Argosy

Interim Financial Statements
30 September 2019

PROACTIVE DELIVERY OF SUSTAINABLE GROWTH

An environmentally focused & sustainable business

Transition value add properties to drive earnings and capital growth

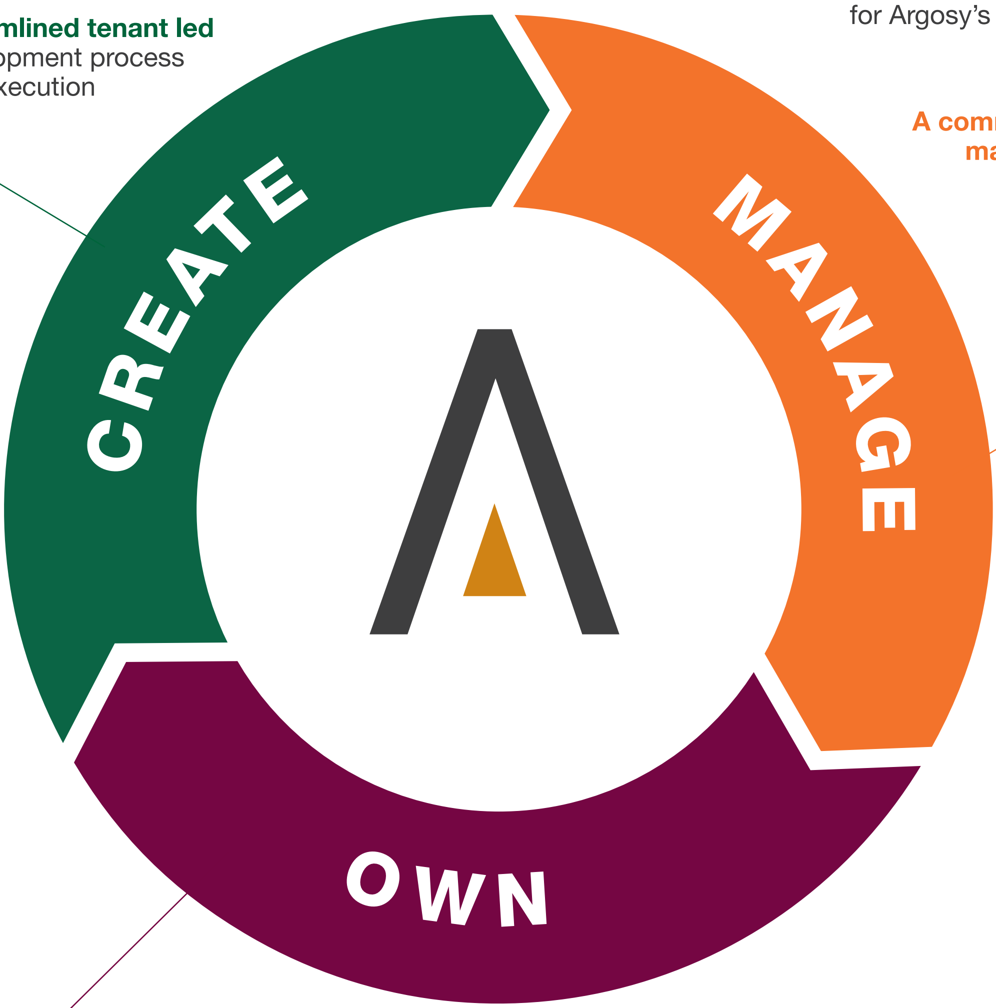
Streamlined tenant led development process and execution

MANAGE OUR BUSINESS TO DELIVER THE RIGHT OUTCOMES FOR ALL STAKEHOLDERS

Strong and valued relationships across all key stakeholders

Safe working environments for Argosy's people and its partners

A commitment to management excellence



RIGHT ASSETS, RIGHT ATTRIBUTES, RIGHT LOCATIONS

A diversified portfolio of high quality, well located assets with growth potential

Real estate with a primary focus on Auckland & Wellington markets

Target off market opportunities or contiguous properties with potential

CONSOLIDATED FINANCIAL STATEMENTS

Contents

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019 (UNAUDITED)

