Property for Industry Limited Group

Interim Financial Statements 30 June 2019

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

ALL VALUES IN $000S	NOTE	UNAUDITED 6 months ended 30 June 2019	UNAUDITED 6 months ended 30 June 2018
INCOME			
Rental and management fee income	2.2	47,545	44,686
Licence income		50	50
Interest income		2	2
Fair value gain on investment properties	2.1	23,449	7,948
Gain on disposal of investment properties		–	53
Fair value gain on derivative financial instruments		1,297	647
Business interruption insurance income	2.5	42	–
Total income		72,385	53,386
EXPENSES			
Property costs	2.3	(7,465)	(6,341)
Interest expense and bank fees		(9,584)	(9,159)
Administrative expenses	5.1	(2,432)	(2,378)
Loss on disposal of investment properties		(57)	–
Total expenses		(19,538)	(17,878)
Profit before taxation		52,847	35,508
Income tax expense	5.2	(6,449)	(5,938)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company		46,398	29,570
Basic and diluted earnings per share (cents)	4.1	9.30	5.93

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Cents per share (cents)	No. of shares (#)	Ordinary shares ($000s)	Retained earnings ($000s)	Total equity ($000s)
Balance as at 1 January 2018 (audited)	–	498,723,330	562,429	280,514	842,943
Total comprehensive income	–	–	–	29,570	29,570
Dividends					
Q4 2017 final dividend - 7/3/2018	2.15	–	–	(10,723)	(10,723)
Q1 2018 interim dividend - 31/5/2018	1.80	–	–	(8,976)	(8,976)
Balance as at 30 June 2018 (unaudited)	–	498,723,330	562,429	290,385	852,814
Balance as at 1 January 2019 (audited)	–	498,723,330	562,429	352,706	915,135
Total comprehensive income	–	–	–	46,398	46,398
Dividends					
Q4 2018 final dividend - 13/3/2019	2.10	–	–	(10,474)	(10,474)
Q1 2019 interim dividend - 24/5/2019	1.80	–	–	(8,977)	(8,977)
Balance as at 30 June 2019 (unaudited)	–	498,723,330	562,429	379,653	942,082

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

		UNAUDITED	AUDITED
ALL VALUES IN $000S	NOTE	30 June 2019	31 December 2018
CURRENT ASSETS			
Cash at bank		964	1,652
Accounts receivable, prepayments and other assets		4,463	1,239
Total current assets		5,427	2,891
NON-CURRENT ASSETS			
Investment properties	2.1	1,368,253	1,318,655
Property, plant and equipment	5.4	446	62
Derivative financial instruments	3.2	14,003	4,891
Goodwill		29,086	29,086
Total non-current assets		1,411,788	1,352,694
Non-current assets classified as held for sale		–	3,313
Total assets		1,417,215	1,358,898
CURRENT LIABILITIES			
Derivative financial instruments	3.2	431	94
Accounts payable, accruals and other liabilities		12,252	10,460
Taxation payable		6,179	8,805
Total current liabilities		18,862	19,359
NON-CURRENT LIABILITIES			
Borrowings	3.1	422,199	398,222
Derivative financial instruments	3.2	21,462	13,982
Deferred tax liabilities	5.2	12,327	12,200
Other Liabilities		283	–
Total non-current liabilities		456,271	424,404
Total liabilities		475,133	443,763
Net assets	4.2	942,082	915,135
EQUITY			
Share capital		562,429	562,429
Retained earnings		379,653	352,706
Total equity		942,082	915,135

These Group interim financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 19 August 2019.

Anthony Beverley
Chairman

Susan Peterson
Chair, Audit and Risk Committee

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2019	6 months ended 30 June 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Property and management fee income received	45,834	44,654
Licence income	50	50
Net GST paid	(996)	(500)
Interest received	2	2
Interest and other finance costs paid	(9,453)	(8,983)
Payments to suppliers and employees	(10,836)	(10,736)
Income tax paid	(8,948)	(28)
Net cash flows from operating activities	15,653	24,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment properties	3,408	85
Acquisition of investment properties	(17,235)	(16,030)
Acquisition of property, plant and equipment	(26)	13
Expenditure on investment properties	(6,633)	(5,012)
Capitalisation of interest on development properties	(59)	(7)
Net cash flows from investing activities	(20,545)	(20,951)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayment of) / proceeds from syndicated bank facility	23,710	16,274
Principal elements of finance lease payments	(55)	–
Dividends paid to shareholders	(19,451)	(19,699)
Net cash flows from financing activities	4,204	(3,425)
Net increase / (decrease) in cash and cash equivalents	(688)	83
Cash and cash equivalents at beginning of period	1,652	605
Cash and cash equivalents at end of period	964	688

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. GENERAL INFORMATION

IN THIS SECTION
This section sets out the basis upon which the Group's Interim Financial Statements are prepared.

