Argosy

Interim Report
30 September 2018

Strength in diversity

Our balanced portfolio is the key to delivering consistent shareholder returns. With properties across different sectors, locations and sizes, we can be agile, quickly adapting to meet the diverse and changing needs of our tenants. And we can quickly react to opportunities or cyclical changes in the market.

Total portfolio value $1.62b

Properties 62

Tenants 172

Portfolio occupancy (by rent) 98.4%

Weighted average lease term 5.6 years

nced.

Focused on growth

"Strategic acquisition and divestment opportunities for Argosy have materialised and we have also continued to focus on organic growth opportunities."

MICHAEL SMITH
CHAIRMAN

On behalf of the Argosy Board of Directors, I am pleased to be able to report Argosy's interim results to 30 September 2018.

We have commenced the 2019 year well. The management team has continued to reposition the portfolio and work hard on the operational elements of the business including resolution of lease expiries and addressing key vacancies.

FINANCIAL RESULT

For the period ending 30 September gross distributable income[1] was $33.4 million which was 7.1% higher than the previous interim period. Gross distributable income per share for the period was 4.04 cents per share, compared to 3.79 cents per share in the previous interim period, up 6.6%.

Net distributable income increased by 9.2% to $28.7 million compared to the previous interim period, due primarily to improved net property income. Net distributable income per share increased 8.8% to 3.47 cents per share from 3.19 cents per share in the previous interim period.

DIVIDENDS

Consistent with the first quarter dividend, a second quarter dividend of 1.5625 cents per share with imputation credits of 0.3890 cents per share attached has been declared for the September quarter. The dividend will be paid to shareholders on 19 December 2018 and the record date will be 5 December 2018. The dividend reinvestment plan remains suspended.

Argosy has started the 2019 financial year in a very solid financial and portfolio position. We remain

1 Profit before tax and distributable income are alternative performance measures used to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution to shareholders. Note 14 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

Gross Distributable Income increased

7.1%

Net Distributable Income per share up

8.8%

focused on delivering sustainable dividends to our shareholders. Based on current projections for the portfolio, the Board expects a full year 2019 cash dividend of 6.25 cents per share, an increase of 1% on the prior year. The increase reflects our wish for shareholders to share in the continued strong results but also allows us to maintain our momentum towards an AFFO[2] based dividend policy in the medium term.

CAPITAL MANAGEMENT

At 30 September 2018, Argosy's debt-to-total-assets ratio, excluding capitalised borrowing costs, was 36.8% versus 35.9% at 31 March 2018 year end.

The increase reflects the net impact of acquisitions and developments during the period largely offset by divestments and revaluation gains. Argosy's target gearing band is 30 to 40% providing flexibility depending on financial and property market conditions. Argosy currently sits in the middle of the target band and remains well within all bank covenants.

GOVERNANCE

At the August 2018 Annual Meeting, Jeff Morrison was re-elected as an independent Director. Chris Hunter retired as an independent director at the meeting and did not seek re-election.

Subsequently Stuart McLauchlan and Chris Gudgeon have been appointed as independent directors.

OUTLOOK

The Company continues to operate in a low interest rate and low inflation environment, although the possibility of rising interest rates has caused some nervousness around the world's stock markets. The economy, and thus the property market, in New Zealand however remains solid with good economic growth expected to continue. Argosy remains in a strong position with a quality, resilient portfolio that is diversified by sector, location and tenant mix.

Ongoing strength in the sector should continue to provide opportunities to divest non Core assets at attractive prices and either reduce gearing or reinvest the proceeds into tenant led development opportunities.

On behalf of the Board I would like to thank shareholders for their continuing support.

P MICHAEL SMITH
Chairman

2 AFFO (Adjusted Funds From Operations) is considered by some investors to represent a measure of dividend sustainability.

Building Momentum

> "With a strong FY18 platform as our base, we have started the first six months of FY19 year very well."

PETER MENCE
CHIEF EXECUTIVE OFFICER

In the first six months of the financial year, Argosy has continued to improve the quality of the portfolio through acquisitions, tenant-led developments and the divestment of non Core assets. We are pleased to report that the metrics of the portfolio remain strong with occupancy at 98.4% and a weighted average lease term of 5.6 years. We can also announce further progress at New Zealand Post House at 7 Waterloo Quay, Wellington. The reinstatement works for levels 1-4 and 7 are largely complete apart from some further seismic work. The balance of the damaged floors are expected to be completed this financial year, except for level 12. Further details on this building are provided in this report.

HIGHLIGHTS:

— Net property income up 4.7%;
— Net distributable income up 9.2%;
— Net distributable income per share up by 8.8%;
— Revaluation gain of $34.6 million, an increase of 2.2% on book value;
— Continued divestment of non Core assets significantly above book value;
— Strong progress at 7 Waterloo Quay with very good enquiry from the Government sector for space in the building;
— Acquisition of 11 Coliseum Drive, Albany and 133 Roscommon Road, Wiri;
— Balance sheet is in good shape and we are considering longer term debt funding options;
— Full year dividend of 6.25 cents per share expected in line with previous guidance;
— Lift in NTA to $1.17 from $1.12 at the end of March.

Net Property Income up 4.7% to

$50.8m

FINANCIAL RESULTS

Statement of Comprehensive Income

Argosy reported net property income of $50.8 million for the period, which includes rental loss recoveries from insurers, and is 4.7% higher than the previous interim period. Lost revenue from divestments in the period has been more than compensated for by strong rental growth and leasing up of vacant space, notably at 82 Wyndham Street, Auckland.

Administration expenses were up $0.4 million on the previous interim period primarily due to restructuring costs and additional resourcing costs across the business.

Profit before interest, other gains/losses and taxes was $45.6 million, up 4.2% on the previous interim period.

Interest expense of $12.2 million was down $0.4 million on the previous interim period as the interest on higher average debt was offset by higher capitalised interest on developments.

An interim revaluation was undertaken by Argosy following evidence of improved market conditions since the last valuation date of 31 March 2018, and desktop valuations performed by Colliers International during the period. A revaluation gain of $34.6 million or 2.2% on previous book value, has subsequently been recorded.

The sale of Wagener Place, St Lukes, resulted in a significant gain of $2.9 million over book value.

Net profit after tax was $66.8 million for the period, compared to $23.1 million in the previous interim period.

Interim revaluations

The independent work performed and interim revaluation resulted in an uplift of $34.6 million, a 2.2% increase on book values immediately prior to the interim revaluation.

As a result of the revaluation, Argosy's NTA has lifted to $1.17, up from $1.12 at the end of March. The Company's portfolio following the revaluation shows a contract yield on values of 6.63% and a yield on fully let market rentals of 6.70%.

PORTFOLIO ACTIVITY

Leasing and Rent Reviews

Underpinned by continued strength in Auckland and Wellington property market fundamentals, Argosy has delivered strong leasing and rent review results over the first half of the year. During the interim period, 24 lease transactions were completed on 39,500sqm of net lettable area, including 16 new leases, seven renewals and one extension.

