Stride Property Group

Interim Report

For the six months ended

30 September 2018

Contents

This document comprises the interim report for each of Stride Investment Management Limited (SIML) and Stride Property Limited (SPL), which are members of Stride Property Group (Stride).

Each of SPL, SIML and Stride has been designated as "Non-Standard" (NS) by NZX. The implications of investing in stapled securities of Stride are set out on page 45 of this report.

A copy of the waivers granted by NZX in respect of SPL, SIML and Stride's "NS" designation can be found at www.nzx.com/companies/SPG/documents.

About Stride Property Group

Stride Property Group's vision is to be New Zealand's best performing listed real estate investment and management company.

We will deliver on this vision by continuing to invest in and manage property portfolios that deliver market leading returns to our investors.

Stride Property Group (Stride) is unique in New Zealand, as it combines two businesses in one integrated business model, Stride Property Limited (SPL) and Stride Investment Management Limited (SIML).

- **SPL** owns quality New Zealand property investments, has a cornerstone 19.9% shareholding in Investore Property Limited (Investore) and owns 2% of the units in Diversified NZ Property Trust (Diversified).
- **SIML** is a specialist real estate investment manager, managing over $2.2 billion of investment property across the property portfolios of SPL, Investore and Diversified.

Investors in Stride own a share in each of SIML and SPL, due to the stapled nature of Stride[1]. This unique structure enables investors to hold interests in both the property investment business and the real estate investment management business.

1 The implications of investing in stapled securities of Stride are set out on page 45.

Our vision is built on four strategic pillars

PERFORMANCE

Stride targets investments that show high, long-term demand with consistently strong returns. We will continue to grow our high performing and enduring investment management business.

PLACES

By leveraging the core skills and experience of our people, we carefully select property investments that deliver market leading returns.

PEOPLE

We actively recruit and retain people who have a deep industry knowledge, are discipline driven, people centred, nimble performers and fresh thinkers.

PRODUCTS

Stride creates and manages enduring investment management products for our investors, with particular attention to structuring products in a way that delivers the best results for different types of investors and sectors.

PERFORMANCE

$40.2m

Profit after income tax

Up $6.9m on six months to 30 September 2017

$1.88

Net tangible assets per share

Up 3.0% from $1.82 at 31 March 2018

$934.5m

Total portfolio value[2] as at 30 September 2018

Up $23.6m or 2.7% (net valuation gain) from 31 March 2018

34.2%

Loan to value ratio[3]

remains consistent with 31 March 2018

98.9%

Portfolio occupancy rate by area

Up from 96.7% at 31 March 2018

9.91cps

Combined Stride Property Group **cash dividend targeted** for FY19

2 Includes NorthWest Two, Auckland, which is classified as inventory in the consolidated interim financial statements. The 30 September 2018 amount also includes the work in progress cost for the development at Springs Road, Auckland. Refer notes 7 and 8 to the consolidated interim financial statements on page 37.

3 As required by SPL's bank facility agreement, the loan to value ratio of 34.2% is calculated using the most recent full independent valuations. As at 30 September 2018, three properties were subject to desktop reviews and 14 were subject to full valuations, and the resulting movement in property values has been brought into the financial statements for the six months ended 30 September 2018. For the purposes of calculating the loan to value ratio, the most recently completed full valuations (as at 31 March 2018) have been used for those properties that were not subject to full valuations as at 30 September 2018, including the three properties that were subject to desktop review. There is therefore a difference between the portfolio valuation used in the loan to value ratio calculation ($932.3 million) and the portfolio value stated in the Statement of Financial Position ($934.5 million). Please refer to note 6 to the consolidated interim financial statements for further detail of the independent valuations and desktop reviews.

PLACES

Highlights:

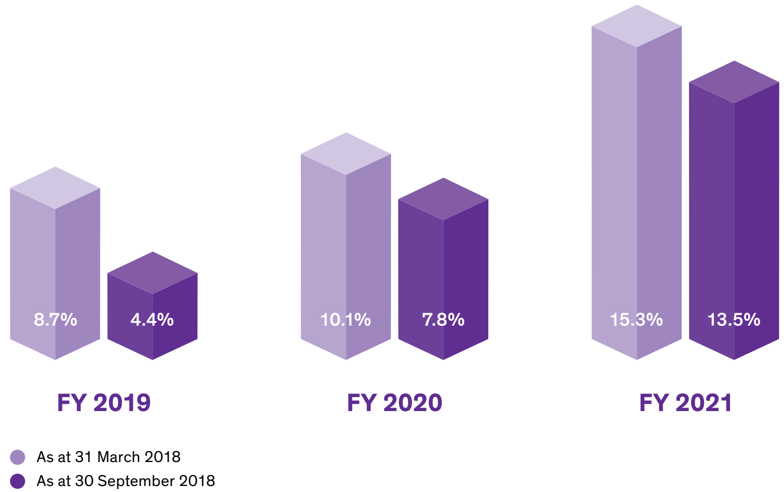
- Transactional activity in the first half of the financial year has delivered annualised **Contract Rental[4] growth** of 6.3% when compared to previous rentals as at 31 March 2018
- **New leasing deals** have significantly improved the lease expiry profile for SPL over the next two years, reducing from 18.7% as at 31 March 2018 to 12.2% as at 30 September 2018
- **No major expiries** remain this financial year
- **WALT maintained** at 5.1 years
- **Improved occupancy** on the back of the successful leasing of 15 Rockridge Avenue, Auckland – 98.9% as at 30 September 2018, compared to 96.7% at 31 March 2018
- This transactional activity has contributed to a **higher valuation** for the SPL portfolio of $934.5 million[5] as at 30 September 2018, representing a net valuation increase of $23.6 million or 2.7% from the 31 March 2018 valuation
- **Strong retail sales growth** at the Northwest Shopping Centre and Silverdale Centre
- **Agreement to purchase** $8.0 million industrial property at Rosebank Road, Avondale, with completion in July 2020

Several developments are underway or in the planning stages:

- Springs Road, Auckland – construction of a new head office for Waste Management, with practical completion expected for late calendar year 2019
- Bay Central Shopping Centre, Tauranga – a $4.7 million expansion of Rebel Sports and Briscoes premises, with associated new 10 year leases entered into, contributing to a net valuation gain for the Bay Central Shopping Centre of $3.2 million (+7.7%) as at 30 September 2018. The new leases also contribute to a 1.5 year increase in WALT to 4.5 years for this asset as at 30 September 2018
- A $6.0 million upgrade of the Bunnings premises at Carr Road, Auckland is in the early stages of development (post interim balance date)

4 Contract Rental is the amount of rent payable by each tenant, plus other amounts payable by that tenant under the terms of the relevant lease as at the relevant date, annualised for the 12 month period on the basis of the occupancy level for the relevant property as at the relevant date, and assuming no default by the tenant.
5 See footnote 2 on page 4.

Stride Property Limited Lease Expiry Profile[6] by Contract Rental[4]



Stride Property Limited Portfolio

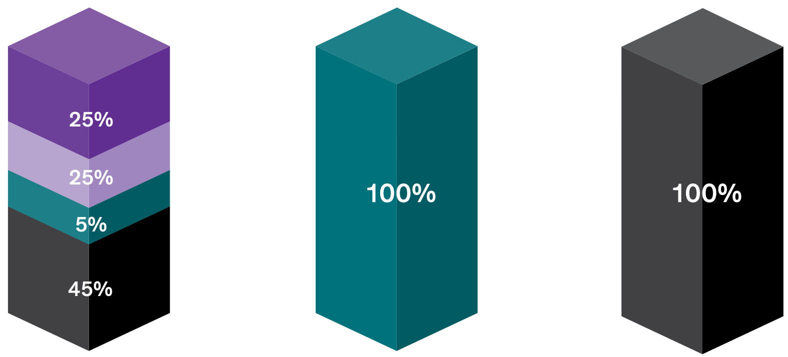
Overview	As at 30 September 2018	As at 31 March 2018
Properties (no.)	**26**	26
Tenants (no.)	**377**	379
Net Lettable Area (sqm)	**252,038**	251,953
Net Contract Rental[4] ($m)	**57.8**	56.7
WALT[7] (years)	**5.1**	5.1
Occupancy Rate (% by area)	**98.9**	96.7
Portfolio Value[8] ($m)	**934.5**	902.2
Loan to Value Ratio (%)	**34.2**	34.1

6 Represents the scheduled expiry for each lease, excluding any rights of renewal that may be granted under each lease, for the entire portfolio as at 30 September 2018, as a percentage of Contract Rental.
7 Weighted Average Lease Term (WALT).
8 See footnote 2 on page 4.