	Note	Group (unaudited) 30 September 2019 $000s	Group (audited) 31 March 2019 $000s
Non-current assets			
Investment properties	4	1,731,989	1,667,030
Derivative financial instruments	6	7,390	1,857
Other non-current assets		1,417	1,605
Total non-current assets		1,740,796	1,670,492
Current assets			
Cash and cash equivalents		2,854	2,190
Trade and other receivables		1,810	1,474
Other current assets		691	905
		5,355	4,569
Non-current asset classified as held for sale	5	87,628	–
Total current assets		92,983	4,569
Total assets	3	1,833,779	1,675,061
Shareholders' funds			
Share capital	7	792,826	792,620
Share based payments reserve		300	389
Retained earnings		266,774	215,966
Total shareholders' funds		1,059,900	1,008,975
Non-current liabilities			
Interest bearing liabilities	8	646,125	593,536
Derivative financial instruments	6	51,293	42,225
Non-current lease liabilities		41,743	–
Deferred tax		9,850	10,114
Total non-current liabilities		749,011	645,875
Current liabilities			
Trade and other payables		16,395	15,412
Derivative financial instruments	6	30	–
Current lease liabilities		105	–
Other current liabilities		3,445	2,595
Deposit received for non-current asset classified as held for sale		4,525	–
Taxation payable		368	2,204
Total current liabilities		24,868	20,211
Total liabilities		773,879	666,086
Total shareholders' funds and liabilities		1,833,779	1,675,061

For and on behalf of the Board

P Michael Smith
Director

Stuart McLauchlan
Director

Date: 19 November 2019

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 2019 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2019 $000s	Group (unaudited) Six months to 30 September 2018 $000s
Gross property income from rentals		50,249	51,767
Insurance proceeds - rental loss		2,500	2,287
Gross property income from expense recoveries		10,178	10,086
Property expenses		(11,917)	(13,371)
Net property income	3	51,010	50,769
Administration expenses		5,605	5,123
Profit before financial income/(expenses), other gains/(losses) and tax		45,405	45,646
Financial income/(expenses)			
Interest expense	9	(11,144)	(12,238)
Loss on derivative financial instruments held for trading		(3,564)	(1,492)
Interest income		19	20
		(14,689)	(13,710)
Other gains/(losses)			
Revaluation gains on investment property		50,775	34,633
Realised (losses)/gains on disposal of investment property		(4)	2,895
Insurance proceeds - reinstatement		–	2,838
Earthquake expenses		(212)	(1,089)
		50,559	39,277
Profit before income tax attributable to shareholders		81,275	71,213
Taxation expense		4,360	4,461
Profit and total comprehensive income after tax		76,915	66,752

All amounts are from continuing operations.

Earnings per share			
Basic and diluted earnings per share (cents)		9.30	8.07

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED)

	Shares on issue $000s	Share based payments reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 30 September 2019 (unaudited)				
Shareholders' funds at the beginning of the period	792,620	389	215,966	1,008,975
Total comprehensive income for the period	–	–	76,915	76,915
Contributions by shareholders				
Dividends to shareholders	–	–	(26,107)	(26,107)
Equity settled share based payments	206	(89)	–	117
Shareholders' funds at the end of the period	792,826	300	266,774	1,059,900
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

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2019 $000s	Group (unaudited) Six months to 30 September 2018 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		62,780	61,593
Insurance proceeds received		2,500	–
Interest received		19	20
Cash was applied to:			
Property expenses		(11,243)	(14,906)
Earthquake expenses		(239)	(1,089)
Interest paid		(11,168)	(14,291)
Employee benefits		(4,237)	(3,626)
Taxation paid		(6,140)	(4,480)
Other expenses		(2,551)	(2,345)
Net cash from/(used in) operating activities		29,721	20,876
Cash flows from investing activities			
Cash was provided from:			
Sale of properties, deposits and deferrals		3,333	28,990
Cash was applied to:			
Capital additions on investment properties		(49,952)	(36,283)
Capitalised interest on investment properties		(4,673)	(2,254)
Purchase of properties, deposits and deferrals		(3,440)	(35,259)
Net cash from/(used in) investing activities		(54,732)	(44,806)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		72,228	83,175
Cash was applied to:			
Repayment of debt		(19,500)	(32,377)
Dividends paid to shareholders net of reinvestments		(26,428)	(26,078)
Bond costs		(142)	–
Facility refinancing fee		(483)	(60)
Net cash from/(used in) financing activities		25,675	24,660
Net increase/(decrease) in cash and cash equivalents		664	730
Cash and cash equivalents at the beginning of the period		2,190	1,274
Cash and cash equivalents at the end of the period		2,854	2,004

The notes to the accounts form part of and are to be read in conjunction with these consolidated 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 principal activity of the Company and its subsidiaries (the Group) 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.

These interim financial statements were approved by the Board of Directors on 19 November 2019.

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 the valuation of investment property and right-of-use assets under NZ IFRS 16 leases (Note 4).

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.

