

Stride Property Group

Interim Report
For the six months ended
30 September 2017

SPG

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Highlights

Strong growth in **real estate investment management** business contributing to **23% of total revenue**¹

66% of **total revenue** derived from wholly owned properties

11% of **total revenue** derived from investments in associates

38.8% Loan to value ratio

\$33.3m Profit after income tax

\$19.7m Distributable profit² after income tax

9.91cps combined Stride Property Group cash dividend targeted for FY18

¹ Total revenue represents net rental income from Stride Property Limited (Stride), net rental income from interest in associates and total management fee income from Stride Investment Management Limited, including management fee income from Stride, which is eliminated at consolidation in the Consolidated Interim Financial Statements. This is a non-GAAP measure.

² Distributable profit is a non-GAAP measure and consists of profit/(loss) before income tax, adjusted for 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 profit before income tax, is set out in note 7 to the financial statements on page 24.

Stride Property Group's Leading Business Model

Stride Property Group's (Group) strategic approach sets it apart from other New Zealand property companies. The Group's vision is to be New Zealand's leading property investor and manager by delivering on its core purpose — to invest in and manage portfolios of places that attract the highest demand and deliver market-leading returns to its shareholders.

The restructure in 2016 established the stapled group comprising Stride Property Limited (Stride) and Stride Investment Management Limited (SIML). The Group generates revenue from discrete but complementary activities. SIML, an investment management business, is a significant growth area for the Group's business, and draws on the specialist expertise contained within the company. Stride holds the Group's wholly owned property portfolio and its co-investment holdings, and applies its capital to invest in and develop great places.

In addition to its unique structure, the Group has four strategic priorities to deliver market-leading returns to its shareholders.

A focus on "Places" entails astute investment in carefully selected portfolios of outstanding properties that reward everyone connected with them. This selection leverages the core skills and experience of SIML, across a wide range of specialist property-related activities, including management, development and leasing expertise, as well as constant evaluation of properties that offer the best investment growth potential.

For this reason, "People" are a key priority. Property professionals who have a deep industry knowledge, are discipline driven, nimble performers and fresh thinkers, are actively recruited and retained to carry out SIML's essential roles. Entrepreneurship together with performance excellence, are critical factors in achieving the accelerated growth that the Group has achieved in recent years.

The third strategic priority is "Products". These are sustainable investment management products that are created and managed by SIML on behalf of the Group's shareholders, with particular attention given to delivering the right products in the right places in a way that delivers the best results for different types of investors and sectors, and which takes advantage of changing market conditions and dynamics.

"Performance" is the fourth strategic priority for the Group and is a critical indicator of its overall success. The Group targets high, long-term demand and consistently strong returns, irrespective of market variability.

The combination of these factors will enable the Group to deliver on its long-term vision to be New Zealand's leading property investor and manager.

Each of Stride, SIML and the Group has been designated as "Non-Standard" (NS) issuers by NZX. The implications of investing in stapled securities are set out on page 39 of this report.

Full details of the waivers granted by NZX in respect of the Group can be found at www.nzx.com/companies/SPG.