Portfolio Valuation – Owned and Managed Properties

	Value of Investment Properties[9] ($m)	Number of Investment Properties	SPL Investment in Managed Entities
SPL	**934**[10]	26[11]	
Investore	**740**	40	19.9%
Diversified	**538**	4[11]	2%
Total	**2,212**	69	

Portfolio Composition by Value[9]



STRIDE.

- Commercial Office
- Industrial
- Large Format Retail
- Retail Shopping Centres

investore

- Large Format Retail

diversified

- Retail Shopping Centres

9 SPL and Investore valuations are as at 30 September 2018. Diversified valuations are as at 31 March 2018.
10 See footnote 2 on page 4.
11 Includes Johnsonville Shopping Centre, Wellington, which is owned 50/50 by SPL and Diversified.

PEOPLE

Board Refresh

On 30 July 2018, the Board announced it would continue with the refresh of directors over the next 24 months, through to the 2020 Annual Shareholder Meetings. As part of this refresh, Michael Stiassny retired as a director, and two new directors are expected to be appointed prior to the FY19 Annual Shareholder Meetings.

New Executives Appointed

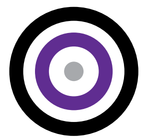
In August, SIML announced the appointment of Fabio Pagano to the new role of Investore Fund Manager. This role will provide additional support to develop and grow Investore's business.

In addition, SIML recently announced the appointment of Steve Penney to the role of General Manager Investment. Steve will be responsible for capital transactions, investment appraisal, business development and investor relations.

People Strategy

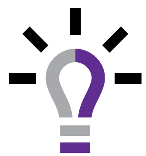
In the FY18 Annual Report, Stride announced the creation of a people strategy to support the development of its people and culture. Stride's people strategy has continued to progress during the year, with the creation of a leadership development programme and the establishment of an employee voice forum. A cohort of managers within Stride are due to commence the first leadership development programme in February 2019. The employee voice forum will provide a forum for people throughout the organisation to contribute to innovation and improvement in Stride's business and its culture. Initiatives from this group will assist with our goals of attracting and retaining talent and building great teams that make things happen.

Our Values


Discipline driven


People centred


Nimble performers


Fresh thinkers

PRODUCTS

SIML manages the portfolios of SPL, Investore and Diversified. SIML has had an active first half of the 2019 financial year managing these businesses. Some of the main highlights for Investore and Diversified are:

investore

- The Board of Investore has focused on capital management, with a $100 million bond issue having been completed by SIML on behalf of Investore, and the bonds commencing trading in April 2018. In addition, Investore commenced a share buyback programme in August 2018 to acquire up to 5% of its ordinary shares over a 12 month period
- SIML, on behalf of Investore, has worked closely with Investore's key tenant, General Distributors Limited, the operator of Countdown supermarkets in New Zealand, on the refurbishment of eight stores in the Investore portfolio over the last 18 months. These refurbishments demonstrate a positive working relationship between SIML, on behalf of Investore, and Investore's tenant, to deliver an improved environment for customers, which we believe will drive increased sales
- The expansion of the Mitre 10 at Te Irirangi Drive, Botany, Auckland, is expected to be completed before the end of calendar year 2018. This expansion (of which Investore is funding the majority) has been undertaken at the request of the tenant, and will result in increased rental for Investore

diversified

- Sales at Queensgate Shopping Centre have recently returned to the levels seen prior to the November 2016 Kaikoura earthquake, on a like-for-like basis, which is a positive result for the centre
- Work is progressing on rebuilding parts of Queensgate Shopping Centre following its damage in the Kaikoura earthquake, while at the same time there is also work being undertaken to seismically strengthen parts of the centre
- A revised masterplan has been created for Chartwell Shopping Centre, with the first asset management initiative underway
- Planning for the redevelopment of Johnsonville Shopping Centre (which is owned 50:50 by SPL and Diversified) continues to progress

Countdown Greenlane, Auckland
(owned by Investore)

Queensgate Shopping Centre, Lower Hutt
(owned by Diversified)

Mitre 10, Te Irirangi Drive, Botany, Auckland
(owned by Investore)

Chairman's & Chief Executive's Report

Dear Shareholders,

The Board and Management of Stride are pleased to report to you after a very busy and successful first half of the 2019 financial year. The past six months have been characterised by considerable leasing and development activity, which has contributed to the improved net property valuations for SPL as at 30 September 2018.

Performance

The Board is pleased with the financial results for the first half of the 2019 financial year. Profit after tax to 30 September 2018 is $40.2 million, up $6.9 million on the previous comparable period. This result reflects the improved valuations of SPL's property portfolio, with the portfolio having a total value of $934.5 million[12] as at 30 September 2018, representing a net valuation gain of $23.6 million from 31 March 2018. These improved valuations have contributed to a 3.0% increase in net tangible assets per share to $1.88. Distributable profit[13] before current tax at $21.9 million for the period is lower by $2.6 million than the previous comparable period, largely due to the impact of the divestment of three Bunnings properties to Investore in February 2018 and the development at Springs Road, East Tamaki, which commenced this year. In addition, corporate overheads are higher than the previous comparable period, due to some short term benefits in the previous period resulting from some staff vacancies.

During the six months in review, SPL refinanced $200 million of its $400 million banking facilities, and post refinancing SPL has no banking facilities maturing until June 2021. As at 30 September 2018, the weighted average tenor of SPL's debt facilities is 3.3 years (2.2 years as at 31 March 2018), and the weighted average cost of debt is 4.7% (5.0% as at 31 March 2018).

The Boards of SPL and SIML have approved a combined cash dividend of 2.4775 cents per share (cps) for the second quarter to 30 September 2018, bringing total combined cash dividends for SPL and SIML for the first half of the 2019 financial year to 4.955 cps. The Boards reconfirm guidance for a combined annual cash dividend for SPL and SIML of 9.91 cps for the 2019 financial year.

12 See footnote 2 on page 4.

13 Distributable profit is a non-GAAP financial measure adopted by Stride to assist Stride and investors in assessing Stride's profit available for distribution. It is defined as net profit/(loss) before income tax, adjusted for determined non-recurring and/or non-cash items, share of profits in associates, dividends received from associates and current tax. Further information, including the calculation of distributable profit and the adjustments to net profit before income tax, is set out in note 4 to the consolidated interim financial statements on page 32.

Places

The first six months of the 2019 financial year have been characterised by considerable leasing activity, which has resulted in an improved lease expiry profile as outlined on page 7, as well as contributing to the uplift in valuations across the portfolio. In addition, this transactional activity has delivered annualised Contract Rental[14] growth of 6.3% when compared to previous rentals.

Office: A number of leases have expired in office buildings across the portfolio, and the majority of these have been successfully re-leased as at 30 September 2018, contributing to net valuation uplifts for these properties. For example, Westpac formerly leased five levels of an 11 storey building at Grey Street in Wellington. At the expiry of its lease, Westpac elected to remain in occupation on one level, two further levels were re-leased prior to 31 March 2018, and the remaining two levels were re-leased during the period in review. This leasing activity has contributed to a net valuation uplift for this property of $3.3 million or 6.2% as at 30 September 2018.

