Kiwi Property

2021 HALF-YEAR FINANCIAL STATEMENTS


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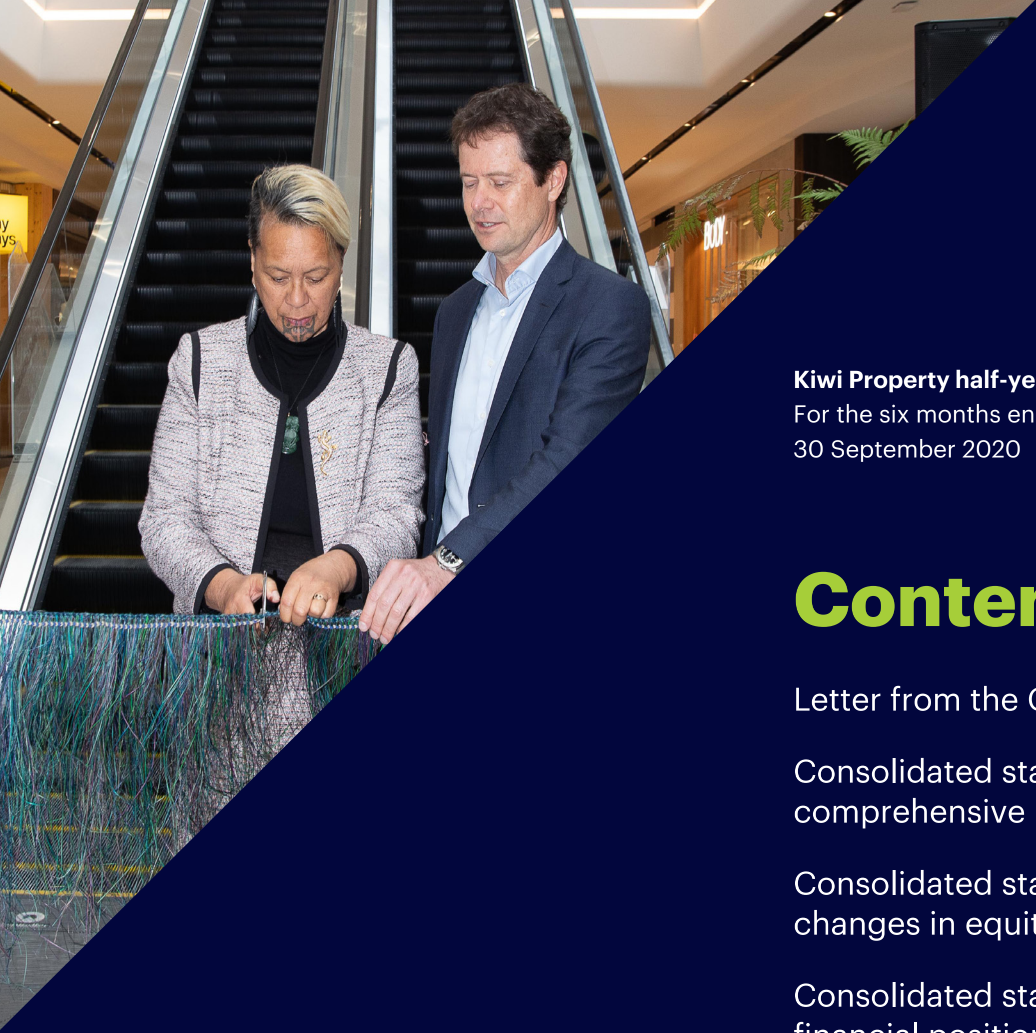


Kiwi Property half-year financial statements
For the six months ended
30 September 2020

Contents

Key Dates
For all our upcoming investor dates visit our investor centre at: kp.co.nz/investor-centre. These half-year financial statements are dated 20 November 2020 and are signed on behalf of the board by:

Mark Ford
Chair

Mary Jane Daly
Chair of the Audit and Risk Committee

Letter from the Chair and CEO

Dear shareholders

New Zealand has experienced an unprecedented series of events over recent months, as it has adapted to the realities of COVID-19. Despite lockdowns and economic uncertainty, the country has responded to the challenges caused by the global pandemic with a characteristically Kiwi sense of pragmatism and resilience. So too has Kiwi Property.

The first half of the 2021 financial year has been unlike any other in the Company's history. COVID-19 has disrupted the world around us, resulting in a new normal operating environment. We have not been immune to this volatility, but by being agile and responding to both our tenants and the dynamic operating environment, we have helped mitigate the challenges caused by the pandemic and positioned the business for the future.

Financial performance

Kiwi Property's net rental income declined 5.3% for the period, due to rent relief measures required to support tenants through the COVID-19 lockdown. Operating profit before tax[1] was similarly affected, decreasing 8.4%.

While the costs associated with abating and deferring rent for our tenants has had a short-term impact on Kiwi Property's financial performance, by protecting the health of our SMEs and retailers, we have maintained productive shopping centres, cemented long-term leasing arrangements and helped safeguard the performance of our assets.

$55.2m ▼
Operating profit
Before tax

$3.2b ▲
Property portfolio
value

$36.5m ▼
Adjusted funds
from operations

Crowds gathering for the opening of Sylvia Park Level 1

[1] Operating profit before tax and adjusted funds from operations (AFFO) are non-GAAP measures. Refer to the 2021 half-year results presentation for definitions.

Property valuations

The fair value of Kiwi Property's property portfolio stabilised in the first half, recording an $11.8 million gain. As at 30 September 2020, the combined valuation of the Company's mixed use, office, retail and other assets was $3.2 billion. Net tangible assets rose marginally to $1.29 per share.