Significant leasing transaction successes over the first half of the financial year include:

- *320 Ti Rakau Drive, East Tamaki, Auckland - Bunnings Limited - 10 years;*
- *Albany Lifestyle Centre, Albany, Auckland - E Road Limited - 9 years;*
- *Albany Lifestyle Centre, Albany, Auckland - Peterken Enterprises Limited - 9 years;*
- *Albany Lifestyle Centre, Albany, Auckland - Outdoor Holdings Limited - 9 years.*

There has been some progress in leasing the vacant floors at 23 Customs Street, Auckland. Levels 2, 14 and part of 13 are now leased and there is strong enquiry on the remaining floors - levels 6, 7 and part of 13.

Argosy's weighted average lease term at 30 September decreased to 5.6 years compared to the 6.1 years at the end of March 2018. This movement reflects the adjusted arrangements with New Zealand Post at 7 Waterloo Quay which are discussed in more detail in the 7 Waterloo Quay update below.

Portfolio Occupancy (by rental)

98.4%

Argosy has maintained a very high occupancy level over the interim period and occupancy was 98.4% at 30 September 2018 compared to 98.8% at the end of March.

During the first six months, a total of 42 rent reviews on $15.5 million of existing rental income were completed. Rental growth of 3.4% was achieved or 3.1% on an annualised basis on all rents reviewed. Across the rental increase, the industrial portfolio accounted for 57% of the total rental uplift on 50% of the rent reviewed (9 reviews). This continued strong rental growth has been a key contributor to the improvement in net property income in the interim period.

Approximately 57% of all rents reviewed (by income) were fixed reviews, 14% were market reviews and 29% were CPI based.

Acquisitions and Value Add Developments

Ongoing tightness across the property market continued in the first half of this financial year. Despite this, opportunities have emerged during the period to make strategic acquisitions.

In September, Argosy acquired 11 Coliseum Drive in Albany (The Warehouse), for $26.4 million. This property is contiguous to the Argosy owned Albany Mega Centre and comprises 7,600sqm of warehouse, 760sqm of office, mezzanine and garden centre and 413 carparks. The lease had 6.5 years to run on the initial 12-year lease. The purchase allows us to now consider a range of organic growth options across the entire Albany Mega Centre site. Longer term, we are optimistic about the opportunity and value this acquisition can deliver for Argosy and its shareholders.

Argosy also acquired a freehold 15,838 sqm industrial yard in September on Roscommon Road, Wiri for $8.6 million. The site is leased to NZX listed Turners Automotive Group on a 15-year lease, providing a holding return of 5% with fixed reviews of 2.5% per annum, with a market review in year six.

Argosy also continued to progress its development pipeline with a $10.3 million upgrade of the Placemakers property in Hutt Road, Kaiwharawhara now underway.

This project will be another green development for Argosy and the Company is targeting a 4-Star Green Built Industrial rating. Argosy will continue to pursue these value-add opportunities to improve overall portfolio quality and add value to shareholders

DIVESTMENT OF NON CORE ASSETS

With the continued strength in property markets over the first half of the financial year, Argosy successfully completed the sale of Wagener Place in Auckland for $31.0 million. This transaction settled in July 2018. The Wagener Place sale was an opportunity to reduce Argosy's retail exposure in an area where there will be increasing competition.

In September, Argosy announced that it had unconditionally sold the non Core property at 626 Great South Road, Greenlane. The property was sold at a price of $10.6 million, 8% over the book value of $9.8 million. Settlement is scheduled for 30 November 2018.

Subsequent to period end, Argosy announced the sale of two non Core regional assets, 1478 Omahu Road in Hastings and 31 El Prado Drive in Palmerston North. 1478 Omahu Road has been sold for $10.2 million which represents a 12% premium over book value immediately preceding the September valuation. Settlement will take place in March 2019. The property at 31 El Prado Drive has been sold for $35.5 million, which represents a 25% premium over book value immediately preceding the September valuation. Settlement will take place in December 2018. The divestment of these regional assets means that Argosy has only three properties outside its core Auckland and Wellington markets.

At year end, Argosy has categorised approximately 10% or $153 million of the portfolio as non Core. This number includes the two assets noted above as well as the Albany Lifestyle Centre which is on the market currently. Argosy will continue its divestment programme over the next 12-18 months to take advantage of current market conditions.

PORTFOLIO UPDATE

7 Waterloo Quay

Earthquake Damage and Insurance Claim

Argosy's 14 level property at New Zealand Post House at 7 Waterloo Quay in Wellington sustained damage in the 7.5 magnitude Kaikoura earthquake on 14 November 2016. Independent engineers confirmed that the building is structurally sound, but it suffered damage to fit out and services. Argosy has material damage insurance and we are working with our insurers to progress a significant insurance claim. Argosy expects that, as with many earthquake insurance claims, there may be debate with insurers over the extent of damage, the appropriate method of reinstatement and the extent of cover.

Argosy commissioned a comprehensive damage survey of 7 Waterloo Quay, and detailed damage assessment reports were provided to insurers earlier in the year. We envisage that the damage reports may be updated, based on our advisors' experience that additional earthquake damage may become apparent. More recently, detailed reinstatement scope reports were completed by our expert consultants and these have been provided to our insurers. We are now engaged in an exercise to quantify the cost to repair the damage. We expect that this process will be completed in early 2019 to enable a material damage claim to be submitted to insurers.

Argosy also has business interruption insurance, which is expected to cover loss of rents and certain additional expenses until mid-November 2018, being a period of two years from the date of the earthquake.

Argosy has made six interim claims under its material damage and business interruption insurance and received progress payments from insurers (to 31 October 2018) of $14.9 million plus GST (after a $4.8 million deductible). In the interim period to 30 September 2018, $2.3 million has been allocated by Argosy to loss of rents, and $2.8 million to material damage reinstatement. Further interim claims will be presented for the remainder of the two-year business interruption indemnity period, and for material damage.

Reinstatement and Leasing

Demand for space from late calendar 2019 has dictated a desired delivery in this timeframe. With recent changes in the method of measurement for seismic resilience, some upgrade to the building is considered desirable to maximise the potential from the current strong leasing environment. It is expected that these works will cost between $15-20 million and be complete in September 2019.

Argosy has proceeded with its interim works programme to make damaged levels in the building available for occupation (including levels 10-12). The reinstatement project is on program to be completed (apart from level 12) by March 2019.

Damaged levels 1-4 and 7 were leased to New Zealand Post (Post) to December 2025. As part of a lease termination agreement, Post has agreed to pay a termination fee of $2.9 million to Argosy effective 30 November 2018 and relinquish these floors. This amount, although calculated based on the previous rent from levels 2-4 and 7 through to 31 August 2019, is required by accounting standards to be fully recognised in the second half of this financial year. Post will remain on the ground floor (part) and levels 5, 6, 8 and 9. Management is working with Post on longer term accommodation options.