NorthWest Shopping Centre dining precinct

Owned and Managed Properties

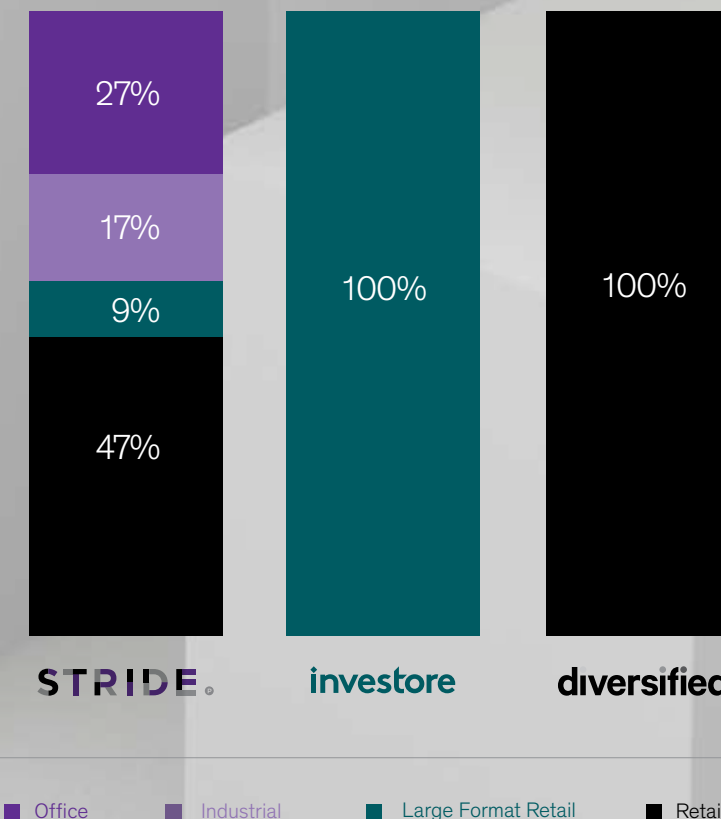
	Value of Investment Properties ¹	Number of Investment Properties	Investment in managed entities
STRIDE.	\$919 ² million	29 ³	—
investore	\$663 million	39	19.9% held by Stride
diversified	\$523 million	4 ³	2% held by Stride
Total	\$2,105 million	71³	—

¹ Stride and Investore valuations are as at 30 September 2017. Diversified NZ Property Trust (Diversified) valuations are as at 31 March 2017.

² Includes NorthWest Two, Auckland, which is classified as inventory and 15 Rockridge Avenue, Auckland, which is classified as work in progress in the financial statements. Refer to notes 10 and 11 to the Consolidated Interim Financial Statements on pages 29 and 30.

³ Includes Johnsonville Shopping Centre, Wellington, which is owned 50/50 by Stride and Diversified.

Portfolio Composition (by Contract Rental¹)



¹ 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 30 September 2017, annualised for the 12 month period on the basis of the occupancy level for the relevant property as at 30 September 2017, and assuming no default by the tenant.

A Diverse and Growing Portfolio

Stride's portfolio comprises the principal sub-sectors of the New Zealand property market: commercial offices, industrial properties and retail.

Transactions

SIML completed 92 transactions over 119,633m² in the first half of this financial year for Stride. Leasing transactions of note include a new 12 year lease to Meridian Energy at 33 Customhouse Quay, Wellington, and the letting up of 4,100m² of vacant space at 460 Rosebank Road, Auckland. Significant lease renewals also completed include New Zealand Post at 15 Ride Way, Auckland (6 years), Department of Internal Affairs at 22 The Terrace, Wellington (3 years), and Tasman Liquor at 22 Ha Crescent, Auckland (3 years).

The leasing activity in the first half of this financial year has increased occupancy of Stride's portfolio from 96.8% as at 31 March 2017 to 98.2% as at 30 September 2017. The remaining expiries in this financial year have been reduced from 10.21% as at 31 March 2017 to 6.38% as at 30 September 2017 and the weighted average lease term (WALT) has been maintained at 4.9 years.

Industrial

Stride is an active participant in the industrial market with a portfolio of high-quality industrial properties valued at \$201 million, all located in Auckland. This market has experienced significant value growth, with quality properties, such as those in Stride's portfolio, being highly

sought after by investors and occupiers alike. As a result of this high demand and accompanying rental growth, the portfolio is well positioned to gain from the strong Auckland property market.

Industrial development is a key strength of Stride, having developed over one third of its portfolio, and with a number of new initiatives underway. Due to be completed later this financial year, a \$13.3 million development at 15 Rockridge Avenue, Auckland, comprising over 8,000m², is attracting strong interest from lessees. Located adjacent to Auckland's main arterial routes, this development is the final building forming part of a wider industrial estate wholly developed by Stride, which will have an estimated value on completion of \$80 million. The industrial estate comprises six buildings providing a net lettable area of over 35,000m².

Office

Stride's \$218 million office portfolio comprises a quarter of Stride's wholly-owned properties, with properties located in the main centres of Auckland and Wellington.

This portfolio delivers a wide-ranging income stream from high-quality tenants such as government agencies and leading corporates. Leasing activity in the first half of this financial year has resulted in an increase in the WALT from 4.3 years as at 31 March 2017 to 4.9 years as at 30 September 2017, with 99.8% occupancy and no major lease expiries remaining in the financial year.