As a result of the positive transactional activity in the office portfolio, annualised Contract Rental[14] growth of 5.5% has been achieved in this portfolio compared to previous rentals.

Industrial: There have been a number of new and renewed leases completed in the industrial portfolio during the first half of the 2019 financial year which have contributed positively to the overall industrial portfolio WALT (4.8 years as at 30 September 2018 compared to 4.3 years as at 31 March 2018) and net valuation increase for the industrial portfolio of 4.8%.

- The new development at 15 Rockridge Avenue, Auckland was fully leased during April 2018, contributing to a net valuation uplift for this property of $2.1 million (+9.6%) as at 30 September 2018.
- The tenant at 22-30 Airpark Drive, Auckland, renewed the lease of this property for five years, contributing to a significant net valuation increase for this property of $4.8 million (+21.4%) as at 30 September 2018.

14 See footnote 4 on page 6.

As a result of the leasing activity in the industrial portfolio during the half year period, annualised Contract Rental[15] growth of 8.6% has been achieved in this portfolio compared to previous rentals as at 31 March 2018.

15 Rockridge Avenue, Penrose, Auckland

Retail: Strong leasing activity has continued in the retail sector as well, with renewals of 12 of 14 tenancies at the Silverdale Centre, Auckland, that were due to expire in mid-October 2018, reflecting a total increase in rental of 10% on previous rentals (with rental negotiations still continuing with one of the tenants that have confirmed renewal of its lease). We have continued to see strong sales growth at both NorthWest Shopping Centre and Silverdale Centre as at 30 September 2018, with comparable sales[16] up +11.5% and +4.0%[17] respectively.

Developments: The SIML development team has been progressing a number of developments during the six months in review, which are expected to add value to the portfolio. Work has commenced on the development of a new head office for Waste Management at Springs Road, Auckland, as well as the expansion of the Rebel Sports and Briscoes premises at the Bay Central Shopping Centre in Tauranga. These transactions are examples of the active portfolio management undertaken by SIML.

15 See footnote 4 on page 6.

16 Comparable sales includes sales from tenancies which have traded for the past 24 months and includes commercial services categories.

17 Sales data is not collected for all tenants at Silverdale Centre. Some tenants are not obliged to provide sales data under the terms of their lease.

Portfolio Activity: SPL continually reviews its portfolio to ensure its properties meet its strategy of enduring demand and high returns. During the six month period in review, SPL contracted to purchase a new industrial property at 439 Rosebank Road, Auckland for $8 million, with completion in July 2020 (at the vendor's request). SPL intends to undertake some alterations to this property after settlement, which will further enhance the property's returns. Post interim balance date, SPL has commenced a sale process for its Corinthian Drive property in Auckland, which is leased to ASB.

People

It has been a very active start to the FY19 financial year, and this progress reflects the excellent people that SIML has recruited, due to its strategy of recruiting market leading talent and growing our credibility and reputation in the market as an employer of choice. In recent months SIML announced the appointment of two new executives: Steve Penney was appointed in November 2018 to the role of General Manager Investment, and Fabio Pagano was appointed in August 2018 to the newly-created role of Investore Fund Manager, to help execute Investore's strategic vision of growing the large format retail property business. The appointment of a fund manager for the Investore portfolio demonstrates SIML's commitment to investing in our real estate investment management business for the benefit of our managed funds and our shareholders.

Products

Turning to the fourth of our strategic pillars, products, we are pleased to report that there has been significant activity during the past six months for the SIML managed entities of Investore and Diversified.

Capital management has been the focus for Investore over the last six months, with SIML executing the Investore Board's work programme, which included the $100 million inaugural bond issue in April 2018, the commencement in August 2018 of a 12 month share buyback programme for Investore to purchase up to 5% of its ordinary shares, and the refinancing of $70 million of bank facilities.

Activity within the Diversified property portfolio has included work on the rebuild of part of Queensgate Shopping Centre following the Kaikoura earthquake, the strategic tenant remix for the Remarkables Park Town Centre in Queenstown, and completion of a refreshed masterplan for the Chartwell Shopping Centre in Hamilton. The first asset management initiative related to the Chartwell masterplan is underway, which is expected to add value to this asset once completed. Planning for the redevelopment of the Johnsonville Shopping Centre (which is owned 50:50 by SPL and Diversified) remains ongoing. On the capital management side, SIML also arranged the refinancing of $220 million of Diversified bank funding in the period in review.

Strategy

Stride's strategy is to establish a group of commercial property funds to provide the opportunity for further growth in our investment management business, using SIML's investment expertise and, where required, SPL's balance sheet to acquire properties that will ultimately be used to establish these new focused funds. We expect that SPL will co-invest in any new fund, which will drive alignment of interest between Stride and investors. This type of growth is indicative of the investment management model we see for Stride, where, as we establish further products, Stride will incrementally benefit as each of our products performs and grows.

We look forward to reporting to you at the end of the financial year.

Tim Storey
Chairman

Philip Littlewood
Chief Executive

Consolidated Interim Financial Statements

Contents

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2018

	Notes	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
Gross rental income		**37,855**	40,191
Direct property operating expenses		**(9,911)**	(10,662)
Net rental income	**3**	**27,944**	29,529
Management fee income		**7,276**	7,697
Less corporate expenses			
Corporate overhead expenses		**(7,800)**	(6,805)
Administration expenses		**(1,591)**	(1,474)
Total corporate expenses		**(9,391)**	(8,279)
Profit before net finance expense, other income/(expense) and income tax		**25,829**	28,947
Finance income		**158**	200
Finance expense		**(7,299)**	(8,424)
Finance expense – swap break expense		**(703)**	–
Net finance expense		**(7,844)**	(8,224)
Profit before other income/(expense) and income tax		**17,985**	20,723
Other income/(expense)			
Net change in fair value of investment properties	**6,7**	**23,601**	14,422
Gain on disposal of investment properties	**6**	**344**	–
Share of profit in associates		**2,190**	2,477
Loss on disposal of other investments		**(35)**	–
Other (expense)/income – insurance recoveries		**(19)**	1,219
Profit before income tax		**44,066**	38,841
Income tax expense	**9**	**(3,844)**	(5,552)
Profit attributable to shareholders		**40,222**	33,289
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Deferred tax on share based payment expense		**10**	–
Gross movement in cash flow hedges	**10**	**(1,383)**	(506)
Tax arising from cash flow hedges		**387**	142
Changes in cash flow hedge reserve in associates		**(211)**	(284)
Total other comprehensive income after tax		**(1,197)**	(648)
Total comprehensive income after tax attributable to shareholders		**39,025**	32,641
Stride Property Limited (SPL) total comprehensive income after tax attributable to shareholders		**36,906**	29,540
Stride Investment Management Limited (SIML) total comprehensive income after tax attributable to shareholders		**2,119**	3,101
Total comprehensive income after tax attributable to shareholders		**39,025**	32,641
Earnings per share	**12**		
Basic earnings per share (cents)		**11.01**	9.12
Diluted earnings per share (cents)		**11.00**	9.12