The office leasing environment in Wellington is very favourable at present and we are currently in negotiations for the remaining space in this building.

Debt-to-total-assets ratio

36.8%

2nd Quarter Dividend

1.5625c

CAPITAL MANAGEMENT

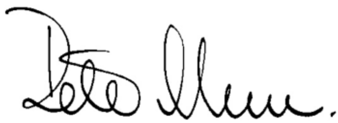
At period end, Argosy's weighted average interest rate was 4.86% versus 4.98% at 31 March 2018.

In October 2018, Argosy added $25 million to its banking facilities with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and The Hongkong and Shanghai Banking Corporation.

Argosy's total debt facility is now $650 million versus $625 million at 30 September 2018. Argosy is reviewing its long term debt funding options with a view to diversifying its debt funding base over the next 12 months.

OUTLOOK

Argosy will remain as focused as ever on addressing near term lease expiries within the portfolio and ensuring that the tenant retention rate remains high. We will continue to focus on the existing portfolio of value add properties to create long term value for shareholders and increase the quality and sustainability of our earnings.



PETER MENCE
Chief Executive Officer

11 Coliseum Drive

ALBANY, AUCKLAND

TENANT

The Warehouse Group

WAREHOUSE & OFFICE

7,600sqm warehouse
760sqm office
413 onsite carparks

In August, Argosy announced the acquisition of 11 Coliseum Drive in Albany (The Warehouse), for $26.4m.

The acquisition allows Argosy to secure a strategically important property and strengthen its relationship with a long standing and valued partner in The Warehouse Group. Most importantly, the purchase allows Argosy to now consider a range of organic growth options across the entire Albany Mega Centre site.

NEW CONCEPT STORE

The Warehouse Group is using the revamped Albany as a concept store to test shopper preferences and the retail market. The Albany store was chosen because of its large volumes of returning customers. If all goes well, the NZX-listed company will install similar new-look interiors in its network of 92 stores. Some of the new key features of the proposed new concept stores include things like digital price tags, more open spaces, IKEA-esque furniture displays and artificial intelligence-enabled technology. It also features self-serve checkouts and click-and-collect pickup boxes.

“The real value lies with the new property being adjacent to Argosy’s Albany Mega Centre and we are excited about the long term value this acquisition can deliver for shareholders.”

PETER MENCE
Chief Executive Officer

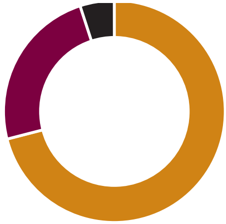
Total portfolio update
BY SECTOR

●	41%	Industrial
●	37%	Office
●	22%	Retail

Portfolio mix
BY VALUE

●	83%	Core properties
●	7%	Value Add properties
●	10%	Properties and land to divest

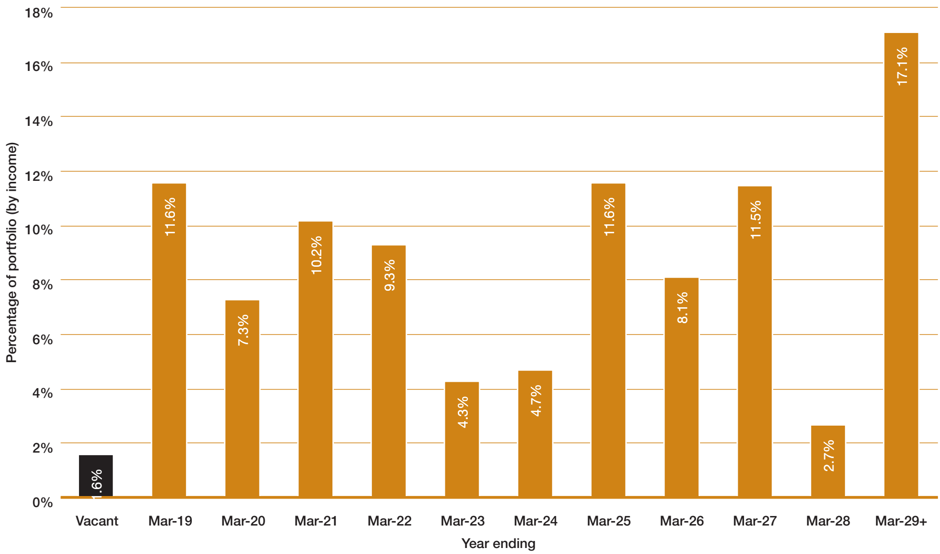
Total portfolio value
BY REGION



●	71%	Auckland
●	24%	Wellington
●	5%	Regional North & South Island

The above charts all exclude properties held for sale.

Lease Expiry Profile by Income
AS AT 30 SEPTEMBER 2018



● Total expiry

8 Nugent Street, Auckland

Argosy continues to operate in a low interest rate and low inflation environment, although the possibility of rising interest rates has caused some nervousness around global equity markets. The economy, and thus the property market, in New Zealand however remains solid with good economic growth expected to continue. Argosy remains in a strong position with a quality, resilient portfolio that is diversified by sector, location and tenant mix.