Retail

Retail remains an important part of Stride's overall property portfolio, with retail centres and standalone large format retail properties valued at \$500 million as at 30 September 2017. 93% of the retail centre portfolio is located in the high-growth regions of Auckland and Tauranga, with nearly

two thirds of the properties having been developed by Stride.

The diversity and quality of properties in Stride's portfolio provides a strong foundation for the continued growth of both its investment and real estate management businesses.



Chairman's and Chief Executive's Report

The new corporate structure put in place in 2016 continues to deliver significant growth for Stride Property Group, with all the principal business indicators showing marked gains in line with our forecasts.

While the previous financial year was one of transformation, the first half of the 2018 financial year was most notable for growth in the Group's real estate investment management business and a strengthening of the total value and medium-to long-term outlook for its investment properties.

Stride Investment Management Limited (SIML) manages \$2.1 billion of investment property across three portfolios, one of which is wholly-owned by Stride Property Limited (Stride) and two of which are investment management products.

Revenue from the Stride wholly-owned portfolio accounted for 66% of total group revenue in the first half of the year, with investment management services contributing 23% and investments in Investore Property Limited (Investore) and Diversified NZ Property Trust providing 11% of total revenue. As was forecast at the time of the restructure, the investment management business is providing an increasing share of revenue and is an area of the business expected to continue to grow, as it has done in the first six months of this year.

SIML is focused on continuing to build a high-performing, sustainable investment management business. Investore, which was demerged from Stride and listed on the NZX Main Board last year, is an excellent example of this. Investore exhibits an enduring, quality investment structure that has been purposefully designed to deliver a sustainable, single sector-oriented product to its shareholders. The focus, over time, will be to continue to hold both a diversified set of investments in property across a range of funds, together with a high-functioning and profitable investment management business that services these investments.

To accelerate Stride Property Group's momentum, several senior management appointments were made during the first half of the year. Philip Littlewood was appointed Chief Executive Officer, recognition of his critical contribution to Stride Property Group's strategic direction in his previous role as General Manager Investment Management. Mark Luker commenced in October 2017 as General Manager Development, bringing extensive experience in the property development and investment industry, particularly in large-scale retail and commercial development projects. Louise Hill joined the Group in November this year in the newly created position of General Manager Corporate Services, and will also take on the role of Company Secretary.

Philip Ling, an experienced CEO, business leader and executive board member in New Zealand, Australia and Asia, was appointed to the Boards of each of Stride and SIML in June. Philip has over 30 years' experience in funds and property management in both listed and unlisted entities, and will significantly complement and strengthen the Boards' capabilities.

The industrial development at 15 Rockridge Avenue, Auckland, is progressing on time, and is attracting strong interest

from prospective tenants. A further \$43 million redevelopment at 11 Springs Road, Auckland, with Waste Management NZ Limited (Waste Management), has been announced and when complete, Waste Management will commit to an initial 25 year lease with Stride.

The first half of the 2018 financial year has been in line with forecasts set out at the time of the listing, and Stride Property Group is targeting a combined cash dividend of 9.91 cps for the full year.




Tim Storey
Chairman




Philip Littlewood
Chief Executive

Consolidated Interim Financial Statements

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Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2017