While the uncertainty caused by COVID-19 continues to cause a drag on asset pricing, capitalisation rates tightened across the portfolio, including a weighted average 19 basis point firming of our office assets to 5.3%. The positive revaluation of our investment portfolio contributed to an uplift in net profit after tax, which rose 47.5% on the prior comparable period.

Sylvia Park Level 1

On 15 October 2020, we opened the exciting new 20,000 square metre Level 1 expansion at Sylvia Park. The $277 million development features an extensive lineup of local and international brands, including a two-level Farmers flagship store and 'The Terrace at Sylvia Park' dining precinct. Sylvia Park is now home to 10 of New Zealand's 11 favourite retailers, as well as more than 250 stores and over 5,000 free carparks, the most of any shopping centre in the country.

Moving forward on strategy

Kiwi Property made progress on several core elements of its strategy in the first half, with a focus on diversifying our asset base. Design of Sylvia Park Tower 2 continued its positive momentum, with resource consent now granted for the 15-floor development. Planning is also underway for Sylvia Park Tower 3, a smaller six-floor office and medical building, already attracting encouraging leasing interest. This two-pronged approach offers significant optionality and the ability to move ahead with either (or both) of the developments, depending on economic conditions and tenant demand. In addition, design of our first build-to-rent residential scheme continues to advance.

In October 2020, we began marketing the sale of The Plaza shopping centre in Palmerston North. The potential disposal of this asset forms part of our portfolio rebalancing strategy and will unlock capital to help fund our mixed-use development pipeline.

Dividend, guidance and outlook

Following a relative stabilisation of trading conditions over recent months, we are pleased to advise that an interim dividend will be paid for the period ended 30 September 2020. In line with the new dividend policy, the payout of 2.20 cents per share has been set at 95% of adjusted funds from operations[1] (AFFO). While trading conditions remain uncertain for the remainder of the year, we expect full-year AFFO to be in the range of 4.90 to 5.15 cents per share, contingent on the financial performance of the Company through the second half of the financial year and barring material adverse effects or unforeseen circumstances.

COVID-19 has had a significant impact on Kiwi Property, however despite the challenges the business has faced, we have remained resilient. While the pandemic is likely to create more uncertainty in the months ahead, our commitment to delivering for our shareholders and other stakeholders remains unchanged. Thank you for your continued support.

Mark Ford
Chair

Clive Mackenzie
Chief Executive Officer

Financials

Consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

	Note	6 months 30 Sep 2020 $000	6 months 30 Sep 2019 $000
Income			
Property revenue		**111,290**	117,310
Property management income		**906**	857
Total income		**112,196**	118,167
Expenses			
Direct property expenses		**(26,377)**	(27,672)
Employment and administration expenses		**(10,834)**	(11,023)
Total expenses		**(37,211)**	(38,695)
Profit before net finance expenses, other income/(expenses) and income tax		**74,985**	79,472
Interest income		**98**	117
Interest and finance charges		**(19,913)**	(19,389)
Net fair value loss on interest rate derivatives	3.3.2	**(2,841)**	(12,891)
Net finance expenses		**(22,656)**	(32,163)
Profit before other income/(expenses) and income tax		**52,329**	47,309
Net fair value gain on investment properties	3.2	**11,841**	-
Other income/(expenses)		**11,841**	-
Profit before income tax		**64,170**	47,309
Income tax expense	2.1	**(9,941)**	(10,537)
Profit and total comprehensive income after income tax attributable to shareholders		**54,229**	36,772
Basic and diluted earnings per share (cents)	2.2	**3.46**	2.55

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

	Share capital $000	Share-based payments reserve $000	Retained earnings $000	Total equity $000
Balance at 31 March 2019	1,449,646	602	600,632	2,050,880
Profit after income tax	-	-	36,772	36,772
Dividends paid	-	-	(49,790)	(49,790)
Dividends reinvested	17,534	-	-	17,534
Long-term incentive plan	-	90	53	143
Balance at 30 September 2019	1,467,180	692	587,667	2,055,539
Balance at 31 March 2020	**1,660,961**	**1,600**	**308,944**	**1,971,505**
Profit after income tax	**-**	**-**	**54,229**	**54,229**
Long-term incentive plan	**883**	**(291)**	**-**	**592**
Employee share ownership plan	**70**	**(35)**	**-**	**35**
Balance at 30 September 2020	**1,661,914**	**1,274**	**363,173**	**2,026,361**

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

AS AT 30 SEPTEMBER 2020

	Note	30 Sep 2020 $000	31 Mar 2020 $000
Current assets			
Cash and cash equivalents		**13,456**	21,252
Trade and other receivables	3.1	**21,999**	11,932
		35,455	33,184
Non-current assets			
Investment properties	3.2	**3,206,689**	3,114,734
Property, plant and equipment		**4,276**	4,274
Interest rate derivatives	3.3.2	**4,992**	4,186
		3,215,957	3,123,194
Total assets		**3,251,412**	3,156,378
Current liabilities			
Trade and other payables		**59,987**	53,523
Interest bearing liabilities	3.3.1	**125,450**	-
Income tax payable		**1,055**	1,748
Interest rate derivatives	3.3.2	**-**	104
Lease liabilities		**1,201**	1,024
		187,693	56,399
Non-current liabilities			
Interest bearing liabilities	3.3.1	**907,938**	1,009,867
Interest rate derivatives	3.3.2	**30,281**	26,530
Deferred tax liabilities		**87,851**	83,217
Lease liabilities		**11,288**	8,860
		1,037,358	1,128,474
Total liabilities		**1,225,051**	1,184,873
Equity			
Share capital		**1,661,914**	1,660,961
Share-based payments reserve		**1,274**	1,600
Retained earnings		**363,173**	308,944
Total equity		**2,026,361**	1,971,505
Total equity and liabilities		**3,251,412**	3,156,378

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

For and on behalf of the board, who authorised these financial statements for issue on 20 November 2020.