1.1. Reporting entity

These unaudited interim financial statements are for Property for Industry Limited (the Company) and its subsidiary P.F.I. Property No. 1 Limited (PFI No. 1) (together, the Group). The Company is a limited liability company incorporated in New Zealand and is registered under the New Zealand Companies Act 1993. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and these unaudited consolidated interim financial statements have been prepared in accordance with the requirements of the NZX Listing Rules. The Company is listed on the NZX Main Board (NZX: PFI).

The Group's principal activity is property investment and management in New Zealand.

1.2. Basis of preparation

These unaudited interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. They comply with NZ IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting'. The unaudited interim financial statements also comply with International Financial Reporting Standards (IFRS).

The unaudited interim financial statements have been prepared on the historical cost basis except where otherwise identified. All financial information is presented in New Zealand dollars and has been rounded to the nearest thousand.

These unaudited interim financial statements should be read in conjunction with the Annual Report for the year ended 31 December 2018 which may be downloaded from the Company's website (www.propertyforindustry.co.nz/investor-centre/reports-and-presentations).

1.3. Critical judgements, estimates and assumptions

In applying the Group's accounting policies, the Board and Management continually evaluate judgements, estimates and assumptions that may have an impact on the Group. The significant judgements, estimates and assumptions made in the preparation of these unaudited interim financial statements were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2018.

1.4. Accounting policies

The accounting policies adopted are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018, other than following the adoption of new standards outlined in section 1.5 below.

1.5. Adoption of new standards

The Group has adopted NZ IFRS 16 'Leases' on its effective date of 1 January 2019, as required, which has replaced the previous guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The Group has identified the lease of its head office as the only lease recognised due to NZ IFRS 16, and the impact of adopting the standard is not material to the Group. The simplified retrospective transition method allows the Group to calculate the lease liability and the right-of-use asset based on the remaining cash flows discounted at transition date "incremental borrowing rate", being the property yield for the office lease of 7.86%. It does not require a restatement of prior period financial statements or an adjustment to equity.

1.6. Significant events and transactions

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

Investment property disposals and acquisition

On 23 January 2019, the Group disposed of an investment property located at 50 Parkside Road, Wellington, for a net sales price of $3.4 million.

On 29 March 2019, the Group purchased an investment property located at 51-61 Spartan Road, Takanini, for a net purchase price of $17.2 million.

2. PROPERTY

IN THIS SECTION
This section shows the real estate assets used to generate the Group's trading performance which are considered to be the most relevant to the operations of the Group.

2.1. Investment properties

ALL VALUES IN $000S	UNAUDITED 6 MONTHS ENDED 30 June 2019	AUDITED 12 MONTHS ENDED 31 December 2018
Opening balance	1,318,655	1,210,805
Capital movements:		
Additions	17,235	28,369
Disposals	(152)	(32)
Transfer to non-current assets classified as held for sale	–	(3,313)
Capital expenditure	7,505	13,629
Capitalised interest	59	41
Movement in lease incentives, fees and fixed rental income	1,502	2,786
	26,149	41,480
Unrealised fair value gain (i)	23,449	66,370
Closing balance[1]	1,368,253	1,318,655

1 Included in the 2019 balance is a right-of-use asset of $3.75 million primarily in relation to a ground lease, with an associated immaterial lease liability.