Industrial

NUMBER OF BUILDINGS
37

MARKET VALUE OF ASSETS
$670.0m

OCCUPANCY FACTOR (BY INCOME)
100%

WALT (YEARS)
7.0

CONTRACT YIELD
6.5%

Property Address	Valuation $000s	Weighted Avg. Lease Term (years)	Net Lettable Area (sqm)	Vacant Space (sqm)	Contract Yield
Auckland					
90-104 Springs Road, East Tamaki	5,600	8.4	3,884	–	6.2%
8 Forge Way, Panmure	27,600	12.2	4,231	–	5.4%
10 Transport Place, East Tamaki	29,410	5.5	10,641	–	6.4%
1 Rothwell Avenue, Albany	28,400	11.8	12,683	–	5.7%
4 Henderson Place, Onehunga	24,300	12.8	10,841	–	6.3%
1-3 Unity Drive, Albany	10,700	3.0	6,204	–	6.8%
5 Unity Drive, Albany	6,575	0.5	3,046	–	5.6%
80 Springs Road, East Tamaki	10,700	0.4	9,675	–	8.4%
211 Albany Highway, Albany	22,400	4.3	14,589	–	6.3%
80-120 Favona Road, Mangere	85,250	5.9	59,386	–	7.6%
19 Nesdale Avenue, Wiri	51,900	13.2	20,677	–	5.7%
15 Unity Drive, Albany	4,420	1.6	7,002	–	5.7%
12-16 Bell Avenue, Mt Wellington	23,300	2.0	14,809	–	6.2%
18-20 Bell Avenue, Mt Wellington	14,700	2.7	8,941	–	6.0%
32 Bell Avenue, Mt Wellington	11,150	1.6	8,139	–	6.8%
9 Ride Way, Albany	22,800	14.0	9,178	–	6.3%
2 Allens Road, East Tamaki	4,580	1.8	2,920	–	6.5%
12 Allens Road, East Tamaki	4,030	2.1	2,372	–	6.5%
106 Springs Road, East Tamaki	5,890	1.8	3,846	–	6.5%
5 Allens Road, East Tamaki	5,070	3.2	2,663	–	4.9%
960 Great South Road, Penrose	6,300	0.4	3,676	–	6.6%
17 Mayo Road, Wiri	26,200	8.3	13,351	–	5.8%
Cnr William Pickering Drive & Rothwell Avenue, Albany	14,500	2.0	7,074	–	5.9%
240 Puhinui Road, Manukau	33,400	13.2	17,735	–	5.5%
246 Puhinui Road, Manukau	3,350	0.0	–	–	0.0%
Highgate Parkway, Silverdale	28,700	9.4	10,581	–	5.7%
133 Roscommon Road, Wiri	8,700	15.0	15,862	–	4.9%
Wellington					
Cnr Wakefield, Taranaki & Cable Streets	22,170	5.0	3,307	–	4.1%
147 Gracefield Road, Seaview	11,000	0.3	8,018	–	10.2%
19 Barnes Street, Seaview	13,120	9.9	6,857	–	7.8%
39 Randwick Road, Seaview	18,050	2.0	16,249	–	8.8%
68 Jamaica Drive, Grenada North	16,400	2.8	9,609	–	7.5%
56 Jamaica Drive, Grenada North	1,100	0.0	–	–	0.0%
Other					
31 El Prado Drive, Palmerston North	32,200	5.4	24,656	–	7.7%
8 Foundry Drive, Woolston, Christchurch	13,550	11.3	7,668	–	7.9%
1478 Omahu Road, Hastings	10,000	8.8	8,514	–	7.5%
223 Kioreroa Road, Whangarei	12,450	3.4	9,797	–	9.3%
	669,965	**7.0**	**378,678**	**–**	**6.5%**

Office

OCCUPANCY FACTOR (BY INCOME)

96.4%

NUMBER OF BUILDINGS

16

WALT (YEARS)

3.7

MARKET VALUE OF ASSETS

$596.8m

CONTRACT YIELD

6.9%

Property Address	Valuation $000s	Weighted Avg. Lease Term (years)	Net Lettable Area (sqm)	Vacant Space (sqm)	Contract Yield
Auckland					
99-107 Khyber Pass Road, Grafton	9,000	3.6	2,441	1,533	3.1%
101 Carlton Gore Road, Newmarket	26,500	2.1	4,821	–	6.8%
8 Nugent Street, Grafton	50,000	4.1	8,125	1,135	5.5%
39 Market Place, Viaduct Harbour	33,500	3.8	10,365	–	10.7%
105 Carlton Gore Road, Newmarket	30,700	2.5	5,312	–	6.8%
302 Great South Road, Greenlane	8,300	3.6	1,890	–	7.4%
308 Great South Road, Greenlane	7,100	1.7	1,568	–	7.1%
25 Nugent Street, Grafton	12,000	4.1	3,028	–	6.8%
107 Carlton Gore Road, Newmarket	29,000	0.6	6,061	–	7.0%
Citibank Centre, 23 Customs Street East	69,300	4.0	9,633	2,486	5.3%
82 Wyndham Street, CBD	44,500	7.1	6,012	–	6.1%
Wellington					
143 Lambton Quay, CBD	28,000	6.8	6,216	–	7.7%
147 Lambton Quay, CBD	35,350	1.8	8,539	134	9.1%
8-14 Willis Street, CBD	15,100	1.2	5,055	–	8.7%
New Zealand Post House, 7 Waterloo Quay	87,700	0.6	24,977	–	0.0%
15-21 Stout Street, CBD	110,750	7.8	20,709	–	6.6%
	596,800	**3.7**	**124,751**	**5,288**	**6.9%**[1]

1. Total yield excludes 7 Waterloo Quay.

Retail

NUMBER OF BUILDINGS
9

OCCUPANCY FACTOR (BY INCOME)
100%

WALT (YEARS)
6.6

MARKET VALUE OF ASSETS
$356.2m

CONTRACT YIELD
6.5%

Property Address	Valuation $000s	Weighted Avg. Lease Term (years)	Net Lettable Area (sqm)	Vacant Space (sqm)	Contract Yield
Auckland					
Albany Mega Centre, Albany	107,000	4.7	25,154	–	6.8%
11 Coliseum Drive, Albany	26,500	6.5	8,637	–	5.0%
320 Ti Rakau Drive, East Tamaki	56,500	8.2	28,353	–	6.7%
Albany Lifestyle Centre, Albany	86,000	8.0	24,955	–	6.9%
50 & 54-62 Cavendish Drive, Manukau	27,800	6.5	9,939	–	6.1%
252 Dairy Flat Highway, Albany	7,700	1.5	2,262	–	5.5%
Wellington					
180-202 Hutt Road, Kaiwharawhara	16,300	9.9	6,019	–	5.8%
Stewart Dawsons Corner	17,700	0.0	–	–	0.0%
Other					
Cnr Taniwha & Paora Hapi Streets, Taupo	10,700	4.0	4,212	–	6.9%
	356,200	**6.6**	**109,530**	**–**	**6.5%**[1]

1. Excludes Stewart Dawsons Corner.

Deloitte.

INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS OF ARGOSY PROPERTY LIMITED

We have reviewed the condensed consolidated interim financial statements of Argosy Property Limited and its subsidiaries ('the Group') which comprise the statement of financial position as at 30 September 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 18 to 36.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a 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 company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. As the auditor of Argosy Property Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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 (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor and for the attendance and scrutineering at the Annual Meeting, we have no relationship with or interests in Argosy Property Limited or its subsidiaries. These services have not impaired our independence as auditor of the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2018 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting.*

Deloitte Limited

Chartered Accountants
Auckland, New Zealand
19 November 2018

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018 (UNAUDITED)

	Note	Group (unaudited) 30 September 2018 $000s	Group (audited) 31 March 2018 $000s
Non-current assets			
Investment properties	4	1,622,965	1,513,120
Other non-current assets		417	469
Total non-current assets		1,623,382	1,513,589
Current assets			
Cash and cash equivalents		2,004	1,274
Trade and other receivables		4,777	1,681
Other current assets		3,154	885
		9,935	3,840
Non-current assets classified as held for sale	5	9,829	27,400
Total current assets		19,764	31,240
Total assets	3	1,643,146	1,544,829
Shareholders' funds			
Share capital	7	792,620	792,620
Share based payments reserve	8	389	389
Retained earnings		174,897	133,884
Total shareholders' funds		967,906	926,893
Non-current liabilities			
Borrowings	9	603,777	552,800
Derivative financial instruments	6	34,249	32,306
Deferred tax	11	11,773	12,183
Total non-current liabilities		649,799	597,289
Current liabilities			
Trade and other payables		19,806	12,240
Derivative financial instruments	6	246	697
Other current liabilities		3,543	4,896
Deposit received for non-current assets classified as held for sale		530	1,550
Taxation payable		1,316	1,264
Total current liabilities		25,441	20,647
Total liabilities		675,240	617,936
Total shareholders' funds and liabilities		1,643,146	1,544,829