Mark Ford
Chair

Mary Jane Daly
Chair of the Audit and Risk Committee

Consolidated statement of cash flows

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

	6 months 30 Sep 2020 $000	6 months 30 Sep 2019 $000
Cash flows from operating activities		
Property revenue	**104,800**	122,051
Property management income	**868**	850
Interest and other income	**98**	117
Direct property expenses	**(17,079)**	(22,989)
Interest and finance charges	**(15,183)**	(18,808)
Employment and administration expenses	**(11,226)**	(12,809)
Income tax expense	**(6,000)**	(18,899)
Goods and Services Tax paid/(received)	**443**	(58)
Net cash flows from operating activities	**56,721**	49,455
Cash flows from investing activities		
Acquisition of investment properties	**(4,017)**	(25,523)
Expenditure on investment properties	**(77,321)**	(83,817)
Interest and finance charges capitalised to investment properties	**(5,656)**	(5,034)
Acquisition of property, plant and equipment	**(523)**	(195)
Net cash flows used in investing activities	**(87,517)**	(114,569)
Cash flows from financing activities		
Proceeds from bank loans	**23,000**	98,500
Dividends paid	**-**	(32,203)
Net cash flows from financing activities	**23,000**	66,297
Net (decrease)/increase in cash and cash equivalents	**(7,796)**	1,183
Cash and cash equivalents at the beginning of the period	**21,252**	9,923
Cash and cash equivalents at the end of the period	**13,456**	11,106

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows (continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

Reconciliation of profit after income tax to net cash flows from operating activities	6 months 30 Sep 2020 $000	6 months 30 Sep 2019 $000
Profit after income tax	**54,229**	36,772
Items classified as investing or financing activities:		
Increase/(decrease) in working capital items relating to investing and financing activities	**4,805**	(3,932)
Non-cash items:		
Net fair value loss on interest rate derivatives	**2,841**	12,891
Net fair value gain on investment properties	**(11,841)**	-
Increase/(decrease) in deferred tax liabilities	**4,635**	(852)
Amortisation of lease incentives, abatements and fees	**7,180**	3,333
Amortisation of fixed rental increases	**(832)**	(552)
Movements in working capital items:		
(Increase)/decrease in trade and other receivables	**(10,067)**	6,199
Decrease in income tax payable	**(693)**	(7,503)
Increase in trade and other payables	**6,464**	3,099
Net cash flows from operating activities	**56,721**	49,455

Notes to the consolidated financial statements

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

1. General information

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

1.1 Reporting entity

The interim financial statements are for Kiwi Property Group Limited (Kiwi Property or the Company) and its controlled entities (the Group). The Company is incorporated and domiciled in New Zealand, is registered under the Companies Act 1993 and is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Company is listed with NZX Limited with its ordinary shares quoted on the NZX Main Board and fixed-rate bonds quoted on the NZX Debt Market.

The principal activity of the Group is to invest in New Zealand real estate.

1.2 Basis of preparation

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with New Zealand Equivalents to International Accounting Standards (NZ IAS) 34 - Interim Financial Reporting and International Accounting Standards (IAS) 34 - Interim Financial Reporting. These interim financial statements should be read in conjunction with the financial statements and related notes in the 2020 annual report.

The interim financial statements for the six months ended 30 September 2020 are unaudited. Comparative balances for 30 September 2019 are unaudited, whilst the comparative balances for the year ended 31 March 2020 are audited.

The financial statements have been prepared on the basis the Group is a going concern.

The financial statements are prepared on the basis of historical cost, except where otherwise identified. The functional and reporting currency used in the preparation of the financial statements is New Zealand dollars.

1.3 Significant changes during the period

The financial position and performance of the Group was affected by the following events and transactions during the reporting period:

Investment property acquisitions

During the six months ended 30 September 2020, the Group acquired properties in Mount Wellington and Drury for a total of $4.0 million.

COVID-19 global pandemic

In response to the COVID-19 global pandemic, New Zealand entered a nationwide Alert Level 4 lockdown on 26 March 2020. During Alert Levels 3 and 4 the operation of many of the Group's tenants were restricted to varying degrees, and at Alert Level 2 businesses were able to operate with restrictions remaining in place around social-distancing and mass gatherings. At Alert Level 1, businesses were able to operate with no restrictions around social-distancing and mass gatherings.

New Zealand moved from Alert Level 4 to Alert Level 3 on 28 April 2020, to Alert Level 2 on 14 May 2020 and to Alert Level 1 on 9 June 2020. Alert Levels were increased to Level 3 in Auckland and Level 2 across the rest of New Zealand on 12 August 2020 following new cases of community transmission of COVID-19. Areas outside of Auckland moved back to Alert Level 1 on 22 September 2020 whereas Auckland remained at Alert Level 2 as at 30 September 2020.

The pandemic resulted in the Group offering rental relief across the majority of the Group's tenants. This rental relief included abatements for rental income payable for the months of April, May and June and in some cases also included rental deferrals (generally for 18 to 24 months). These rental abatements are accounted for as lease modifications under New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), with the change in lease payments amortised over the remaining terms of the leases. Rental abatements relating to the COVID-19 global pandemic were $16.9 million gross, with an impact of $4.6 million on the Consolidated Statement of Comprehensive Income for the six months ended 30 September 2020. Rent deferrals as at 30 September 2020 amounted to $2.9 million, exclusive of GST.