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

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Share capital $000	Retained earnings $000	Other reserves $000	Total $000
Balance 31 Mar 18 (Audited)	**500,205**	**171,438**	**(4,495)**	**667,148**
Transactions with shareholders:				
Dividends paid	**–**	**(18,073)**	**–**	**(18,073)**
Transfer to share capital on vesting of employee long term incentive plan	**442**	**–**	**(442)**	**–**
Share based payment expense	**–**	**–**	**201**	**201**
Total transactions with shareholders	**442**	**(18,073)**	**(241)**	**(17,872)**
Other comprehensive income:				
Deferred tax on share based payment expense	**–**	**–**	**10**	**10**
Movement in cash flow hedges, net of tax	**–**	**–**	**(996)**	**(996)**
Change in cash flow reserve in associates	**–**	**–**	**(211)**	**(211)**
Total other comprehensive income	**–**	**–**	**(1,197)**	**(1,197)**
Profit after income tax	**–**	**40,222**	**–**	**40,222**
Total comprehensive income	**–**	**40,222**	**(1,197)**	**39,025**
Balance 30 Sep 18 (Unaudited)	**500,647**	**193,587**	**(5,933)**	**688,301**
Balance 31 Mar 17 (Audited)	499,974	112,172	(4,288)	607,858
Transactions with shareholders:				
Dividends paid	–	(17,884)	–	(17,884)
Transfer to share capital on vesting of employee long term incentive plan	231	–	(231)	–
Share based payment expense	–	–	205	205
Total transactions with shareholders	231	(17,884)	(26)	(17,679)
Other comprehensive income:				
Movement in cash flow hedges, net of tax	–	–	(364)	(364)
Change in cash flow hedge reserve in associates	–	–	(284)	(284)
Total other comprehensive income	–	–	(648)	(648)
Profit after income tax	–	33,289	–	33,289
Total comprehensive income	–	33,289	(648)	32,641
Balance 30 Sep 17 (Unaudited)	500,205	127,577	(4,962)	622,820

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

Consolidated Statement of Financial Position

As at 30 September 2018

	Notes	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
Current assets			
Cash and cash equivalents		**6,421**	10,006
Trade and other receivables		**1,530**	1,886
Prepayments		**1,569**	212
Other current assets		**147**	196
Current tax		**426**	–
Inventory – development property	**8**	**36,302**	36,277
		46,395	48,577
Non-current assets			
Investment properties	**6**	**892,360**	865,960
Other non-current assets	**6**	**400**	–
Work in progress	**7**	**6,889**	1,912
Other investments		**89,317**	89,978
Loan to associate		**3,397**	3,397
Intangible asset		**1,535**	1,097
Property, plant and equipment		**747**	824
		994,645	963,168
Total assets		**1,041,040**	1,011,745
Current liabilities			
Trade and other payables		**13,801**	14,450
Current tax		**–**	1,144
Derivative financial instruments	**10**	**659**	4,616
		14,460	20,210
Non-current liabilities			
Bank borrowings	**11**	**318,038**	307,365
Deferred tax liability		**14,709**	13,427
Derivative financial instruments	**10**	**5,532**	3,595
		338,279	324,387
Total liabilities		**352,739**	344,597
Net assets		**688,301**	667,148
Share capital		**500,647**	500,205
Retained earnings		**193,587**	171,438
Reserves		**(5,933)**	(4,495)
Equity		**688,301**	667,148
SPL equity		**686,853**	665,316
SIML equity (non-controlling interest)		**1,448**	1,832
Equity		**688,301**	667,148

For and on behalf of the Board of Directors of SPL and SIML, dated 22 November 2018:

Tim Storey
Chairman

John Harvey
Chair of the Audit and Risk Committee

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

Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

	Notes	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
Cash flows from operating activities			
Gross rent received		**39,932**	40,657
Management fee income		**7,542**	8,073
Interest received		**158**	125
Other income received – insurance recoveries		**325**	398
Dividends received		**3**	–
Interest paid		**(7,199)**	(8,582)
Operating expenses		**(22,212)**	(19,997)
Goods and services tax		**207**	151
Income tax paid		**(3,740)**	(5,758)
Net cash provided by operating activities	**5**	**15,016**	15,067
Cash flows from investing activities			
Dividend income from investments		**2,147**	2,209
Capital expenditure on investment properties		**(8,998)**	(7,346)
Inventory – development property expenditure		**(40)**	(1,092)
Property, plant and equipment purchased		**(39)**	(143)
Intangible asset expenditure		**(599)**	(527)
Proceeds from disposal of investments		**459**	–
Net cash applied to investing activities		**(7,070)**	(6,899)
Cash flows from financing activities			
Drawdown on bank borrowings		**10,900**	9,100
Refinancing of bank borrowings		**(300)**	–
Swap break expense paid		**(4,058)**	–
Dividends paid		**(18,073)**	(17,884)
Net cash applied to financing activities		**(11,531)**	(8,784)
Net decrease in cash and cash equivalents held		**(3,585)**	(616)
Opening cash and cash equivalents		**10,006**	5,961
Closing cash and cash equivalents		**6,421**	5,345

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

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 September 2018

Note 1: Accounting Policies

Reporting Entity

The unaudited consolidated interim financial statements (financial statements) presented are those of Stride Property Limited (SPL) and Stride Investment Management Limited (SIML), each of SPL and SIML being a "Stapled Entity", and together the Stride Property Group (Stride). For accounting purposes, stapling gives rise to the combination of the Stapled Entities into a consolidated group. For the purposes of financial reporting, one of the combining entities is required to be identified as the parent entity of the consolidated group. In the case of Stride, SPL has been identified as the parent for the purposes of preparing the consolidated financial statements.

Shares of SPL and SIML are stapled and quoted on the Main Board equity securities market of NZX under the ticker code SPG.

The financial statements were approved for issue by the Board of Directors of SPL (SPL Board) and the Board of Directors of SIML (SIML Board), together the "Boards", on 22 November 2018.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), New Zealand International Accounting Standard 34 (NZ IAS 34) *Interim Financial Reporting* and International Accounting Standard 34 (IAS 34) *Interim Financial Reporting*. The financial statements do not contain all the disclosures normally included in an annual financial report, and should be read in conjunction with the audited 2018 annual financial statements. The financial statements have been prepared using the New Zealand Dollar functional and reporting currency and have been rounded to the nearest thousand dollars ($000), unless stated otherwise.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain classes of assets and liabilities as identified in the following specific accounting policies and the accompanying notes.

The financial statements include additional comparative information beyond that required under NZ IAS 34 and IAS 34 and has been provided for information purposes for the shareholders.

New standards, amendments and interpretations

At the date of approval of the financial statements, the following relevant standard was in issue but not yet effective and has not been early adopted by Stride.

NZ IFRS 16 *Leases* replaces the current guidance in NZ IAS 17 *Leases* and requires a lessee to recognise a lease liability reflecting future lease payments and a "right-of-use" asset for most lease contracts.

Given that SPL is the lessor for the majority of its leases, NZ IFRS 16 is not expected to have significant impact on how SPL currently accounts for its leases. However, SPL has four ground leases on investment properties and therefore SPL may recognise a right of use asset and lease liabilities in accordance with the new leasing standard.

The standard is effective for accounting periods beginning on or after 1 January 2019. SPL intends to adopt NZ IFRS 16 effective from 1 April 2019.

Significant accounting policies, estimates and judgements

Except as described below, the same accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual financial statements.

Stride has adopted NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from contracts with customers* from 1 April 2018.

Note 1: Accounting Policies (continued)

NZ IFRS 9 *Financial Instruments*
Stride has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information. The implementation of NZ IFRS 9 has resulted in some changes in accounting policies.

Classification and measurement
From 1 April 2018, Stride classifies its financial assets and financial liabilities in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
– those to be measured at amortised cost.

The classification of financial instruments has not resulted in any reclassification between measurement categories for Stride's financial assets and liabilities. Derivative financial instruments that are in cash flow hedge relationships remain measured at fair value through other comprehensive income, and other financial instruments (including cash and cash equivalents, trade and other receivables, the NZX bond, trade payables and bank borrowings) are measured at amortised cost.