The Group has adopted NZ IFRS 16 Leases for the interim financial statements. NZ IFRS 16 Leases eliminates the distinction between operating and finance leases for lessees and results in lessees bringing most leases onto their balance sheet, with the exception of certain short-term leases and leases of low-value assets.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between liability and finance cost. The finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term. The finance cost is recognised as interest paid in the statement of cash flows, (formerly recognised as property expenses under NZ IAS 17 Leases). The repayment of the principal portion of the lease liability is recognised as a financing activity in the statement of cash flows. Payments associated with short-term leases and leases of low-value assets are recognised as an expense in the Statement of Comprehensive Income.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any incentives receivable
- Variable lease payments that are based on an index or rate
- Amounts expected to be payable by the lessees under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short term leases, and
- Leases for which the underlying asset is of low value.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019.

The only material lease that has been recorded on the Statement of Financial Position is the ground lease that exists over 39 Market Place, Viaduct Harbour, Auckland. As the lessee, the Group has recognised a 'right-of-use' asset and corresponding lease liability (representing the obligation to make lease payments) in the Statement of Financial Position. The Group has chosen the modified retrospective transition method, which allows the Group to measure the lease liability at the date of initial application as the present value of the remaining lease payments. The incremental borrowing rate used to calculate the lease liability was 5%. The fair value of the right-of-use asset was determined using a discount rate of 6% which is reflective of the quality of the property. A total lease liability of $41.8 million was recognised as at 1 April 2019, with the corresponding amount being recognised as a right-of-use asset. It does not require a restatement of prior period financial statements or an adjustment to opening equity.

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 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	
	2019 $000s	2018 $000s	2019 $000s	2018 $000s	2019 $000s	2018 $000s	2019 $000s	2018 $000s
Segment profit								
Net property income[1]	22,124	20,510	19,953	19,496	8,933	10,763	51,010	50,769
Realised gains/(losses) on disposal of investment properties	(4)	(11)	–	–	–	2,906	(4)	2,895
Insurance proceeds - reinstatement	–	–	–	2,838	–	–	–	2,838
Earthquake expenses	–	–	(212)	(1,089)	–	–	(212)	(1,089)
	22,120	20,499	19,741	21,245	8,933	13,669	50,794	55,413
Revaluation gains on investment properties	36,596	13,670	13,339	(711)	840	21,674	50,775	34,633
Total segment profit[2]	58,716	34,169	33,080	20,534	9,773	35,343	101,569	90,046
Unallocated:								
Administration expenses							(5,605)	(5,123)
Net interest expense							(11,125)	(12,218)
Gain/(loss) on derivative financial instruments held for trading							(3,564)	(1,492)
Profit before income tax							81,275	71,213
Taxation expense							(4,360)	(4,461)
Profit for the period							76,915	66,752

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 2018: Nil).

3. SEGMENT INFORMATION (CONTINUED)

	Industrial $000s	Office $000s	Retail $000s	Total $000s
Segment assets as at 30 September 2019 (unaudited)				
Current assets	339	373	1,286	1,998
Investment properties	786,812	723,980	221,197	1,731,989
Non-current asset classified as held for sale	–	–	87,628	87,628
Total segment assets	787,151	724,353	310,111	1,821,615
Unallocated assets				12,164
Total assets				1,833,779
Segment assets as at 31 March 2019 (audited)				
Current assets	495	1,333	151	1,979
Investment properties	737,670	626,610	302,750	1,667,030
Total segment assets	738,165	627,943	302,901	1,669,009
Unallocated assets				6,052
Total assets				1,675,061

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, other non-current assets and other minor current assets that cannot be allocated to particular segments.

4. INVESTMENT PROPERTIES

	Industrial Six months to 30 September 2019 $000s	Office Six months to 30 September 2019 $000s	Retail Six months to 30 September 2019 $000s	Group (unaudited) Six months to 30 September 2019 $000s
Movement in investment properties				
Balance at the beginning of the period	737,670	626,610	302,750	1,667,030
Acquisition of properties	3,581	–	–	3,581
Capitalised costs	9,139	41,525	5,298	55,962
Transfer to properties held for sale	–	–	(87,628)	(87,628)
Change in fair value	36,596	13,339	840	50,775
Change in capitalised leasing costs	(93)	756	(9)	654
Change in lease incentives	(81)	(98)	(54)	(233)
Investment properties balance at 30 September excluding NZ IFRS 16 leases adjustments	786,812	682,132	221,197	1,690,141
NZ IFRS 16 lease adjustments:				
Right-of-use asset (land at 39 Market Place)	–	41,848	–	41,848
Investment properties balance at 30 September with NZ IFRS 16 leases adjustments	786,812	723,980	221,197	1,731,989

