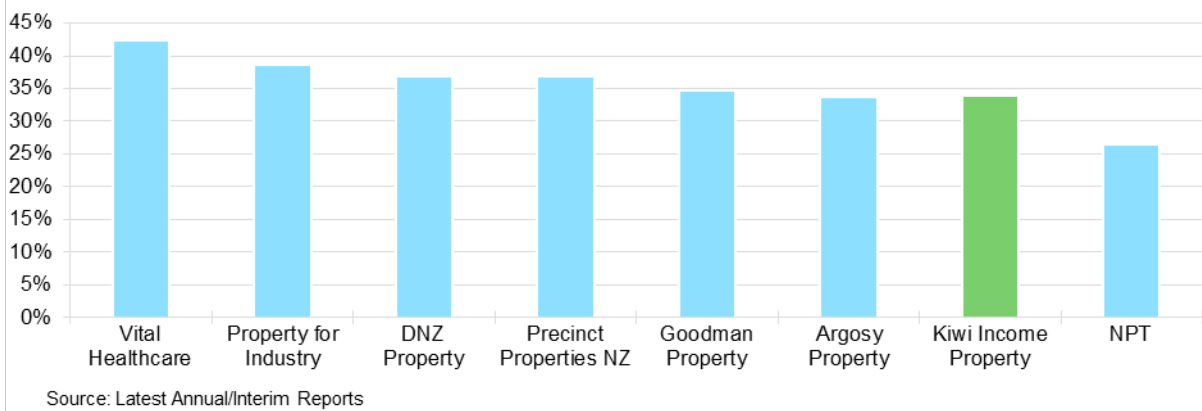
NZ Property Entities - Weighted Average Lease Term (WALT)



Gearing

Maintenance of appropriate debt levels and financial risk management policies are key areas of focus for property entities. Gearing (debt to total assets) of 30% to 40% has become common in the LPV sector. KIPT's gearing at 30 September 2013 was 34% which is at the lower end of the LPV sector.

NZ Property Entities - Gearing

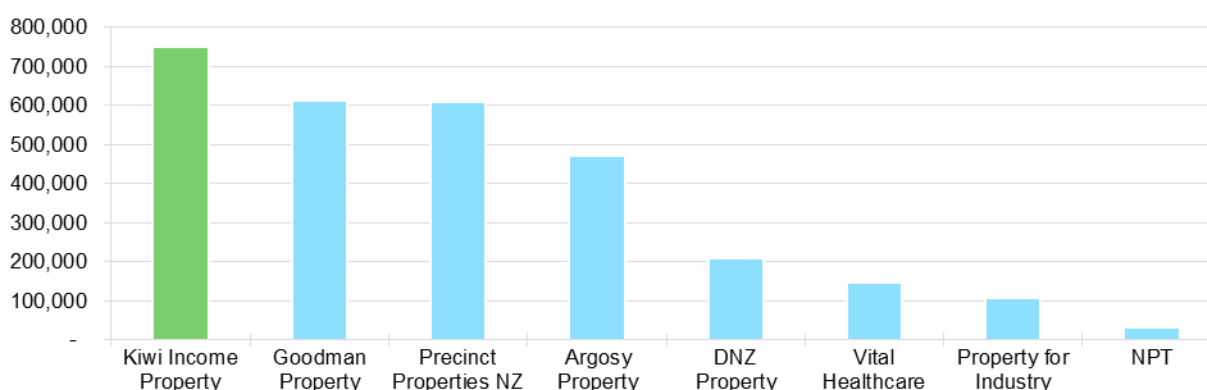


Liquidity

One of the benefits of investing in an LPV as opposed to investing directly into a specific property is the greater liquidity available. That is, it is easier and less costly to sell some or all of an investment in shares than it is to sell a property.

However, there are varying levels of liquidity amongst the LPVs. One measure of liquidity is the median daily volume of share trading. The following table summarises the median daily volume of trading over the past two years for the LPVs, and shows that KIPT had the highest liquidity under this measure.

Median Daily Trading Volume



Source: IRESS, 15th November 2013

2.3. Management Structures

There are two types of management structure for New Zealand LPVs: internal and external management. Internally managed entities undertake the management functions in-house. Externally managed entities generally have no staff and appoint a third party to undertake the management of the LPV and its property assets in return for fund and property management fees. The Unit Trusts Act requirement for a trust to have a manager that is separate from the trustee means historically it has been common for property trusts to be externally managed. However, there have been a number of management internalisations of New Zealand LPVs in recent years following an international trend as funds look to lower management costs, retain key management personnel, and remove potential conflicts of interest between funds and managers. The most recent New Zealand internalisations are:

- February 2012 - Kermadec Property Fund Limited
- October 2011 - Vital Healthcare Property Trust
- August 2011 - Argosy Property Trust
- October 2010 - National Property Trust
- July 2010 - DNZ Property Fund Limited

Trusts that seek to internalise management can either:

- simultaneously undergo a corporatisation process (i.e. convert to a corporate legal form) so that they can employ management staff directly; or
- transfer the management functions to a new company, still separate from the Trust and with a separate shareholding trustee, but controlled by unit holders and operated on a breakeven basis.

The second approach effectively achieves internalisation without the expense and time involved with corporatisation. This approach was taken in the Argosy Property Trust internalisation and is proposed for the KIPT Internalisation. It has enabled the Independent Directors to respond quickly to CBA's intention to sell the Management Rights, and negotiate the terms of the proposed Internalisation.

2.4. External Management Fees

The following table summarises the fund management fee structures of New Zealand's externally managed property funds. All entities incorporate a base fee and performance fee into their fee structure. It can be difficult to compare fees between entities due to various other charges that may be added on top of the fee structure for time in attendance matters and property management services.

Externally Managed New Zealand LPVs - Fund Management Fee Structures

Entity	Base fee		Fee Basis	Performance fee		
	Rate	Based on		Threshold/cap	Carried fwd	Paid in
Kiwi Income Property Trust	0.55%	Average gross assets	10% of unit holder return above threshold	Total unit holder return of 10%, capped at 0.15% of average gross assets	2 years	Units
Goodman Property Trust	0.50% up to \$0.5bn 0.40% thereafter	Total assets less cash and trade debtors	10% of unit holder return above threshold	NZ LPE Index (ex. GMT), capped at 5% above index	Yes	Units
Precinct Properties New Zealand	0.55% up to \$1.0bn 0.45% thereafter to \$1.5bn 0.35% thereafter	Investment properties	10% of shareholder return above threshold	NZ LPE Index (ex. Precinct), capped at 5% above index	2 years	Cash
Vital Healthcare Property Trust	0.75%	Average gross assets	10% of average annual increase in gross assets over prior 3 years	Capped at 1% of gross assets.	2 years	Units
Property For Industry	0.725% up to \$0.425bn 0.45% thereafter to \$0.775bn 0.35% thereafter	Total tangible assets	10% of shareholder return above threshold	Total shareholder return of 10% but under 15%	Yes	Cash

Source: LPV annual reports, PFI / Direct Property Fund merger Information Memorandum

Base fees

Base fund management fees compensate the manager for the costs of managing the entity (i.e. the corporate functions of an LPV, setting fund strategy, capital structure and financing, etc. but not property-specific management costs). In the table above, all base fees are determined as a percentage of the value of total assets or investment properties, with some minor differences such as Goodman Property's removal of cash and debtor balances.

There are benefits of scale with LPVs (greater diversity of properties and tenants lowers risk; greater liquidity in security trading; etc.). There are also economies of scale for the fund manager. Therefore, both investors and the manager benefit when an LPV achieves sufficient scale. Linking the base fees to total asset values incentivises the manager to achieve this scale.

However, once adequate scale is achieved, it has been argued that the base fees can unduly incentivise managers to grow the asset base further, whether or not the transactions create value for investors. To partially address this issue several funds have adopted lower or tiered base fee structures and added a performance fee component, as shown in the table above. This better aligns the interests of investors and the managers.

Performance fees

Performance fees are generally based on equity holder returns relative to the performance of the LPV sector, or absolute shareholder returns (e.g. 10% of total equity holder returns between a set range, frequently 10% of returns between 10%-15%). Fees that are set relative to the sector index mean a manager needs to outperform the sector to receive a performance fee, but can still receive a performance fee if sector returns are low in absolute terms.

Performance fees have varying carry forward periods that are designed to mitigate the effects of property market cycles, and reward managers for sustained performance of the fund, but not unduly penalise them for long market downturns. Most funds have a carry forward period of two years.

Property management and other fees

Managers may charge further fees for a range of property management and other services, including:

- property and facilities management (normally recoverable from tenants);
- leasing fees;
- renewal fees;
- rent review fees;
- acquisition and sale fees;
- development fees; and
- project management fees.

These additional fees make it difficult to compare the total fees paid to managers. Some additional services are charged at above market rates, some below market rates, and some LPV managers do not charge over and above base / performance fees for additional services.

3. Overview of Kiwi Income Property Trust

3.1. Background

KIPT is a listed property trust that specialises in retail and office property. KIPT was founded in 1992 and in 1993 became the first property vehicle to be listed on the NZSX (now the NZX Main Board). In 2002, CBA acquired the Trust’s management company and the property manager’s business.

The management of KIPT is discussed in section 4 of this report.

3.2. Property Portfolio

KIPT’s nationwide portfolio of 12 properties includes six retail properties and six office properties. The portfolio had a total value of \$2.08 billion as at 30 September 2013 (\$2.1 billion including adjoining properties and development land). KIPT’s portfolio is focused on retail and commercial properties in key geographic locations. Key properties include Sylvia Park (Auckland) and the Vero Centre (Auckland CBD). KIPT has a total of 894 separate tenants for its 12 properties. As at 30 September 2013, KIPT had an occupancy rate of 95.4%.

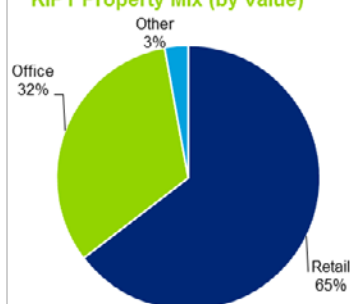
KIPT Property Portfolio Overview

	Retail	Office	Other ¹	Total Properties
Number of properties	6	6		12
Number of tenants	762	132		894
Market value of assets (\$m)	1,385	697	62	2,144
Net lettable area (sqm)	218,035	143,509		361,544
Occupancy	99.8%	88.6%		95.4%
WALT (years)	4.1	7.0		5.1

¹ Other includes adjoining properties and development land.