	Notes	Unaudited 6 Months 30 Sep 17 \$'000	Unaudited 6 Months 30 Sep 16 \$'000	Audited 12 Months 31 Mar 17 \$'000
Rental income	4	33,078	32,551	64,564
Direct property operating expenses		(4,388)	(3,081)	(6,634)
Net rental income		28,690	29,470	57,930
Management fee income	16	6,458	2,288	8,541
Less corporate expenses				
Corporate overhead expenses		(4,727)	(4,350)	(8,976)
Administration expenses		(1,474)	(1,610)	(3,026)
One-off project costs		–	(3,149)	(3,510)
Total corporate expenses		(6,201)	(9,109)	(15,512)
Profit before net finance expenses, other income/(expenses) and income tax from continuing operations		28,947	22,649	50,959
Finance income		200	162	327
Finance expenses		(8,424)	(8,739)	(17,157)
Net finance expenses	6	(8,224)	(8,577)	(16,830)
Profit before other income/(expenses) and income tax from continuing operations		20,723	14,072	34,129
Other income/(expenses)				
Net change in fair value of investment properties	9,10	14,422	11,639	22,484
Other income – insurance recoveries	5	1,219	–	–
Gain/(loss) on disposal of investment properties		–	127	(18)
Share of profit/(loss) in associates		2,477	596	5,358
Net change in fair value of other investments		–	121	121
Profit before income tax from continuing operations		38,841	26,555	62,074
Income tax expense	12	(5,552)	(2,453)	(7,871)
Profit after income tax from continuing operations		33,289	24,102	54,203
Loss from discontinued operations	3	–	(869)	(869)
Profit attributable to shareholders		33,289	23,233	53,334
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Movement in cash flow hedges, net of tax	15	(364)	(456)	3,166
Changes in cash flow hedge reserve in associates	15	(284)	408	1,033
Other comprehensive income arising from discontinued operations		–	2,050	2,050
Total other comprehensive income after tax		(648)	2,002	6,249
Total comprehensive income after tax attributable to shareholders		32,641	25,235	59,583
Stride total comprehensive income after tax attributable to shareholders		29,540	23,210	54,745
SIML total comprehensive income after tax attributable to shareholders		3,101	843	3,657
Total comprehensive income after tax attributable to shareholders from continuing operations		32,641	24,054	58,402
Total comprehensive income after tax from discontinued operations		–	1,181	1,181
Total comprehensive income after tax attributable to shareholders		32,641	25,235	59,583
Earnings per share from continuing operations	15			
Basic earnings per share (cents)		9.12	6.61	14.87
Diluted earnings per share (cents)		9.12	6.60	14.85
Earnings per share from continuing and discontinued operations	15			
Basic earnings per share (cents)		9.12	6.37	14.63
Diluted earnings per share (cents)		9.12	6.37	14.61

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 2017

	Share capital \$000	Retained earnings \$000	Other reserves \$000	Total \$000
Balance at 31 Mar 16 (Audited)	633,449	96,340	(10,373)	719,416
Transactions with shareholders:				
Demerger of shares in Investore Property Limited	(134,155)	–	–	(134,155)
Dividends paid	–	(37,502)	–	(37,502)
Share issue expenses	(2)	–	–	(2)
Transfer to share capital on vesting of employee long term incentive plan	682	–	(682)	–
Share based payment expense	–	–	518	518
Total transactions with shareholders	(133,475)	(37,502)	(164)	(171,141)
Other comprehensive income:				
Movement in cash flow hedges, net of tax	–	–	5,216	5,216
Change in cash flow hedge reserve in associates	–	–	1,033	1,033
Total other comprehensive income	–	–	6,249	6,249
Profit after income tax	–	53,334	–	53,334
Total comprehensive income	–	53,334	6,249	59,583
Balance at 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 at 30 Sep 17 (Unaudited)	500,205	127,577	(4,962)	622,820
Balance at 31 Mar 16 (Audited)	633,449	96,340	(10,373)	719,416
Transactions with shareholders:				
Demerger of shares in Investore Property Limited	(134,155)	–	–	(134,155)
Dividends paid	–	(19,936)	–	(19,936)
Share issue expenses	(2)	–	–	(2)
Transfer to share capital on vesting of employee long term incentive plan	178	–	(178)	–
Share based payment expense	–	–	223	223
Total transactions with shareholders	(133,979)	(19,936)	45	(153,870)
Other comprehensive income:				
Movement in cash flow hedges, net of tax	–	–	1,594	1,594
Change in cash flow reserve in associates	–	–	408	408
Total other comprehensive income	–	–	2,002	2,002
Profit after income tax	–	23,233	–	23,233
Total comprehensive income	–	23,233	2,002	25,235
Balance at 30 Sep 16 (Unaudited)	499,470	99,637	(8,326)	590,781

