Property for Industry Limited Group

Interim Financial Statements 30 June 2020

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

All VALUES IN $000s	NOTE	UNAUDITED 6 months ended 30 June 2020	UNAUDITED 6 months ended 30 June 2019
INCOME			
Rental and management fee income	2.3	48,024	47,545
Licence income	5.3	–	50
Interest income		2	2
Fair value gain on investment properties	2.1	–	23,449
Fair value gain on derivative financial instruments		–	1,297
Business interruption insurance income	2.6	108	42
Material damage insurance income	2.6	2,320	–
Total income		50,454	72,385
EXPENSES			
Property costs	2.4	(8,185)	(7,465)
Interest expense and bank fees		(9,250)	(9,584)
Administrative expenses	5.1	(2,701)	(2,432)
Loss on disposal of investment properties		(14)	(57)
Fair value loss on investment properties	2.1	(7,803)	–
Fair value loss on derivative financial instruments		(1,023)	–
Total expenses		(28,976)	(19,538)
Profit before taxation		21,478	52,847
Income tax expense	5.2	(5,829)	(6,449)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	15,649	46,398
Basic earnings per share (cents)	4.1	3.14	9.30
Diluted earnings per share (cents)	4.1	3.14	9.30

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Cents per Share (cents)	No. of Shares (#)	Ordinary Shares ($000s)	Share-Based Payments Reserve ($000s)	Retained Earnings ($000s)	Total Equity ($000s)
Balance as at 1 January 2019 (audited)	–	498,723,330	562,429	–	352,706	915,135
Total comprehensive income	–	–	–		46,398	46,398
Dividends and reinvestment						
Q4 2018 final dividend - 13/3/2019	2.10	–	–	–	(10,474)	(10,474)
Q1 2019 interim dividend - 26/5/2019	1.80	–	–	–	(8,977)	(8,977)
Long-term incentive plan		–	–	–	–	–
Balance as at 30 June 2019 (unaudited)	–	498,723,330	562,429	–	379,653	942,082
Balance as at 1 January 2020 (audited)	–	498,723,330	562,429	270	491,338	1,054,037
Total comprehensive income	–	–	–		15,649	15,649
Dividends and reinvestment						
Q4 2019 final dividend - 4/3/2020	2.15	–	–	–	(10,724)	(10,724)
Q1 2020 interim dividend - 26/5/2020	1.80	–	–	–	(8,978)	(8,978)
Q1 2020 dividend reinvestment		1,086,032	2,555	–	–	2,555
Long-term incentive plan		45,352	155	47	–	202
Balance as at 30 June 2020 (unaudited)	–	499,854,714	565,139	317	487,285	1,052,741

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		UNAUDITED	AUDITED
All VALUES IN $000s	NOTE	30 June 2020	31 December 2019
CURRENT ASSETS			
Cash at bank		3,160	1,185
Accounts receivable, prepayments and other assets		4,163	2,419
Total current assets		7,323	3,604
NON-CURRENT ASSETS			
Investment properties	2.1	1,465,715	1,469,285
Property, plant and equipment		597	616
Derivative financial instruments	3.2	22,897	13,212
Goodwill		29,086	29,086
Total non-current assets		1,518,295	1,512,199
Non-current assets classified as held for sale	2.2	4,301	6,893
Total assets		1,529,919	1,522,696
CURRENT LIABILITIES			
Derivative financial instruments	3.2	792	840
Accounts payable, accruals and other liabilities		11,129	9,597
Taxation payable		1,226	12,867
Total current liabilities		13,147	23,304
NON-CURRENT LIABILITIES			
Borrowings	3.1	419,832	412,948
Derivative financial instruments	3.2	29,737	18,982
Deferred tax liabilities	5.2	14,267	13,185
Lease liabilities	5.4	195	240
Total non-current liabilities		464,031	445,355
Total liabilities		477,178	468,659
Net assets	4.2	1,052,741	1,054,037
EQUITY			
Share capital		565,139	562,429
Share-based payments reserve		317	270
Retained earnings		487,285	491,338
Total equity		1,052,741	1,054,037

These Group interim financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 4 September 2020.