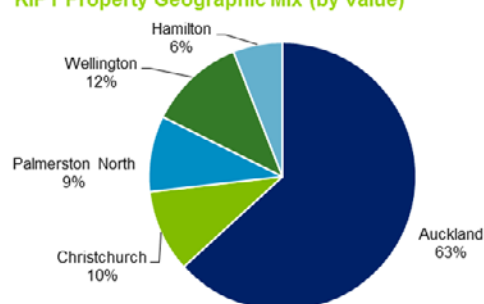
Source: KIPT September 2013 interim report

KIPT Property Mix (by value)



Source: KIPT September 2013 interim report

KIPT Property Geographic Mix (by value)



3.3. Financial Position

The table below summarises KIPT's financial position at the two most recent financial year ends and at 30 September 2013.

KIPT Financial Position

\$ 000's	As at 31-Mar-12 (audited)	As at 31-Mar-13 (audited)	As at 30-Sep-13 (unaudited)
Working capital			
Cash and cash equivalents	62,800	12,026	4,150
Prepayments and other assets	74,827	27,828	29,171
Trade and other payables	(29,816)	(56,732)	(38,212)
Interest rate derivatives	(8,409)	(6,303)	(4,537)
Interest bearing liabilities	(100,000)	-	-
Current tax payable	(58)	(1,922)	-
Net working capital	(656)	(25,103)	(9,428)
Non-current assets			
Properties	2,008,927	2,076,461	2,143,864
Interest rate derivatives	-	388	6,963
Other	248	173	154
Deferred tax assets	12,902	9,613	3,935
Total non-current assets	2,022,077	2,086,635	2,154,916
Non-current liabilities			
Interest bearing liabilities	(669,500)	(681,000)	(744,000)
Mandatory Convertible Notes	(118,245)	(118,947)	(119,332)
Interest rate derivatives	(37,668)	(28,418)	(16,478)
Trade and other payables	(16,533)	-	-
Deferred tax liabilities	(106,773)	(101,085)	(93,649)
Total non-current liabilities	(948,719)	(929,450)	(973,459)
Net Assets	1,072,702	1,131,694	1,165,066

Source: KIPT 2013 annual and interim report

KIPT currently has \$850 million of bank debt facilities, of which \$744 million was drawn as at 30 September 2013. In accordance with its hedging policy, KIPT has used interest rate swaps to fix a portion of its interest rate exposure. For the balance dates shown above, the interest rate swaps had a net negative fair value (as the expected future interest rates are lower than the fixed rates of the swap contracts).

3.4. Financial Performance

The table below summarises KIPT's recent financial performance.

KIPT Financial Performance

\$ 000's	Year ended 31-Mar-12 (audited)	Year ended 31-Mar-13 (audited)	6 months ended 30-Sep-13 (unaudited)
Income			
Net rental income	143,954	135,451	71,377
Interest income	3,532	1,582	194
Total net income	147,486	137,033	71,571
Management fees	(10,786)	(13,446)	(5,707)
Other administrative expenses	(3,129)	(2,910)	(1,407)
Net operating profit before financing	133,571	120,677	64,457
Net finance costs	(52,251)	(51,307)	(26,962)
Net operating profit after financing	81,320	69,370	37,495
Unrealised net change in fair value of derivative instruments	(2,257)	11,744	20,281
Amortised interest expense on mandatory convertible notes	(647)	(710)	(383)
Fair value change to investment properties	(9,617)	20,984	4,394
Gain/ loss on disposal of investment properties	(125)	(334)	-
Impairment of investment properties	(26,879)	-	-
Insurance proceeds	67,112	16,575	2,022
Internalisation evaluation costs	-	-	(690)
Net profit before tax attributable to Unit Holders	108,907	117,629	63,119
Current tax	(13,117)	(10,215)	(2,969)
Deferred tax	(6,580)	2,399	1,758
Net profit after tax attributable to Unit Holders	89,210	109,813	61,908

Source: KIPT 2013 annual and interim reports

The operating performance of KIPT (as represented by the net operating profit before financing) decreased from FY2012 to FY2013 due to a decline in net rental income (due mainly to fewer properties), and an increase in management fees (because of the performance fee paid in FY2013). The increase in net profit before tax in FY2013 was principally due to favourable movements in the value of derivative contracts and increases in property valuations, partially offset by lower insurance proceeds (net of impairment) in FY2013 compared to FY2012.

After-tax earnings per Unit increased between FY2012 and FY2013 as a result of the increase in pre-tax profit and the reduction in tax.

3.5. Unit Holders

As at 30 September 2013 KIPT had 1,006.2 million units on issue. Most of the Units are held by custodians on behalf of investors. Details of substantial security holders (holding 5% or more of the Units) as at 15 November 2013 are set out below:

Substantial Unit Holders as at 15 November 2013

Unit Holder	No. of Units	% of total Units
CBA and subsidiaries	91,772,277	9.1%
Accident Compensation Corporation	84,326,597	8.4%
OnePath (NZ) Limited	66,533,040	6.6%
ANZ New Zealand Investments Ltd	77,052,858	7.7%

Source: KIPT Management; IR E S S

3.6. Unit Trading Price

The following graph shows the price of KIPT’s Units (over the period November 2003 to November 2013) compared to KIPT’s NTA per Unit over the same period.

KIPT NTA per Unit vs Unit price - 2003 to 2013



The graph shows that KIPT traded at a premium to NTA for the first half of 2007, followed by a period of global financial crisis (“GFC”)-related price declines, to levels below NTA, from late 2007 to early 2009. More recently (from late 2011), KIPT’s Units have recovered to levels around or above NTA.

4. Overview of the Managers

4.1. Background

The Trust's fund manager is Kiwi Income Properties Limited ("KIPL" or the "Manager"). The property management functions are undertaken by Kiwi Property Management Limited ("KPML" or the "Property Manager"). Both entities are wholly-owned subsidiaries of Colonial First State Investments (NZ) Limited ("CFSIL"), a provider of asset management services to wholesale and institutional investors across a diverse range of domestic and global asset classes. CFSIL is wholly-owned by CBA.

KIPL has managed the Trust since its establishment. In 2002 CBA, via its wholly owned subsidiary CFSIL, acquired KIPL.

4.2. Roles of the Fund and Property Managers

The Manager is appointed under KIPT's Trust Deed. KIPL's fund management duties include:

- strategic direction of the Trust;
- portfolio management;
- property selection and review;
- negotiation and disposal of assets;
- treasury and funding management;
- ensuring adherence to financial reporting requirements; and
- liaising with Unit Holders in accordance with the Trust Deed.

The Property Manager is appointed under the Property Management Deeds (the "Property Management Deeds") between KPML, KIPL, and KIPT's asset owning companies, Kiwi Property Holdings Limited and Sylvia Park Business Centre Limited. KPML's duties include the day-to-day management of all the Trust's properties (tenancy and account management, property maintenance, etc.) carried out on normal commercial terms. The Property Management Deeds provide that KPML is entitled to a retail management fee, a commercial management fee, as well as fees for leasing and development activities.

4.3. Fund and Property Management Fees

The fund management fees comprise a base fee calculated as a percentage of the total assets under management, and a performance fee based on Unit Holder returns. The base fee is calculated and paid quarterly in arrears. The performance fee is calculated and where applicable paid semi-annually in arrears. In addition, the Manager is entitled to reimbursement for certain expenses incurred on the Trust's behalf.

Base Fees

In accordance with the terms of the Trust Deed, the Manager is entitled to receive a base fee of 0.55% per annum of the average Gross Value of the Trust Fund for the year (as that term is defined in the Trust Deed – being essentially the total assessed market value of the Trust’s properties plus cash, also commonly referred to as funds under management or “FUM”).

The Gross Value of the Trust Fund at 31 March 2013 was \$2.08 billion and the annual base fee for 2013 was \$11.1 million. The base fee is subject to the movement in the assessed value of the Trust’s properties.

Performance Fees

The performance fee is calculated as 10% of the total Unit Holder returns over 10% per annum, subject to a cap. Total Unit Holder returns are defined as the sum of gross distributions per Unit and movement in the Unit price over the relevant period, expressed as a percentage of the Unit price at the beginning of the period. The maximum performance fee payable in any year is capped at 0.15% per annum of the average Gross Value of the Trust Fund for the year. The total management fee payable, including both the base and performance fees, is capped at 0.70% per annum of the average Gross Value of the Trust Fund for the year. The Manager reinvests performance fees by subscribing for new units in the Trust.

Performance fee excesses or deficits are carried forward for a period of two years at which point if they have not been applied they are extinguished. At 31 March 2013 an excess performance balance of 3.5 cents per Unit existed.

A performance fee of \$3.0 million was paid in the year ended 31 March 2013. Prior to this no performance fee had been paid since 2007.

Property Management Fees

The Property Management Deeds provide for remuneration to the Property Manager as follows:

- for retail assets, a fee of 4.75% of the gross income from the assets; and
- for commercial assets, a fee of 2.5% of the aggregate of the following amounts:
 - the greater of either the actual net rentals receivable or the rentable value of the assets or a combination of the actual net rentals receivable (if they exceed the rentable value) and the rentable value for any rentable area; and
 - the total of all operating expenses (exclusive of GST and the commercial management fee) for the relevant financial year.

In addition, KPML is paid specific fees for leasing and development activities.

Total property management fees have ranged from 0.28% - 0.45% of FUM over the last 5 years. Property management fees paid to KPML are included in the property operating expenses of the Trust or capitalised to investment properties (as appropriate).

4.4. Term of the Management Rights

Under the Trust Deed there is no defined term for KIPL's appointment as fund manager. The ability to remove the Manager from office by Unit Holder resolution is a requirement of the Unit Trusts Act 1960 and is a standard feature of unit trust structures. Unit Holders have the right to direct that the Manager should cease to hold office by passing a resolution under Section 18 of the Unit Trusts Act 1960. In addition, the Trustee has the ability to remove the Manager under Section 19(2) of the Unit Trusts Act.

In the event of removal by way of a Section 18 resolution the Manager is entitled to an additional fee of 0.85% of the Gross Value of the Trust Fund (in addition to all fees accrued prior to the date of termination and 10% of the aggregate amount of any performance fee excesses available).