4. INVESTMENT PROPERTY (CONTINUED)

	Industrial 12 months to 31 March 2019 $000s	Office 12 months to 31 March 2019 $000s	Retail 12 months to 31 March 2019 $000s	Group (audited) 12 months to 31 March 2019 $000s
Movement in investment properties				
Balance at the beginning of the period	637,569	577,251	298,300	1,513,120
Acquisition of properties	8,615	–	26,693	35,308
Capitalised costs	17,361	60,634	13,035	91,030
Disposals	(35,606)	(9,829)	–	(45,435)
Transfer between segments	61,500	–	(61,500)	–
Change in fair value	47,094	(1,861)	25,228	70,461
Change in capitalised leasing costs	102	1,243	182	1,527
Change in lease incentives	1,035	(828)	812	1,019
Investment properties balance at 31 March	737,670	626,610	302,750	1,667,030

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.

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 2019. These indicative market values provided by Colliers were then adopted by Management. Overall, there was an uplift in the valuation of the portfolio of $50.8 million (2018: $34.6 million) which has been recognised as a revaluation gain on investment property as at 30 September 2019. Colliers reviewed key information (tenancy schedules, operating expenditure and capital expenditure) associated with each property. 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.

Following the adoption of NZ IFRS 16 on 1 April 2019, the right-of-use asset and investment was recognised on the ground lease that exists over 39 Market Place, Viaduct Harbour, Auckland.

Investment property metrics for the period ended 30 September 2019 are as follows:

		Industrial	Office	Retail	Total
Contract yield[1]	- Average	5.86%	6.56%	6.02%	6.13%
	- Maximum	9.73%	9.37%	6.89%	9.73%
	- Minimum	0.00%	1.98%	4.99%	0.00%
Market yield[1]	- Average	6.18%	6.77%	5.92%	6.36%
	- Maximum	8.46%	9.28%	6.63%	9.28%
	- Minimum	4.12%	5.61%	5.14%	4.12%
Occupancy (rent)		97.75%	96.59%	100.00%	97.55%
Occupancy (net lettable area)		97.51%	97.03%	100.00%	97.64%
Weighted average lease term (years)		7.19	4.87	5.05	6.02
No. of buildings[2]		37	16	6	59
Fair value total (000s)		$786,812	$682,132	$221,197	$1,690,141

1. 7 Waterloo Quay, Stewart Dawson Corner, 8-14 Willis Street and 54-56 Jamaica Drive have been excluded from these yield metrics as the rents of these 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 the property held for sale.

4. INVESTMENT PROPERTIES (CONTINUED)

Investment property metrics for the year ended 31 March 2019 are as follows:

		Industrial	Office	Retail	Total
Contract yield[1]	- Average	6.15%	6.88%	6.22%	6.41%
	- Maximum	9.82%	10.02%	7.15%	10.02%
	- Minimum	0.00%	2.04%	4.83%	0.00%
Market yield[1]	- Average	6.46%	7.14%	6.27%	6.65%
	- Maximum	8.42%	10.45%	6.68%	10.45%
	- Minimum	0.00%	5.99%	5.25%	0.00%
Occupancy (rent)		97.75%	96.75%	100.00%	97.71%
Occupancy (net lettable area)		97.51%	97.14%	100.00%	97.75%
Weighted average lease term (years)		7.22	4.94	5.96	6.14
No. of buildings[2]		37	16	7	60
Fair value total (000s)		$737,670	$626,610	$302,750	$1,667,030

1. 7 Waterloo Quay and Stewart Dawson 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

Albany Mega Centre, Albany ($87.6 million) was subject to an unconditional sale and purchase agreement at 30 September 2019 (31 March 2019: Nil).

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2019 $000s	Group (audited) 31 March 2019 $000s
Nominal value of interest rate swaps - fixed rate payer	315,000	315,000
Nominal value of interest rate swaps - fixed rate receiver	100,000	100,000
Average fixed interest rate - fixed rate payer	4.49%	4.49%
Floating rates based on NZD BBR (including margin)	2.14%	2.79%

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 2019 is $43.9 million (31 March 2019: $40.4 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 2019 $000s	Group (audited) 31 March 2019 $000s
Balance at the beginning of the period	792,620	792,620
Issue of shares from equity settled share based payments	206	–
Total share capital	792,826	792,620