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 2020

All VALUES IN $000s	NOTE	UNAUDITED 6 months ended 30 June 2020	UNAUDITED 6 months ended 30 June 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Property and management fee income received		46,342	45,834
Business interruption insurance income	2.6	108	–
Licence income	5.3	–	50
Net GST paid		(890)	(996)
Interest received		2	2
Interest and other finance costs paid		(9,221)	(9,453)
Payments to suppliers and employees		(7,374)	(10,836)
Income tax paid		(16,337)	(8,948)
Net cash flows from operating activities		12,630	15,653
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties		6,865	3,408
Acquisition of investment properties		–	(17,235)
Acquisition of property, plant and equipment		(26)	(26)
Expenditure on investment properties		(9,278)	(6,633)
Capitalisation of interest on development properties	2.1	(38)	(59)
Material damage insurance income	2.6	2,320	–
Net cash flows from investing activities		(157)	(20,545)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (repayment of) / proceeds from syndicated bank facility		(43,296)	23,710
Net proceeds from bilateral CBA bank facility		50,000	–
Principal elements of finance lease payments		(55)	(55)
Dividends paid to shareholders net of reinvestments		(17,147)	(19,451)
Net cash flows from financing activities		(10,498)	4,204
Net increase / (decrease) in cash and cash equivalents		1,975	(688)
Cash and cash equivalents at beginning of period		1,185	1,652
Cash and cash equivalents at end of period		3,160	964

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS

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 consolidated 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 the Financial Reporting Act 2013 and these unaudited 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). They comply with NZ IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting'.

These 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 2019 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 regularly 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 2019, other than those outlined in the 'COVID-19 global pandemic' section of note 1.5 below.

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 2019.

1.5. 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 disposal

On 13 March 2020, the Group settled the disposal of a non-current asset classified as held for sale located at 2 Pacific Rise, Mount Wellington, for a net sales price of $6.9 million.

On 7 July 2020, the Group announced the divestment of 127 Waterloo Road, Christchurch for a gross sales price of $4.410 million. Settlement is expected to take place in April 2021, and this property has been classified as a non-current asset classified as held for sale in these financial statements.

Bilateral bank facility

On 19 March 2020, the Group entered into a $50 million 18 month bilateral bank facility provided by Commonwealth Bank of Australia (CBA). A bilateral bank facility is a facility agreement between a single lender (a bank) and a single borrower (a corporate customer).

COVID-19 global pandemic

In March 2020, the World Health Organisation designated COVID-19 to be a 'Global Pandemic', threatening the health and well-being of large numbers of people across multiple countries. The global outbreak has caused escalating levels of societal uncertainty. At 11:59pm on 8th June New Zealand moved to a Government-directed 'Alert Level 1', having progressively moved down the alert levels over a period of eleven weeks from the most restrictive 'Alert Level 4' lockdown, making a significant step towards pre-pandemic normality.

A significant proportion of the Group's tenants were impacted by disruptions and uncertainty and therefore the Group has worked with its tenant base, particularly the most vulnerable businesses, to offer appropriate support during this pandemic. This support has largely come in the form of rent deferrals and rent abatement.

As part of the Group's immediate response to COVID-19, a review of costs, both capital and operating in nature, was undertaken resulting in cuts to and deferrals of expenditure where appropriate. The Group also put divestments of non-industrial properties on hold during the period, but these properties will be divested at an appropriate time. Finally, discussions with the Group's tenants are expected to continue throughout much of 2020.

The pandemic has resulted in impacts to key estimates and judgements used in these unaudited interim financial statements, including:

- Investment property valuations being impacted as at 30 June 2020, as detailed in note 2.1.
- The re-introduction of depreciation allowances for commercial building structures impacting tax expense estimates for future periods, as detailed in note 5.2.

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

	UNAUDITED	AUDITED
ALL VALUES IN $000s	6 MONTHS ENDED 30 June 2020	12 MONTHS ENDED 31 December 2019
Opening balance	1,469,285	1,318,655
Capital movements:		
Additions	–	45,734
Disposals	–	(28,020)
Transfer to non-current assets classified as held for sale	(4,301)	(6,893)
Capital expenditure	6,782	14,074
Capitalised interest	38	135
Movement in lease incentives, fees and fixed rental income	1,714	407
	4,233	25,437
Unrealised fair value (loss) / gain (i)	(7,803)	125,193
Closing balance[1]	1,465,715	1,469,285

1 Included in the 2020 balance is a right-of-use asset of $3.75 million (2019: $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 2019. 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 2020 to determine the current valuation of each property in the portfolio. In addition to this desktop review, the following fourteen investment properties were subject to full independent valuations due to a change of plus or minus 5% of the market value assessed in the asset valuation as at the prior year end, or the Board determining that a full valuation was appropriate due to other considerations, such as significant capital expenditure or leasing activity undertaken during the period.