The Property Management Deeds have defined terms of 5 years and expire in 2016 and 2017 but are automatically renewed unless the Property Manager is in material breach of its obligations. The proposed Internalisation will result in KPML ceasing to be the Property Manager under the Property Management Deeds.

4.5. Financial Position

The table below shows the financial positions of KIPL and KPML as at 30 June 2013.

KIPL & KPML Financial Position		
	KIPL	KPML
	As at	As at
\$ 000s	30-Jun-13	30-Jun-13
	(audited)	(audited)
Cash and cash equivalents	7,292	7,940
Trade and other receivables	2,892	1,478
Trade and other payables	(1,086)	(4,411)
Advances from related parties	(1,325)	(131)
Income tax payable	(901)	(16)
Working capital	6,872	4,860
Non-current assets		
Goodwill	-	3,844
Property, plant and equipment	-	697
Investments	6,489	-
Deferred tax assets	14	457
Net Assets	13,375	9,858

Source: Management information

As discussed in section 5, the proposed Internalisation does not involve the acquisition of KIPL or KPML. Rather, New Manager will be established to acquire the Management Rights and operating infrastructure (\$0.65 million of assets) from KIPL and KPML. New Manager will also take the staff of KPML and assume approximately \$2.6 million of employee-related liabilities, for which CBA will make a cash payment to New Manager of the equivalent amount.

4.6. Financial Performance

The table below shows the consolidated financial performance of KIPL and KPML for the years ended 30 June 2012 and 2013.

KIPL & KPML Combined Financial Performance

\$ 000s	Year ending 30-Jun-12 (audited)	Year ending 30-Jun-13 (audited)
Revenue		
Fee income	24,644	28,119
Dividend income	241	269
Interest income	648	520
Other income	5	30
Fair value movement of investments	17	(119)
Total revenue	25,555	28,819
Expenses		
Depreciation	(190)	(176)
Directors' fees	(472)	(381)
Employee expenses	(9,184)	(9,749)
Occupancy costs	(630)	(648)
Other operating expenses	(1,522)	(1,915)
Total expenses	(11,998)	(12,869)
Profit before tax	13,557	15,950
Income tax expense	(3,743)	(4,440)
Profit after income tax	9,814	11,510

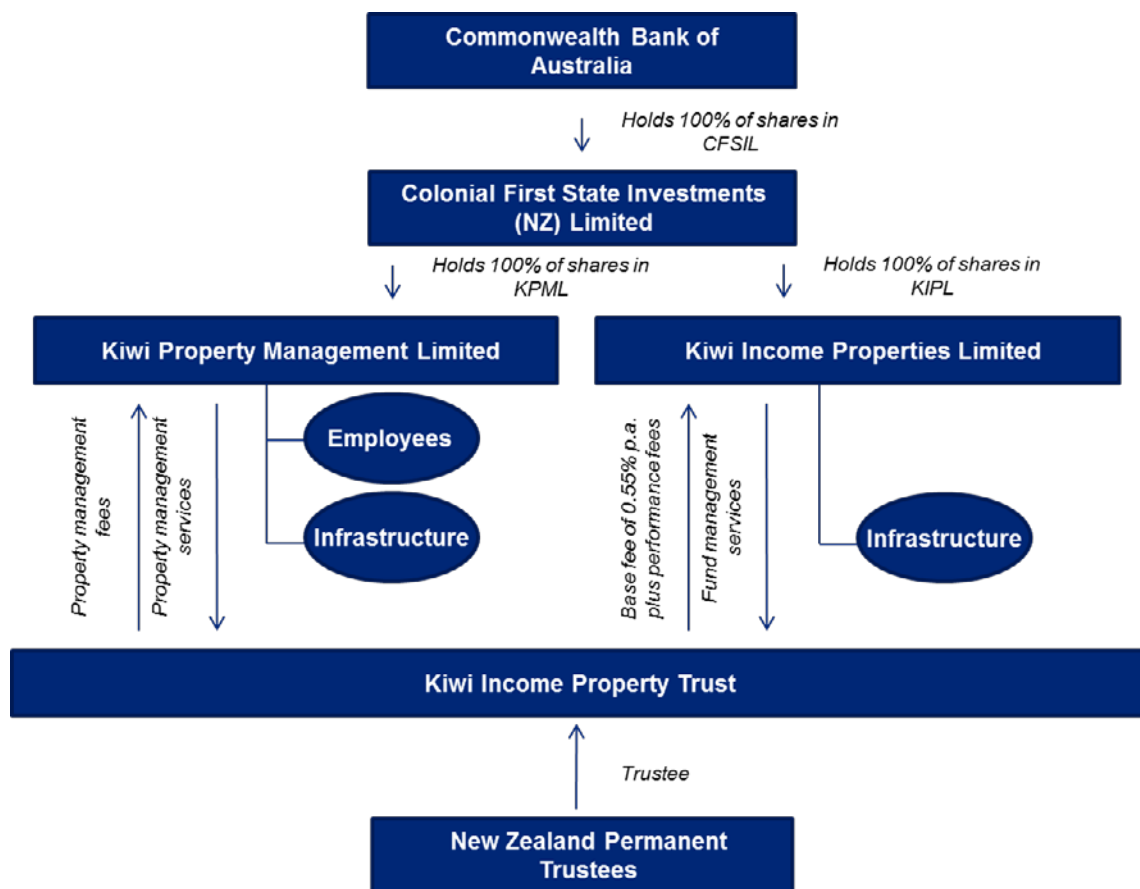
Source: CFSIL financial statements

The combined financial performance presented above for FY2012 and FY2013 is based on CFSIL's annual accounts (adjusted to exclude items relating to the parent entity). The combined profit before tax of the two management companies increased between FY2012 and FY2013, primarily due to the performance fee paid in FY2013 of \$2.97 million.

5. Proposed Internalisation

5.1. Summary of the Proposed Internalisation

The management of the Trust is currently structured as follows:



The proposed Internalisation involves the following elements:

- net payments by the Trust totalling \$70.6 million to the Manager and the Property Manager to terminate the Management Rights and acquire certain business assets;
- the establishment of New Manager to undertake the fund and property management roles for the Trust. The employees (subject to their agreement) and infrastructure that relate to the current services provided to KIPT would be transferred to New Manager. It is also anticipated that up to three additional staff would be employed to assist in managing the Trust;
- for infrastructure that cannot be transferred, New Manager would put in place alternative arrangements with external suppliers;
- the appointment of New Manager as the fund and property manager of the Trust;

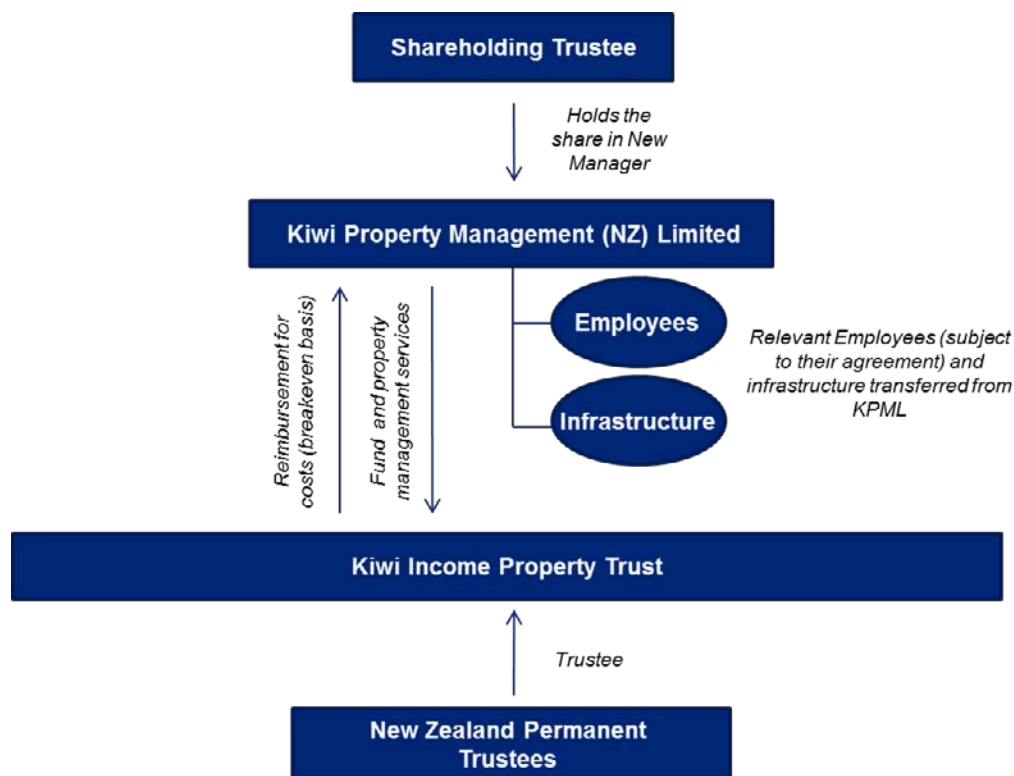
- the appointment of an independent trustee (the “Shareholding Trustee”) to hold the share in New Manager subject to a trust arrangement; and
- making various amendments to the Trust Deed to effect the Internalisation, including enabling the Trust to pay for the remuneration of directors of New Manager.

In addition to the elements above, other resolutions are proposed in the Notice of Meeting to:

- increase the total amount of remuneration payable by the Trust to directors of New Manager to \$585,000, up from the \$391,360 currently payable to the Independent Directors by the Manager; and
- raise the borrowing limit in the Trust Deed from the current 40% to 45% of the Gross Value of the Trust Fund.

The need to engage the Shareholding Trustee to hold the share in New Manager (as opposed to KIPT owning New Manager or employing staff directly) is due to the Unit Trust Act requirement that the Trust has a separate manager, independent of the Trustee. The Shareholding Trustee will hold the share in New Manager on trust for a charity selected by the board of New Manager. This will preserve the separation of the Trustee and Manager. It is not intended that New Manager make any profit so there should be no transfer of value to the charity. Voting rights in respect of the share in New Manager may only (subject to limited exceptions) be exercised in accordance with a direction passed by Unit Holder resolution.