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 2017

	Notes	Unaudited 30 Sep 17 \$000	Unaudited 30 Sep 16 \$000	Audited 31 Mar 17 \$000
Current assets				
Cash and cash equivalents		5,345	5,262	5,961
Trade and other receivables		2,316	569	1,854
Prepayments		687	958	331
Other current assets		374	206	158
Inventory – development property	11	36,269	30,594	36,247
		44,991	37,589	44,551
Non-current assets				
Investment properties	9	871,770	846,190	859,045
Work in progress	10	11,491	611	1,349
Other investments		85,323	81,778	85,338
Loan to associate		3,397	3,397	3,397
Intangible asset		601	–	74
Property, plant and equipment		913	862	906
		973,495	932,838	950,109
Total assets		1,018,486	970,427	994,660
Current liabilities				
Trade and other payables		15,328	16,517	15,620
Current tax		664	1,460	1,817
Derivative financial instruments	13	466	1,171	1,264
		16,458	19,148	18,701
Non-current liabilities				
Bank borrowings	14	356,194	337,180	347,021
Deferred tax liability		14,906	11,584	14,173
Derivative financial instruments	13	8,108	11,734	6,907
		379,208	360,498	368,101
Total liabilities		395,666	379,646	386,802
Net assets		622,820	590,781	607,858
Share capital	15	500,205	499,470	499,974
Retained earnings		127,577	99,637	112,172
Other reserves	15	(4,962)	(8,326)	(4,288)
Equity		622,820	590,781	607,858
Stride equity		621,443	589,940	607,044
SIML equity (non-controlling interest)		1,377	841	814
Total equity		622,820	590,781	607,858

For and on behalf of the Board of Directors of Stride Property Limited and Stride Investment Management Limited, dated 23 November 2017:



Tim Storey
Chairman



John Harvey
Director

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 2017

	Notes	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Cash flows from operating activities				
Rent received		33,544	38,208	72,500
Management fee income		6,834	2,756	8,757
Interest received		125	115	285
Other income received – insurance recoveries		398	–	–
Dividends received		–	–	4
Interest paid		(8,582)	(10,573)	(18,939)
Operating expenses		(11,645)	(8,611)	(19,108)
Goods and services tax		151	(440)	86
Income tax paid		(5,758)	(4,965)	(8,656)
Net cash provided by operating activities	8	15,067	16,490	34,929
Cash flows from investing activities				
Dividend income from investments		2,209	–	1,827
Capital expenditure on investment properties		(7,346)	(3,282)	(6,768)
Inventory – development property expenditure		(1,092)	(15,777)	(23,799)
Property, plant and equipment purchased		(143)	(164)	(408)
Intangible asset expenditure		(527)	–	–
Proceeds from disposal of investment properties		–	70,337	70,337
Acquisition of investments		–	(12,440)	(12,440)
Net cash (applied to)/provided by investing activities		(6,899)	38,674	28,749
Cash flows from financing activities				
Drawdown on bank borrowings		9,100	35,800	46,152
Dividends paid		(17,884)	(19,936)	(37,502)
Repayment of bank borrowings		–	(70,850)	(71,450)
Share issue expenses		–	(2)	(3)
Net cash applied to financing activities		(8,784)	(54,988)	(62,803)
Net (decrease)/increase in cash and cash equivalents held		(616)	176	875
Opening cash and cash equivalents		5,961	5,086	5,086
Closing cash and cash equivalents		5,345	5,262	5,961

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 2017

Note 1: Accounting Policies

Reporting entity

The unaudited consolidated interim financial statements (financial statements) presented are those of Stride Property Limited (Stride) and Stride Investment Management Limited (SIML), each of Stride and SIML being a “Stapled Entity”, and together the Stride Property Group. 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 Property Group, Stride has been identified as the parent for the purposes of preparing the consolidated financial statements.

Shares of Stride and SIML are stapled and quoted on the Main Board equity securities market of NZX under the ticker code SPG. Stride is principally involved in the ownership of investment properties in New Zealand and SIML is principally involved in the management of real estate investment entities in New Zealand.

The financial statements were approved for issue by the Board of Directors of Stride (Stride Board) and the Board of Directors of SIML (SIML Board), together the “Boards”, on 23 November 2017.

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: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*. Stride Property Group is a for-profit entity for the purposes of 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 2017 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.

Significant accounting policies, estimates and judgements

The same accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual audited financial statements for Stride Property Group.