1.4 New standards, amendments and interpretations

There were no new accounting standards impacting the financial statements for the six months ended 30 September 2020.

1.5 Key judgements and estimates

Critical judgements, estimates and assumptions are outlined throughout these interim financial statements and in the 2020 annual report.

1.6 Accounting policies

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the 2020 annual report.

The Group received $1.0m of government grants under the COVID-19 wage subsidy scheme in the six months ended 30 September 2020. The government grants were accounted for under NZ IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, and have been presented on a net basis.

2. Profit and loss information

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

2.1 Tax expense

A reconciliation of profit before income tax to income tax expense follows:

	6 months 30 Sep 2020 $000	6 months 30 Sep 2019 $000
Operating profit before income tax	**64,170**	47,309
Prima facie income tax expense at 28%	**(17,968)**	(13,247)
Adjusted for:		
Net fair value loss on interest rate derivatives	**(795)**	(3,609)
Net fair value gain on investment properties	**3,315**	-
Depreciation	**6,403**	3,824
Deferred leasing costs	**2,275**	4
Deferred rent	**817**	-
Deductible capitalised expenditure	**1,604**	1,455
Other	**(957)**	184
Current tax expense	**(5,306)**	(11,389)
Depreciation recoverable	**(2,456)**	(2,567)
Net fair value loss on interest rate derivatives	**795**	3,609
Deferred leasing costs and other temporary differences	**(2,974)**	(190)
Deferred tax (expense)/benefit	**(4,635)**	852
Income tax expense reported in profit	**(9,941)**	(10,537)
Imputation credits available for use in subsequent periods	**16,549**	12,979

Key estimates and assumptions: income tax

Depreciation recovered on the former PricewaterhouseCoopers Centre (PwC Centre), Christchurch

The impairment of the PwC Centre in the year ended 31 March 2012 (resulting from the 2010 and 2011 Canterbury earthquakes) and the associated insurance recovery triggered a potential tax liability for depreciation recovered.

Following the earthquakes, the Government introduced legislation that provides, in certain circumstances, rollover relief for taxpayers affected by the earthquakes where insurance income will be used to acquire or develop replacement property in the Canterbury region. The legislation requires that the replacement property be available for use by 31 March 2024. As at 30 September 2020, the Group continues to qualify for this relief and a deferred tax liability of $4.2 million continues to be provided.

2.2 Earnings per share

	6 months 30 Sep 2020	6 months 30 Sep 2019
Total comprehensive income after income tax attributable to shareholders ($000)	**54,229**	36,772
Weighted average number of shares (000)	**1,569,257**	1,439,278
Basic and diluted earnings per share (cents)	**3.46**	2.55

3. Financial position information

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

3.1 Trade and other receivables

	30 Sep 2020 $000	31 Mar 2020 $000
Trade debtors	**22,178**	6,779
Provision for doubtful debts	**(3,377)**	(1,030)
Accrued COVID-19 rent relief[1]	**(3,814)**	-
	14,987	5,749
Deferred rent[2]	**3,354**	-
Prepayments	**3,658**	6,183
Trade and other receivables	**21,999**	11,932

1 Relates to expected abatements and other rent reductions offered to certain tenants as part of COVID-19 rent relief which were not yet finalised at balance date.

2 Relates to rental amounts where payment terms have been extended as part of COVID-19 rent relief offered to certain tenants.

Trade debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of trade debtors is reviewed on an ongoing basis and a provision for doubtful debts is made when there is evidence that the Group will not be able to collect the receivable. In determining the provision the Group applies the simplified approach to measuring expected credit losses prescribed by NZ IFRS 9, which permits the use of lifetime expected credit losses for all trade debtors. To measure the expected credit losses the Group uses a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Debtors are written off when recovery is no longer anticipated. There are no overdue debtors considered impaired that have not been provided for.

3.2 Investment properties

Investment properties held by the Group are as follows:

	Valuer	Capitalisation rate %	Valuation 31 Mar 2020 $000	Capital movements $000	Fair value gain/(loss) $000	Book value 30 Sep 2020 $000
Mixed-use						
Sylvia Park[1]	JLL	5.50	982,000	57,393	5,607	1,045,000
Sylvia Park Lifestyle	JLL	6.13	74,300	145	2,805	77,250
LynnMall	Colliers	6.63	245,000	5,113	(5,113)	245,000
The Base[2]	CBRE	6.50	198,000	2,324	(16,824)	183,500
			1,499,300	64,975	(13,525)	1,550,750
Retail						
Westgate Lifestyle	Colliers	6.50	79,000	561	3,939	83,500
Centre Place North	CBRE	10.88	36,500	701	(701)	36,500
The Plaza	CBRE	8.25	170,000	1,301	(2,301)	169,000
Northlands	JLL	8.00	195,000	2,105	(17,105)	180,000
			480,500	4,668	(16,168)	469,000
Office						
Vero Centre	Colliers	5.00	445,000	803	29,197	475,000
ASB North Wharf	JLL	5.13	238,000	485	6,515	245,000
The Aurora Centre	CBRE	5.88	170,300	(218)	2,918	173,000
44 The Terrace	CBRE	6.25	57,100	(100)	300	57,300
			910,400	970	38,930	950,300
Other						
Other properties			154,650	4,470	-	159,120
Development land			60,000	5,030	-	65,030
			214,650	9,500	-	224,150
			3,104,850	80,113	9,237	3,194,200
Gross up of lease liabilities			9,884	-	2,605	12,489
Investment properties			3,114,734	80,113	11,842	3,206,689

1 Sylvia Park was valued “as if complete” at $1.105 billion based on a capitalisation rate of 5.50%. The deduction of outstanding development costs for the Level 1 development ($45.4 million) together with allowances for profit and risk and stabilisation ($14.5 million) results in an “as is” value of $1.045 billion.