Post-transaction, the fund and property management services provided by KIPL and KPML would be performed by New Manager (on a breakeven basis). The Trust would be structured as shown below:



5.2. Financial Impacts of Internalisation

The financial benefits of the Internalisation proposal lie in the following (related) areas:

- reductions in the Trust's costs of management;
- the associated increase in operating cash flow and earnings per Unit; and
- the potential improvement in the trading price of Units as a result of the increase in earnings and the removal of a possible impediment to a takeover of the Trust (possibly offset in the short-medium term by the overhang in the market from the expected sale by CBA of its Units).

Potential negative financial impacts include:

- the Trust will bear the risk of any escalation in management costs;
- using debt to fund the termination payment will increase gearing by 3% to 38% and could limit the Trust's ability to use debt to fund property acquisitions or developments (partially mitigated by raising the borrowing limit from 40% to 45% of the Gross Value of the Trust Fund); and
- the termination payment will reduce the Trust's NTA per Unit by approximately 5.2 cents per Unit or 4.5%.

These financial impacts are considered in more detail in sections 7 and 8 of this report.

5.3. Other Benefits of Internalisation

Other (non-financial) benefits for Unit Holders if the Internalisation proceeds include that it would:

- remove the potential for conflicts of interest between the Manager and the Unit Holders;
- provide greater control over the management of the Trust; and
- remove the risks associated with CBA selling the Management Rights to a third party.

These other impacts are discussed in section 8.

6. Alternatives to Internalisation

6.1. Alternatives to Internalisation

In the proposed Internalisation the current management team will remain in place and operate on a breakeven basis, rather than the Trust paying fees to externally owned management companies. In essence the profits currently earned by KIPL and KPML would be retained by the Trust. Before considering the value of this change, and therefore the fairness of the proposed termination payment, it is important to consider what alternatives exist for the parties involved.

Alternatives to the proposed Internalisation are discussed below. We also note that in certain circumstances a fee of up to \$5 million would be payable by the Trust to CBA if the Internalisation does not proceed (see section 31 of the Notice of Meeting).

Retention of the status quo

If the proposed Internalisation did not proceed then the status quo could prevail. In this situation KIPL and KPML would continue to manage the Trust under the existing Trust Deed and Property Management Deeds. The Trust would continue to operate under this external management structure and the benefits of the Internalisation would be foregone. However, given CBA's stated intention to sell the Management Rights, the status quo is unlikely to prevail. A more likely outcome would be the sale of KIPL and KPML to a third party.

Third party ownership of the Management Rights

If the proposed Internalisation did not proceed, KIPL and KPML (and consequently the Management Rights) could be sold by CBA to a third party. If this were the case, the disadvantages associated with external management would remain, including higher costs and lack of control over the Trust's direction. If employees of KIPL and KPML did not continue in employment following that sale there could be a loss of continuity of knowledge. Unit Holders would not have any control over who the rights were sold to, and would face uncertainty regarding the future performance of the manager.

Unit Holders voting to remove the Manager

Under Section 18 of the Unit Trusts Act 1960, a meeting of Unit Holders could be called to propose a vote to remove the Manager. If 75% of the votes were in favour of a resolution to remove the Manager, the Manager would be required to immediately desist from all Trust activities and appoint a temporary manager. Unit Holders would not have to establish a cause, such as poor performance by the Manager, as a pre-condition to voting to remove the Manager.

Such a vote would be unusual and controversial. Deloitte is not aware of any examples of external managers of New Zealand listed property trusts being removed by a vote of unit holders. Additionally, Deloitte is not aware of any material investor concerns regarding the performance of the Manager, or Unit Holder pressure to remove KIPL. Further, as a holder of 9.1% of the Trust's Units, CBA is well positioned to establish a blocking stake preventing any such proposal from being passed with the necessary 75% majority.

A removal of the Manager under Section 18 would be disruptive for the Trust. There would be a material risk that existing staff, knowledge, systems, and relationships would be lost. It would be a large task for a temporary manager to pick up the day-to-day activities in a short time frame, including setting up systems, hiring staff, and preparing reports. Removal of the Manager would also trigger an Event of Default under the Trust's debt facilities.

Removing the Manager would also involve considerable expense. The Trust would be required to compensate the Manager for fees accrued to date and pay the termination fee as outlined in section 4.4 of this report. There would also be costs associated with appointing a temporary manager, costs in relation to the business disruption, and legal fees. The termination fee would be approximately \$18 million, and in total the costs associated with removing the Manager are likely to exceed \$20 million.

Another aspect to consider is whether KPML would continue as the property manager under the Property Management Deeds, which have terms of five years with automatic five year renewals (other than if KPML is in material breach of the Deeds). A removal of the Manager would not trigger any right to terminate the Property Management Deeds.

Trustee removes the Manager

The Trustee also has the ability to remove the Manager under Section 19(2) of the Unit Trusts Act. In this case, the Trustee must have cause to do so (e.g. breach of duties by KIPL or failure to carry out responsibilities).

Most of the observations regarding a Unit Holder vote to remove the Manager also apply here: it would be rare, controversial, disruptive, involve significant expense, and still leave KPML in place as Property Manager.

Takeover of Trust or its underlying assets

If the Trust were to be the subject of a takeover offer, and the Units were successfully acquired by a single party, then that entity would have the ability to remove the Manager (but not the Property Manager). Alternatively, if an offer to acquire all of the underlying properties of the Trust were successful (with the proceeds distributed to the Unit Holders), then the loss of the assets upon which the Manager's base fees are calculated would represent the economic equivalent of being removed as Manager.

Again, as noted above, CBA's 9.1% holding in the Trust potentially provides it with the ability to block such events.

In the last 12 months, KIPT's units have typically traded at a premium to the underlying NTA per unit. When trading at a premium, the Trust is less likely to present an attractive target for a takeover. However, if the Trust were to trade at a discount to NTA, as has occurred in the past, then that may increase the prospect of the Trust becoming a takeover target.

Deloitte notes that an indicative proposal was recently made to acquire all of the units of Commonwealth Property Office Fund, an Australian LPV also managed by a CBA-owned entity. More generally, Deloitte understands that there has been a growing interest in Australasian property funds from Northern Hemisphere sovereign wealth funds and institutional investors.

Internalisation does not eliminate the possibility of the Trust being subject to takeover offers in the future, and in fact it might increase that possibility by removing the Manager/CBA as a potential impediment to a takeover.

Unit Holder pressure over time to reduce fees

Over time the Unit Holders could put pressure on the Manager to reduce the fees charged to the Trust. There was a wave of such fee reductions in the Australasian LPV sector some years ago, and given KIPT's scale, fee structure, and the profitability of the Manager, Unit Holders might consider it appropriate to push for a lower fee structure. With the Unit Holders having the power to vote for the removal of the Manager they could have significant negotiating leverage in this regard.

6.2. Risks faced by LPV managers

These alternatives to Internalisation highlight the risks faced by external owners of LPV management rights. While in most instances LPV fund managers appear to own a perpetual and profitable fee stream, they are exposed to the risks of:

- being removed from the role by unit holder or trustee vote;
- having the LPV they manage taken over (or its underlying assets acquired, removing the manager's fee base); and
- downward pressure on fee structures over time.

Individually, these risks might be judged to be remote, and they can be mitigated by good performance on the part of the manager, as reflected in the LPV's operating and security trading performance.

Nevertheless these risks remain present, and collectively they have an impact on the value of LPV management rights. These risks are appreciated not just by the owners but also the potential acquirers of LPV management rights. This in large measure explains why the observed trading values of LPV management rights (whether in internalisations or sales to third party buyers) are at material discounts to the theoretical value of internalisation to the LPV itself. For the LPV, the alternative to internalisation is perpetually paying management fees to some external party. However, for the incumbent manager there is usually uncertainty of tenure.

In some instances the manager's risk is mitigated by actually having a specified term in the management agreement, and/or by owning a holding in the underlying LPV's securities sufficient to block any special resolution to remove the manager. Managers with these features are said to be "entrenched". High levels of entrenchment reduce the discount that would otherwise apply to the value of that manager's rights.

Conversely, if investors are dissatisfied with a manager's performance and call for a vote to remove the manager, or if there is the prospect of a takeover of the LPV, then the value of the management rights will be more heavily discounted.

As discussed above, CBA's 9.1% holding in the Trust provides a level of entrenchment for KIPL and KPML, and the Property Manager's role is perpetual except if it is in material breach of the Property Management Deeds. Furthermore, we are not aware of any material investor concerns with the Manager's performance or any takeover proposal for the Trust. Collectively, these factors act to reduce the discount that would otherwise apply to the value of the Management Rights. Nevertheless, as shown in the following section, the value of Internalisation to the Trust (in terms of the present value of future cost savings) is still materially greater than the fair market value of the Management Rights.

7. Valuation of Management Rights

7.1. Introduction

Deloitte has considered the value of the Management Rights from two perspectives:

1. The value of the Management Rights to the Trust, i.e. the value of the proposed Internalisation to the Trust.
2. The fair market value of the Management Rights, being the likely price achievable by CBA in an arms-length sale to a third party (or in an internalisation).

Deloitte has used the discounted cash flow (“DCF”) approach in 1. In estimating the upper bound of the cost savings from Internalisation we have assumed that the alternative to Internalisation is a continuation in perpetuity of the current management fee arrangements. This value is only available to the Trust, because it does not incorporate the risk factors discussed in section 6 that are faced by owners of management rights:

- Unit Holders or the Trustee voting to remove the Manager;
- a takeover of the Trust or its underlying assets; and
- Unit Holder pressure to reduce fees over time.

The resulting DCF value may overstate the value of Internalisation to the Trust, because it does not factor in the potential (under the alternative of no internalisation) for reductions in fund management fee rates over time to partially offset the growth in the Trust’s FUM and the Manager’s profitability. We have therefore also estimated a lower DCF value that incorporates this potential to achieve some reduction in management fee rates in the status quo.

To estimate the fair market value of the Management Rights in 2 above, which does incorporate all the risk factors listed above, we primarily relied on the capitalisation of earnings approach, using multiples derived from other comparable transactions. These transaction multiples implicitly capture, to varying degrees, the risks noted in section 6. As a cross-check, we also used the DCF model developed for 1 above, modified to reflect the risks faced by owners of management rights.

7.2. Value of Internalisation to the Trust

Deloitte’s DCF analysis models free cash flow (“FCF”) from FY2014 forward. The analysis is based on projections prepared by the Manager prior to the Internalisation proposal being developed. The value to the Trust from Internalisation essentially relates to the forecast level of profitability of KIPL and KPML that is saved with Internalisation. The trend in forecast profits is primarily driven by the rate of growth in FUM. We summarise below the key assumptions in the forecasts.