(i) Valuation
All investment properties were valued by independent valuers as at 31 December 2018 with the exception of 51-61 Spartan Road which was independently valued as at 30 March 2019 as part of the acquisition. The Board determined that a desktop review of the property portfolio should be undertaken by CB Richard Ellis (CBRE), Colliers International (Colliers), Jones Lang LaSalle (JLL) or Savills as at 30 June 2019 to ensure that investment properties continue to be held at fair value. In addition to this desktop review, the following thirteen investment properties were subject to independent valuations due to significant capital expenditure or leasing activity undertaken during the period:

ALL VALUES IN $000S	Valuer	Valuation
6-8 Greenmount Drive, East Tamaki	JLL	11,600
314 Neilson Street, Penrose	Savills	8,800
Carlaw Park Office Complex, Parnell	CBRE	69,200
Carlaw Park Gateway Building, Parnell	CBRE	34,400
320 Rosebank Road, Avondale	CBRE	14,400
15 Copsey Place, Avondale	JLL	14,850
6 Donnor Place, Mt Wellington	CBRE	17,300
54 Carbine Road & 6a Donnor Place, Mt Wellington	CBRE	32,850
9 Nesdale Avenue, Manukau	Colliers	15,000
1 Niall Burgess Road, Mt Wellington	JLL	4,650
7-9 Niall Burgess Road, Mt Wellington	Savills	40,500
8 McCormack Place, Wellington	CBRE	9,800
51-61 Spartan Road, Takanini	JLL	17,950
Total		291,300

2. PROPERTY (CONTINUED)

2.1 Investment properties (continued)

As a result of the independent valuations and the $0.65m uplift recognised as a result of the difference between the independent valuation of 51-61 Spartan Road as at 30 March 2019 and the net purchase price, the unrealised net increase in the value of investment properties for the six months ended 30 June 2019 was $23,449,000 (six months ended 30 June 2018: $7,948,000). The portfolio will next be revalued by independent valuers as at 31 December 2019.

2.2. Rental and management fee income

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2019	6 months ended 30 June 2018
Gross rental receipts and service charge income recovered from tenants	46,486	43,658
Fixed rental income adjustments	729	566
Capitalised lease incentive adjustments	20	226
Management fee income	310	236
Total rental and management fee income	47,545	44,686

2.3. Property costs

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2019	6 months ended 30 June 2018
Service charge expenses	(6,277)	(5,184)
Bad and doubtful debts recovery / (expense)	13	39
Other non-recoverable property costs	(1,201)	(1,196)
Total property costs	(7,465)	(6,341)

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

2.4. Net rental income

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2019	6 months ended 30 June 2018
Gross rental receipts and service charge income recovered from tenants	46,486	43,658
Fixed rental income adjustments	729	566
Capitalised lease incentive adjustments	20	226
less: Service charge expenses	(6,277)	(5,184)
Net rental income	40,958	39,266

2.5. Insurance income

On 21 April 2019, 314 Neilson Street, Penrose sustained fire damage. The fire has resulted in a business interruption (loss of rents claim) and a material damage claim. The insurance income relating to business interruption is presented in the consolidated statement of comprehensive income.

3. FUNDING

IN THIS SECTION
This section outlines how the Group manages its capital structure, financing costs and exposure to interest rate risk.

3.1. Borrowings

(i) Net borrowings

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2019	31 December 2018
Syndicated bank facility drawn down – non-current	224,760	201,050
Fixed rate bonds – non-current	200,000	200,000
Unamortised borrowings establishment costs	(2,561)	(2,828)
Net borrowings	422,199	398,222
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.56%	4.86%
Weighted average term to maturity (years)	3.50	4.00

(ii) Composition of borrowings

						UNAUDITED
ALL VALUES IN $000S AS AT 30 JUNE 2019	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	Fair Value
Bank Facility A	–	4–May–20	Floating	–	50,000	–
Bank Facility B	–	4–May–21	Floating	187,500	–	187,500
Bank Facility C	–	4–May–22	Floating	37,260	240	37,260
PFI010	28–Nov–17	28–Nov–24	4.59%	100,000	–	107,911
PFI020	1–Oct–18	1–Oct–25	4.25%	100,000	–	105,802
Total borrowings				424,760	50,240	438,473

						AUDITED
ALL VALUES IN $000S AS AT 31 DECEMBER 2018	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	Fair Value
Bank Facility A	–	4–May–20	Floating	50,000	–	50,000
Bank Facility B	–	4–May–21	Floating	151,050	36,450	151,050
Bank Facility C	–	4–May–22	Floating	–	37,500	–
PFI010	28–Nov–17	28–Nov–24	4.59%	100,000	–	103,127
PFI020	1–Oct–18	1–Oct–25	4.25%	100,000	–	101,377
Total borrowings				401,050	73,950	405,554

The Group has long-term revolving facilities (A,B and C) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ, providing $74,525,000), Bank of New Zealand (BNZ), Commonwealth Bank of Australia (CBA) and Westpac New Zealand Limited (Westpac) (each providing $66,825,000), for $275,000,000.

