



Argosy

Interim Financial Statements
30 September 2020



An environmentally focused & sustainable business

Transition value add properties to drive earnings and capital growth

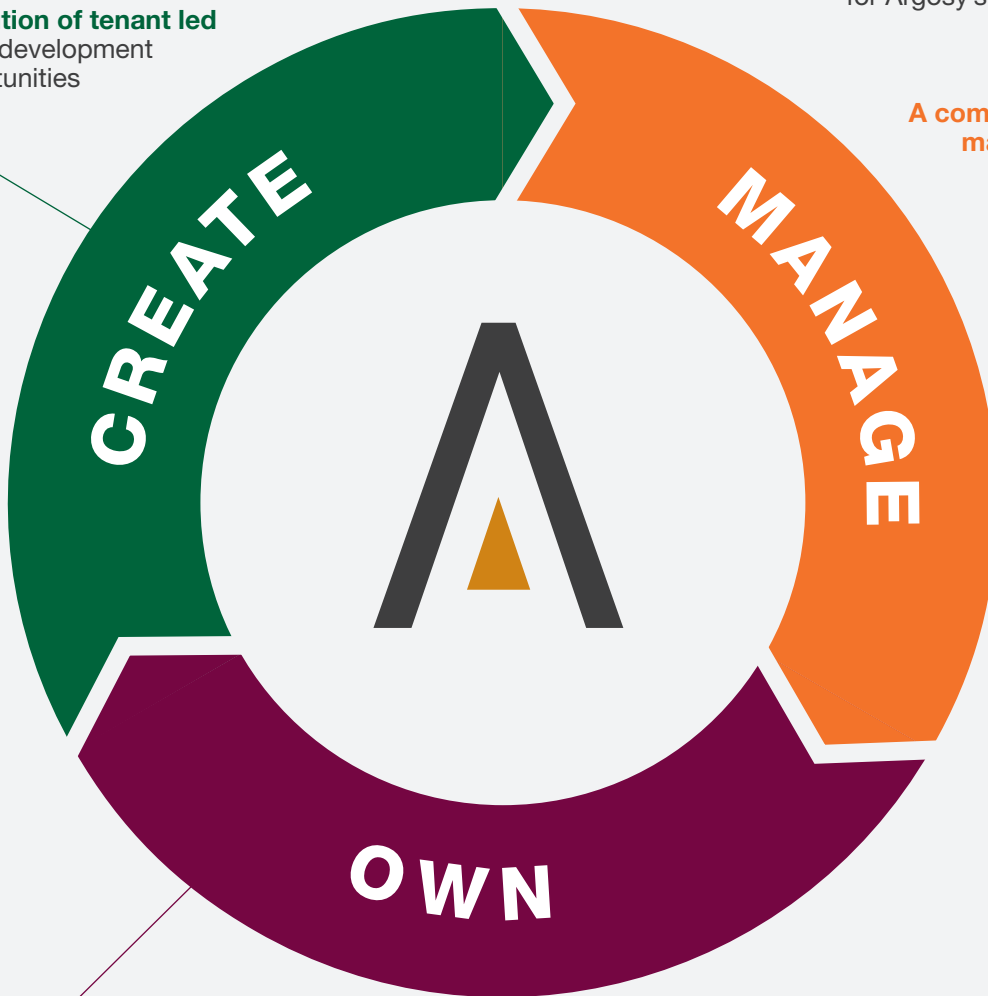
Execution of tenant led green development opportunities



Strong and valued relationships across all key stakeholders

Safe working environments for Argosy's people and its partners

A commitment to management excellence



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

Target off-market opportunities or contiguous properties with potential



Real estate with a primary focus on Auckland & Wellington markets

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2020 (UNAUDITED)