Base fund management, property management, and development fees savings

The forecast base fund management, property management and development fees saved due to Internalisation have been based on the strategic plan prepared by the Manager in March 2013 for FY2014 to FY2018. The strategic plan assumes an opening FUM of \$2.1 billion, growing to \$2.8 billion by the end of FY2018.

We note that aside from adjustments made for Majestic Centre, Unisys House, and 205 Queen Street, these forecasts were prepared prior to the Internalisation being contemplated and represent the Manager's best estimate of future FUM, revenues, and expenses. Additionally, PwC was engaged on 29 May 2013 to perform due diligence on the forecasts and projected pro-forma results for the KIPL and KPML businesses for FY2014 in advance of the proposed Internalisation. We have reviewed this report and noted nothing unusual.

Performance fees savings

While it is our view that future performance fee payments should be incorporated into the discounted cash flow analysis, we also recognise that, consistent with historical performance, there will likely be many years in which no performance fee will be payable. However, when large outperformance occurs, the performance fee can be significant.

As discussed in section 4, performance fees are calculated as 10% of total Unit Holder returns over 10% per annum, capped at 0.15% per annum of the average Gross Value of the Trust Fund for the year. Estimating the amount and timing of performance fees is difficult because Unit Holder returns tend to mirror broader market trends and cycles and as such are not evenly spread from year to year. A total of \$7.8 million in performance fees have been earned by the Manager, and performance fees were only paid in FY2006, FY2007, FY2008 and FY2013. The Manager's current projections contemplate payment of performance fees totalling \$3.8 million over FY2015 to FY2018.

Noting that performance fees are very difficult to predict, we consider the Manager's forecast to be reasonable taking into account the following factors:

- the performance fees in FY2006 to FY2008 coincide with a peak in New Zealand property values prior to the effects of the GFC;
- the previous peak was in 1998, suggesting a cycle in property values of approximately 9-10 years (albeit with an overall upward slope);
- property values have been increasing from the post-GFC low in 2010, and if the length of the previous cycle is replicated property values would be at a relatively high point in the cycle by around 2016; and
- the rate of property value increase over 2005-2007 was unusually high, and it is reasonable to assume a more modest peak (and relatively lower performance fees) going forward.

On-going operating costs

As a result of the proposed Internalisation, the forecast management, staff, occupancy, IT and other expenses will be incurred by New Manager.

As with management and development fees noted above, operating costs have been based on the strategic plan prepared by the Manager in March 2013 for FY2014 to FY2018. We have reviewed the strategic plan and the PwC due diligence report, and have made only one small adjustment (decreasing IT costs by \$200,000 per annum).

Incremental operating costs associated with Internalisation

As discussed above, associated with the proposed Internalisation of the management functions the management, staff, and infrastructure of KIPL and KPML will transfer to the New Manager. In addition, increased operating costs related to new headcount, incremental occupancy costs, and incremental overhead costs will be incurred. These incremental operating costs are estimated to be \$2.3 million per annum. We note that these costs are also likely to be required in any scenario where KIPL and KPML are operated on a fully standalone basis.

Implementation costs

Non-recurring expenses (including Deloitte's fee, share registry expenses, legal fees, accounting and tax advice fees, financial adviser fees, other professional consulting fees, printing costs and postage costs) related to evaluating and putting forward the Internalisation Proposal to Unit Holders are estimated to amount to an aggregate of approximately \$1.9 million, assuming the Internalisation proceeds. Of these costs, approximately \$1.5 million are considered sunk-costs that will have been incurred regardless of whether or not the Internalisation proceeds. Other non-recurring costs of implementing the Internalisation (primarily IT systems costs) are estimated to be \$1.5 million.

CBA has proposed a transitional services agreement to be provided to New Manager whilst it undertakes the process of developing internal management capabilities. The transitional services agreement covers IT (SAP and Microsoft), HR (performance management system), business services (investor relations), capital management, and risk management. These costs are broadly similar to the incremental operating costs discussed above.

Forecasts

Based on the assumptions discussed above, the forecast cost savings to the Trust from Internalisation are shown in the following table. The FY2014 forecast has been prepared on a pro forma basis, with the incremental cost of Internalisation and our other adjustments assumed to have a full year effect.

Summary Projections

	FY14	FY15	FY16	FY17	FY18
	Pro forma	Forecast	Forecast	Forecast	Forecast
Fees saved					
Base management fees	11,730	12,275	13,238	14,121	14,692
Performance fees	0	844	910	971	1,010
Property management & development fees	14,560	13,959	15,496	14,518	14,563
Total fees saved	26,290	27,078	29,645	29,610	30,265
Costs incurred					
Fund management costs	-2,970	-3,059	-3,151	-3,245	-3,343
Property management & development cost	-9,632	-9,920	-10,218	-10,525	-10,840
Incremental costs of internalisation	-2,324	-2,394	-2,466	-2,540	-2,616
Other adjustments	200	200	200	200	200
Total costs incurred	-14,726	-15,174	-15,635	-16,110	-16,599
Operating savings	11,564	11,905	14,010	13,500	13,666
Cash tax	-2,428	-3,333	-3,923	-3,780	-3,826
Capital expenditures, net of depreciation	-127	-6	4	-16	28
After tax cash savings	9,009	8,565	10,091	9,704	9,867

Beyond the forecast period, we have assumed that nominal cash flows grow at 2.5% per annum and performance fees are earned on a 10 year cycle.

Discount rate

For the purpose of this DCF analysis of the value of Internalisation to the Trust, we have adopted a weighted average cost of capital (“WACC”) range of 7.5% – 9.0%. In estimating this WACC range we have used a number of approaches, including the Capital Asset Pricing Model (“CAPM”). Ultimately, however, the estimation of WACC is a matter of professional judgement.

The lower end of our discount rate range is in our view an appropriate WACC for the Trust to apply in valuing the cash flow savings from Internalisation assuming the current fee structure were to continue into perpetuity. The upper end of the discount rate range is a means of reflecting the potential for the forecast savings to in fact be lower over time as a result of Unit Holders placing pressure on management fee rates. For example, a 1.5% increase in the discount rate has broadly the same impact on the DCF value as a 0.10% reduction in the base fee from 0.55% to 0.45% p.a. of the average Gross Value of the Trust Fund (and a similar c.20% reduction in forecast performance fees) from FY2018 onwards.

DCF Valuation

Based on the forecasts above, and our discount rate range of 7.5% – 9.0%, we estimate the value of Internalisation to the Trust is in the vicinity of \$136 million to \$176 million.

7.3. Market Value of Management Rights

In this section we assess the fair market value of the Management Rights using the capitalisation of earnings approach with multiples derived from comparable transactions. In section 7.4 we use a modified DCF approach as a cross-check on our assessed market value.

Selection of Multiples

The capitalisation of earnings approach requires selecting the appropriate type of multiple to use for calculating fair value. In this case, we considered multiples of enterprise value (“EV”) / FUM, EV / Revenue, and EV / EBIT.

Multiples of FUM are often used in this type of analysis because the data is widely available from public disclosures of prior internalisations and other transactions. EV / FUM multiples also have the advantage that they can be calculated without reference to the manager’s financial performance and applied easily to any size fund. The major weakness with EV / FUM multiples is that they do not take differing fee structures, economies of scale, and profitability into account. Therefore we have not relied on EV / FUM multiples in our valuation.

Revenue multiples are also widely available and do capture differences in fee structures, and thus we find them more valuable than multiples of FUM. However, EV / Revenue multiples also do not capture differences in economies of scale and profitability.

EBIT multiples capture differences in fee structures, economies of scale, and profitability. They should provide the best measure of value, considering that it is an earnings stream that is ultimately being purchased. Unfortunately, EBIT multiples are not as readily available, as often EBIT figures are not publicly disclosed in transaction data from prior internalisations. We also note that both revenue and EBIT multiples can be distorted by incentive fee payments falling in the year of the transaction.

Given the trade-off between availability and applicability, we have considered both revenue and EBIT multiples.

Comparable Transaction Data

The following table summarises selected recent internalisations and other sales of the management rights of LPVs in New Zealand and Australia (refer to section 10 for a summary of each of these transactions):

Recent Australasian Transactions

Date	Fund	Sale Price \$m	FUM \$m	% of FUM	Revenue Multiple	EBIT Multiple
New Zealand Internalisations						
Feb-12	Kermadec Property Fund Limited	2.0	99.0	2.0%	3.5	10.0
Oct-11	Vital Healthcare	11.5	300.0	3.8%	3.7	
Aug-11	Argosy Property Trust	20.0	935.0	2.1%	2.5	5.3
Oct-10	National Property Trust	2.5	187.0	1.3%	1.7	
Jul-10	DNZ	35.0	730.0	4.8%	3.5	7.1
				Mean	2.8%	3.0
				Median	2.1%	3.5
Australian Transactions						
Dec-11	Centro Services Business	245.0	6,975.0	3.5%		3.5
Aug-11	Qube Logistics	40.0	501.0	8.0%	5.5	
Apr-11	Valad (European Funds Mgt)	24.9	3,800.0	0.7%		5.5
Mar-11	ING Office Fund	35.0	2,600.0	1.3%	4.2	9.0
Feb-11	ING Industrial Fund	22.5	2,492.0	0.9%	3.0	
Aug-10	Ardent Leisure Trust	17.0	800.0	2.0%	5.0	8.8
Apr-10	Westpac Office Trust	15.0	1,154.0	1.3%	3.4	
Feb-10	Macquaire Property Platform	108.0	7,186.0	1.5%	1.8	7.7
Jun-09	Orchard Industrial Property Fund	6.0	750.0	0.8%	3.2	4.5
				Mean	2.2%	3.7
				Median	1.3%	3.4

Source: Publicly available reports

Assessed Multiple Ranges

In determining appropriate EV / Revenue and EV / EBIT multiple ranges from this transaction data, we have:

- focussed on the transactions most similar to the KIPT Management Rights in terms of size (FUM) and asset type;
- taken into account the differing circumstances around the transactions (e.g. the level of entrenchment of the manager; whether there was any pressure to remove the manager; etc.); and
- taken into account the improved economic and property market conditions in New Zealand since some of these transactions occurred.