For and on behalf of the Board

P Michael Smith
Director

Mark Cross
Director

19 November 2018

The notes to the accounts form part of and are to be read in conjunction with these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2018 $000s	Restated Group (unaudited) Six months to 30 September 2017 $000s
Gross property income from rentals		51,767	49,467
Insurance proceeds - rental loss		2,287	2,418
Gross property income from expense recoveries		10,086	8,607
Property expenses		(13,371)	(11,990)
Net property income	3	50,769	48,502
Administration expenses		5,123	4,713
Profit before financial income/(expenses), other gains/(losses) and tax		45,646	43,789
Financial income/(expenses)			
Interest expense	15	(12,238)	(12,596)
Gain/(loss) on derivative financial instruments held for trading		(1,492)	(2,665)
Interest income		20	26
		(13,710)	(15,235)
Other gains/(losses)			
Revaluation gains on investment property		34,633	-
Realised gains/(losses) on disposal of investment property		2,895	165
Insurance proceeds - earthquake expenses		–	782
Insurance proceeds - reinstatement		2,838	–
Earthquake expenses		(1,089)	(2,102)
		39,277	(1,155)
Profit before income tax attributable to shareholders		71,213	27,399
Taxation expense	10	4,461	4,309
Profit and total comprehensive income after tax		66,752	23,090

All amounts are from continuing operations.

	Note		
Earnings per share			
Basic and diluted earnings per share (cents)	13	8.07	2.80

The notes to the accounts form part of and are to be read in conjunction with these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Shares on issue $000s	Share based payments reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 30 September 2018 (unaudited)				
Shareholders' funds at the beginning of the period	792,620	389	133,884	926,893
Total comprehensive income for the period	–	–	66,752	66,752
Contributions by shareholders				
Dividends to shareholders	–	–	(25,739)	(25,739)
Shareholders' funds at the end of the period	792,620	389	174,897	967,906
Restated for the six months ended 30 September 2017 (unaudited)				
Shareholders' funds at the beginning of the period	788,372	194	86,655	875,221
Total comprehensive income for the period	–	–	23,090	23,090
Contributions by shareholders				
Issue of shares from Dividend Reinvestment Plan	3,200	–	–	3,200
Issue costs of shares	(3)	–	–	(3)
Dividends to shareholders	–	–	(25,324)	(25,324)
Equity settled share based payments	–	98	–	98
Shareholders' funds at the end of the period	791,569	292	84,421	876,282

The notes to the accounts form part of and are to be read in conjunction with these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2018 $000s	Group (unaudited) Six months to 30 September 2017 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		61,593	58,032
Insurance proceeds received		–	2,000
Interest received		20	26
Cash was applied to:			
Property expenses		(14,906)	(12,993)
Earthquake expenses		(1,089)	(1,936)
Interest paid		(14,291)	(12,277)
Employee benefits		(3,626)	(3,417)
Taxation paid		(4,480)	(5,369)
Other expenses		(2,345)	(2,235)
Net cash from/(used in) operating activities	12	20,876	21,831
Cash flows from investing activities			
Cash was provided from:			
Sale of properties, deposits and deferrals		28,990	20,523
Cash was applied to:			
Capital additions on investment properties		(36,283)	(29,591)
Capitalised interest on investment properties		(2,254)	(1,142)
Purchase of properties, deposits and deferrals		(35,259)	–
Net cash from/(used in) investing activities		(44,806)	(10,210)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		83,175	46,130
Cash was applied to:			
Repayment of debt		(32,377)	(35,489)
Dividends paid to shareholders net of reinvestments		(26,078)	(22,429)
Issue cost of shares		–	(14)
Facility refinancing fee		(60)	(500)
Net cash from/(used in) financing activities		24,660	(12,302)
Net increase/(decrease) in cash and cash equivalents		730	(681)
Cash and cash equivalents at the beginning of the period		1,274	968
Cash and cash equivalents at the end of the period		2,004	287

The notes to the accounts form part of and are to be read in conjunction with these consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Argosy Property Limited (APL or the Company) is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. APL is incorporated under the Companies Act 1993 and domiciled in New Zealand.

The Company's principal activity is investment in properties which include industrial, office and retail properties throughout New Zealand.

These condensed consolidated interim financial statements (interim financial statements) are presented in New Zealand dollars which is the Company's functional currency and have been rounded to the nearest thousand dollars ($000) and include those of APL and its subsidiaries (the Group).

These interim financial statements were approved by the Board of Directors on 19 November 2018.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with NZ IAS 34 and IAS 34 Interim Financial Reporting as applicable to the Company as a profit-oriented entity. These interim financial statements do not include all of the information required for full annual financial statements.

The interim financial statements have been prepared on the historical cost basis except for derivative financial instruments and investment properties which are measured at fair value.

The preparation of financial statements in conformity with NZ GAAP requires the use of certain critical accounting estimates that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The area involving a higher degree of judgement or complexity, and where assumptions and estimates are significant to the financial statements is set out in Note 4 - valuation of investment property.

Insurance income recognition

The company recognises income from insurance proceeds when it is virtually certain that the claims made in an accounting period have been accepted by insurers.

Change in accounting policies

Accounting policies and methods of computation have been applied consistently to all periods and by all Group entities, with the exception of the mandatory adoption of NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers, which are effective for annual reporting periods beginning on or after 1 January 2018.

NZ IFRS 9 requires the use of a forward-looking expected credit loss model to determine impairment provisioning on trade receivables. Consistent with the assessment disclosed in the annual report for the financial year ended 31 March 2018, the Group has concluded that the impact of the expected credit loss model is not material for the interim financial statements.

NZ IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. This standard is not applicable to rental income which makes up the majority of the Group's revenue, however it does apply to operating expense recovery income and management fees. The Group has separately identified the significant performance obligations and revenue streams within Gross

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

property income from rentals and Gross property income from expense recoveries and determined that the quantification of the performance obligations contained within these line items are not material. Hence, no cumulative opening balance adjustment is required for the interim financial statements.

Supplementary dividends

To be consistent with NZ IAS 12.61 the Group now takes the tax credit relating to supplementary dividends through retained earnings rather than tax expense. This change had a minor impact on the comparative results which have been restated (basic and diluted earnings per share were reduced from 2.84 cents per share to 2.80 cents per share).

Standards and interpretations in issue not yet effective

At the date of authorisation of these interim financial statements the following relevant Standards and Interpretations were in issue but not yet effective and have not been applied in preparing these interim financial statements:

NZ IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019) eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheet, with the exception of certain short-term leases and leases of low-value assets. There are minimal changes from the current NZ IAS 17 requirements for lessors.