2 Represents the Group's 50% ownership interest.

The movement in the Group's investment properties during the period is as follows:

	Mixed-use	**Retail**	**Office**	**Other**	**6 months 30 Sep 2020 $000**
Balance at the beginning of the period excluding gross up of lease liabilities	1,499,300	480,500	910,400	214,650	**3,104,850**
Gross up of lease liabilities	498	8,656	-	730	**9,884**
Balance at the beginning of the period	1,499,798	489,156	910,400	215,380	**3,114,734**
Capital movements:					
Acquisitions	-	-	-	4,017	**4,017**
Capitalised costs (including fees and incentives)	64,438	6,368	2,162	3,820	**76,788**
Capitalised interest and finance charges	3,797	-	-	1,859	**5,656**
Amortisation of lease incentives, fees, abatements and fixed rental income	(3,260)	(1,700)	(1,192)	(196)	**(6,348)**
	64,975	4,668	970	9,500	**80,113**
Net fair value (loss)/gain on investment properties	(13,525)	(16,168)	38,930	-	**9,237**
Movement in gross up of lease liabilities	(16)	2,621	-	-	**2,605**
Balance at the end of the period	1,551,232	480,277	950,300	224,880	**3,206,689**

The movement in the Group's investment properties during the prior period is as follows:

	Mixed-use	Retail	Office	Other	12 months 31 Mar 2020 $000
Balance at the beginning of the period	1,533,500	597,500	893,000	183,389	3,207,389
Capital movements:					
Acquisitions	-	-	-	25,583	25,583
Capitalised costs (including fees and incentives)	138,518	10,589	4,008	3,127	156,242
Capitalised interest and finance charges	6,715	154	-	3,924	10,793
Amortisation of lease incentives, fees and fixed rental income	(2,268)	(1,678)	(1,133)	(198)	(5,277)
	142,965	9,065	2,875	32,436	187,341
Net fair value (loss)/gain on investment properties	(177,165)	(126,065)	14,525	(1,175)	(289,880)
Movement in gross up of lease liabilities	498	8,656	-	730	9,884
Balance at the end of the period	1,499,798	489,156	910,400	215,380	3,114,734

Key estimates and assumptions: valuation and fair value measurement of investment properties

Introduction

All of the Group's investment properties have been determined to be Level 3 (31 March 2020: Level 3) in the fair value hierarchy because all significant inputs that determine fair value are not based on observable market data.

Valuation process

The investment properties in the Group's mixed-use, retail and office portfolios were valued as at 30 September 2020 (all investment properties were valued as at 31 March 2020). All valuations are prepared by independent valuers who are members of the Group's valuation panel and members of the New Zealand Institute of Valuers. Other properties and development land are presented at their 31 March 2020 independent valuations, adjusted for capital expenditure over the period as appropriate. This represents the Directors' best estimate of fair value at 30 September 2020.

Investment property values are assessed within a range indicated by at least two valuation approaches; most commonly the income capitalisation approach and discounted cash flow approach. Other valuation approaches, including the sales comparison approach or deferred land value approach may be used depending on the nature of the property. In addition, the adopted valuation of an investment property undergoing development may be assessed using a residual approach. Valuation techniques are outlined in the 2020 annual report.

Estimates are used in these valuation approaches to determine fair value. For the two most common approaches, these include the capitalisation rate in the income capitalisation approach and the discount rate in the discounted cash flow approach. Both approaches are also influenced by other estimates relating to market rental levels, vacancy rates, letting-up allowances and the cost of ongoing operating expenses, capital expenditure and other capital payments.

In relation to capital expenditure, the valuers for LynnMall, The Base, Centre Place North, The Plaza and Northlands have made deductions for seismic strengthening works. The Group has provided the valuers with the estimated cost of works for each asset. In some instances the valuer has assessed additional costs for potential works to buildings which have not been subject to a Detailed Seismic Assessment (DSA) and/or made additional allowances for escalation and profit and risk. The timing of the cash outflow for these costs has been spread over the likely remediation period and the overall value deduction reflects the present value of costs over the adopted time horizon.

Under the residual approach, valuers estimate the 'as if complete' value of an asset using the common investment valuation approaches described above. They then deduct remaining project costs to determine the asset's 'as is' or residual value.

Sylvia Park was valued using the residual approach as the Level 1 development was still in progress as at 30 September 2020. Detail on this approach and its application to the valuation of Sylvia Park is outlined in the 2020 annual report.

The valuations of the independent valuers are reviewed by the Group and adopted as the carrying value in the financial statements. As part of this process, the Group's management verifies all major inputs to the valuations (including costs to complete for investment properties being developed), assesses valuation movements since the previous year and holds discussions with the independent valuers to assess the reasonableness of the valuations.

Impact of the COVID-19 global pandemic

As at 30 September 2020 the real estate markets to which the Group's investment properties belong continue to be impacted by market uncertainty caused by the COVID-19 outbreak.

The valuation uncertainty has affected key inputs, assumptions and processes used in the valuation of the Group's investment properties, being:

- estimating the net income that a property can produce (income uncertainty), and
- converting that income to value by applying investment rates of return which are derived from analysis of recent market transactions (investment uncertainty).

Further detail on valuation uncertainty is outlined in the 2020 annual report.