Taking these factors into account, Deloitte has adopted the following multiple ranges to assess the fair market value of the Management Rights:

- EV / Revenue: 2.8x – 3.5x
- EV / EBIT: 6.0x – 7.5x

Conclusion

Using the capitalisation of earnings approach, Deloitte has assessed the fair-market value of the Management Rights of Kiwi Income Property Trust to be in the range of \$71 million to \$89 million, as shown in the table below.

Fair-Market Value - Capitalisation of Earnings Approach

(\$ millions)	Multiples	Normalised Earnings	Valuation	
			Low	High
Capitalisation of Revenue	2.8x - 3.5x	26.3	73.6	92.0
Capitalisation of EBIT	6.0x - 7.5x	11.6	69.4	86.7
Assessed Value Range			71	89

Source: Deloitte analysis

We have used the pro forma FY2014 revenue and earnings figures discussed in section 7.2. We have used current year figures because our comparable transaction data is a mix of trailing and forward multiples. The earnings figure reflects the incremental operating costs associated with the Internalisation because they are likely to be required in any scenario where KIPL and KPML are operated on a fully standalone basis.

Our valuation range equates to 3.3% to 4.2% of FUM. This is higher than the mean for recent New Zealand internalisations, but is consistent with the EV/FUM for the Vital Healthcare and DNZ transactions. The relatively high percentage of FUM reflects the profitability of KIPL and KPML, in particular that the property management business is profitable.

7.4. Fair Market Value of Management Rights – DCF Cross-Check

As a cross-check on the results from our capitalisation of earnings approach, we have undertaken a DCF valuation. We have employed the same model used to calculate the value of Internalisation to the Trust described in section 7.2, but modified to reflect the risks faced by owners of management rights discussed in section 6: the risk of being removed as manager, the risk of a takeover, and pressure over time on fee rates.

These risks are implicitly captured in our capitalisation of earnings valuation, because our multiples were derived from actual transactions where the parties involved would have factored such risks into their pricing.

By contrast we have to make explicit, judgemental modifications to the DCF analysis to capture these risks. Most valuation practitioners do so by truncating the cash flows (to mimic the manager being removed) and / or increasing the discount rate to reflect this and other risks.

We have modified our DCF model by:

- truncating cash flows at 10 or 15 years;
- increasing the discount rate range to 10% - 11%; and
- including the termination payment that would be owed to the Manager in the event it was terminated, being 0.85% of the gross value of the Trust Fund in that year.

These assumptions give rise to a DCF valuation range of \$70 million to \$80 million, which is consistent with our valuation range under the capitalisation of earnings approach.

7.5. Valuation Conclusions

In Deloitte's opinion:

- the value of the Internalisation to the Trust, being the discounted present value of forecast future cash flow savings into perpetuity, is in the vicinity of \$136 million to \$176 million; and
- the fair market value of the Management Rights, taking into account the risks to any external owner of those rights, is in the range of \$71 million to \$89 million.

The proposed payment for terminating the Management Rights is \$72.5 million. Taking into account other aspects of the transaction, the net cost of Internalisation is \$70.6 million. The \$72.5 million termination payment is potentially tax deductible to the Trust. When the potential benefit of the tax deductibility is taken into account, the net purchase price is \$50.3 million.

The termination payment (on both a before and an after-tax basis) is materially lower than Deloitte's assessment of the value of the Internalisation to the Trust. The before-tax payment is also at the low end of our assessed range for the fair market value of the Management Rights.

8. Financial and Other Impacts

8.1. Introduction

The financial benefits of the Internalisation proposal lie in reductions in the Trust's costs of management, the associated increase in operating cash flow and earnings per Unit (i.e. earnings accretion), and a potential improvement in the trading price of Units as a result of the increase in earnings and the removal of a possible impediment to a takeover of the Trust (potentially offset in the short-medium term by an overhang of Units in the market, with CBA expected to sell its 9.1% holding).

Potential negative financial impacts include the increase in gearing due to the debt funding of the termination payment, the opportunity costs associated with higher gearing (if the Trust were to forego additional property investment due to gearing restrictions) and a reduction in net tangible assets.

Other (non-financial) benefits of the proposal include removing the potential for conflicts of interest between the Manager and Unit Holders, better control over the management of the Trust, and removing the risks associated with CBA selling the Management Rights to a third party.

8.2. Earnings Accretion

In section 7 we assessed the value of the proposed Internalisation to the Trust to be in the vicinity of \$136 million to \$176 million, compared to the payment required to achieve this value of \$50.3 million (net of the expected tax benefit). In other words, Internalisation has a net present value benefit of approximately \$86 million to \$126 million.

This net benefit is evidenced via an increase in the operating cash flows and earnings of the Trust, which should in turn result in higher Unit prices and market capitalisation than would otherwise be the case if the Internalisation did not proceed.

The increases in the Trust's cash flow and earnings occur because the annual cost savings from internalising management are greater than the annual funding costs of making the termination payment.

Pre-tax operating cost savings from Internalisation are expected to be approximately \$10.7 million. After annual interest costs of approximately \$2.6 million associated with funding the net termination payment, the pre-tax cash flow savings from Internalisation are approximately \$8.0 million per annum. This equates to a 10.8% increase in pre-tax cash earnings on a normalised pro forma FY2013 basis.

The impact of Internalisation on pre-tax cash and distributable earnings is shown in the table below, where for illustrative purposes we compare the Trust's financial performance for FY2013 (normalised to exclude the performance fee paid that year) with the pro forma outcome assuming the Internalisation occurred at the beginning of that financial year. We have considered two scenarios for the funding of the Internalisation termination payments: fully debt funded and fully equity funded. We have assumed that:

- the net \$70.6 million termination payment is fully tax deductible;
- the pre-tax marginal borrowing cost is 5.25%; and
- new Units could have been issued at the beginning of FY2013 for a price of \$1.01, being a 5% discount to the Unit price of \$1.07 as at 02 April 2012.

Pre-tax Accretion Analysis - Normalised Pro forma FY2013

\$ 000's	100% Debt Financed	100% Equity Financed
Pre-tax 2013 normalised operating income - status quo		
Operating profit before tax	69,370	69,370
Add back: Performance fee	2,970	2,970
Plus: Depreciation recovery offset	3,400	3,400
Plus: Non-cash rental adjustments	-1,400	-1,400
Total pre-tax 2013 normalised distributable income - status quo	74,340	74,340
Incremental Internalisation impacts		
Funds management base fees no longer payable	11,174	11,174
Asset management fees no longer payable	13,872	13,872
Operating costs of internal management (standalone basis)	-14,383	-14,383
Incremental cash savings	10,664	10,664
Impact of cost capitalisation	-3,159	-3,159
Incremental EBIT	7,505	7,505
Incremental interest	-2,641	0
Incremental distributable earnings (pre-tax)	4,864	7,505
Incremental cash savings after interest (pre-tax)	8,023	10,664
Pro forma pre-tax distributable earnings	79,204	81,845
Pro forma pre-tax cash earnings	82,363	85,004
Units on issue before Internalisation (000s)	989,249	989,249
Units on issue after Internalisation (000s)	989,249	1,038,965
Pro forma pre-tax earnings per unit - status quo (cents)	7.51	7.51
Pro forma pre-tax distributable earnings per unit (cents)	8.01	7.88
Pro forma pre-tax cash earnings per unit (cents)	8.33	8.18
Pro forma pre-tax distributable earnings accretion	6.5%	4.8%
Pro forma pre-tax cash accretion	10.8%	8.9%

As shown in the table, normalised pro forma FY2013 pre-tax cash earnings per Unit increase by 10.8% in the debt funded scenario (the intended funding method), and 8.9% if the termination payment is funded via a placement of new Units. Pre-tax distributable earnings increase by 6.5% in the debt funded scenario.

The distributable earnings percentage accretion figures are lower than the percentage increase in cash accretion. This is because under the current arrangements KIPT capitalises certain management fees, leasing fees, and development fees paid to KIPL and KPML. As these fees would no longer be capitalised in the event of Internalisation, the incremental impact from Internalisation on distributable earnings is smaller than the impact on cash earnings.

8.3. Potential Re-pricing of Units

In Deloitte's opinion, the net benefit to the Trust from Internalisation discussed above, and the associated increase in cash flow and earnings, should result in an increase in the trading price of the Units (and thus the Trust's market capitalisation) relative to prices that would have prevailed were the Internalisation not to proceed.

In addition, internalisation removes a possible impediment to a takeover of the Trust (because the Management Rights can effectively be acquired with the Trust), which could also have a positive influence on the Unit price.

It is not possible to isolate and directly observe these positive impacts. Unit prices continually fluctuate in response to a myriad of economy-wide, sector, and company-specific factors. Furthermore, the trading price of Units may be impacted in the short-medium term by the overhang of CBA's 9.1% holding, which is expected to be sold should Internalisation proceed.

We also discuss below that Internalisation will cause a reduction in the Trust's NTA and an increase in gearing. In isolation, these impacts may in other circumstances have a negative impact on the Unit price. However, in our view the Unit price is ultimately driven by earnings (and investors' capitalisation rates), and the earnings accretion discussed above should outweigh any concerns regarding NTA or gearing.

We therefore believe it is reasonable to expect that Internalisation will have a beneficial long-term impact on the Unit price.

8.4. Impact on Gearing

The intention is for the termination payment to be funded entirely by debt. As a result, the Trust's gearing (debt as a percentage of FUM) will rise by 3% to 38% as at December 2013. This will not cause a breach of any borrowing covenants, or breach the current gearing limit of 40% of FUM under the Trust Deed.

However, the possibility exists that the increase in gearing might in the short term restrict the Trust's ability to take advantage of property acquisition or development opportunities without raising additional equity capital. However, this is also partially mitigated by the proposed resolution raising the borrowing limit to 45% of FUM.

8.5. Impact on NTA

The net payment for the termination of the Management Rights will result in the Trust's debt increasing (initially by \$70.6 million). The termination payment is potentially tax deductible so that over the two years following the transaction the Trust's cash tax expense will be approximately \$20.3 million lower than would otherwise have been the case, resulting in a deferred tax asset immediately after payment. Internalisation should therefore result in the Trust's NTA initially declining by \$50.3 million or 5.2 cents per Unit.

If the termination payment was funded with equity rather than debt, the total NTA would not decline, but NTA per Unit would still decline in the manner discussed above.