The fair value of the fixed rate bonds is based on their listed market prices at balance date and is classified as Level 1 in the fair value hierarchy (2018: Level 1). Interest on the PFI010 Bonds is payable quarterly in February, May, August and November in equal instalments, while interest on the PFI020 Bonds is payable quarterly in January, April, July and October; also in equal instalments.

3. FUNDING (CONTINUED)

3.1. Borrowings (continued)

(iii) Security

The syndicated bank facility and fixed rate bonds are secured by way of a security trust deed and registered mortgage security which is required to be provided over Group properties with current valuations of at least $950,000,000 (31 December 2018: $950,000,000). In addition to this, the syndicated bank facility agreement and the fixed rate bond terms also contain a negative pledge. The Company and PFI No. 1 are guarantors to the syndicated bank facility and the fixed rate bonds.

3.2. Derivative financial instruments

(i) Fair values

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2019	31 December 2018
Non-current assets	14,003	4,891
Current liabilities	(431)	(94)
Non-current liabilities	(21,462)	(13,982)
Total	(7,890)	(9,185)

(ii) Notional values, maturities and interest rates

	UNAUDITED	AUDITED
	30 June 2019	31 December 2018
Notional value of interest rate swaps - fixed rate payer - start dates commenced ($000S)	235,000	220,000
Notional value of interest rate swaps - fixed rate receiver[1] - start dates commenced ($000S)	200,000	200,000
Notional value of interest rate swaps - fixed rate payer - forward starting ($000S)	190,000	210,000
Total ($000S)	625,000	630,000
Percentage of borrowings fixed (%)	55%	55%
Fixed rate payer swaps:		
Average period to expiry - start dates commenced (years)	2.73	2.10
Average period to expiry - forward starting (years from commencement)	3.48	3.53
Average (years)	3.06	2.80
Fixed rate payer swaps:		
Average interest rate[2] - start dates commenced (%)	3.83%	4.16%
Average interest rate[2] - forward starting (% during effective period)	3.32%	3.43%
Average (%)	3.60%	3.80%

1 The Group has $200 million fixed rate receiver swaps for the duration of the two $100 million fixed interest bonds, the effect of the fixed rate receiver swaps is to convert the two $100 million bonds to floating interest rates.

2 Excluding margin and fees.

Key estimates and assumptions: Derivative financial instruments

The fair values of derivative financial instruments are determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (31 December 2018: Level 2). These are based on the present value of estimated future cash flows accounting for the terms and maturity of each contract and the current market interest rates at reporting date. Fair values also reflect the current creditworthiness of the derivative counterparty. These values are verified against valuations prepared by the respective counterparties. The valuations were based on market rates at 30 June 2019 of between 1.64% for the 90 day BKBM (31 December 2018: 1.97%) and 1.79% for the 10 year swap rate (31 December 2018: 2.65%). There were no changes to these valuation techniques during the reporting period.

4. INVESTOR RETURNS AND INVESTMENT METRICS

IN THIS SECTION
This section summarises the earnings per share and net tangible assets per share, which are common investment metrics.

4.1. Earnings per share

	UNAUDITED	UNAUDITED
	6 months ended 30 June 2019	6 months ended 30 June 2018
Total comprehensive income for the period attributable to the shareholders of the Company ($000)	46,398	29,570
Weighted average number of ordinary shares (shares)	498,723,330	498,723,330
Basic and diluted earnings per share (cents)	9.30	5.93

4.2. Net tangible assets per share

	UNAUDITED	AUDITED	UNAUDITED
	30 June 2019	31 December 2018	30 June 2018
Net assets ($000)	942,082	915,135	852,814
Less: Goodwill ($000)	(29,086)	(29,086)	(29,086)
Net tangible assets ($000)	912,996	886,049	823,728
Closing shares on issue (shares)	498,723,330	498,723,330	498,723,330
Net tangible assets per share (cents)	183	178	165

5. OTHER

IN THIS SECTION
This section includes additional information that is considered less significant in the understanding of the financial performance and position of the Group, but is disclosed to comply with NZ IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting'.