	Note	Group (unaudited) 30 September 2020 \$000s	Group (audited) 31 March 2020 \$000s
Non-current assets			
Investment properties	4	1,958,835	1,824,106
Derivative financial instruments	6	16,900	11,573
Other non-current assets		631	352
Total non-current assets		1,976,366	1,836,031
Current assets			
Cash and cash equivalents		2,265	1,861
Trade and other receivables		2,073	1,910
Other current assets		1,478	3,894
Taxation receivable		5,640	1,307
		11,456	8,972
Non-current assets classified as held for sale	5	38,191	84,634
Total current assets		49,647	93,606
Total assets	3	2,026,013	1,929,637
Shareholders' funds			
Share capital	7	800,846	792,826
Share based payments reserve		538	418
Retained earnings		370,817	282,560
Total shareholders' funds		1,172,201	1,075,804
Non-current liabilities			
Interest bearing liabilities	8	722,778	729,173
Derivative financial instruments	6	54,838	49,878
Non-current lease liabilities		41,624	41,690
Deferred tax		10,745	8,978
Total non-current liabilities		829,985	829,719
Current liabilities			
Trade and other payables		16,860	15,334
Current lease liabilities		116	105
Derivative financial instruments	6	275	–
Other current liabilities		3,726	4,150
Deposit received for non-current asset classified as held for sale	5	2,850	4,525
Total current liabilities		23,827	24,114
Total liabilities		853,812	853,833
Total shareholders' funds and liabilities		2,026,013	1,929,637

For and on behalf of the Board



Jeff Morrison
Director



Stuart McLauchlan
Director

Date: 25 November 2020

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 2020 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2020 \$000s	Group (unaudited) Six months to 30 September 2019 \$000s
Gross property income from rentals		53,345	50,249
Insurance proceeds - rental loss		583	2,500
Gross property income from expense recoveries		9,791	10,178
Property expenses		(12,624)	(11,917)
Net property income	3	51,095	51,010
Administration expenses		5,903	5,605
Profit before financial income/(expenses), other gains/(losses) and tax		45,192	45,405
Financial income/(expenses)			
Interest expense	9	(14,182)	(11,144)
Gain/(loss) on derivative financial instruments held for trading		92	(3,564)
Interest income		24	19
		(14,066)	(14,689)
Other gains/(losses)			
Revaluation gains on investment property		79,797	50,775
Realised gains/(losses) on disposal of investment property		968	(4)
Forfeited deposit on sale of investment property		4,525	–
Earthquake expenses		(502)	(212)
		84,788	50,559
Profit before income tax attributable to shareholders		115,914	81,275
Taxation expense	10	1,341	4,360
Profit and total comprehensive income after tax		114,573	76,915
All amounts are from continuing operations.			
Earnings per share			
Basic and diluted earnings per share (cents)		13.82	9.30

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

CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020 (UNAUDITED)

	Shares on issue \$000s	Share based payments reserve \$000s	Retained earnings \$000s	Total \$000s
For the six months ended 30 September 2020 (unaudited)				
Shareholders' funds at the beginning of the period	792,826	418	282,560	1,075,804
Total comprehensive income for the period	–	–	114,573	114,573
Contributions by shareholders				
Issue of shares from Dividend Reinvestment Plan	8,042	–	–	8,042
Issue costs of shares	(22)	–	–	(22)
Dividends to shareholders	–	–	(26,316)	(26,316)
Equity settled share based payments	–	120	–	120
Shareholders' funds at the end of the period	800,846	538	370,817	1,172,201
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

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 2020 (UNAUDITED)

	Group (unaudited) Six months to 30 September 2020 \$000s	Group (unaudited) Six months to 30 September 2019 \$000s
Cash flows from operating activities		
<i>Cash was provided from:</i>		
Property income	63,865	62,780
Insurance proceeds received	–	2,500
Interest received	24	19
<i>Cash was applied to:</i>		
Property expenses	(9,286)	(11,190)
Earthquake expenses	(436)	(239)
Interest paid	(12,964)	(10,120)
Interest paid for ground lease	(1,226)	(1,048)
Employee benefits	(3,993)	(4,237)
Taxation paid	(3,826)	(6,140)
Other expenses	(2,247)	(2,551)
Net cash from/(used in) operating activities	29,911	29,774
Cash flows from investing activities		
<i>Cash was provided from:</i>		
Sale of properties, deposits and deferrals	36,434	3,333
<i>Cash was applied to:</i>		
Capital additions on investment properties	(38,566)	(49,952)
Capitalised interest on investment properties	(1,714)	(4,673)
Purchase of properties, deposits and deferrals	(341)	(3,440)
Net cash from/(used in) investing activities	(4,187)	(54,732)
Cash flows from financing activities		
<i>Cash was provided from:</i>		
Debt drawdown	45,656	72,228
<i>Cash was applied to:</i>		
Repayment of debt	(52,281)	(19,500)
Dividends paid to shareholders net of reinvestments	(18,356)	(26,428)
Issue cost of shares	(11)	–
Repayment of lease liabilities	(55)	(53)
Bond costs	(17)	(142)
Facility refinancing fee	(256)	(483)
Net cash from/(used in) financing activities	(25,320)	25,622
Net increase/(decrease) in cash and cash equivalents	404	664
Cash and cash equivalents at the beginning of the period	1,861	2,190
Cash and cash equivalents at the end of the period	2,265	2,854