Impairment
Under NZ IFRS 9, on initial recognition of a financial asset, Stride assesses on a forward-looking basis, the expected credit loss associated with its financial assets carried at amortised cost. At each reporting date, the credit risk on a financial asset, apart from trade receivables, is assessed to determine whether there has been a significant increase in the credit risk. In assessing whether there has been a significant increase in credit risk, Stride considers both forward looking information and the financial history of counterparties to assess the probability of default or likelihood that full settlement is not received. For trade receivables, the simplified approach to measuring expected credit loss is adopted, which uses a lifetime expected loss allowance.

Based on an assessment carried out, the impairment loss on financial assets was immaterial. As a result, there have been no measurement changes required to these financial statements by NZ IFRS 9.

Hedging
Interest rate swaps in place as at 30 September 2018 qualify as cash flow hedges under NZ IFRS 9. Stride's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and are therefore treated as continuing hedges.

NZ IFRS 15 *Revenue from contracts with customers*
The majority of the revenues of SPL are derived from rental income from lease agreements with tenants of the investment properties. Accounting for lease income is out of scope of NZ IFRS 15 *Revenue from contracts with customers*. However, certain non-rental income streams, such as recovery of property operating expenses, are within the scope of NZ IFRS 15. SIML's revenue is derived from management fees, which along with recovery of employee costs, are within the scope of NZ IFRS 15.

Process and policy
Accounting policies have been amended to include the five-step method, as defined in NZ IFRS 15, and are applied consistently to revenue recognition processes across Stride.

The five-step method for recognising revenue from contracts with customers involves consideration of the following:

– Identifying the contract with the customer
– Identifying performance obligations
– Determining the transaction price
– Allocating the transaction price to distinct performance obligations
– Recognising revenue when performance obligations are satisfied, this may be a point in time or over time.

Note 1: Accounting Policies (continued)

NZ IFRS 15 *Revenue from contracts with customers (continued)*

Classification and measurement
The implementation of NZ IFRS 15 has required a change in the presentation of service charges and the recovery of employee costs in the consolidated statement of comprehensive income. Previously, Stride presented the income generated from service charges recovered from tenants as a direct offset against property operating expenses and income generated from the recovery of employee costs from its managed entities as an offset to corporate overhead expenses. In implementing NZ IFRS 15, these components have been separated out between income and expense as income falls under the scope of NZ IFRS 15 and cannot be netted off against related expenses. As a result, the 30 September 2017 comparatives have been restated as follows:

		Unaudited 6 Months 30 Sep 17 $000
Consolidated statement of comprehensive income extract		
Gross rental income	Increased	7,113
Direct property operating expenses	Increased	(6,274)
Net rental income		839
Management fee income	Increased	1,239
Less corporate expenses		
Corporate overhead expenses	Increased	(2,078)
Administration expenses		–
Total corporate expenses		(2,078)
Profit before net finance expense, other income and income tax		–
Consolidated statement of cashflows extract		
Cash flows from operating activities		
Gross rent received	Increased	7,113
Management fee income	Increased	1,239
Direct property operating expenses	Increased	(8,352)

The revenue recognition and measurement of management fees, service charge income and recovery of employee costs under NZ IFRS 15 is the same as the previous standard NZ IAS 18 *Revenue*, where the revenue is recognised in the period the service is rendered.

Significant events and transactions
The financial position and performance of Stride was affected by the following events and transactions that occurred during the reporting period:

Revaluation of investment properties
Seventeen investment properties were subject to a desktop review or independent valuation due to the significant capital expenditure works undertaken, contractual rental variance or which were considered to have asset specific factors to which the market was responding differently in the current period. The review of the portfolio resulted in a net change in fair value of investment properties of $23,601,133.

Note 2: Operating Segments

Stride consists of two operating segments, being SPL and SIML. SPL's revenue streams are earned from investment properties owned in New Zealand, with no specific exposure to geographical risk. Given SPL's diverse client base, no one tenant represents greater than 10% of the portfolio contract rental. SIML's revenue streams are earned from the management of the real estate investment of Investore Property Limited, Diversified NZ Property Trust and SPL. For the revenue earned from these entities, refer to note 13 on related party disclosures.

The following is an analysis of Stride's results, by reportable segments. Management fees paid from SPL to SIML are eliminated on consolidation and therefore do not appear in the consolidated statement of comprehensive income for Stride.

Note 2: Operating Segments (continued)

	SPL $000	SPL eliminations $000	SIML $000	SIML eliminations $000	Unaudited 6 Months 30 Sep 18 $000
Segment profit (30 Sep 18 Unaudited)					
Net rental income	26,825	1,119	–	–	27,944
Management fee income	–	–	11,514	(4,238)	7,276
Less corporate expenses					
Corporate overhead expenses	(2,639)	2,631	(7,792)	–	(7,800)
Administration expenses	(941)	125	(775)	–	(1,591)
Total corporate expenses	(3,580)	2,756	(8,567)	–	(9,391)
Profit before net finance expense, other income/(expense) and income tax	23,245	3,875	2,947	(4,238)	25,829
Finance income	156	–	2	–	158
Finance expense	(7,312)	25	(12)	–	(7,299)
Finance expense – swap break expense	(703)	–	–	–	(703)
Net finance expense	(7,859)	25	(10)	–	(7,844)
Profit before other income/(expense) and income tax	15,386	3,900	2,937	(4,238)	17,985
Other income/(expense)					
Net change in fair value of investment properties	23,254	347	–	–	23,601
Gain on disposal of investment properties	344	–	–	–	344
Share of profit in associates	2,190	–	–	–	2,190
Loss on disposal of other investments	(35)	–	–	–	(35)
Other expense – insurance recoveries	(19)	–	–	–	(19)
Profit before income tax	41,120	4,247	2,937	(4,238)	44,066
Income tax expense	(3,016)	–	(828)	–	(3,844)
Profit after income tax attributable to shareholders	38,104	4,247	2,109	(4,238)	40,222
Total other comprehensive income after tax	(1,207)	–	10	–	(1,197)
Total comprehensive income after tax attributable to shareholders	36,897	4,247	2,119	(4,238)	39,025

Net rental income is net of direct property operating expenses as presented in the consolidated statement of comprehensive income. In the current period, direct property operating expenses of $1,119,000 (30 Sep 17: $1,221,000) charged by SIML to SPL have been eliminated from net rental income.

In the current period, a net change in fair value of investment properties of $346,668 (30 Sep 17: $298,893), arising from the elimination of the project management fees charged by SIML to SPL to manage capital expenditure works $131,788 (30 Sep 17: $130,657) and development works $214,880 (30 Sep 17: $168,236), has been reflected in the consolidated statement of comprehensive income. Development fees of $8,724 (30 Sep 17: $543) arising from the work undertaken in relation to the development of Johnsonville Shopping Centre was charged by SIML to SPL and has been eliminated from the work in progress value in the consolidated statement of financial position.