5.1. Administrative expenses

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2019	6 months ended 30 June 2018
Audit fees and other fees paid to auditors	93	88
Employee and independent contractor benefits expense	1,207	1,242
Directors' fees	182	322
Office expenses	443	238
Rent[1]	–	55
Depreciation	52	27
Other expenses	455	406
Total administrative expenses	2,432	2,378

1 Following the adoption of NZ IFRS 16 on 1 January 2019, rent expense has been replaced by depreciation expense on the right-of-use asset and interest expense on the lease liability.

5. OTHER (CONTINUED)

5.2. Taxation

(i) Reconciliation of accounting profit before income tax to income tax (expense) / benefit

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2019	UNAUDITED 6 months ended 30 June 2018
Profit / (loss) before income tax	52,847	35,508
Prima facie income tax calculated at 28%	(14,797)	(9,942)
Adjusted for:		
Non-tax deductible revenue and expenses	(4)	(4)
Fair value gain on investment properties	6,566	2,225
Gain on disposal of investment properties	(16)	15
Depreciation	1,280	1,278
Disposal of depreciable assets	17	–
Deductible capital expenditure	128	1,042
Lease incentives, fees and fixed rental income	194	166
Derivative financial instruments	363	187
Impairment allowance	4	11
Current year tax losses utilised / (carried forward)	–	1,995
Current tax prior period adjustment	(57)	(220)
Current taxation expense	(6,322)	(3,247)
Current year tax losses (utilised) / carried forward	–	(1,995)
Depreciation	498	(310)
Lease incentives, fees and fixed rental income	(260)	(188)
Derivative financial instruments	(363)	(187)
Impairment allowance	(4)	(11)
Other	2	–
Deferred taxation expense	(127)	(2,691)
Total taxation reported in Consolidated Statement of Comprehensive Income	(6,449)	(5,938)

5. OTHER (CONTINUED)

5.2. Taxation (continued)

(ii) Deferred tax

ALL VALUES IN $000S	AUDITED 31 December 2018 As at	UNAUDITED 6 months ended 30 June 2019 Recognised in profit	UNAUDITED 30 June 2019 As at
Deferred tax assets			
Derivative financial instruments	(2,572)	363	(2,209)
Impairment allowance	(24)	4	(20)
Other	–	(2)	(2)
Gross deferred tax assets	(2,596)	365	(2,231)
Deferred tax liabilities			
Investment properties	14,796	(238)	14,558
Gross deferred tax liabilities	14,796	(238)	14,558
Net deferred tax liability	12,200	127	12,327

5.3. Related party transactions

The Group has related party relationships with the following parties:

Related party	Abbreviation	Nature of relationship(s)
McDougall Reidy & Co Ltd	MRCO	Gregory Reidy, a senior executive who became an independent contractor with the Company on 30 June 2017 and then a non-executive Director of the Company on 30 June 2019, is also a Director of MRCO. The Group had a licence agreement with MRCO enabling MRCO to operate its business from the Group's premises, access the Group's IT and support systems and employees for its business. This agreement was terminated on 30 June 2019.
Commonwealth Bank of Australia	CBA	Susan Peterson, a member of the Board of Directors, is also a Director of ASB Bank Limited (ASB), a 100% subsidiary of CBA.
The Board of Directors	Directors	The Board of Directors.

The following transactions with related parties took place:

ALL VALUES IN $000S	Related party	UNAUDITED 6 months ended 30 June 2019	UNAUDITED 6 months ended 30 June 2018
Directors' fees - annual fees	Directors	182	187
Directors' fees - retirement allowance paid	Directors	–	135
Licence income received	MRCO	50	50
Related party debts written off or forgiven	–	–	–
Interest expense and bank fees incurred	CBA	(1,025)	(1,759)
Interest income received	CBA	259	253

5. OTHER (CONTINUED)

5.3. Related party transactions (continued)

The following positions were held with related parties:

		UNAUDITED	AUDITED
ALL VALUES IN $000S UNLESS STATED OTHERWISE	Related party	30 June 2019	31 December 2018
Amounts owing	CBA	(224)	(246)
Amounts owed	CBA	53	45
Bank facility provided	CBA	66,825	66,825
Bank facility drawn	CBA	54,617	48,855
Notional value of interest rate swaps:			
Current fixed rate payer swaps	CBA	50,000	45,000
Forward starting fixed rate payer swaps	CBA	50,000	60,000
Current fixed rate receiver swaps	CBA	50,000	50,000
Shares held beneficially in the company (number)	Directors	1,041,371	1,041,371
Shares held non-beneficially in the company (number)	Directors	110,825	110,825