The number of shares on issue at 30 September 2019 was 827,186,969 (31 March 2019: 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 000s of shares)	Group (unaudited) 30 September 2019	Group (audited) 31 March 2019
Balance at the beginning of the period	827,030	827,030
Issue of shares from equity settlement share based payments	157	–
Total number of shares on issue	827,187	827,030

8. INTEREST BEARING LIABILITIES

	Group (unaudited) 30 September 2019 $000s	Group (audited) 31 March 2019 $000s
Syndicated bank loans	548,917	496,189
Fixed rate green bonds	100,000	100,000
Borrowing costs	(2,792)	(2,653)
Total interest bearing liabilities	646,125	593,536

Syndicated bank loans

	Group (unaudited) 30 September 2019 $000s	Group (audited) 31 March 2019 $000s
ANZ Bank New Zealand Limited	146,850	217,966
Bank of New Zealand	122,500	152,779
The Hongkong and Shanghai Banking Corporation Limited	100,000	125,444
Commonwealth Bank of Australia	50,000	–
Westpac New Zealand Limited	129,567	–
Total syndicated bank loans	548,917	496,189

8. INTEREST BEARING LIABILITIES (CONTINUED)

As at 30 September 2019, the Group had a syndicated revolving facility with ANZ Bank New Zealand Limited, Bank of New Zealand, The Hongkong and Shanghai Banking Corporation Limited, Commonwealth Bank of Australia, and Westpac New Zealand Limited for $600.0 million (31 March 2019: $550.0 million) secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of $175.0 million, a Tranche B1 limit of $100.0 million, a Tranche B2 limit of $125.0 million, a Tranche B3 limit of $125.0 million, a Tranche C limit of $25.0 million and a Tranche F limit of $50.0 million. Tranche A matures on 31 October 2021, Tranche B1 on 1 October 2021, Tranche B2 on 1 October 2023, Tranche B3 on 1 October 2024, Tranche C on 31 October 2021 and Tranche F on 8 October 2021. Tranche A and C limits and maturity dates remain unchanged from 31 March 2019. Tranches B, D and E were cancelled during the interim period and Tranches F, B1 , B2, and B3 were introduced.

Fixed rate green bonds

NZX code	Value of Issue $000s	Issue Date	Maturity Date	Interest Rate	Fair Value $000s
ARG010	100,000	27 March 2019	27 March 2026	4.00%	107,263

The fair value of the fixed rate green bonds is based on the listed market price at balance date and is therefore classified as Level 1 in the fair value hierarchy. Interest on the bonds is payable in equal instalments on a quarterly basis in March, June, September and December.

9. INTEREST EXPENSE

	Group (unaudited) Six months to 30 September 2019 $000s	Group (unaudited) Six months to 30 September 2018 $000s
Interest expense	(14,769)	(14,492)
Interest costs on lease (39 Market Place)	(1,048)	–
Less amount capitalised to investment properties	4,673	2,254
Total interest expense	(11,144)	(12,238)

Capitalised interest relates to the developments at 180-202 Hutt Road, Kaiwharawhara, 7 Waterloo Quay, Wellington, 99-107 Khyber Pass Road, Grafton, 8-14 Willis Street, Wellington, 107 Carlton Gore Road, Auckland and Stewart Dawson Corner, Wellington (30 September 2018: capitalised interest relates to the developments at 180-202 Hutt Road, Kaiwharawhara, 7 Waterloo Quay, Wellington, and Stewart Dawson Corner, Wellington).

10. COMMITMENTS

Building upgrades and developments

Estimated capital commitments contracted for building projects not yet completed at 30 September 2019 and not provided for were $92.1 million (31 March 2019: $60.0 million).

There were no other commitments as at 30 September 2019 (31 March 2019: Nil).

11. CONTINGENCIES

There were no contingencies as at 30 September 2019 (31 March 2019: Nil).

12. SUBSEQUENT EVENTS

On 29 October 2019, the Company issued $100 million of senior secured 7 year green bonds (ARG020) with a fixed rate of 2.90% per annum.

On 29 October 2019, the facility agreement with Argosy's banking syndicate was changed to reduce the Tranche A facility limit from $175.0 million to $75.0 million with the same maturity dates. All other Tranche facilities and maturity dates remain unchanged.

On 31 October 2019, the Company settled on the acquisition of 244 Puhinui Road, Manukau for $12.4 million.

On 19 November 2019 a dividend of 1.5688 cents per share was approved by the Company. The record date for the dividend is 5 December 2019 and a payment is scheduled to shareholders on 19 December 2019. Imputation credits of 0.2649 cents per share are attached to the dividend.

13. 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 2019.

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 2019, 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 4 to 15.

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 2019 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 2019

Argosy

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