

## **Chairman's Address**

### **Annual Meeting of Unit Holders and Meeting of MCN Holders**

**Friday, 2 September 2005 at 10.30 am**

Good morning Ladies and Gentlemen, welcome to the twelfth Annual Meeting of the Trust. My name is Sean Wareing and in terms of the Trust Deed I have been appointed Chairman of the Meeting by the Trustee, New Zealand Permanent Trustees Limited.

I am pleased to advise that there is a quorum present and I declare the Meeting of Unit Holders open.

I would like to take the opportunity to introduce my colleagues on the Board of the Manager. The full Board is present, and they are:

- **Geoff McWilliam** - Geoff is a Director of Colonial First State Property, Alternate Director and Principal Officer for Commonwealth Managed Investments Limited and the Chairman of the Colonial First State Property Corporate Executive Committee in Australia.
- **Wal Edgell** - Wal is General Manager Corporate Services and Director for Colonial First State Property in Australia.
- **Robert Narev** – Robert is a consultant and Chairman of the Auckland-based law firm, Glaister Ennor.
- **Richard Didsbury** – Richard was one of the original founders of the Trust in 1992. He is also a Trustee of the Committee of Auckland and Chairman of the Auckland City Sculpture Trust. Richard was recently appointed as a Director of Capital Properties New Zealand Limited.

- **Jim Syme** - Jim is also a director of ASB Bank and ASB Group (Life) Limited, the holding company for Sovereign Assurance Limited and Chairman of Waste Management, Software of Excellence and Abano Healthcare.
- **John Duncan** – John is the Head of Group Finance for the ASB Group which comprises ASB Bank, Sovereign Life and ASB Group Investments.

Also joining us as at the table is the Chief Executive, Angus McNaughton and the Chief Financial Officer, Gavin Parker.

Welcomes are also extended to:

- Our Trustee, Philip Dyer from New Zealand Permanent Trustees;
- Paul Oldfield and Michael Robertson from our solicitors, Russell McVeagh; and
- Alan McIntyre and his team from our auditors, PricewaterhouseCoopers. They will also act as scrutineers for any poll which may be required.

### **Summary of the day's proceedings**

I would like to take a few moments to explain today's agenda

Proceedings will commence with my address which will cover the financial highlights, Sylvia Park, Investment and Management Philosophy, Management Fees and Corporate Governance.

I will then invite Angus McNaughton to provide a more detailed update on the Trust's activities.

We will then move onto the special business of the Meeting.

There is only one item of special business to be considered. As outlined in the Notice of Meeting, this involves consideration of an Ordinary Resolution to entitle the Manager, immediately following receipt of any performance fee, to use that performance fee to subscribe for Units in the Trust.

The New Zealand Stock Exchange Listing Rules require that each class of Security Holder vote separately on the Resolution.

Consequently, this Resolution will be tabled to Unit Holders during this Annual Meeting, then separately to MCN Holders at the Meeting of MCN Holders which will be formally convened immediately following the conclusion of the Annual Meeting of Unit Holders.

## **UPDATE ON THE TRUST'S ACTIVITIES**

The Trust has again delivered on its objective of optimising earnings and providing long-term sustainable returns to Unit Holders. A clear focus on asset management, ongoing strategic acquisitions and divestment, and careful pursuit of growth opportunities, all contributed to the achievement of record results for the Trust and created substantial added value for Unit Holders.

## **Financial Highlights**

The 2005 financial year was characterised by strong performances in every area of the Trust's business. Vigorous leasing activity produced record occupancy levels across the portfolio, positive rent reviews resulted in solid rental growth, and portfolio expansion and redevelopment strengthened and diversified the Trust's tenant mix and income profile. The Trust recorded a profit after tax of \$52.7 million over the year to 31 March 2005, an increase of 7.3% on the previous year. A gross dividend of 8.65 cents per unit was paid.

The Trust's portfolio recorded a record revaluation gain of \$65.0 million, lifting net asset backing by 9 cents to \$1.27 per unit. Total assets increased from \$1.10 billion to \$1.26 billion through the period. The strong revaluation gain reflects both the sound state of the property market and the superior quality of the Trust's portfolio. By any standard, this is a pleasing result.

## **Sylvia Park**

Among the highlights of the year was the commencement of works on the Trust's Sylvia Park project. Following a lengthy and careful evaluation, we were pleased to give the green light to this project, which has been subject to intensive planning and preparatory work over several years. We firmly believe that the Trust's investment in an asset of the quality of Sylvia Park will be of long term benefit to Unit Holders.

As industry commentators and analysts themselves have constantly pointed out, major opportunities of any quality, particularly in Auckland, are very rare. An asset of the scale, quality and growth profile of Sylvia Park is very rare indeed. It stands to service the needs of the largest population base available to any retail development, anywhere in New Zealand.

The Trust has always assessed any investment in light of the potential impact on the Trust's portfolio, with a focus on long term sustainable earnings. Whilst the market may offer higher yield investment opportunities these will usually involve trading off the higher risk involved in order to provide that higher yield.