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 principal activity of the Company and its subsidiaries (the Group) is investment in properties which include Industrial, Office and Large Format 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 25 November 2020.

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

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements. They have also been applied consistently to all periods and by all group entities in these financial statements.

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 Large Format 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		Office		Large Format Retail		Total (unaudited)	
	Six months to 30 September		Six months to 30 September		Six months to 30 September		Six months to 30 September	
	2020 \$000s	2019 \$000s	2020 \$000s	2019 \$000s	2020 \$000s	2019 \$000s	2020 \$000s	2019 \$000s
Segment profit								
Net property income¹	22,364	22,124	21,535	19,953	7,196	8,933	51,095	51,010
Realised gains/(losses) on disposal of investment properties	968	(4)	–	–	–	–	968	(4)
Forfeited deposit on sale of investment property	–	–	–	–	4,525	–	4,525	–
Earthquake expenses	–	–	(502)	(212)	–	–	(502)	(212)
	23,332	22,120	21,033	19,741	11,721	8,933	56,086	50,794
Revaluation gains on investment properties	44,093	36,596	21,384	13,339	14,320	840	79,797	50,775
Total segment profit²	67,425	58,716	42,417	33,080	26,041	9,773	135,883	101,569
Unallocated:								
Administration expenses							(5,903)	(5,605)
Net interest expense							(14,158)	(11,125)
Gain/(loss) on derivative financial instruments held for trading							92	(3,564)
Profit before income tax							115,914	81,275
Taxation expense							(1,341)	(4,360)
Profit for the period							114,573	76,915

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 2019: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION (CONTINUED)

	Industrial \$000s	Office \$000s	Large Format Retail \$000s	Total \$000s
Segment assets as at 30 September 2020 (unaudited)				
Current assets	1,924	844	248	3,016
Investment properties	821,124	851,911	285,800	1,958,835
Non-current assets classified as held for sale	38,191	–	–	38,191
Total segment assets	861,239	852,755	286,048	2,000,042
Unallocated assets				25,971
Total assets				2,026,013
Segment assets as at 31 March 2020 (audited)				
Current assets	1,586	2,324	1,449	5,359
Investment properties	842,779	795,977	185,350	1,824,106
Non-current asset classified as held for sale	–	–	84,634	84,634
Total segment assets	844,365	798,301	271,433	1,914,099
Unallocated assets				15,538
Total assets				1,929,637

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 2020 \$000s	Office Six months to 30 September 2020 \$000s	Large Format Retail Six months to 30 September 2020 \$000s	Group (unaudited) Six months to 30 September 2020 \$000s
Movement in investment properties				
Balance at 1 April	842,779	795,977	185,350	1,824,106
Capitalised costs	4,783	31,272	1,460	37,515
Transfer (to)/from properties held for sale	(38,191)	–	84,634	46,443
Disposals	(32,089)	–	–	(32,089)
Change in fair value	44,093	21,384	14,320	79,797
Change in capitalised leasing costs	(77)	(231)	(32)	(340)
Principal repayment of lease liability	–	(55)	–	(55)
Change in lease incentives	(174)	3,564	68	3,458
Investment properties at 30 September	821,124	851,911	285,800	1,958,835
Less lease liability (39 Market Place)	–	(41,740)	–	(41,740)
Investment properties at 30 September excluding NZ IFRS 16 lease adjustments	821,124	810,171	285,800	1,917,095
Held for sale at 30 September	38,191	–	–	38,191
Total Investment properties at 30 September including held for sale excluding NZ IFRS 16 lease adjustments	859,315	810,171	285,800	1,955,286