Given the Company is primarily a lessor, this standard is not expected to significantly impact on the Group's financial statements. However, a ground lease exists over 39 Market Place, Viaduct Harbour, Auckland and as the lessee, the Company will recognise a 'right-of-use' asset and corresponding lease liability (representing the obligation to make lease payments) in the Statement of Financial Position.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

3. SEGMENT INFORMATION – OPERATING SEGMENTS

The principal business activity of the Group is to invest in, and actively manage, properties in New Zealand. NZ IFRS 8 - *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Chief Executive Officer, in order to allocate resources to the segments and to assess their performance.

The information reported to the Group's Chief Executive Officer includes information by investment property and has been aggregated based on three business sectors, being Industrial, Office and Retail, based on what the occupants actual or intended use is. Segment profit represents the profit earned by each segment including allocation of identifiable revaluation gains on investment properties and gains/(losses) on disposal of investment properties. This is the measure reported to the Chief Executive Officer.

The following is an analysis of the Group's results by reportable segments.

	Industrial Six months to 30 September		Office Six months to 30 September		Retail Six months to 30 September		Total (unaudited) Six months to 30 September	
	2018 $000s	2017 $000s	2018 $000s	2017 $000s	2018 $000s	2017 $000s	2018 $000s	Restated 2017 $000s
Segment profit								
Net property income[1]	20,510	19,127	19,496	18,424	10,763	10,951	50,769	48,502
Realised gains/(losses) on disposal of investment properties	(11)	(47)	–	–	2,906	212	2,895	165
Insurance proceeds - earthquake expenses	–	–	–	782	–	–	–	782
Insurance proceeds - reinstatement	–	–	2,838	–	–		2,838	–
Earthquake expenses	–	(6)	(1,089)	(2,096)	–	–	(1,089)	(2,102)
	20,499	19,074	21,245	17,110	13,669	11,163	55,413	47,347
Revaluation gains/(losses) on investment properties	13,670	–	(711)	–	21,674	–	34,633	–
Total segment profit[2]	34,169	19,074	20,534	17,110	35,343	11,163	90,046	47,347
Unallocated:								
Administration expenses							(5,123)	(4,713)
Net interest expense							(12,218)	(12,570)
Gain/(loss) on derivative financial instruments held for trading							(1,492)	(2,665)
Profit before income tax							71,213	27,399
Taxation expense							(4,461)	(4,309)
Profit for the year							66,752	23,090

1. Net property income consists of revenue generated from external tenants less property operating expenditure plus insurance proceeds - rental loss.
2. There were no inter-segment sales during the period (30 September 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

	Industrial $000s	Office $000s	Retail $000s	Total $000s
Segment assets as at 30 September 2018 (unaudited)				
Current assets	1,236	5,289	573	7,098
Investment properties	669,964	596,801	356,200	1,622,965
Non-current assets classified as held for sale	–	9,829	–	9,829
Total segment assets	671,200	611,919	356,773	1,639,892
Unallocated assets				3,254
Total assets				1,643,146
Segment assets as at 31 March 2018 (audited)				
Current assets	490	848	134	1,472
Investment properties	637,569	577,251	298,300	1,513,120
Non-current assets classified as held for sale	–	–	27,400	27,400
Total segment assets	638,059	578,099	325,834	1,541,992
Unallocated assets				2,837
Total assets				1,544,829

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than cash and cash equivalents, derivatives, tax assets, other non-current assets and other minor assets that cannot be allocated to particular segments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

4. INVESTMENT PROPERTIES

	Industrial Six months to 30 September 2018 $000s	Office Six months to 30 September 2018 $000s	Retail Six months to 30 September 2018 $000s	Group (unaudited) Six months to 30 September 2018 $000s
Movement in investment properties				
Balance at the beginning of the period	637,569	577,251	298,300	1,513,120
Acquisition of properties	8,600	–	26,665	35,265
Capitalised costs	9,387	30,449	8,470	48,306
Transfer to properties held for sale	–	(9,829)	–	(9,829)
Change in fair value	13,670	(711)	21,674	34,633
Change in capitalised leasing costs	(84)	143	200	259
Change in lease incentives	822	(502)	891	1,211
Investment properties balance at 30 September	669,964	596,801	356,200	1,622,965

	Industrial 12 months to 31 March 2018 $000s	Office 12 months to 31 March 2018 $000s	Retail 12 months to 31 March 2018 $000s	Group (audited) 12 months to 31 March 2018 $000s
Movement in investment properties				
Balance at the beginning of the period	583,405	547,450	311,300	1,442,155
Capitalised costs	25,195	24,281	11,886	61,362
Disposals	(10,078)	–	–	(10,078)
Transfer to properties held for sale	–	–	(27,400)	(27,400)
Change in fair value	39,080	5,601	2,652	47,333
Change in capitalised leasing costs	213	539	(107)	645
Change in lease incentives	(246)	(620)	(31)	(897)
Investment properties balance at 31 March	637,569	577,251	298,300	1,513,120

Investment properties are classified as level 3 (inputs are unobservable for the asset or liability) under the fair value hierarchy on the basis that adjustments must be made to observable data of similar properties to determine the fair value of an individual property.

The Group holds the freehold to all investment properties other than 39 Market Place, Viaduct Harbour, Auckland and a small part of 19 Barnes Street, Wellington.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

4. INVESTMENT PROPERTIES (CONTINUED)

Valuation of Investment properties

The Group's policy is for investment property to be measured at fair value for which the Group completes property valuations at least annually by independent registered valuers. Following recent market property sale transactions and improved leasing activity, the Board and Management engaged Colliers International New Zealand Limited (Colliers) to review key valuation metrics in order to undertake a high-level desktop review of the property portfolio as at 30 September 2018. These indicative market values provided by Colliers were then adopted by Management. Overall there was an uplift in the valuation of the portfolio of $34.6 million, which has been recognised as a revaluation gain on investment property as at 30 September 2018. (No desktop review was undertaken at 30 September 2017). Colliers reviewed key information (tenancy schedules, operating expenditure and capital expenditure) associated with each property, however full property inspections were not undertaken as part of the high-level desktop review.

Generally as occupancy and weighted average lease terms increase, yields firm, resulting in increased fair values for investment properties. A movement in any of these assumptions could result in a significant change in fair value.