ALL VALUES IN $000S	Valuer	Valuation
43 Cryers Road, East Tamaki	CBRE	15,000,000
314 Neilson Street, Penrose	Savills	12,100,000
Shed 22, 23 Cable Street, Wellington	CBRE	11,150,000
3 Hocking Street, Mt Maunganui	Colliers	2,700,000
47 Dalgety Drive, Manukau	Colliers	17,300,000
59 Dalgety Drive, Manukau	Colliers	14,800,000
Carlaw Park Gateway Building, Parnell	CBRE	31,500,000
6 Donnor Place, Mt Wellington	CBRE	27,650,000
212 Cavendish Drive, Manukau	JLL	38,000,000
1 Ron Driver Place, East Tamaki	JLL	7,800,000
76 Carbine Road, Mt Wellington	JLL	9,700,000
523 Mt Wellington Highway, Mt Wellington	Colliers	5,200,000
44 Mandeville Street, Christchurch	CBRE	11,725,000
41 & 55 Foremans Road, Christchurch	Savills	12,000,000
Total		216,625,000

2. PROPERTY (CONTINUED)

2.1 Investment properties (continued)

As a result of the desktop review, the independent valuations and the revaluation loss recorded when transferring the property located at 127 Waterloo Road from investment properties to non-current assets classified as held for sale, the unrealised net movement in the value of investment properties for the six months ended 30 June 2020 was a loss of $7,803,000 (six months ended 30 June 2019: $23,449,000 unrealised net gain booked on the fourteen full independent valuations undertaken in the period). The portfolio will next be revalued by independent valuers as at 31 December 2020.

Key estimates and assumptions: Investment Properties - Impact of the COVID-19 global pandemic
As at 30 June 2020, the real estate markets to which the Group's investment properties belong were still being impacted by the effects of the significant market uncertainty caused by the COVID-19 pandemic.

When completing the valuations, the independent registered valuers have included a 'material valuation uncertainty' clause in their 30 June 2020 valuation reports, indicating that less weight can be attached to previous market evidence for comparison purposes, to inform value at 30 June 2020, and that less certainty and a higher degree of caution should be attached to the valuations than would normally be the case. Given the unknown future impact that COVID-19 may have on the real estate market, the registered valuers have recommended that the valuation of each property is kept under periodic review.

The 'material valuation uncertainty' has affected key inputs, assumptions and processes used in the valuation of the Group's investment properties and has caused a write-down in this valuation. One particular judgement where this has been evident is an increase in the time it is expected to take to lease properties with upcoming lease expiries.

2.2. Non-current assets classified as held for sale

	UNAUDITED	AUDITED
All VALUES IN $000s	30 June 2020	31 December 2019
2 Pacific Rise, Mt Wellington	–	6,893
127 Waterloo Road, Christchurch	4,301	–
Total non-current assets classified as held for sale	4,301	6,893

On 18 February 2019, the Group announced its strategy of replacing its non-industrial assets with quality industrial properties in sought-after areas, either via acquisitions or by value-add strategies within the existing portfolio. As at 30 June 2020, however, the non-industrial properties within the portfolio - Carlaw Park Gateway Building, Carlaw Park Office Complex and Shed 22, 23 Cable Street - cannot be classified as non-current assets classified as held for sale as they do not meet the defined requirements. These requirements are that the asset is available for immediate sale in its present condition, the appropriate level of management are committed to a plan to sell the asset, an active programme to locate a buyer has been initiated, the asset must be actively marketed for sale at a reasonable price, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

2.3. Rental and management fee income

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2020	6 months ended 30 June 2019
Gross rental receipts	38,963	40,209
Service charge income recovered from tenants	6,101	6,277
Fixed rental income adjustments	999	729
Capitalised lease incentive adjustments	645	20
Rental income deferred and abated due to COVID-19	984	-
Management fee income	332	310
Total rental and management fee income	48,024	47,545

2. PROPERTY (CONTINUED)

2.4. Property costs

ALL VALUES IN $000s	UNAUDITED 6 months ended 30 June 2020	UNAUDITED 6 months ended 30 June 2019
Service charge expenses	(6,101)	(6,277)
Bad and doubtful debts (expense) / recovery[1]	(410)	13
Other non-recoverable property costs	(1,674)	(1,201)
Total property costs	(8,185)	(7,465)

1 Included in the 2020 balance is $184,000 specifically relating to COVID-19 rent deferrals provided and a further $86,000 relating to tenants adversely affected by COVID-19.