4. INVESTMENT PROPERTIES (CONTINUED)

	Industrial 12 months to 31 March 2020 \$000s	Office 12 months to 31 March 2020 \$000s	Large Format Retail 12 months to 31 March 2020 \$000s	Group (audited) 12 months to 31 March 2020 \$000s
Movement in investment properties				
Balance at 1 April	737,670	626,610	302,750	1,667,030
Acquisition of properties	48,131	–	–	48,131
Capitalised costs	15,995	87,023	1,699	104,717
Transfer to properties held for sale	–	–	(87,634)	(87,634)
Disposals	(12,100)	–	–	(12,100)
Transfer between segments	–	18,300	(18,300)	–
Change in fair value	53,393	19,534	(12,985)	59,942
Change in capitalised leasing costs	(50)	2,362	(48)	2,264
Lease liability (39 Market Place)	–	41,795	–	41,795
Change in lease incentives	(260)	353	(132)	(39)
Investment properties at 31 March	842,779	795,977	185,350	1,824,106
Less lease liability (39 Market Place)	–	(41,795)	–	(41,795)
Investment properties at 31 March excluding NZ IFRS 16 lease adjustments	842,779	754,182	185,350	1,782,311
Held for sale at 31 March	–	–	84,634	84,634
Total Investment properties at 31 March including held for sale excluding NZ IFRS 16 lease adjustments	842,779	754,182	269,984	1,866,945

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.

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 2020.

Colliers did not re-inspect the properties and did not undertake a full market valuation as at 30 September 2020. They undertook relevant investigations, including considering any tenant changes, assessing market rentals and reviewing capitalisation rates in order to determine the desktop value of Argosy's properties.

Whilst the valuations were provided for Argosy internal purposes, they have been reviewed and assessed by Management and subsequently adopted by the Board. Overall, there was an uplift in the valuation of the portfolio of \$79.8 million (2019: \$50.8 million) which has been recognised as a revaluation gain on investment property as at 30 September 2020.

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 were recognised on the ground lease that exists over 39 Market Place, Viaduct Harbour, Auckland.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENT PROPERTIES (CONTINUED)

Investment property metrics for the period ended 30 September 2020 are as follows:

		Industrial	Office	Large Format Retail	Total
Contract yield ¹	- Average	5.59%	6.48%	6.44%	6.04%
	- Maximum	8.32%	8.88%	7.09%	8.88%
	- Minimum	4.06%	2.10%	4.97%	2.10%
Market yield ¹	- Average	5.93%	6.53%	5.93%	6.14%
	- Maximum	8.14%	8.93%	6.28%	8.93%
	- Minimum	4.54%	4.85%	5.01%	4.54%
Occupancy (rent)		100.00%	98.68%	100.00%	99.42%
Occupancy (net lettable area)		100.00%	98.64%	100.00%	99.71%
Weighted average lease term (years)		6.63	5.05	4.86	5.68
No. of buildings ²		34	16	5	55
Fair value total (000s)		\$821,124	\$810,171	\$285,800	\$1,917,095
Held for sale		\$38,191	–	–	\$38,191
Total (000s)		\$859,315	\$810,171	\$285,800	\$1,955,286

1. 7 Waterloo Quay and 8-14 Willis Street/360 Lambton Quay 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. Properties held for sale have also been excluded from these yield metrics.

2. Certain titles have been consolidated and treated as one. The total number of buildings excludes properties held for sale.

Investment property metrics for the year ended 31 March 2020 are as follows:

		Industrial	Office	Large Format Retail	Total
Contract yield ¹	- Average	5.69%	6.60%	6.54%	6.11%
	- Maximum	8.42%	9.03%	7.00%	9.03%
	- Minimum	0.00%	5.53%	5.40%	0.00%
Market yield ¹	- Average	6.17%	6.83%	6.23%	6.41%
	- Maximum	8.49%	9.01%	6.31%	9.01%
	- Minimum	4.76%	5.41%	5.45%	4.76%
Occupancy (rent)		97.77%	99.41%	100.00%	98.81%
Occupancy (net lettable area)		97.53%	99.61%	100.00%	98.27%
Weighted average lease term (years)		7.19	5.18	5.29	6.09
No. of buildings ²		38	16	5	59
Fair value total (000s)		\$842,779	\$754,182	\$185,350	\$1,782,311
Held for sale		–	–	\$84,634	\$84,634
Total (000s)		\$842,779	\$754,182	\$269,984	\$1,866,945

1. 7 Waterloo Quay, 8-14 Willis Street/360 Lambton Quay, 180-202 Hutt Road, Kaiwharawhara, 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. The property held for sale has also been excluded from these yield metrics.