The valuations of the Group's investment properties as at 30 September 2020, with the exception of The Aurora Centre and 44 The Terrace, have been prepared on the basis of 'material valuation uncertainty' as recommended by The New Zealand Institute of Valuers to highlight the difficulties in undertaking valuations in the current environment.

A 'material valuation uncertainty' statement implies the valuation is current at the date of valuation only and that less certainty and a higher degree of caution should be attached to the valuation. In addition, the valuation should be kept under frequent review as the assessed value may change significantly and unexpectedly over a relatively short period of time.

The valuer for the two Wellington commercial properties, The Aurora Centre and 44 The Terrace, has revised their previous 'material valuation uncertainty' statement as at 31 March 2020 to a 'market volatility and uncertainty' statement as at 30 September 2020. They continue to state that the value may change more rapidly and significantly than during standard market conditions and that the value should be kept under frequent review, but it is a lesser statement as, in their opinion, the level of uncertainty has become clearer post COVID-19 than was previously the case. The valuer notes market trends are supporting a 'flight to quality' for investors seeking long lease terms with strong tenant covenant; attributes offered by these two buildings.

Impact on values at 30 September 2020

To reflect the impact of the pandemic on investment property value, the valuers have generally adopted softer valuation inputs than those adopted prior to the pandemic, including lower growth rates across the near term, lower market rental levels, increased vacancy rates and increased letting-up allowances. The valuers have also made deductions for the costs of estimated rent relief to tenants for occupancy disruption resulting from pandemic-related impacts. This is consistent with the approach taken for the valuations prepared as at 31 March 2020, although the quantum of the deductions is less as at 30 September 2020, with the Alert Level 4 lockdown period having now passed. At 31 March 2020 we also saw the valuers expand capitalisation and discount rates due to the greater market uncertainty. At 30 September 2020, we have seen some capitalisation and discount rates contract with the lesser uncertainty, however these are not back to pre-pandemic levels.

For the six months ended 30 September 2020 the Group reported a fair value gain of $9.2 million ($11.8 million after accounting for the gross up of lease liabilities).

Costs to complete development - Sylvia Park

The completion of Sylvia Park's Level 1 development was impacted by COVID-19 restrictions, with opening delayed until 15 October 2020. Costs to complete used by the valuers at 30 September 2020 were based on expected completion costs.

Valuation sensitivity

A sensitivity analysis that shows how a change to capitalisation and discount rates affects the value of the Group's mixed-use, retail and office portfolios is provided on the following page. The metrics chosen are those single-value inputs where movements are likely to have the most significant impact on fair value of investment properties.

The capitalisation rate relates to the income capitalisation approach and the discount rate relates to the discounted cash flow approach. Generally, a change in the capitalisation rate is accompanied by a directionally similar change in the discount rate. The table on the following page assesses each of these inputs in isolation and assumes all other inputs are held constant.

The valuation of investment properties is complex with a number of interrelated key inputs and assumptions.

When calculating the income capitalisation value, the gross market rent has a strong interrelationship with the core capitalisation rate. An increase in the gross market rent and an increase in the core capitalisation rate could potentially offset the impact to fair value. The same can be said for a decrease in each input. A directionally opposite change in the two inputs could potentially magnify the impact to the fair value.

When calculating the discounted cash flow value, the discount rate has a strong interrelationship with the terminal capitalisation rate. An increase in the discount rate and a decrease in the terminal capitalisation rate could potentially offset the impact to fair value. The same can be said for an opposite movement in each input. A directionally similar change in the two inputs could potentially magnify the impact to the fair value.

Class of property	Inputs used to measure fair value	Range of significant unobservable inputs		Sensitivity
		30 Sep 2020	31 Mar 2020	
Mixed-use	Core capitalisation rate	**5.5% - 6.6%**	5.5% - 6.6%	The higher the capitalisation rates and discount rate, the lower the fair value
	Other income capitalisation rate	**6.5% - 8.2%**	6.2% - 8.3%	
	Discount rate	**7.1% - 8.3%**	7.3% - 8.3%	
	Terminal capitalisation rate	**5.6% - 6.9%**	5.5% - 6.8%	
	Gross market rent (per sqm)[1]	**$368 - $792**	$371 - $786	The higher the market rent and growth rate, the higher the fair value
	Rental growth rate (per annum)	**-6.7% - 5.8%**	-14.6% - 7.4%	
Retail	Core capitalisation rate	**6.5% - 10.9%**	6.6% - 11.3%	The higher the capitalisation rates and discount rate, the lower the fair value
	Other income capitalisation rate	**4.3% - 11.0%**	6.6% - 11.3%	
	Discount rate	**7.8% - 10.6%**	8.3% - 10.6%	
	Terminal capitalisation rate	**6.5% - 12.3%**	8.1% - 12.3%	
	Gross market rent (per sqm)[1]	**$263 - $621**	$263 - $638	The higher the market rent and growth rate, the higher the fair value
	Rental growth rate (per annum)	**-7.8% - 5.5%**	-15.3% - 6.5%	
Office	Core capitalisation rate	**5.0% - 6.3%**	5.3% - 6.4%	The higher the capitalisation rates and discount rate, the lower the fair value
	Discount rate	**6.8% - 7.3%**	6.8% - 7.4%	
	Terminal capitalisation rate	**5.1% - 6.6%**	5.3% - 6.8%	
	Gross market rent (per sqm)[1]	**$486 - $659**	$492 - $668	The higher the market rent and growth rate, the higher the fair value
	Rental growth rate (per annum)	**0.0% - 4.0%**	0.0% - 4.0%	