Investment property metrics for the period ended 30 September 2018 are as follows:

		Industrial	Office	Retail	Total
Contract yield[1]	- Average	6.51%	6.85%	6.53%	6.63%
	- Maximum	10.18%	10.72%	6.88%	10.72%
	- Minimum	0.00%	3.05%	4.97%	0.00%
Market yield[1]	- Average	6.54%	7.23%	6.23%	6.70%
	- Maximum	8.74%	10.37%	6.63%	10.37%
	- Minimum	0.00%	6.38%	5.37%	0.00%
Occupancy (rent)		100.00%	96.36%	100.00%	98.41%
Occupancy (net lettable area)		100.00%	95.76%	100.00%	99.14%
Weighted average lease term (years)		6.96	3.73	6.57	5.60
No. of buildings[2]		37	16	9	62
Fair value total (000s)		$669,964	$596,801	$356,200	$1,622,965

1. 7 Waterloo Quay and Stewart Dawsons Corner have been excluded from these yield metrics as the rents of both properties included in the valuation reports were based on the completion of the planned remedial and redevelopment work required to be undertaken.
2. Certain titles have been consolidated and treated as one. The total number of buildings excludes properties held for sale.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

Investment property metrics for the year ended 31 March 2018 are as follows:

		Industrial	Office	Retail	Total
Contract yield[1]	- Average	6.71%	6.97%	7.12%	6.88%
	- Maximum	10.18%	10.59%	10.22%	10.59%
	- Minimum	0.00%	5.20%	5.51%	0.00%
Market yield[1]	- Average	6.74%	7.37%	6.80%	6.98%
	- Maximum	8.79%	10.32%	10.18%	10.32%
	- Minimum	0.00%	6.23%	6.16%	0.00%
Occupancy (rent)		99.90%	97.25%	100.00%	98.75%
Occupancy (net lettable area)		99.93%	97.51%	100.00%	99.42%
Weighted average lease term (years)		7.35	4.99	5.69	6.08
No. of buildings[2]		36	17	8	61
Fair value total (000s)		$637,569	$577,251	$298,300	$1,513,120

1. 7 Waterloo Quay and Stewart Dawsons Corner have been excluded from these yield metrics as the rents of both properties included in the valuation reports were based on the completion of the planned remedial and redevelopment work required to be undertaken.
2. Certain titles have been consolidated and treated as one. The total number of buildings excludes properties held for sale.

5. PROPERTY HELD FOR SALE

626 Great South Road, Greenlane ($9.8 million) was subject to an unconditional sale and purchase agreement at 30 September 2018 (31 March 2018: 7 Wagener Place, St Lukes, Auckland ($27.4 million) was subject to an unconditional sale and purchase agreement).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2018 $000s	Group (audited) 31 March 2018 $000s
Nominal value of interest rate swaps	345,000	345,000
Average fixed interest rate	4.56%	4.56%
Floating rates based on NZD BBR (including margin)	2.79%	2.78%

Interest rate swaps are measured at present value of future cash flows estimated and discounted based on applicable yield curves derived from observable market interest rates. Accepted market best practice valuation methodology using mid-market interest rates at the period end date is used, provided from sources perceived to be reliable and accurate. Interest rate swaps have been classified into Level 2 of the fair value hierarchy on the basis that the valuation techniques used to determine the values at period end date use observable inputs.

The net liability for derivative financial instruments as at 30 September 2018 is $34.5 million (31 March 2018: $33.0 million). The mark-to-market increase in the liability for derivative financial instruments is a result of movements in the interest rate curve during the interim period.

7. SHARE CAPITAL

	Group (unaudited) 30 September 2018 $000s	Group (audited) 31 March 2018 $000s
Balance at the beginning of the period	792,620	788,372
Issue of shares from Dividend Reinvestment Plan	–	4,263
Issue costs of shares	–	(15)
Total share capital	792,620	792,620

The number of shares on issue at 30 September 2018 was 827,030,390 (31 March 2018: 827,030,390).

All shares are fully paid and rank equally with one vote attached and carry the right to dividends. All ordinary shares have equal voting rights.

Reconciliation of number of shares (in thousands of shares)	Group (unaudited) 30 September 2018	Group (audited) 31 March 2018
Balance at the beginning of the period	827,030	822,928
Issue of shares from Dividend Reinvestment Plan	–	4,102
Total number of shares on issue	827,030	827,030

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

8. SHARE BASED PAYMENTS RESERVE

Performance share rights (PSRs) were offered to senior executives, commencing 1 April 2015. Under the scheme, PSRs are issued to participants which give them the right to receive ordinary shares in the Company after a three year period, subject to certain vesting and other conditions being met. The vesting of the PSRs is subject to the Company achieving a positive total shareholder return (measured against the Company's share price on the date of the issue of the PSRs, and including dividends) over a three year measurement period. The total number which actually vest will be dependent on the relative ranking of the Company's total shareholder returns against a comparator group of listed entities determined by the Board from the S&P/NZX All Real Estate Gross Index.

There were no expenses recognised in the period to 30 September 2018 in relation to equity settled share based payments (30 September 2017: $97,500). No rights were exercised during the period.

Grant date	Vesting date	Granted during the year[1]	Weighted average issue price	Balance at the beginning of the period[1]	Vested during the period	Forfeited during the period[1]	Balance at the end of the period[1]
2019							
1 April 2018	1 April 2021	372,689	$1.01	869,157	–	(279,203)[2]	962,643
2018							
1 April 2017	1 April 2020	321,284	$0.99	547,873	–	–	869,157
2017							
1 April 2016	1 April 2019	268,670	$1.17	279,203	–	–	547,873
2016							
1 April 2015	1 April 2018	279,203	$1.13	–	–	–	279,203

1. This is the number of PSRs.
2. The rights forfeited relate to those issued on 1 April 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

9. BORROWINGS

	Group (unaudited) 30 September 2018 $000s	Group (audited) 31 March 2018 $000s
ANZ Bank New Zealand Limited	283,341	259,370
Bank of New Zealand	177,005	161,829
The Hongkong and Shanghai Banking Corporation Limited	144,661	133,010
Borrowing costs	(1,230)	(1,409)
Total borrowings	603,777	552,800
Shown as:		
Term	603,777	552,800

As at 30 September 2018, the Group had a syndicated revolving facility with ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited for $625.0 million (31 March 2018: $625.0 million) secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of $275.0 million, a Tranche B limit of $275.0 million, a Tranche C limit of $25.0 million and a Tranche D limit of $50.0 million. Tranche A matures on 31 October 2021, Tranche B on 30 September 2020, Tranche C on 31 October 2021 and Tranche D on 28 February 2021. The tranche limits and maturity dates remain unchanged from 31 March 2018.

The weighted average interest rate on borrowings (including margin and line fee and interest rate swaps) as at 30 September 2018 was 4.86% (31 March 2018: 4.98%).

Borrowing costs are the costs incurred in establishing the bank facility. These costs are amortised over the life of the facility at the effective interest rate.