Reclassification of financial information

Certain 30 September 2016 balances have been reclassified to reflect discontinued operations. These reclassifications have no impact on the overall financial performance or financial position for the comparative period.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 2: 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 respective Board of each of Stride and SIML, as each makes all key strategic resource allocation decisions (such as those concerning acquisition, divestment and significant capital expenditure). Stride Property Group consists of two operating segments, being Stride and SIML.

Stride's revenue streams are earned from investment properties owned in New Zealand, with no specific exposure to geographical risk. Given Stride'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 (Investore), Diversified NZ Property Trust (Diversified Trust) and Stride. For the revenue earned from these entities, refer to note 16 on related party disclosures.

The following is an analysis of Stride Property Group's results for the six months ended 30 September 2017 and 30 September 2016 and the 12 months ended 31 March 2017 by reportable segments.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 2: Operating Segments (Continued)

Segment profit	Stride \$000	Stride eliminations \$000	SIML \$000	SIML eliminations \$000	Unaudited 6 Months 30 Sep 17 \$000
Net rental income	28,308	382	–	–	28,690
Management fee income	–	–	9,878	(3,420)	6,458
Less corporate expenses					
Corporate overhead expenses	4	–	(4,731)	–	(4,727)
Administration expenses	(3,449)	2,738	(763)	–	(1,474)
Total corporate expenses	(3,445)	2,738	(5,494)	–	(6,201)
Profit before net finance expenses, other income and income tax	24,863	3,120	4,384	(3,420)	28,947
Finance income	195	–	5	–	200
Finance expenses	(8,415)	–	(9)	–	(8,424)
Net finance expenses	(8,220)	–	(4)	–	(8,224)
Profit before other income and income tax	16,643	3,120	4,380	(3,420)	20,723
Other income/(expenses)					
Net change in fair value of investment properties	14,133	289	–	–	14,422
Other income – insurance recoveries	1,219	–	–	–	1,219
Share of profit in associates	2,477	–	–	–	2,477
Profit before income tax	34,472	3,409	4,380	(3,420)	38,841
Income tax expense	(4,273)	–	(1,279)	–	(5,552)
Profit after income tax attributable to shareholders	30,199	3,409	3,101	(3,420)	33,289
Total other comprehensive income after tax	(648)	–	–	–	(648)
Total comprehensive income after tax attributable to shareholders	29,551	3,409	3,101	(3,420)	32,641

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 2: Operating Segments (Continued)

Segment profit	Stride \$000	Stride eliminations \$000	SIML \$000	SIML eliminations \$000	Unaudited 6 Months 30 Sep 16 \$000
Net rental income	29,470	–	–	–	29,470
Management fee income	193	–	3,716	(1,621)	2,288
Less corporate expenses					
Corporate overhead expenses	(570)	–	(3,780)	–	(4,350)
Administration expenses	(3,627)	2,311	(294)	–	(1,610)
One-off project costs	(3,149)	–	–	–	(3,149)
Total corporate expenses	(7,346)	2,311	(4,074)	–	(9,109)
Profit before net finance expenses, other income/(expenses) and income tax	22,317	2,311	(358)	(1,621)	22,649
Finance income	160	–	1,148	(1,146)	162
Finance expense	(8,739)	–	–	–	(8,739)
Net finance expenses	(8,579)	–	1,148	(1,146)	(8,577)
Profit before other income/(expenses) and income tax	13,738	2,311	790	(2,767)	14,072
Other income/(expenses)					
Net change in fair value of investment properties	11,184	455	–	–	11,639
Gain on disposal of investment properties	127	–	–	–	127
Net change in fair value of other investments	121	–	–	–	121
Share of profit in associates	596	–	–	–	596
Profit before income tax	25,766	2,766	790	(2,767)	26,555
Income tax expense	(2,506)	–	53	–	(2,453)
Profit after income tax attributable to shareholders	23,260	2,766	843	(2,767)	24,102
Total other comprehensive income after tax	(48)	–	–	–	(48)
Total comprehensive income after tax attributable to shareholders	23,212	2,766	843	(2,767)	24,054

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 2: Operating Segments (Continued)