Investors and market commentators often use NTA as a proxy for value in the context of LPVs, as NTA is based on the periodic valuations of LPVs' underlying asset portfolios by professional property valuers. It is also true that the LPVs' shares or units typically trade at levels close to NTA. However, in Deloitte's view, these trading prices are ultimately driven by earnings, and the rates at which investors capitalise those earnings. It follows that we do not believe the reduction in the Trust's NTA due to Internalisation will have a negative impact on Unit prices. Rather, we believe that the net present value benefit and associated earnings accretion from Internalisation should have a positive impact and outweigh any concerns regarding NTA and gearing.

8.6. Other Benefits of Internalisation

Other (non-financial) benefits for Unit Holders if the Internalisation proceeds include that it would:

- remove the potential for conflicts of interest between the Manager and the Unit Holders;
- provide greater control over the management of the Trust; and
- remove the risks associated with CBA selling the Management Rights to a third party.

Removes potential for conflict of interest

If the proposed Internalisation is approved by Unit Holders it removes the potential for conflicts of interest between the Manager and the Trust. Deloitte is not aware of any investor concerns regarding conflicts of interest with the Manager. However, with external management, the Manager can be incentivised to grow the size of the portfolio to increase its management fees, even if that may not be in the best interests of the Trust or Unit Holders. Internalisation removes this risk.

Enhanced control

Currently CBA, in its capacity as shareholder of the Manager, appoints the directors of the Manager. The establishment of New Manager, with its share held by the Shareholding Trustee, will result in a material improvement in Unit Holders' governance of the Trust. If the Internalisation proceeds, Unit Holders will be responsible for the appointment of all of the directors of New Manager, and the Shareholding Trustee will give effect to directions given by the Unit Holders. Under Internalisation, the directors of New Manager will set the strategic direction of the Trust and manage it as they see fit. The Board will have the power to remunerate and appoint the senior executive team and to determine the cost structure of New Manager.

Risk removed of CBA selling Management Rights to a third party

As discussed in section 6.1, if the proposed Internalisation did not proceed the Management Rights could effectively be sold to a third party through a sale of KIPL and KPML. If this were the case there could be certain disadvantages: Unit Holders would have no control over who acquired KIPL and KPML (and consequently the Management Rights), and if the employees of KIPL and KPML did not continue in employment following that sale, there could be a loss of knowledge and disruption to management services. Under the proposed Internalisation, the Unit Holders will obtain control over the Management Rights and achieve continuity of management.

Rights and protections of Unit Holders

There are no negative impacts on the rights of, or protections available to, Unit Holders as a result of Internalisation. There will be no change to the legal status of Units, and Unit Holders will maintain the same beneficial interest in the Trust. As discussed above, Unit Holders will, as a result of the Internalisation:

- gain enhanced control of the management of the Trust;
- avoid certain risks; and
- achieve financial benefits such as earnings accretion.

9. Fairness of the Proposal

In Deloitte's opinion the proposed Internalisation is fair to the Unit Holders not associated with KIPL and KPML.

We assess the value of the proposed Internalisation to the Trust (i.e. the discounted present value of forecast future cash savings in perpetuity) to be in the vicinity of \$136 million to \$176 million. We note that this value is only available to the Trust. It does not represent the fair market value of the Management Rights because it does not incorporate the risk factors that are faced by external owners of management rights (such as Unit Holders or the Trustee voting to remove the Manager, or a takeover of the Trust or its underlying assets).

In Deloitte's opinion, and taking into account these risks, the fair market value of the Management Rights that would be relinquished by KIPL and KPML in the Internalisation is in the range of \$71 million to \$89 million. The proposed net termination payment of \$70.6 million is at the lower end of Deloitte's fair market valuation range, and is therefore fair to Unit Holders in the sense that Unit Holders are not paying more than third party buyers would expect to pay.

More importantly in our view, the expected after-tax cost of the termination payment (\$50.3 million) is materially lower than the value of the Internalisation to the Trust (\$136 million - \$176 million). The proposed Internalisation therefore provides the Trust with a net present value benefit estimated to be in the vicinity of \$86 million to \$126 million.

This benefit is evidenced by expected increases in the Trust's cash flows and earnings, because the annual cost savings from internalising the management of the Trust are greater than the annual funding cost of making the termination payment. We estimate that pre-tax cash earnings will increase by approximately 10.8%, and distributable earnings will increase by approximately 6.5% as a result of the Internalisation (on a normalised pro forma FY2013 basis).

The proposed Internalisation will initially increase gearing by 3% to 38%, and reduce NTA by 5.2 cents per Unit or 4.5%. In our view the gearing and NTA impacts are more than outweighed by the significant net present value benefit from Internalisation and the associated earnings accretion. Overall, we believe Internalisation will be financially beneficial for Unit Holders.

Other benefits for Unit Holders if the Internalisation proceeds include:

- the removal of the potential for conflicts of interest between Unit Holders and KIPL/KPML;
- greater control over the management of the Trust; and
- the removal of risks associated with CBA selling the Management Rights to a third party.

10. Comparable Transactions

The following table summarises selected recent internalisations and other sales of the management of listed property entities in New Zealand and Australia:

Recent Australasian Transactions

Date	Fund	Sale Price \$m	FUM \$m	% of FUM	Revenue Multiple	EBIT Multiple
New Zealand Internalisations						
Feb-12	Kermadec Property Fund Limited	2.0	99.0	2.0%	3.5	10.0
Oct-11	Vital Healthcare	11.5	300.0	3.8%	3.7	
Aug-11	Argosy Property Trust	20.0	935.0	2.1%	2.5	5.3
Oct-10	National Property Trust	2.5	187.0	1.3%	1.7	
Jul-10	DNZ	35.0	730.0	4.8%	3.5	7.1
				Mean	2.8%	3.0
				Median	2.1%	3.5
Australian Transactions						
Dec-11	Centro Services Business	245.0	6,975.0	3.5%		3.5
Aug-11	Qube Logistics	40.0	501.0	8.0%	5.5	
Apr-11	Valad (European Funds Mgt)	24.9	3,800.0	0.7%		5.5
Mar-11	ING Office Fund	35.0	2,600.0	1.3%	4.2	9.0
Feb-11	ING Industrial Fund	22.5	2,492.0	0.9%	3.0	
Aug-10	Ardent Leisure Trust	17.0	800.0	2.0%	5.0	8.8
Apr-10	Westpac Office Trust	15.0	1,154.0	1.3%	3.4	
Feb-10	Macquaire Property Platform	108.0	7,186.0	1.5%	1.8	7.7
Jun-09	Orchard Industrial Property Fund	6.0	750.0	0.8%	3.2	4.5
				Mean	2.2%	3.7
				Median	1.3%	3.4

Source: Publically available reports

A brief description of each of these transactions follows:

New Zealand Transactions

Kermadec Property Fund Limited

Kermadec Property Fund Limited is a diversified property fund having approximately \$99 million of commercial and industrial property assets under management at the time of internalisation. Its unit holders approved an agreement to terminate the Kermadec Management Agreement with Augusta Funds Management Limited and to acquire Augusta's on-going funds management business. The consideration paid comprised a \$2.0 million payment for termination of the management agreement, and a \$3.0 million base payment for Augusta's funds management business plus an earn-out of up to \$2.0 million calculated at 50% of the offeror's fees earned on any new managed fund (including new property syndicates) offered by Kermadec following acquisition of the funds management business.

Vital Healthcare

Vital Healthcare invests in high-quality health and medical-related properties in New Zealand and Australia. In October 2011 North West Partners Inc purchased the management rights of Vital Healthcare from a wholly owned subsidiary of OnePath (NZ) Limited for \$11.5m. At the time, the trust had assets under management valued at approximately \$300 million.

Argosy Property Trust

Argosy Property Trust's unit holders approved internalisation of the trust's management in August 2011. The effect of internalisation was to completely separate the trust from ANZ National Bank and from OnePath. OnePath was paid \$20.0 million to terminate its rights to manage the trust, with the management duties being internalised. At the time, that trust had assets under management valued at approximately \$935 million.

National Property Trust

As part of a significant restructure of National Property Trust that converted it into a limited liability company, the trust's manager (National Property Trust Limited) ceased to hold office. It was paid \$2.5 million to relinquish its management contract and related assets, with the management duties being internalised. At the time, that trust held a portfolio of diversified commercial properties valued at \$187 million.

DNZ Property Fund

As part of restructuring arrangements leading to DNZ Property Fund obtaining a stock exchange listing, the fund internalised its management function through acquiring the existing management contracts from DNZ Management for \$35 million. Of this amount, \$10 million was reinvested back into the fund by persons associated with DNZ Management. The fund holds a diversified portfolio of commercial office, retail and industrial properties throughout New Zealand valued at \$730 million.

Australian Transactions**Centro Services Business**

Centro Services Business was acquired by a third party for A\$245 million in December 2011. At the time it had assets under management valued at approximately A\$7 billion.

Qube Logistics

Qube Logistics invests in logistics or infrastructure in automotive, bulk and general stevedoring. Qube Logistics internalised its management arrangement by terminating Kaplan Funds Management management rights and paying A\$40 million as compensation in August 2011. At the time it had assets under management valued at approximately A\$501 million. The consideration paid was a mixture of shares and cash.

Valad (European Funds Mgt)

The European funds management business of Valad Property Group was acquired by Blackstone Real Estate Advisors for A\$24.9 million. At the time it had assets under management valued at approximately A\$3.8 billion.

ING Industrial Fund

ING Industrial Fund invests in industrial properties and business parks. ING Industrial Fund internalised its management for a consideration of A\$22.5 million in February 2011. At the time the fund had assets under management valued at approximately A\$2.5 billion.

Ardent Leisure Trust

Ardent Leisure Group (formerly Macquarie Leisure Trust Group) internalised its asset management function through the acquisition of all the shares in Macquarie Leisure Management Limited in August 2009. Ardent Leisure is a leading owner and operator of Australian leisure assets including Dreamworld, White Water World, Goodlife Health Clubs and AMF and Kingpin Bowling. An independent expert valued Macquarie Leisure Management at A\$18.8 million against Ardent Leisure's acquisition cost of A\$17 million. The internalisation formed part of a package of measures designed to enhance alignment between investors and management and a repositioning of the business for a growth phase.

Westpac Office Trust

The management rights for Westpac Office Trust were acquired by Mirvac Group for A\$15 million in April 2010. At the time the fund had assets under management valued at approximately A\$1.2 billion.