1 Weighted average by property.

30 September 2020	Adopted value	Capitalisation rate - 25bp	Capitalisation rate + 25bp	Discount rate - 25bp	Discount rate + 25bp
Mixed-use					
Actual valuation ($000)	1,550,750				
Impact of assumption change ($000)		74,200	(68,200)	29,400	(28,800)
Impact of assumption change (%)		4.8	(4.4)	1.9	(1.9)
Retail					
Actual valuation ($000)	469,000				
Impact of assumption change ($000)		16,900	(15,800)	8,400	(8,400)
Impact of assumption change (%)		3.6	(3.4)	1.8	(1.8)
Office					
Actual valuation ($000)	950,300				
Impact of assumption change ($000)		47,700	(43,300)	17,500	(17,200)
Impact of assumption change (%)		5.0	(4.6)	1.8	(1.8)

31 March 2020	Adopted value	Capitalisation rate - 25bp	Capitalisation rate + 25bp	Discount rate - 25bp	Discount rate + 25bp
Mixed-use					
Actual valuation ($000)	1,499,300				
Impact of assumption change ($000)		70,100	(63,500)	37,500	(34,900)
Impact of assumption change (%)		4.7	(4.2)	2.5	(2.3)
Retail					
Actual valuation ($000)	480,500				
Impact of assumption change ($000)		17,200	(14,800)	8,700	(8,500)
Impact of assumption change (%)		3.6	(3.1)	1.8	(1.8)
Office					
Actual valuation ($000)	910,400				
Impact of assumption change ($000)		44,700	(39,800)	16,800	(16,500)
Impact of assumption change (%)		4.9	(4.4)	1.8	(1.8)

3.3 Funding

3.3.1 Interest bearing liabilities

The Group's secured interest bearing liabilities are as follows:

	30 Sep 2020 $000	31 Mar 2020 $000
Bank loans - total facilities	**825,000**	825,000
Bank loans - undrawn facilities	**(268,000)**	(291,000)
Bank loans - drawn facilities	**557,000**	534,000
Fixed-rate bonds - current	**125,450**	-
Fixed-rate bonds - non-current	**350,938**	475,867
Fixed-rate bonds - amortised cost	**476,388**	475,867
Interest bearing liabilities	**1,033,388**	1,009,867

	30 Sep 2020 $000	31 Mar 2020 $000
Face value of fixed-rate bonds - current	**125,000**	-
Face value of fixed-rate bonds - non-current	**350,000**	475,000
Face values	**475,000**	475,000

	30 Sep 2020 $000	31 Mar 2020 $000
Weighted average interest rate for drawn debt (inclusive of bonds, active interest rate derivatives, margins and line fees)	**4.29%**	4.35%
Weighted average term to maturity for the combined facilities	**3.4 years**	3.9 years

Bank loans

The bank loans are provided by ANZ Bank New Zealand, Bank of New Zealand, China Construction Bank, Commonwealth Bank of Australia, The Hongkong and Shanghai Banking Corporation (HSBC) and Westpac New Zealand (unchanged from 31 March 2020).

In March 2020, $361 million of existing bank debt facilities were extended and are due to expire in the 2024 and 2026 financial years.

Security

The bank loans and fixed-rate bonds are secured by way of a Global Security Deed (the Deed). Pursuant to the Deed, a security interest has been granted over all of the assets of the Group. No mortgage has been granted over the Group's properties, however, the Deed allows a mortgage to be granted if an event of default occurs.

3.3.2 Interest rate derivatives

The Group is exposed to changes in interest rates and uses interest rate derivatives to mitigate these risks (commonly referred to as interest rate swaps).

The following tables provide details of the fair values, notional values, term and interest rates of the Group's interest rate derivatives.

	30 Sep 2020 $000	31 Mar 2020 $000
Interest rate derivative assets - non-current	**4,992**	4,186
Interest rate derivative liabilities - current	**-**	(104)
Interest rate derivative liabilities - non-current	**(30,281)**	(26,530)
Net fair values of interest rate derivatives	**(25,289)**	(22,448)
Notional value of interest rate derivatives - fixed-rate payer - active	**290,000**	245,000
Notional value of interest rate derivatives - fixed-rate receiver - active[1]	**40,000**	40,000
Notional value of interest rate derivatives - fixed-rate payer - forward starting	**50,000**	165,000
Notional values	**380,000**	450,000
Fixed-rate payer swaps:		
Weighted average term to maturity - active	**3.1 years**	2.3 years
Weighted average term to maturity - forward starting	**6.0 years**	5.0 years
Weighted average term to maturity	**3.6 years**	3.4 years
Fixed-rate payer swaps:		
Weighted average interest rate - active[2]	**2.98%**	3.51%
Weighted average interest rate - forward starting[2]	**2.27%**	2.74%
Weighted average interest rate	**2.87%**	3.20%

1 The Group has $40 million of fixed-rate receiver swaps for the duration of the $100 million KPG040 fixed-rate bonds. The effect of the fixed-rate receiver swaps is to convert a portion of the bond to floating interest rates.

2 Excluding fees and margins.

Key estimate: fair value of interest rate derivatives

The fair values of interest rate derivatives are determined from valuations prepared by an independent treasury adviser using valuation techniques classified as Level 2 in the fair value hierarchy (31 March 2020: Level 2). These are based on the present value of estimated future cash flows based on the terms and maturities of each contract and the current market interest rates at balance date. Fair values also reflect the current creditworthiness of the derivative counterparties. These values are verified against valuations prepared by the respective counterparties. The valuations were based on market rates at 30 September 2020 of between 0.31% for the 90-day BKBM and 0.51% for the 10-year swap rate (31 March 2020: 0.49% and 0.93%, respectively).

4. Other information

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

4.1 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Chief Executive Officer.