Note 2: Operating Segments (continued)

	SPL $000	SPL eliminations $000	SIML $000	SIML eliminations $000	Unaudited 6 Months 30 Sep 17 $000
Segment profit (30 Sep 17 Unaudited)					
Net rental income	28,308	1,221	–	–	29,529
Management fee income	–	–	11,956	(4,259)	7,697
Less corporate expenses					
Corporate overhead expenses	(2,609)	2,613	(6,809)	–	(6,805)
Administration expenses	(836)	125	(763)	–	(1,474)
Total corporate expenses	(3,445)	2,738	(7,572)	–	(8,279)
Profit before net finance expense, other income and income tax	24,863	3,959	4,384	(4,259)	28,947
Finance income	195	–	5	–	200
Finance expense	(8,415)	–	(9)	–	(8,424)
Net finance expense	(8,220)	–	(4)	–	(8,224)
Profit before other income and income tax	16,643	3,959	4,380	(4,259)	20,723
Other income					
Net change in fair value of investment properties	14,133	289	–	–	14,422
Share of profit in associates	2,477	–	–	–	2,477
Other income – insurance recoveries	1,219	–	–	–	1,219
Profit before income tax	34,472	4,248	4,380	(4,259)	38,841
Income tax expense	(4,273)	–	(1,279)	–	(5,552)
Profit after income tax attributable to shareholders	30,199	4,248	3,101	(4,259)	33,289
Total other comprehensive income after tax	(648)	–	–	–	(648)
Total comprehensive income after tax attributable to shareholders	29,551	4,248	3,101	(4,259)	32,641

	SPL $000	SPL eliminations $000	SIML $000	SIML eliminations $000	Total $000
Segment assets and liabilities					
Unaudited 30 Sep 18					
Total assets	**1,037,645**	**(9)**	**3,421**	**(17)**	**1,041,040**
Total liabilities	**350,783**	**(17)**	**1,973**	**–**	**352,739**
Audited 31 Mar 18					
Total assets	1,007,345	(673)	5,346	(273)	1,011,745
Total liabilities	341,356	(273)	3,514	–	344,597

As at 30 September 2018, SPL had assets of $92,714,799 relating to other investments and a loan to associate which reduced by $661,545 from 31 March 2018. SIML capitalised costs of $437,736 relating to its accounting software during the period.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2018

Note 3: Net Rental Income

	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
SPL		
Gross rental income		
Rental income and service charge income recovered from tenants	**37,856**	40,030
Capitalised lease incentives	**189**	579
Lease incentive amortisation	**(378)**	(414)
Spreading of fixed rental income amortisation	**188**	(4)
Total gross rental income	**37,855**	40,191
Direct property operating expenses		
Service charge expenses to tenants	**(6,340)**	(7,113)
Movement in impairment provision	**(7)**	(50)
Other non-recoverable property operating expenses	**(3,564)**	(3,499)
Total direct property operating expenses	**(9,911)**	(10,662)
Net rental income	**27,944**	29,529

Other non-recoverable property operating expenses represents property maintenance and operating expenses not recoverable from tenants, property valuation fees and property leasing costs.

Note 4: Distributable Profit

Stride's dividend policy is to target a cash dividend to shareholders that is between 95% and 100% of its distributable profit. Distributable profit is a non-GAAP measure and consists of profit/(loss) before income tax, adjusted for determined non-recurring and/or non-cash items, share of profits in associates, dividends received from associates and current tax.

	Unaudited 6 Months 30 Sep 18 $000	**Unaudited 6 Months 30 Sep 17 $000**
Profit before income tax	**44,066**	38,841
Non-recurring and non-cash adjustments:		
Net change in fair value of investment properties	**(23,601)**	(14,422)
Gain on disposal of investment properties	**(344)**	–
Share of profit in associates	**(2,190)**	(2,477)
Dividend income from associates	**2,147**	2,209
Net rent free incentives	**189**	(165)
Net lease contribution incentives	**91**	239
Spreading of fixed rental income amortisation	**(188)**	4
Share based payment expense	**201**	205
Depreciation expense	**111**	136
Intangible asset amortisation	**121**	–
Finance expense – swap break expense	**703**	–
Loss on disposal of other investments	**35**	–
Refinancing cost amortisation	**80**	73
Development fee income	**337**	299
Other expenses/(income) – insurance recoveries	**118**	(455)
Distributable profit before current income tax	**21,876**	24,487
Current tax expense	**(3,105)**	(4,677)
Adjusted for:		
Tax expense on capitalised interest	**(13)**	(18)
Tax expense on depreciation recovered on disposal of investment properties	**(90)**	(52)
Income tax movement in cash flow hedges (note 9)	**939**	–
Distributable profit after current income tax	**19,607**	19,740
Adjustments to funds from operations:		
Maintenance capital expenditure	**(3,114)**	(2,653)
Adjusted Funds From Operations (AFFO)	**16,493**	17,087

Note 4: Distributable Profit (continued)

	Unaudited 6 Months 30 Sep 18 $000	**Unaudited 6 Months 30 Sep 17 $000**
Weighted average number of shares for the purpose of basic distributable profit per share (000)	**365,198**	364,949
Basic distributable profit after current income tax per share – weighted (cents)	**5.37**	5.41
AFFO basic distributable profit after current income tax per share – weighted (cents)	**4.52**	4.68
Weighted average number of shares for the purpose of diluted distributable profit per share (000)	**365,737**	365,117
Diluted distributable profit after current income tax per share – weighted (cents)	**5.36**	5.41
AFFO diluted distributable profit after current income tax per share – weighted (cents)	**4.51**	4.68

Weighted average number of shares for the purpose of diluted distributable profit per share has been adjusted for 539,066 (30 Sep 17: 167,217) rights issued under SPL's long term share incentive schemes.

Note 5: Statement of Cash Flows Reconciliation

	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
Reconciliation of profit after income tax attributable to shareholders to net cash from operating activities:		
Profit after income tax	**40,222**	33,289
Add/(less) non-cash items:		
Movement in deferred tax (note 9)	**739**	875
Income tax movement in cash flow hedges (note 9)	**939**	–
Net change in fair value of investment properties	**(23,601)**	(14,422)
Gain on disposal of investment properties	**(344)**	–
Share of profit in associates	**(2,190)**	(2,477)
Capitalised lease incentives	**(349)**	(165)
Lease incentive amortisation	**629**	239
Spreading of fixed rental income amortisation	**(188)**	4
Share based payment expense	**201**	205
Depreciation expense	**111**	136
Intangible asset amortisation	**121**	–
Finance expense – swap break expense	**703**	–
Loss on disposal of other investments	**35**	–
Refinancing cost amortisation	**80**	73
Accrued interest movement in derivative financial instruments (note 10)	**(47)**	–
Movement in impairment provision	**7**	50
Development fee income	**337**	299
	17,405	18,106
Add/(less) activity classified as investing activity:		
Movement in working capital items relating to investing activities	**789**	(706)
	18,194	17,400
Movement in working capital:		
Decrease/(increase) in trade and other receivables	**349**	(512)
Increase in prepayments and other current assets	**(1,308)**	(572)
Decrease in trade and other payables	**(649)**	(96)
Decrease in tax payable	**(1,570)**	(1,153)
Net cash provided by operating activities	**15,016**	15,067

Note 6: Investment Properties

	Office $000	Industrial $000	Retail $000	Large Format Retail $000	Land/ Development $000	Total $000
Balance 31 Mar 18 (Audited)	**223,550**	**195,700**	**382,860**	**42,750**	**21,100**	**865,960**
Subsequent capital expenditure	**1,966**	**424**	**1,113**	**8**	**–**	**3,511**
Net capitalised incentives	**151**	**(155)**	**(222)**	**–**	**–**	**(226)**
Spreading of fixed rental income amortisation	**119**	**(12)**	**1**	**29**	**–**	**137**
Net change in fair value	**6,614**	**9,443**	**3,208**	**1,213**	**2,500**	**22,978**
Balance 30 Sep 18 (Unaudited)	**232,400**	**205,400**	**386,960**	**44,000**	**23,600**	**892,360**

In the current period SPL has reduced its rental liability of $344,000 incurred in June 2016 on the sale of 650 Great South Road, Auckland, for the replacement of leases if early termination rights were exercised.

In the current period, a revaluation movement of $346,667 (31 Mar 18: $760,201), arising from the elimination of the capital expenditure fees charged by SIML to SPL, has been reflected in the consolidated statement of comprehensive income. Capital expenditure consists of fit-outs and other physical enhancements to the investment properties, with ownership of such capital amounts being retained by SPL.