Segment profit	Stride \$000	Stride eliminations \$000	SIML \$000	SIML eliminations \$000	Audited 12 Months 31 Mar 17 \$000
Net rental income	57,789	141	–	–	57,930
Management fee income	194	–	13,084	(4,737)	8,541
Less corporate expenses					
Corporate overhead expenses	(561)	–	(8,415)	–	(8,976)
Administration expenses	(7,071)	4,913	(868)	–	(3,026)
One-off project costs	(3,277)	–	(233)	–	(3,510)
Total corporate expenses	(10,909)	4,913	(9,516)	–	(15,512)
Profit before net finance expenses, other income/(expenses) and income tax	47,074	5,054	3,568	(4,737)	50,959
Finance income	320	–	1,152	(1,145)	327
Finance expenses	(17,157)	–	–	–	(17,157)
Net finance expenses	(16,837)	–	1,152	(1,145)	(16,830)
Profit before other income/(expenses) and income tax	30,237	5,054	4,720	(5,882)	34,129
Other income/(expenses)					
Net change in fair value of investment properties	22,268	216	–	–	22,484
Loss on disposal of investment properties	(18)	–	–	–	(18)
Net change in fair value of other investments	121	–	–	–	121
Share of profit in associates	5,358	–	–	–	5,358
Profit before income tax	57,966	5,270	4,720	(5,882)	62,074
Income tax expense	(6,808)	–	(1,063)	–	(7,871)
Profit after income tax attributable to shareholders	51,158	5,270	3,657	(5,882)	54,203
Total other comprehensive income after tax	4,199	–	–	–	4,199
Total comprehensive income after tax attributable to shareholders	55,357	5,270	3,657	(5,882)	58,402

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 2: Operating Segments (Continued)

The management fees paid from Stride to SIML are eliminated on consolidation and therefore do not appear in the consolidated statement of comprehensive income for the Stride Property Group.

Segment assets and liabilities	Stride \$000	Stride eliminations \$000	SIML \$000	SIML eliminations \$000	Total \$000
Unaudited 30 Sep 17					
Total assets	1,015,520	(624)	3,585	5	1,018,486
Total liabilities	393,448	5	2,213	-	395,666
Unaudited 30 Sep 16					
Total assets	969,255	-	1,378	(206)	970,427
Total liabilities	379,316	(206)	536	-	379,646
Audited 31 Mar 17					
Total assets	992,409	(612)	2,958	(95)	994,660
Total liabilities	384,753	(95)	2,144	-	386,802

Note 3: Discontinued Operations

The demerger of Investore Property Limited (Investore)

The demerger of Investore from Stride occurred on 11 July 2016 by Stride distributing the ordinary shares that it held in Investore to Stride shareholders. This is referred to as an in specie distribution. Stride has retained a 19.9% holding in Investore.

Refer to the audited financial statements for the year ended 31 March 2017 that presented the financial performance and cash flow information for the period ended 11 July 2016, the date of demerger.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 4: Rental Income

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Rental income	32,917	32,731	65,205
Capitalised lease incentives	579	714	649
Lease incentive amortisation	(414)	(459)	(1,024)
Spreading of fixed rental income amortisation	(4)	(435)	(266)
Total rental income from continuing operations	33,078	32,551	64,564
Rental income from discontinued operations	-	6,232	6,232
Rental income from continuing and discontinued operations	33,078	38,783	70,796

Note 5: Other Income – Insurance Recoveries

Income in respect of insurance proceeds is only recognised when Stride has a valid claim under an insurance policy and the claim can be reliably measured.

On 26 May 2017, the Stride property at 7-9 Fanshawe Street, Auckland, sustained some fire damage.

Stride received a payment of \$398,122 and has a further receivable of \$805,191 (excluding GST), classified as trade and other receivables as at 30 September 2017, from its insurers as progress payments of its outstanding fire-related claims for the damages. The property has been revalued to \$8,700,000 as at 30 September 2017 (refer note 9), with a devaluation of \$1,662,285 recorded in the consolidated statement of comprehensive income as a component of net change in fair value of investment properties. The work is expected to be completed in November 2017.