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

2.5. Net rental income

ALL VALUES IN $000s	UNAUDITED 6 months ended 30 June 2020	UNAUDITED 6 months ended 30 June 2019
Gross rental receipts	38,963	40,209
Service charge income recovered from tenants	6,101	6,277
Fixed rental income adjustments	999	729
Capitalised lease incentive adjustments	645	20
Rental income deferred and abated due to COVID-19	984	–
less: Service charge expenses	(6,101)	(6,277)
Net rental income	41,591	40,958

2.6. 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 and to material damage is presented in the Consolidated Statement of Comprehensive Income. Further insurance proceeds are expected to be received and recognised in subsequent periods.

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

All VALUES IN $000s	UNAUDITED 30 June 2020	AUDITED 31 December 2019
Bilateral CBA bank facility drawn down - non-current	50,000	–
Syndicated bank facility drawn down - non-current	172,280	215,576
Fixed rate bonds - non-current	200,000	200,000
Unamortised borrowings establishment costs	(2,448)	(2,628)
Net borrowings	419,832	412,948
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.17%	4.63%
Weighted average term to maturity (years)	3.42	4.14

(ii) Composition of borrowings

All VALUES IN $000s As at 30 June 2020	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	UNAUDITED Fair Value
Bilateral CBA Bank Facility	–	18–Sep–21	Floating	50,000	–	50,000
Bank Facility A	–	4–Nov–22	Floating	150,000	–	150,000
Bank Facility B	–	4–Nov–23	Floating	22,280	127,720	22,280
PFI010	28–Nov–17	28–Nov–24	4.59%	100,000	–	110,804
PFI020	1–Oct–18	1–Oct–25	4.25%	100,000	–	109,803
Total borrowings				422,280	127,720	442,887

All VALUES IN $000s As at 30 June 2019	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	AUDITED Fair Value
Bank Facility A	–	4–Nov–22	Floating	150,000	–	150,000
Bank Facility B	–	4–Nov–23	Floating	65,576	84,424	65,576
PFI010	28–Nov–17	28–Nov–24	4.59%	100,000	–	107,924
PFI020	1–Oct–18	1–Oct–25	4.25%	100,000	–	106,392
Total borrowings				415,576	84,424	429,892

The Group has long-term revolving facilities (A and B) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), Commonwealth Bank of Australia (CBA) and Westpac New Zealand Limited (Westpac) (each providing $75,000,000), for $300,000,000. In addition, a short-term bilateral facility with CBA for $50,000,000 was established during the period. The carrying values of the bank facilities approximate the fair value of the facilities because the loans have floating rates of interest that reset every 30-90 days.

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 (2019: 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. Both bonds are listed on the NZDX.

3. FUNDING (CONTINUED)

3.1. Borrowings (continued)

(iii) Security
The Group's bank facilities 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 $1,100,000,000 (31 December 2019: $1,000,000,000). In addition to this, the bank facility agreements and the fixed rate bond terms also contain a negative pledge. The Company and PFI No. 1 are guarantors to the bank facilities and the fixed rate bonds.

3.2. Derivative financial instruments

(i) Fair values

	UNAUDITED	AUDITED
ALL VALUES IN $000s	30 June 2020	31 December 2019
Non-current assets	22,897	13,212
Current liabilities	(792)	(840)
Non-current liabilities	(29,737)	(18,982)
Total	(7,632)	(6,610)

(ii) Notional values, maturities and interest rates

	UNAUDITED	AUDITED
	30 June 2020	31 December 2019
Notional value of interest rate swaps - fixed rate payer - start dates commenced ($000s)	295,000	245,000
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)	160,000	190,000
Total ($000s)	655,000	635,000
Percentage of borrowings fixed (%)	70%	59%
Fixed rate payer swaps:		
Average period to expiry - start dates commenced (years)	3.13	2.40
Average period to expiry - forward starting (years from commencement)	3.38	3.48
Average (years)	3.21	2.87
Fixed rate payer swaps:		
Average interest rate[2] - start dates commenced (%)	3.18%	3.75%
Average interest rate[2] - forward starting (% during effective period)	3.27%	3.32%
Average (%)	3.21%	3.55%

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

2 Excluding margin and fees.

Key estimates and assumptions: Derivative financial instruments
The fair value of derivative financial instruments are determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (31 December 2019: 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 2020 of between 0.30% for the 90 day BKBM (31 December 2019: 1.29%) and 0.735% for the 10 year swap rate (31 December 2019: 1.79%). 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