2. Certain titles have been consolidated and treated as one. The total number of buildings includes the property held for sale.

5. PROPERTY HELD FOR SALE

180-202 Hutt Road, Kaiwharawhara (\$22.0 million) and 80 Springs Road, East Tamaki (\$16.2 million) were subject to unconditional sale and purchase agreements at 30 September 2020 (31 March 2020: Albany Lifestyle Centre, Albany (\$84.6 million)).

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2020 \$000s	Group (audited) 31 March 2020 \$000s
Nominal value of interest rate swaps - fixed rate payer	365,000	365,000
Nominal value of interest rate swaps - fixed rate receiver	200,000	200,000
Average fixed interest rate - fixed rate payer	3.99%	3.99%

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 2020 is \$38.2 million (31 March 2020: \$38.3 million). The mark-to-market decrease 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 2020 \$000s	Group (audited) 31 March 2020 \$000s
Balance at the beginning of the period	792,826	792,620
Issue of shares from Dividend Reinvestment Plan	8,042	–
Issue costs of shares	(22)	–
Issue of shares from equity settled share based payments	–	206
Total share capital	800,846	792,826

The number of shares on issue at 30 September 2020 was 833,771,231 (31 March 2020: 827,186,969).

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 2020	Group (audited) 31 March 2020
Balance at the beginning of the period	827,187	827,030
Issue of shares from Dividend Reinvestment Plan	6,584	–
Issue of shares from equity settlement share based payments	–	157
Total number of shares on issue	833,771	827,187

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

8. INTEREST BEARING LIABILITIES

	Group (unaudited) 30 September 2020 \$000s	Group (audited) 31 March 2020 \$000s
Syndicated bank loans	526,575	533,200
Fixed rate green bonds	200,000	200,000
Borrowing costs	(3,797)	(4,027)
Total interest bearing liabilities	722,778	729,173
Weighted average interest rate on interest bearing liabilities (inclusive of bonds, interest rate swaps, margins and line fees)	3.74%	3.95%

Syndicated bank loans

	Group (unaudited) 30 September 2020 \$000s	Group (audited) 31 March 2020 \$000s
ANZ Bank New Zealand Limited	127,445	131,420
Bank of New Zealand	142,500	142,500
The Hongkong and Shanghai Banking Corporation Limited	80,000	80,000
Commonwealth Bank of Australia	50,000	50,000
Westpac New Zealand Limited	126,630	129,280
Total syndicated bank loans	526,575	533,200

As at 30 September 2020, 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 \$660.0 million (31 March 2020: \$585.0 million) secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of \$75.0 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, a Tranche F limit of \$50.0 million, a Tranche G limit of \$35.0 million, a Tranche H limit of \$50.0 million and a Tranche I limit of \$75.0 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, Tranche F on 8 October 2021, Tranche G on 1 November 2021, Tranche H on 30 April 2022 and Tranche I on 19 May 2024. Tranches A, B1, B2, B3, C, F, G and H limits and maturity dates remain unchanged from 31 March 2020. Tranche I was introduced during the interim period.

On 29 October 2020, the Company has cancelled Tranches A and C of the syndicated banking facility and reduced the Tranche H limit from \$50.0 million to \$25.0 million. All other Tranche facilities and maturity dates remain unchanged.

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%	111,800
ARG020	100,000	29 October 2019	29 October 2026	2.90%	106,935

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 ARG010 bonds is payable in equal instalments on a quarterly basis in March, June, September and December. Interest on ARG020 bonds is payable in equal instalments on a quarterly basis in April, July, October and January.

9. INTEREST EXPENSE

	Group (unaudited) Six months to 30 September 2020 \$000s	Group (unaudited) Six months to 30 September 2019 \$000s
Interest expense	(14,851)	(14,769)
Interest costs on lease (39 Market Place)	(1,045)	(1,048)
Less amount capitalised to investment properties	1,714	4,673
Total interest expense	(14,182)	(11,144)

Capitalised interest relates to the developments at 8-14 Willis Street/360 Lambton Quay, Wellington and 54-56 Jamaica Drive, Wellington (30 September 2019: 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/360 Lambton Quay, Wellington and 107 Carlton Gore Road, Auckland).