Capital expenditure commitments contracted for
As at 30 September 2018, SPL has the following commitments:

- $1,357,727 (31 Mar 18: $2,847,585) in total for various capital expenditure works to be undertaken on investment properties in this financial year.
- development expenditure of $4,376,668 at Bay Central Shopping Centre, Tauranga, in relation to the expansion of Rebel Sports and Briscoes premises, expected to be completed over the next twelve months.
- $8 million in relation to a contract to acquire an industrial property at 439 Rosebank Road, Auckland, with completion anticipated in July 2020. A deposit of $400,000 has been paid.
- development expenditure of $43 million in total with Waste Management NZ Limited (Waste Management) at 11 Springs Road, Auckland, with an agreement with Waste Management that allows for the expansion of the scope of works by up to $23 million. As at balance date $5,176,401 has been incurred (note 7).

Subsequent to balance date, SPL has committed to a further $6,512,563 in total for various capital expenditure works to be undertaken on investment properties over the next eighteen months.

Stride has no other material capital commitments as at 30 September 2018.

Note 6: Investment Properties (continued)

Valuation basis

All investment properties were valued by independent valuers as at 31 March 2018. The SPL Board has reviewed the fair value of the investment properties as at 30 September 2018 on an asset by asset basis after considering recent comparable transactional evidence of market sales and leasing activity and is satisfied that there has been no significant change to the overall carrying value, other than the following seventeen investment properties, which were subject to a desktop review or independent valuation due to the significant capital expenditure works undertaken, contractual rental variance or which were considered to have asset specific factors to which the market was responding differently in the current period:

	Valuation	Valuer	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
33 Corinthian Drive, Auckland	Desktop review	Bayleys	**48,250**	47,350
7 - 9 Fanshawe Street, Auckland	Independent valuation	Colliers	**10,000**	9,800
80 Greys Avenue, Auckland	Independent valuation	CBRE	**19,600**	19,700
21 - 25 Teed Street, Auckland	Independent valuation	Colliers	**22,600**	21,700
33 Customhouse Quay, Wellington	Independent valuation	CBRE	**34,900**	33,900
1 Grey Street, Wellington	Independent valuation	Colliers Wellington	**56,500**	52,750
22 The Terrace, Wellington	Independent valuation	Colliers Wellington	**19,450**	17,250
30 Airpark Drive, Auckland	Independent valuation	Colliers	**27,400**	22,600
25 O'Rorke Road, Auckland	Independent valuation	Colliers	**65,450**	64,000
34 Airpark Drive, Auckland	Independent valuation	Colliers	**8,150**	7,200
15 Rockridge Avenue, Auckland	Independent valuation	Colliers	**24,000**	21,500
Cnr Mt Wellington Highway & Penrose Road, Auckland	Independent valuation	Colliers	**35,600**	36,300
61 Silverdale Street, Auckland	Independent valuation	CBRE	**99,700**	98,400
65 Chapel Street, Tauranga	Independent valuation	CBRE	**45,000**	41,500
NorthWest Shopping Centre, Auckland	Desktop review	JLL	**176,000**	176,000
2 Carr Road, Auckland	Desktop review	JLL	**44,000**	42,750
11 Springs Road, Auckland	Independent valuation	Colliers	**23,600**	21,100

The above investment properties were valued either by Bayleys Valuations Limited (Bayleys), CIVAS Limited (Colliers), Colliers International (Wellington Valuation) Limited (Colliers Wellington), Jones Lang LaSalle Limited (JLL) or CBRE Limited (CBRE) as indicated. The valuations and desktop reviews are dated effective 30 September 2018.

With regard to these investment properties, the valuers took into account:

– occupancy (leased area as a proportion of the total net lettable area) on individual investment properties (average is 99.20% at balance date);
– average lease term (weighted average lease term (WALT) at balance date is 5.35 years);
– discount rates (ranged from 6.38% to 9.75%), and
– capital expenditure works of $7,640,069 including a movement in the work in progress value of $4,129,326 relating to the 11 Springs Road, Auckland, development.

Capitalisation rates ranged from 5.00% to 10.25% for the investment properties valued.

Notes to the Consolidated Interim Financial Statements (continued)
For the six months ended 30 September 2018

Note 7: Work in Progress

Work in progress is investment property which is being developed by SPL for rental purposes.

	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
11 Springs Road, Auckland	**5,800**	1,047
Johnsonville Shopping Centre, Wellington	**1,089**	865
Total work in progress	**6,889**	1,912

As at 30 September 2018, the development at 11 Springs Road, Auckland, was fair valued, with a resulting $623,599 movement recorded in the consolidated statement of comprehensive income as a component of net change in fair value of investment properties. The redevelopment project with Waste Management has a target completion in the second half of the 2019 calendar year. The development is forecast to cost $43 million, and the agreement with Waste Management allows for the expansion of the scope of works by up to $23 million with an associated increase in rental.

Work in progress costs for Johnsonville Shopping Centre, Wellington, have been incurred in relation to the development of the shopping centre.

Note 8: Inventory – Development Property

SPL's inventory relates to a property that was developed and where there is an option held by another party to buy the property within the short term. The property is held at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
NorthWest Two, Auckland	**36,302**	36,277

The NorthWest Two development was undertaken further to a conditional right in SPL's original agreement to acquire the NorthWest Shopping Centre land from Westgate Town Centre Limited (WTCL) in 2013. Under that agreement:

– WTCL can acquire the development from SPL within three years of the ground lease's effective date, being 19 December 2014, at a price equal to 115% of SPL's total development cost, including holding costs.
– If WTCL does not acquire the development within the three year period, SPL can obtain freehold title to the land for $1.

SPL has agreed to defer the expiry date of WTCL's three year option to acquire SPL's NorthWest Two development. The option was due to expire on 19 December 2017 but has been extended pending the outcome of discussions between SPL and WTCL.

Note 9: Income Tax

	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
Profit before income tax	**44,066**	38,841
Prima facie income tax using the company tax rate of 28%	**(12,338)**	(10,875)
Decrease/(increase) in income tax due to:		
Net change in fair value of investment properties	**6,608**	3,957
Non-taxable income	**940**	1,042
Assessable income	**(133)**	(22)
Depreciation	**1,408**	1,434
Depreciation loss on disposal of investment properties	**90**	39
Non-deductible expenses	**(272)**	(212)
Expenditure deductible for tax	**535**	26
Temporary differences	**57**	(66)
Current tax expense	**(3,105)**	(4,677)
Investment property depreciation	**(550)**	(758)
Other	**(189)**	(117)
Deferred tax charged to profit or loss	**(739)**	(875)
Income tax expense per the consolidated statement of comprehensive income	**(3,844)**	(5,552)

In the current period, the income tax benefit of $939,426 arising from the swap break expense in the cash flow hedges has been shown in other comprehensive income.

Notes to the Consolidated Interim Financial Statements (continued)
For the six months ended 30 September 2018

Note 10: Derivative Financial Instruments

	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
SPL		
Total active interest rate derivative contracts	**255,000**	255,000
Fixed interest rates ranges	**2.70% – 4.00%**	2.92% – 4.57%
Weighted average interest rate	**3.22%**	3.84%
Percentage of drawn debt hedged	**80%**	83%

Between 24 and 30 April 2018, SPL broke interest rate derivative contracts with a notional value of $100 million for a cost of $4,058,147 and entered into new interest rate derivative contracts with a notional value of $120 million commencing on 30 April 2018 with an average tenor of 5.2 years and an average rate of 2.8%. Of the total swap break costs incurred, $703,000 has been recognised as finance expense in the current period and $3,355,000 has been recognised in equity as other reserves as at 30 September 2018. The amount of swap break costs in reserves will be amortised to finance expense over the remaining original life of the interest rate derivative contract or until the repayment of the bank borrowings, whichever comes first.

Gains and losses recognised in the cash flow hedge reserve in equity on interest rate derivative contracts as at 30 September 2018 will be continuously released to the consolidated statement of comprehensive income within finance expense until the repayment of the bank borrowings.