For example, in the case of Sylvia Park we have consciously accepted a lower initial yield and the associated initial dilution for KIP Unit Holders.

However, the robust long term growth profile and quality of this investment was of paramount importance when weighing up any short term dilution versus the longer term added value benefits this project will provide to all Unit Holders.

Some investors have provided feedback about what they see as too high a level of development exposure associated with Sylvia Park. We maintain that many of the real or perceived key risks of the project have already been mitigated or resolved. The Trust's portfolio has also grown significantly over the last few years while Sylvia Park has evolved. Sylvia Park has therefore, over time, become a smaller proportion of the total portfolio. Key resource consents have been achieved, Guaranteed Maximum Price and Lump Sum Fixed Price contracts have been entered into for Stage 1, and key major and a number of specialty tenants have been secured.

We are very pleased with the specialty leasing progress to date. Our leasing team is highly experienced and has a proven track record of success with Northlands, where 135 specialty stores were leased, and the more recent successful remix at North City. Angus will provide you with more detail regarding specialty leasing progress in his presentation.

The Trust has a number of parties interested in owning a part of Sylvia Park. We will continue to explore the opportunity for a partner, and should a proposal be presented to the Trust that is fully acceptable and attractive, and in the best interests of Unit Holders, in consultation with the Trustee we may consider a sale of a portion of the project.

## **Investment and Management Philosophy**

I would like to take this opportunity to reflect on the Trust's investment and management philosophy. The Trust is actively managed to achieve its investment objectives of optimising earnings and providing long-term sustainable returns to Unit Holders. This management approach involves a combination of active asset and financial management, strategic acquisitions and divestments, the careful and prudent development of existing assets, and the creation of new opportunities. The ongoing refurbishment and expansion of the Trust's existing assets and the careful development of new assets and tenancy remixes is essential to the Trust's continued performance. Following feedback from some investors we intend however to evolve and publish a fuller statement about the investment and management philosophy, in relation to the Trust's development activity.

## **Management Fee**

Earlier this year the Manager announced details of a significant change to its fund management fee structure. The new structure, which represents an overall reduction in fees, has a base fee and performance fee component, with the total management fee payable capped at 0.70% of average gross assets per annum. The revised structure benefits Unit Holders by linking a portion of the management fee directly to the returns they receive. To further align interests, it is proposed, and will be voted on at this meeting and the meeting of MCN Holders, that the Manager, immediately following receipt of any performance fee, use that performance fee to subscribe for Units in the Trust.

In addition, as a further example of the Manager aligning its interests with those of Unit Holders, the Manager has offered a fund management fee rebate of up to a maximum of \$4.0 million to the extent that the Sylvia Park retail project yield is below 7.5% for the two years post completion, which is anticipated in mid 2007. The Manager has also elected to undertake Sylvia Park's retail project management at cost during the construction phase, with the project management fee continuing to be capped at the current fee of 3% of project cost. Both initiatives will potentially further enhance the financial success of the Trust's Sylvia Park project.

### **Corporate Governance**

The Manager and the Trustee have recently been in discussion with several of our institutional investors regarding the requirement for Trusts to hold Annual Meetings and the process for putting motions to, and calling of, meetings.

Currently Trusts are not required to hold Annual Meetings. However, we have always recognised the importance of these meetings and since listing 12 years ago the Trust has in fact held a meeting every year. The Annual Meeting provides us with the opportunity to update our investors, but more importantly, provides you with an opportunity to meet those entrusted with your investment, and also to ask any questions about the Trust's business. For these reasons we have already sought the approval of the Trustee to enshrine the requirement to hold an Annual Meeting in the Trust Deed.

For your information, a number of Unit Holders have collectively requisitioned a special meeting to deal with the requirement to hold an Annual Meeting, and the ability of Unit Holders to requisition meetings and put motions to meetings.

We have already dealt with the first issue, and there will be a special meeting held later this year which will allow all Unit Holders the opportunity to vote on any other formal proposals. While we acknowledge the significant support amongst some of our institutional investors for change in this area, any changes made by the Trust post the special meeting could have significant ramifications for the broader unit trust industry, both listed and unlisted. As the largest listed Trust in New Zealand, we are prepared to take a lead on such matters. Together with the Trustee we will consult with key interested parties including the Shareholders Association. It is the view of the Manager that any changes made by the Trust will in due course apply to all other listed and unlisted unit trusts.

Finally, as another initiative it is proposed that a further independent director be appointed to the Board. This will increase the number of independent directors on the board to three, and will add to the skill set of the existing board.

## **Outlook**

Looking ahead, property sector fundamentals are expected to remain resilient, underpinning strong rental and leasing activity in the Trust's retail and office portfolios. I am confident that with the strength and quality of the portfolio, the rigour of its strategy, and the energy, experience and commitment of its people, the Trust is well placed to continue to deliver stable, long-term returns to Unit Holders.