On 18 October 2018, a new facility agreement was entered into, which provides an additional tranche, Tranche E, with a limit of $25.0 million maturing on 18 October 2020. All other tranche limits and maturity dates remain unchanged.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

10. TAXATION

	Group (unaudited) Six months to 30 September 2018 $000s	Restated Group (unaudited) Six months to 30 September 2017 $000s
The taxation charge is made up as follows:		
Current tax expense	5,388	5,342
Deferred tax expense	(410)	(1,033)
Adjustment recognised in the current year in relation to the current tax of prior years	(517)	–
Total taxation expense recognised in profit/(loss)	4,461	4,309
Reconciliation of accounting profit to tax expense		
Profit before tax	71,213	27,399
Current tax expense at 28%	19,940	7,672
Adjusted for:		
Capitalised interest	(631)	(320)
Fair value movement in derivative financial instruments	418	746
Fair value movement in investment properties	(9,697)	–
Depreciation	(3,048)	(3,274)
Depreciation recovered on disposal of investment properties	(725)	382
Other	(869)	136
Current taxation expense	5,388	5,342
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	(320)	(172)
Fair value movement in derivative financial instruments	(418)	(746)
Other	328	(115)
Deferred tax expense/(credit)	(410)	(1,033)
Prior year adjustment	(517)	–
Total tax expense recognised in profit or loss	4,461	4,309

There were no imputation credits at 30 September 2018 (30 September 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

11. DEFERRED TAX

The following are the major deferred tax liabilities and (assets) recognised by the Group, and the movements thereon during the current and prior reporting years:

	Interest rate swaps $000s	Investment property $000s	Other $000s	Total $000s
At 1 April 2018	(9,241)	18,241	3,183	12,183
Charge/(credit) to deferred taxation expense for the period	(418)	(320)	328	(410)
At 30 September 2018 (unaudited)	(9,659)	17,921	3,511	11,773
At 1 April 2017	(8,086)	17,494	3,211	12,619
Charge/(credit) to deferred taxation expense for the year	(1,155)	747	(28)	(436)
At 31 March 2018 (audited)	(9,241)	18,241	3,183	12,183

12. RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Group (unaudited) Six months to 30 September 2018 $000s	Restated Group (unaudited) Six months to 30 September 2017 $000s
Profit after tax	66,752	23,090
Movements in working capital items relating to investing and financing activities	(13,225)	2,399
Non cash items		
Movement in deferred tax liability	(410)	(1,033)
Movement in interest rate swaps	1,492	2,665
Fair value change in investment properties	(34,633)	–
Movements in working capital items		
Trade and other receivables	(3,096)	(1,391)
Taxation payable	52	(331)
Trade and other payables	7,566	(1,834)
Other current assets	(2,269)	(1,643)
Other current liabilities	(1,353)	(91)
Net cash from operating activities	20,876	21,831

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

13. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

	Group (unaudited) Six months to 30 September 2018	Restated Group (unaudited) Six months to 30 September 2017
Profit attributable to shareholders of the Company ($000s)	66,752	23,090
Weighted average number of shares on issue (000s)	827,030	823,629
Basic and diluted earnings per share (cents)	8.07	2.80
Weighted average number of ordinary shares		
Issued shares at beginning of period (000s)	827,030	822,928
Issued shares at end of period (000s)	827,030	826,020
Weighted average number of ordinary shares (000s)	827,030	823,629

14. DISTRIBUTABLE INCOME

	Group (unaudited) Six months to 30 September 2018 $000s	Restated Group (unaudited) Six months to 30 September 2017 $000s
Profit before income tax	71,213	27,399
Adjustments:		
Revaluation gains on investment property	(34,633)	–
Realised (gains)/losses on disposal of investment properties	(2,895)	(165)
Derivative fair value (gain)/loss	1,492	2,665
Earthquake expenses	1,089	2,102
Insurance proceeds - reinstatement	(2,838)	–
Insurance proceeds - earthquake expenses	–	(782)
Gross distributable income	33,428	31,219
Tax impact of depreciation recovered on disposal of investment properties and taxable gains on disposal of revenue account properties	180	428
Current tax expense	(4,871)	(5,342)
Net distributable income	28,737	26,305
Weighted average number of ordinary shares (000s)	827,030	823,629
Gross distributable income per share (cents per share)	4.04	3.79
Net distributable income per share (cents per share)	3.47	3.19

The Company's dividend policy is based on net distributable income. Net distributable income is determined under the Company's bank facility agreement.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

15. INTEREST EXPENSE

	Group (unaudited) Six months to 30 September 2018 $000s	Group (unaudited) Six months to 30 September 2017 $000s
Interest expense	(14,492)	(13,738)
Less amount capitalised to investment properties	2,254	1,142
Total interest expense	(12,238)	(12,596)

Capitalised interest for the period to 30 September 2018 relates to the Placemakers development at 180-202 Hutt Road, Kaiwharawhara, the redevelopment at Stewart Dawsons Corner, Wellington and the reinstatement works at 7 Waterloo Quay, Wellington (30 September 2017: Capitalised interest relates to the Polarcold development at 8 Foundry Drive, Christchurch, the Placemakers development at 180-202 Hutt Road, Kaiwharawhara, the Mighty Ape development at Highgate Parkway, Silverdale, Auckland and the development at 82 Wyndham Street, Auckland).

16. COMMITMENTS

Ground rent

Ground leases exist over 39 Market Place, Viaduct Harbour, Auckland and a small part of 19 Barnes Street, Wellington. The amount paid in respect of the Auckland ground lease during the period was $0.5 million (30 September 2017: $0.5 million). The annual ground lease commitment is $1.0 million and is generally recoverable from tenants in proportion to their area of occupancy. The Auckland ground lease is renewable in perpetuity, with the next renewal date in 2019.

Building upgrades and developments

Estimated capital commitments contracted for building projects not yet completed at 30 September 2018 and not provided for were $30.6 million (31 March 2018: $64.1 million). Of this total, $15.8 million relates to the reinstatement works at 7 Waterloo Quay, Wellington and $7.7 million relates to the Placemakers development at 180-202 Hutt Road, Kaiwharawhara.

There were no other commitments as at 30 September 2018 (31 March 2018: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

17. CONTINGENCIES

There were no contingencies as at 30 September 2018 (31 March 2018: Nil).

18. SUBSEQUENT EVENTS

On 18 October 2018, a new facility agreement was entered into with Argosy's banking syndicate, which provides an additional tranche, Tranche E, with a limit of $25.0 million maturing on 18 October 2020. All other tranche limits and maturity dates remain unchanged.

On 31 October 2018, an unconditional sale and purchase agreement was entered into for the sale of 1478 Omahu Road, Hastings for $10.2 million. Settlement is expected to take place in March 2019.

On 6 November 2018, an unconditional sale and purchase agreement was entered into for the sale of 31 El Prado Drive, Palmerston North for $35.5 million. Settlement is expected to take place in December 2018.

On 19 November 2018, a dividend of 1.5625 cents per share was approved by the Company. The record date for the dividend is 5 December 2018 and payment is scheduled to shareholders on 19 December 2018. Imputation credits of 0.389012 cents per share are attached to the dividend.

19. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

There were no significant changes in relationships or transactions with related parties during the period ended 30 September 2018.

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Peter Brook, Auckland
Mark Cross, Auckland
Andrew Evans, Auckland
Stuart McLauchlan, Dunedin
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