On 8 May 2018, Peter Masfen retired from the Board of Directors of the Company as Chairman and Independent Director. Mr Masfen was first elected as a Director of the Company on 17 May 2002, and had held office as a Director of the Company since that date. At the 23 May 2008 Annual Meeting, the Company confirmed that retirement payments (being the total remuneration of the retiring Director, in any three years chosen by the Company) to eligible Directors (which includes Mr Masfen) will be calculated in respect of that Director's remuneration prior to the increase approved at the 23 May 2008 meeting. As such, a retirement allowance of $135,000 was payable to Mr Masfen and was paid on his retirement.

At the 23 May 2008 meeting, it was also noted that no retirement remuneration will be paid to Directors who are appointed after 1 May 2004. It is noted that Humphry Rolleston is the only other current Director who was appointed prior to 1 May 2004.

5.4. Leases

(i) Amounts recognised in the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position shows the following amounts relating to leases:

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	30 June 2019	31 December 2018
Right-of-use assets[1]		
Properties	358	–
Total right-of-use assets	358	–

1 Included in the line item 'Property, plant and equipment' in the Consolidated Statement of Financial Position.

ALL VALUES IN $000S	30 June 2019	31 December 2018
Lease liabilities		
Current[2]	81	–
Non-current[3]	283	–
Total lease liabilities	364	–

2 Included in the line item 'Accounts payable, accruals and other liabilities' in the Consolidated Statement of Financial Position.

3 Included in the line item 'Other liabilities' in the Consolidated Statement of Financial Position.

5. OTHER (CONTINUED)

5.4. Leases (continued)

(ii) Amounts recognised in the Consolidated Statement of Comprehensive Income
The Consolidated Statement of Comprehensive Income shows the following amounts relating to leases:

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2019	UNAUDITED 6 months ended 30 June 2018
Depreciation charge of right-of-use assets[4]		
Properties	(45)	–
Total depreciation charge of right-of-use assets	(45)	–

4 Included in the line item 'Administrative expenses' in the Consolidated Statement of Comprehensive Income.

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2019	UNAUDITED 6 months ended 30 June 2018
Interest cost[5]	(16)	–

5 Included in the line item 'Interest expense and bank fees' in the Consolidated Statement of Comprehensive Income.

The total cash outflow for leases in 2019 was $55,000.

5.5. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Group is internally reported as a single operating segment to the chief operating decision-maker.

5.6. Capital commitments

As at 30 June 2019 the Group had capital commitments totalling $4,534,000 (31 December 2018: $2,891,000) relating to work on investment properties.

5.7. Subsequent events

On 27 July 2019, the Group begun actively marketing the property at 229 Dairy Flat Highway, Albany for sale using Colliers International, who have been engaged via agency agreement to prepare a sales campaign. The disposal is expected to complete in 2019.

On 14 August 2019, the Group committed to purchase a property at Lot 11, 88 Tidal Road, Mangere. Subject to market-standard conditions, the Group will settle the property as it is developed for a total cost of $34,169,219. An initial settlement is expected to take place in October 2019 and the project is expected to be completed in February 2021.

On 16 August 2019, the Directors of the Company approved the payment of a net dividend of $8,977,000 (1.8000 cents per share) to be paid on 4 September 2019. The gross dividend (2.4163 cents per share) carries imputation credits of 0.6163 cents per share. The payment of this dividend will not have any tax consequences for the Group and no liability has been recognised in the Consolidated Statement of Financial Position as at 30 June 2019 in respect of this dividend.

INDEPENDENT REVIEW REPORT

To the shareholders of Property for Industry Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Property for Industry Limited (the Company) and its controlled entity (the Group) on pages 2 to 16, which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these 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 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 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 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 the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of 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 interim financial statements.

We are independent of the Group. Our firm carries out other assurance services for the Group comprising of voting procedures over the annual shareholders' meeting and remuneration benchmarking. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 June 2019, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders 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 the Company and the Company's shareholders, 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

19 August 2019

Auckland

www.propertyforindustry.co.nz