(i) Basic earnings per share

	UNAUDITED	UNAUDITED
	6 months ended 30 June 2020	6 months ended 30 June 2019
Total comprehensive income for the period attributable to the shareholders of the Company ($000s)	15,649	46,398
Weighted average number of ordinary shares (shares)	498,956,350	498,723,330
Basic earnings per share (cents)	3.14	9.30

(ii) Diluted earnings per share

The calculation of diluted earnings per share has been based on the profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Weighted average number of shares for the purpose of diluted earnings per share has been adjusted for 50,391 (30 June 2019: nil) rights issued under the Group's LTI Plan as at 30 June 2020. This adjustment has been calculated using the treasury share method.

	UNAUDITED	UNAUDITED
	6 months ended 30 June 2020	6 months ended 30 June 2019
Total comprehensive income for the period attributable to the shareholders of the Company ($000s)	15,649	46,398
Weighted average number of shares for purpose of diluted earnings per share (shares)	499,007,281	498,723,330
Diluted earnings per share (cents)	3.14	9.30

4.2. Net tangible assets per share

	UNAUDITED	AUDITED	UNAUDITED
	30 June 2020	31 December 2019	30 June 2019
Net assets ($000s)	1,052,741	1,054,037	942,082
Less: Goodwill ($000s)	(29,086)	(29,086)	(29,086)
Net tangible assets ($000s)	1,023,655	1,024,951	912,996
Closing shares on issue (shares)	499,854,714	498,723,330	498,723,330
Net tangible assets per share (cents)	205	206	183

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

ALL VALUES IN $000s	UNAUDITED 6 months ended 30 June 2020	UNAUDITED 6 months ended 30 June 2019
Audit fees and other fees paid to auditors	57	42
Employee expense	1,546	1,426
Directors' fees	290	182
Office expenses	309	224
Depreciation	84	52
Other expenses	415	506
Total administrative expenses	2,701	2,432

5. OTHER (CONTINUED)

5.2. Taxation

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

ALL VALUES IN $000s	UNAUDITED 6 months ended 30 June 2020	UNAUDITED 6 months ended 30 June 2019
Profit before income tax	21,478	52,847
Prima facie income tax calculated at 28%	(6,014)	(14,797)
Adjusted for:		
Non-tax deductible revenue and expenses	(75)	(4)
Fair value (loss) / gain on investment properties	(2,185)	6,566
Gain on disposal of investment properties	(4)	(16)
Depreciation	2,177	1,280
Disposal of depreciable assets	–	17
Deductible capital expenditure	1,143	128
Lease incentives, fees and fixed rental income	380	194
Derivative financial instruments	(286)	363
Impairment (allowance) / gains	(115)	4
Current tax prior period adjustment	8	(57)
Other	275	–
Current taxation expense	(4,696)	(6,322)
Current year tax losses (utilised) / carried forward	–	–
Depreciation	(877)	498
Lease incentives, fees and fixed rental income	(410)	(260)
Derivative financial instruments	286	(363)
Impairment (allowance) / gains	63	(4)
Other	(195)	2
Deferred taxation expense	(1,133)	(127)
Total taxation reported in Consolidated Statement of Comprehensive Income	(5,829)	(6,449)

As part of the assistance package offered by the Government on 25 March 2020, depreciation allowances were re-introduced for commercial building structure effective from 1 April 2020, and this has been reflected in the table above.

5. OTHER (CONTINUED)

5.2. Taxation (continued)

(ii) Deferred tax

ALL VALUES IN $000s	AUDITED 31 December 2019 As at	UNAUDITED 6 months ended 30 June 2020 Recognised in profit	UNAUDITED 30 June 2020 As at
Deferred tax assets			
Derivative financial instruments	(1,851)	(286)	(2,137)
Impairment allowance	(20)	(63)	(83)
Other	(63)	144	81
Gross deferred tax assets	(1,934)	(205)	(2,139)
Deferred tax liabilities			
Investment properties	15,119	1,287	16,406
Gross deferred tax liabilities	15,119	1,287	16,406
Net deferred tax liability	13,185	1,082	14,267