10. TAXATION

	Group (unaudited) Six months to 30 September 2020 \$000s	Group (unaudited) Six months to 30 September 2019 \$000s
<i>The taxation charge is made up as follows:</i>		
Current tax expense	3,007	5,357
Deferred tax expense	1,767	(264)
Adjustment recognised in the current year in relation to the current tax of prior years	(3,433)	(733)
Total taxation expense recognised in profit/(loss)	1,341	4,360
Reconciliation of accounting profit to tax expense		
Profit before tax	115,914	81,275
Current tax expense at 28%	32,456	22,757
Adjusted for:		
Capitalised interest	(480)	(1,308)
Fair value movement in investment properties	(22,343)	(14,217)
Fair value movement in derivative financial instruments	(26)	998
Depreciation	(4,198)	(2,771)
Depreciation recovered on disposal of investment properties	47	-
Tax on accounting gain on disposal of investment properties	(271)	-
Other	(2,178)	(102)
Current taxation expense	3,007	5,357
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	1,328	636
Fair value movement in derivative financial instruments	26	(998)
Other	413	98
Deferred tax expense/(credit)	1,767	(264)
Prior year adjustment	(3,433)	(733)
Total tax expense recognised in profit or loss	1,341	4,360

As part of the measures to provide relief for businesses during the Covid-19 pandemic, the Government reintroduced depreciation deductions for commercial and industrial buildings effective from 1 April 2020.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

11. DISTRIBUTABLE INCOME

	Group (unaudited) Six months to 30 September 2020 \$000s	Group (unaudited) Six months to 30 September 2019 \$000s
Profit before income tax	115,914	81,275
Adjustments:		
Revaluation gains on investment property	(79,797)	(50,775)
Realised (gains)/losses on disposal of investment properties	(968)	4
Gain/(loss) on derivative financial instruments held for trading	(92)	3,564
Earthquake expenses	502	212
Gross distributable income	35,559	34,280
Tax impact of depreciation recovered on disposal of investment properties	47	–
Current tax expense	426	(4,624)
Net distributable income	36,032	29,656
Weighted average number of ordinary shares (000s)	829,044	827,130
Gross distributable income per share (cents)	4.29	4.14
Net distributable income per share (cents)	4.35	3.59

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

12. COMMITMENTS

Building upgrades and developments

Estimated capital commitments contracted for building projects not yet completed at 30 September 2020 and not provided for were \$43.0 million (31 March 2020: \$56.3 million).

There were no other commitments as at 30 September 2020 (31 March 2020: Nil).

The Company has the following guarantee, which is not expected to be called upon:

As a condition of listing on the New Zealand Stock Exchange (NZX), NZX requires all issuers to provide a bank bond to NZX under NZX Main Board/Debt Market Listing Rule 2.6.2. The bank bond required from APL for listing on the NZX Main Board is \$75,000.

13. CONTINGENCIES

There were no contingencies as at 30 September 2020 (31 March 2020: Nil).

14. SUBSEQUENT EVENTS

On 9 October 2020, an unconditional sale and purchase agreement was entered to acquire 8-14 Mt Richmond Drive and 2 Doraval Place, Mt Wellington, Auckland for \$76.0 million. Settlement is expected to take place in March 2021.

On 27 October 2020, the Company issued \$125.0 million of senior secured 7 year green bonds (ARG030) with a fixed rate of 2.20% per annum.

On 29 October 2020, the Company has cancelled Tranches A and C of the syndicated banking facility and reduced the Tranche H limit from \$50.0 million to \$25.0 million. All other Tranche facilities and maturity dates remain unchanged.

On 25 November 2020 a dividend of 1.6375 cents per share was approved by the Board. The record date for the dividend is 9 December 2020 and a payment is scheduled to shareholders on 23 December 2020. Imputation credits of 0.0709 cents per share are attached to the dividend.

15. 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 2020.



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 condensed consolidated statement of financial position as at 30 September 2020, and the condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim 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 16.

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 vote 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 2020 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

25 November 2020
Auckland, New Zealand



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