Macquarie Property Platform

The real estate management platform for Macquarie Group was acquired by Charter Hall Group for A\$108 million in February 2010. At the time the trust had assets under management valued at approximately A\$7.2 billion.

Orchard Industrial Property Fund

Orchard Industrial Property Fund is an ASX listed industrial A-REIT, holding 23 industrial properties throughout Australia. Orchard Industrial Property Fund internalised its management arrangement by terminating Orchard Funds Limited management rights and paying A\$6 million as compensation in June 2009. The management internalisation was to be executed by stapling of the units in the trust to shares in a company appointed as the new responsible entity, thus forming a stapled group. At the time the trust had assets under management valued at approximately A\$650 million.

11. Information, Disclaimer and Indemnity

11.1. Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the KIPT annual reports for the financial years 2008 to 2013 and interim report as at 30 September 2013;
- property statistics for KIPT as at 30 September 2013;
- the term sheet for the proposed Internalisation of KIPT;
- final, executed transaction agreements;
- a presentation on the proposed Internalisation prepared by the Manager;
- the KIPT Property Management Agreements;
- the KIPT Trust Deed;
- First NZ Capital analyst reports on the New Zealand property industry;
- First NZ Capital New Zealand LPV comparative analysis;
- financial forecast models of KIPT and the Internalisation prepared by First NZ Capital;
- financial forecasts for KIPL and KPML prepared by the Manager;
- LPV share and share price data and property index data from Bloomberg Information Services;
- share price data and company announcements from NZX;
- public information on the LPV industry including industry studies, financial reports and brokers' reports;
- a draft Notice of Meeting and Explanatory Memorandum in relation to the Internalisation.

During the course of preparing this report, we have had discussions with and/or received information from the Manager of KIPT and its financial and legal advisers.

The Independent Directors of KIPL have confirmed that, for the purpose of preparing our Appraisal Report:

- to the best of their knowledge and belief, all material facts and matters relating to the Internalisation that are known to the Independent Directors have been provided to Deloitte and all such information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise; and
- nothing causes the Independent Directors to believe that there are any material facts or matters relating to the Internalisation that have not been properly referred to or taken into account in this Appraisal Report.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Appraisal Report.

In our opinion, the information set out in the Explanatory Memorandum and this Appraisal Report is sufficient to enable the Unit Holders of KIPT to understand all the relevant factors and to make an informed decision in respect of the Internalisation.

11.2. Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by the Manager of KIPT and its advisors.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of KIPT, KIPL and KPML. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

11.3. Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any projections or forecasts of future profits, cash flows or financial position of KIPT, KIPL and KPML will be achieved. Forecasts and projections are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of the Manager of KIPT. Actual results will vary from the projections and forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, interest rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in setting the terms of the proposed Internalisation or in the preparation of the Explanatory Memorandum issued by KIPT and we have not verified or approved the contents of the Explanatory Memorandum. We do not accept any responsibility for the contents of the Notice of Meeting or the Explanatory Memorandum except for this report.

11.4. Indemnity

KIPT has agreed that, to the extent permitted by law, it will indemnify Deloitte and its partners, employees and consultants in respect of any liability suffered or incurred as a result of or directly in connection with the preparation of this report. This indemnity does not apply in respect of any fraud or negligence by Deloitte. KIPT has also agreed to indemnify Deloitte and its partners, employees and consultants for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Deloitte or its partners, employees and consultants are found liable for or guilty of fraud or negligence, Deloitte shall reimburse such costs.

12. Qualifications, Independence and Consent

12.1. Qualifications and Expertise

Deloitte is one of the world's leading professional services firms. Deloitte's Corporate Finance practice provides strategic advisory, valuation and transaction support services.

The persons involved in preparing this report are Chas Cable (MSc (Hons), BSc), Alan Dent (CA, BCA), and William Word (CFA, MS Acc, BS Fin).

Deloitte Corporate Finance, Mr Cable, Mr Dent and Mr Word have significant experience in the independent investigation of transactions and issuing opinions on the fairness and merits of the terms and financial conditions of transactions.

12.2. Independence

Deloitte is not the auditor of KIPT.

Deloitte is independent of the Manager, New Manager and the Trustee.

Deloitte has not had any part in initiating or setting the terms of the Internalisation.

Deloitte will receive a fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Internalisation. We will receive no other benefit from the preparation of this report. We do not have any conflict of interest that could affect our ability to provide an unbiased report.

Advanced drafts of this report were provided to the Independent Directors of KIPL. Certain changes were made to the drafting of the report as a result of the circulation of the drafts. However, there were no material alterations to any part of the substance of this report, including the methodology or conclusions, as a result of issuing the drafts.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

12.3. Consent

Deloitte consents to the issuing of this report, in the form and context in which it has been prepared, to the Unit Holders and holders of KIPT's MCNs. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without Deloitte's prior written consent as to the form and context in which it appears.

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A subsidiary of Public Trust

20 November 2013

Dear Unit Holders

KIWI INCOME PROPERTY TRUST (THE 'TRUST') - INTERNALISATION PROPOSAL

Background

1. Set out in the accompanying materials is a proposal initiated by Commonwealth Bank of Australia (**CBA**), the ultimate parent entity of both the fund manager of the Trust, Kiwi Income Properties Limited (the **Manager**), and the property manager of the Trust, Kiwi Property Management Limited (the **Property Manager**), that the Trust become an 'internally' managed listed property trust.
2. This will occur by the Trust paying CBA a sum of approximately \$70.6 million. In return the management functions and the employees and assets of the Manager and Property Manager will be transferred to a new management entity controlled by Unit Holders (the **Internalisation**).
3. The Internalisation is to be considered by Unit Holders at a meeting to be held on 12 December 2013. At that meeting Unit Holders will be asked to pass three resolutions in connection with the Internalisation (Resolutions 1-3), a resolution to increase the directors' fees (Resolution 4) and one other resolution which increases the borrowing limits of the Trust (Resolution 5) from 40% to 45% of the Gross Value of the Trust Fund.
4. The purpose of this letter is to explain the Trustee's role in the Internalisation and the decisions which are required of Unit Holders.

Trustee's role

5. The Trustee's role is one of oversight, intended to ensure:
 - the Internalisation does not breach the Trust Deed
 - the Internalisation is put before Unit Holders and, if approved, implemented in a manner consistent with the requirements of the Trust Deed and the resolutions approved by Unit Holders
 - the information put before Unit Holders in connection with the Internalisation is sufficient on its face (with the Trustee relying on the Independent Directors for the actual sufficiency and accuracy of such information) for Unit Holders to make an informed decision whether to approve the Internalisation.
6. The Trustee does not have a role in developing or negotiating the commercial terms of the Internalisation. These matters are the responsibility of the Independent Directors who are also responsible for investigation of the merits of the Internalisation.

The Internalisation

7. The Internalisation is not a corporatisation proposal. Corporatisation would mean that the Trust would be replaced by a listed company and Unit Holders would become shareholders of that listed entity. The Internalisation will nevertheless bring about certain structural changes to the Trust, which are noted below:

	Current External Management Structure	Proposed Internalised Management Structure
Structure	<ul style="list-style-type: none"> Unit Trust with independent trustee 	<ul style="list-style-type: none"> Unit Trust remains and will continue to have an independent trustee
Remuneration	<ul style="list-style-type: none"> Trust pays the external Manager fees as follows: <ol style="list-style-type: none"> Base management fee of 0.55% of gross asset value of the Trust Performance fee Reimbursement of expenses 	<ul style="list-style-type: none"> Under the new arrangements, the Trust will not pay any separate fund management and performance fees – instead the new manager will manage the Trust on a break-even basis
Directors	<ul style="list-style-type: none"> Current directors include one CBA appointee and five independents (also appointed by CBA). Directors' fees are paid from the fee paid to the Manager 	<ul style="list-style-type: none"> Following Internalisation, all directors will be appointed at the direction of Unit Holders. Directors' fees will be paid by the new manager and recovered from the Trust as part of its break-even arrangement
Manager and employees	<ul style="list-style-type: none"> Manager is paid fees from which it pays employees, management and infrastructure costs 	<ul style="list-style-type: none"> Staff will transfer across to a new manager and their remuneration will be paid by the new manager and recovered from the Trust as part of its break-even arrangement

Assessing the Internalisation

8. The Internalisation process, and the Independent Directors' assessment of its benefits, are set out in the Explanatory Memorandum. Deloitte has independently appraised the Internalisation, and its views appear in the accompanying Appraisal Report (the **Deloitte Report**).
9. **We recommend that all Unit Holders carefully read and consider the Explanatory Memorandum and the Deloitte Report having regard to your own circumstances. If you have any difficulty in forming a view on the Internalisation you should seek advice from a qualified financial adviser.**
10. The Trustee draws Unit Holders' particular attention to:
- the recommendations of the Independent Directors on page 16 of the Notice of Meeting
 - Deloitte's opinion in section 1.6 of the Deloitte Report that the Internalisation is fair to Unit Holders not associated with the Manager or Property Manager
 - Deloitte's opinion in section 1.8 of the Deloitte Report that the information contained in the Explanatory Memorandum and the Deloitte Report is sufficient to enable Unit

Holders to understand all the relevant factors and to make an informed decision in respect of the Internalisation.

11. The Trustee is satisfied that the Internalisation does not breach the Trust Deed and has been put before Unit Holders in accordance with the Trust Deed. Having regard to Deloitte's opinions the Trustee is also satisfied that Unit Holders have sufficient information to make an informed decision whether to approve the Internalisation.

Resolutions

12. The resolutions that Unit Holders are being asked to pass are set out on pages 7 and 8 of the Notice of Meeting and are explained in more detail in the subsequent pages to the document. The resolutions which implement or are incidental to the Internalisation (Resolutions 1-3) are interdependent and all must be passed by the requisite majorities if the Internalisation is to take effect. Resolution 4 (increasing directors' fees), if passed, will not take effect unless Resolutions 1-3 are also passed. Resolution 5 which provides greater borrowing flexibility can be passed independently of the other resolutions. The voting requirements to pass the resolutions are set out in paragraphs 13 to 15 on page 9 of the Notice of Meeting.

Conclusion

13. We encourage you to attend the meeting, or if you are unable to do so in person, to appoint a proxy in accordance with the proxy form provided with the Notice of Meeting.
14. We refer you again to our recommendation at paragraph 9 above.

Yours faithfully,



New Zealand Permanent Trustees Limited

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