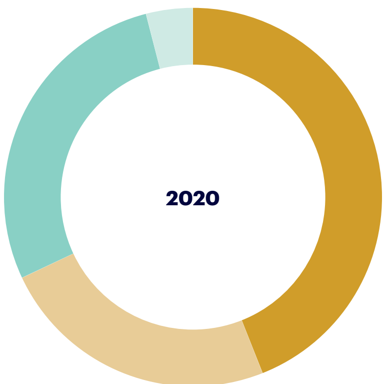
Operating segments have been determined based on the reports reviewed by the Chief Executive Officer to assess performance, allocate resources and make strategic decisions.

The Group's primary assets are investment properties. Segment information regarding investment properties is provided in Note 3.2.

The Group operates in New Zealand only.

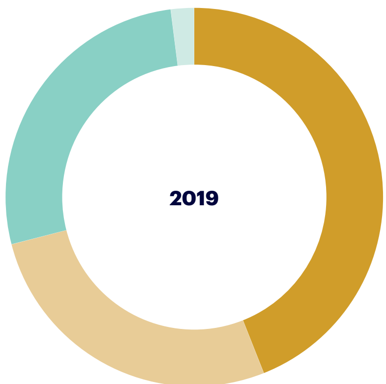
The following is an analysis of the Group's profit by reportable segments:

6 months ended 30 September	Mixed-use $000	Retail $000	Office $000	Other $000	Total $000
2020					
Property revenue	**48,955**	**28,532**	**29,927**	**3,876**	**111,290**
Less: amortisation of fixed rental increases	**(334)**	**(141)**	**(320)**	**(37)**	**(832)**
Less: direct property expenses	**(12,271)**	**(7,285)**	**(6,009)**	**(812)**	**(26,377)**
Less: ground lease expenses	**(60)**	**(1,072)**	**-**	**(69)**	**(1,201)**
Segment profit	**36,290**	**20,034**	**23,598**	**2,958**	**82,880**
2019					
Property revenue	50,574	32,223	31,609	2,904	117,310
Less: amortisation of fixed rental increases	553	(88)	(1,006)	(11)	(552)
Less: direct property expenses	(11,706)	(8,405)	(6,782)	(779)	(27,672)
Segment profit	39,421	23,730	23,821	2,114	89,086



Segment profit

Mixed-use	**44%**
Retail	**24%**
Office	**28%**
Other	**4%**



Segment profit

Mixed-use	**44%**
Retail	**27%**
Office	**27%**
Other	**2%**

A reconciliation of the segment profit to the profit before income tax reported in the consolidated statement of comprehensive income is provided as follows:

	6 months 30 Sep 2020 $000	**6 months 30 Sep 2019 $000**
Segment profit	**82,880**	89,086
Property management income	**906**	857
Rental income resulting from straight-lining of fixed rental increases	**832**	552
Interest income	**98**	117
Net fair value gain on investment properties	**11,841**	-
Interest and finance charges	**(19,913)**	(19,389)
Employment and administration expenses	**(10,834)**	(11,023)
Net fair value loss on interest rate derivatives	**(2,841)**	(12,891)
Ground lease expenses classified as interest and fair value gain on investment properties	**1,201**	-
Profit before income tax	**64,170**	47,309

4.2 Commitments

The following costs have been committed to but not recognised in the financial statements as they will be incurred in future reporting periods:

	30 Sep 2020 $000	31 Mar 2020 $000
Development costs at Sylvia Park	**27,270**	63,572
Development costs at LynnMall	**3,538**	5,605
Development costs at The Base[1]	**104**	1,080
Development costs at Centre Place North	**299**	-
Development costs at Northlands	**271**	765
Drury infrastructure	**1,530**	1,913
Commitments	**33,012**	72,935

1 Represents the Group's 50% ownership interest.

4.3 Subsequent events

On 8 October 2020 Auckland moved from Alert Level 2 to Alert Level 1 under the Government's COVID-19 Alert Level system.

On 15 October 2020 Sylvia Park's Level 1 development was opened.

Marketing of The Plaza for sale commenced on 22 October 2020, with expressions of interest closing on 26 November 2020.

On 20 November 2020 the board declared an interim cash dividend for the six months ended 30 September 2020 of 2.20 cents per share (cps) (equivalent to $34.5 million), together with imputation credits of 0.856 cps. The dividend record date is 4 December 2020 and payment will occur on 18 December 2020.

Independent auditor's review report

TO THE SHAREHOLDERS OF KIWI PROPERTY GROUP LIMITED

Report on the interim financial statements

Our conclusion

We have reviewed the interim financial statements of Kiwi Property Group Limited (the Company) and its controlled entities (the Group), which comprise the consolidated statement of financial position as at 30 September 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2020, and its financial performance and cash flows for the six month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Emphasis of Matter – Material valuation uncertainty related to valuation of investment properties

We draw your attention to note 3.2 to the interim financial statements, where the Company discloses that the independent registered valuers have included a 'material valuation uncertainty' clause in their 30 September 2020 valuation reports for all but two properties, as a result of the COVID-19 pandemic. This clause highlights that less certainty and a higher degree of caution should be attached to the property values than would normally be the case given the continued uncertainty of the COVID-19 pandemic on property values. Our opinion is not modified in respect of this matter.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group in the areas of audits of special purpose financial information in accordance with tenancy agreements, benchmarking of executive remuneration and assistance with the long-term incentive plan. The provision of these other services has not impaired our independence.

Directors' responsibility for the financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's Shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

The engagement partner on the review resulting in this independent auditor's review report is Jonathan Skilton.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
20 November 2020

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Kiwi Property

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