As at 30 September 2018, the fair value of the interest rate derivatives was a liability of $6,191,459 including an accrued interest liability of $253,102 (31 Mar 18: liability of $8,210,396 including an accrued interest liability of $299,746), determined using valuation technique classified as Level 2 in the fair value hierarchy (31 Mar 18: Level 2).

Note 11: Bank Borrowings

	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
SPL		
Non-current		
Facility drawn down	**318,600**	307,700
Borrowing costs	**(562)**	(335)
Total borrowings	**318,038**	307,365
Facility drawn down	**318,600**	307,700
Undrawn facility available	**81,400**	92,300
Total facility available	**400,000**	400,000
Facility A	**200,000**	200,000
Facility B	**200,000**	200,000
Total bank facility available	**400,000**	400,000
Bank facility expiry dates		
Facility A	**31 Aug 2022**	9 Jun 2019
Facility B	**9 Jun 2021**	9 Jun 2021
Weighted average interest rate for drawn debt (inclusive of current interest rate derivatives, margins and line fees) at balance date	**4.66%**	5.04%
Interest rate on the facility	**2.97%**	3.20%

SPL's bank borrowings are via syndicated senior secured facilities with ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand, Commonwealth Bank of Australia and Westpac New Zealand Limited. On 31 August 2018, SPL refinanced part of its total bank facility extending Facility A's maturity by three years to 31 August 2022.

The bank security on the facilities is managed through a security agent who holds a first registered mortgage on all the investment properties owned by SPL and a registered first ranking security interest under a General Security Deed over substantially all the assets of SPL. SPL has been compliant with bank covenants during the respective periods.

SIML has a $3 million overdraft facility with ANZ, which has been utilised during the current period.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2018

Note 12: Equity

Share Capital

Each of SPL and SIML has 365,296,799 shares authorised as at 30 September 2018.

	Unaudited 30 Sep 18 Shares 000	Audited 31 Mar 18 Shares 000	Unaudited 30 Sep 18 Capital $000	Audited 31 Mar 18 Capital $000
Opening balance	**364,989**	364,856	**500,205**	499,974
Shares issued under the long term share incentive plan	**308**	133	**–**	–
Vesting of employee long term incentive plan	**–**	–	**442**	231
Closing balance	**365,297**	364,989	**500,647**	500,205

There is only one class of shares, being ordinary shares, and they rank equally with each other. All issued shares are fully paid and have no par value.

On 25 May 2018, the Boards of SPL and SIML resolved to issue 307,522 ordinary shares in each of them (i.e. 307,522 Stapled Securities) under the long term share incentive scheme.

Basic and diluted earnings per share

Basic and diluted earnings per share amounts are calculated by dividing profit after income tax attributable to shareholders by the weighted average number of shares on issue.

	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
Profit after income tax attributable to shareholders	**40,222**	33,289
Weighted average number of shares for the purpose of basic earnings per share (000)	**365,198**	364,949
Basic earnings per share – SPL	**10.43**	8.27
Basic earnings per share – SIML	**0.58**	0.85
Basic earnings per share – weighted (cents)	**11.01**	9.12
Weighted average number of shares for the purpose of diluted earnings per share (000)	**365,737**	365,117
Diluted earnings per share – SPL	**10.43**	8.27
Diluted earnings per share – SIML	**0.57**	0.85
Diluted earnings per share – weighted (cents)	**11.00**	9.12

Note 13: Related Party Disclosures

	Unaudited 6 Months 30 Sep 18 $000	Unaudited 6 Months 30 Sep 17 $000
The following transactions with a related party took place:		
Investore Property Limited		
Dividend income	**1,945**	2,042
Manager's fee income	**2,030**	1,816
Building management fee income	**205**	195
Accounting fee income	**125**	125
Leasing fee income	**11**	29
Maintenance fee income	**13**	9
Project management fee income	**78**	7
Diversified NZ Property Trust		
Distribution income	**202**	83
Manager's fee income	**1,650**	1,690
Accounting fee income	**87**	87
Licencing fee income	**42**	93
Leasing fee income	**231**	424
Building management fee income	**938**	1,026
Project management fee income	**178**	511
Employee services	**1,170**	1,119
Services in relation to the Kaikoura earthquake at Queensgate Shopping Centre	**–**	120
Interest income	**104**	103
Rent paid	**(56)**	(10)

	Unaudited 30 Sep 18 $000	Audited 31 Mar 18 $000
The following balances were receivable from a related party		
Investore Property Limited	**–**	5
Diversified NZ Property Trust	**5**	17
The following balance was payable to a related party		
Diversified NZ Property Trust	**–**	218

Note 14: Contingent Liabilities

Stride has no contingent liabilities at balance date (31 Mar 2018: nil).

Note 15: Subsequent Events

On 19 October 2018, SPL commenced a sale process for the property at 33 Corinthian Drive, Auckland, which is currently leased to ASB.

On 22 November 2018, SPL declared a cash dividend for the period 1 July 2018 to 30 September 2018 of 2.2075 cents per share, to be paid on 17 December 2018 to all shareholders on SPL's register at the close of business on 7 December 2018. This dividend will carry imputation credits of 0.3841 cents per share. This dividend has not been recognised in the financial statements.

On 22 November 2018, SIML declared a cash dividend for the period 1 July 2018 to 30 September 2018 of 0.27 cents per share, to be paid on 17 December 2018 to all shareholders on SIML's register at the close of business on 7 December 2018. This dividend will carry imputation credits of 0.1050 cents per share. This dividend has not been recognised in the financial statements.

There have been no other material events subsequent to 30 September 2018.

Independent review report

To the shareholders of Stride Property Group

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of Stride Property Group, which consists of Stride Property Limited (SPL) and Stride Investment Management Limited (SIML) (together "Stride") on pages 19 to 43, which comprise the consolidated statement of financial position as at 30 September 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated interim financial statements

The Directors of SPL and SIML respectively are responsible on behalf of Stride for the preparation and presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 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 consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of Stride, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of 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) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

Our firm carries out other assurance services for Stride over tenancy marketing and operating expenses and performing agreed procedures in respect of proxy voting at the 2018 Annual Shareholder Meetings. The provision of these other services has not impaired our independence as auditor of Stride.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of Stride are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland

22 November 2018

Implications of Investing in Stapled Securities

The practical impacts of a shareholder holding a stapled security include that:

- The shareholder is a shareholder of both SPL and SIML;
- In order to sell a SPL share or a SIML share, the corresponding SIML share or SPL share, as applicable, also needs to be sold to the same purchaser;
- Market disclosures via NZX may be made in respect of the Stride group as a whole, but each of SPL and SIML will continue to be obliged to make announcements under the NZX Listing Rules according to the nature of the disclosure (for example, announcements about the declaration of a dividend or the passing of a resolution at a meeting of shareholders would be made by the relevant company);
- The only quoted price of a SPL share and/or a SIML share on the NZX will be the quoted price for the stapled security;
- The materiality of "Material Information" for continuous disclosure purposes under the Listing Rules will be assessed against the potential effect on the price of stapled securities as there will not be a separate quoted price available for each of SPL and SIML. Any disclosure of "Material Information" made by Stride will explain whether the information is material to SPL and/or SIML;
- New stapled security issues will result in equal numbers of SPL shares and SIML shares being issued;
- Shareholders are entitled to attend, or vote by proxy, at separate meetings of shareholders of each of SPL and SIML. For some transactions involving both Stride companies (for example, an issuance of stapled securities being made with shareholder approval under the Listing Rules), resolutions might be required from shareholders in respect of the same matter. In that case, the relevant transaction will only be able to proceed if the respective resolutions are approved at shareholder meetings of SPL and SIML; and
- Distributions will be received, to the extent declared, from each of SPL and SIML.

Corporate Directory

Board of Directors
Tim Storey (Chairman)
John Harvey
Philip Ling
David van Schaardenburg
Michelle Tierney
Michael Stiassny retired on 30 August 2018

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