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, was also a Director of ASB Bank Limited (ASB), a 100% subsidiary of CBA, during the periods presented in these financial statements, however she resigned from this position effective 30 June 2020.
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 2020	UNAUDITED 6 months ended 30 June 2019
Directors' fees - annual fees	Directors	290	182
Licence income received	MRCO	–	50
Related party debts written off or forgiven	–	–	–
Interest expense and bank fees incurred	CBA	(1,082)	(1,025)
Interest income received	CBA	482	259

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 2020	31 December 2019
Amounts owing	CBA	(274)	(246)
Amounts owed	CBA	116	79
Bank facility provided	CBA	125,000	75,000
Bank facility drawn	CBA	93,070	53,894
Notional value of interest rate swaps:			
Current fixed rate payer swaps	CBA	60,000	50,000
Forward starting fixed rate payer swaps	CBA	50,000	50,000
Current fixed rate receiver swaps	CBA	50,000	50,000
Shares held beneficially in the company (number)	Directors	193,632	191,371
Shares held non-beneficially in the company (number)	Directors	–	110,825

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	AUDITED
ALL VALUES IN $000s	30 June 2020	31 December 2019
Right-of-use assets[1]		
Properties	269	314
Total right-of-use assets	269	314

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

ALL VALUES IN $000S	30 June 2020	31 December 2019
Lease liabilities		
Current[2]	88	85
Non-current[3]	195	240
Total lease liabilities	283	325

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 'Lease liabilities' in the Consolidated Statement of Financial Position.

5. OTHER (CONTINUED)

5.4. Leases (continued)

(ii) Amounts recognised in the Consolidated Statement of Compr>ensive Income

The Consolidated Statement of Comprehensive Income shows the following amounts relating to leases:

	UNAUDITED	UNAUDITED
ALL VALUES IN $000s	6 months ended 30 June 2020	6 months ended 30 June 2019
Depreciation charge of right-of-use assets[4]		
Properties	(45)	(45)
Total depreciation charge of right-of-use assets	(45)	(45)

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

	UNAUDITED	UNAUDITED
ALL VALUES IN $000s	6 months ended 30 June 2020	6 months ended 30 June 2019
Interest cost[5]	(13)	(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 2020 was $55,000 (2019: $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 2020, the Group had capital commitments totalling $68,787,000 (31 December 2019: $81,490,000) as follows:

ALL VALUES IN $000s		30 June 2020	31 December 2019
Address	**Project**		
314 Neilson Street	Design and build	2,014	4,677
47 Dalgety Drive[6]	Design and build	286	8,123
59 Dalgety Drive	Refurbishment	5,849	6,592
25 Langley Road	Acquisition of warehouse on completion of construction	7,532	7,532
6 Donnor Place	Refurbishment	–	1,412
Lot 1, 88 Tidal Road	Acquisition	18,970	18,984
Lot 11, 88 Tidal Road	Acquisition	34,136	34,170
Total capital commitments		68,787	81,490

6 As part of the Group's immediate response to COVID-19 the new build project at 47 Dalgety Drive has been put on hold. The above capital commitment relates to the conversion of the surplus land into a metalled yard.

5.7. Subsequent events

As noted in section 1.5, on 7 July 2020, the Group announced the divestment of 127 Waterloo Road, Christchurch for a gross sales price of $4.410 million. Settlement is expected to take place in April 2021, and this property has been classified as a non-current asset classified as held for sale in these financial statements.

On 12 August 2020, all regions in New Zealand, except for the Auckland region, moved to Alert Level 2 (Auckland region: Alert Level 3) for a period of two weeks in response to several cases of community transmission of COVID-19, following an extended period with no cases. At this stage the impact is unknown.

On 4 September 2020, the Directors of the Company approved the payment of a net dividend of $8,997,000 (1.8000 cents per share) to be paid on 22 September 2020. The gross dividend (2.2906 cents per share) carries imputation credits of 0.4906 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 2020 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 18, which comprise the consolidated statement of financial position as at 30 June 2020, 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 services for the Group in the area of voting procedures over the annual shareholders' meeting. 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 2020, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

Emphasis of Matter – Material valuation uncertainty related to valuation of property

We draw your attention to note 2.1 to the interim financial statements, where the Company discloses that the independent registered valuers have included a 'material valuation uncertainty' clause in their 30 June 2020 valuation reports, as a result of the COVID-19 pandemic. This clause highlights there was reduced liquidity in the property market and a lack of transactional evidence to demonstrate market prices. Therefore, less certainty and a higher degree of caution should be attached to the property values than would normally be the case. Our opinion is not modified in respect of this matter.

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 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

4 September 2020

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