Note 6: Net Finance Expenses

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Finance income			
Bank interest income	177	135	280
Other finance income	23	27	47
Finance income from continuing operations	200	162	327
Finance expenses			
Bank borrowings interest	(8,489)	(9,082)	(17,583)
Capitalised interest	65	343	426
Finance expenses from continuing operations	(8,424)	(8,739)	(17,157)
Net finance expenses from continuing operations	(8,224)	(8,577)	(16,830)
Net finance expenses from discontinued operations	-	(2,211)	(2,211)
Net finance expenses from continuing and discontinued operations	(8,224)	(10,788)	(19,041)

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 7: Distributable Profit

The Stapled Group'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 non-recurring and/or non-cash items, share of profits in associates, dividends received from associates and current tax.

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Profit before income tax (including discontinued operations)	38,841	29,966	65,485
Non-recurring and non-cash adjustments:			
Net change in fair value of investment properties	(14,422)	(11,639)	(22,484)
Loss/(gain) on disposal of investment properties	–	(127)	18
Net change in fair value of other investments	–	(121)	(121)
Share of profit in associates	(2,477)	(596)	(5,358)
Dividend income from associate	2,209	–	1,827
One-off project costs	–	3,149	3,510
Net rent free incentives	(165)	(255)	(266)
Net lease contribution incentives	239	173	425
Fixed rental income amortisation	4	304	191
Share based payment expense	205	223	518
Depreciation expense	136	107	233
Refinancing cost amortisation	73	630	717
Development fee income	299	455	828
Other income – insurance recoveries	(455)	–	–
Distributable profit before income tax	24,487	22,269	45,523
Current tax expense	(4,677)	(5,725)	(9,963)
Adjusted for:			
Tax expense on capitalised interest	(18)	(96)	(119)
Tax expense on depreciation (loss)/recovered on disposal of investment properties	(52)	2,830	2,828
Current tax expense on pre-demerger Investore Property Limited profit	–	(619)	(619)
Distributable profit after income tax	19,740	18,659	37,650
Adjustments to funds from operations:			
Maintenance capital expenditure	(2,653)	(2,701)	(5,810)
Adjusted Funds From Operations (AFFO)	17,087	15,958	31,840

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 7: Distributable Profit (Continued)

	Unaudited 6 Months 30 Sep 17	Unaudited 6 Months 30 Sep 16	Audited 12 Months 31 Mar 17
Weighted average number of shares for purpose of basic distributable profit per share (000)	364,949	364,424	364,443
Basic distributable profit after income tax per share – weighted (cents)	5.41	5.12	10.33
AFFO basic distributable profit after income tax per share – weighted (cents)	4.68	4.38	8.74
Weighted average number of shares for purpose of diluted distributable profit per share (000)	365,117	364,989	365,021
Diluted distributable profit after income tax per share – weighted (cents)	5.41	5.11	10.31
AFFO diluted distributable profit after income tax per share – weighted (cents)	4.68	4.37	8.72

Weighted average number of shares for the purpose of diluted distributable profit per share has been adjusted for 167,217 (30 Sep 2016: 564,914, 31 Mar 17: 564,914) remaining rights issued in July 2015 under the long term share incentive scheme four.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 8: Statement Of Cash Flows Reconciliation

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Reconciliation of profit after income tax attributable to shareholders to net cash from operating activities:			
Profit after income tax	33,289	23,233	53,334
Add/(less) non-cash items:			
Movement in deferred tax (note 12)	875	(3,272)	(2,092)
Net change in fair value of investment properties	(14,422)	(11,639)	(22,484)
Loss/(gain) on disposal of investment properties	–	(127)	18
Net change in fair value of other investments	–	(121)	(121)
Share of profit in associates	(2,477)	(596)	(5,358)
Movement in impairment provision	50	42	67
Capitalised lease incentives	(165)	(714)	(1,351)
Lease incentive amortisation	239	632	1,509
Spreading of fixed rental income amortisation	4	304	191
Amortisation of borrowing costs	73	630	717
Share based payment expense	205	223	518
Depreciation expense	136	107	233
Development fee income	299	455	216
Cash flow hedge reserve reclassification on demerger	–	3,550	3,550
	18,106	12,707	28,947
(Less)/add activity classified as investing activity:			
Movement in working capital items relating to investing activities	(706)	873	4,247
	17,400	13,580	33,194
Movement in working capital:			
(Increase)/decrease in trade and other receivables	(512)	369	(941)
(Increase)/decrease in prepayments and other current assets	(572)	(288)	387
(Decrease)/increase in trade and other payables	(96)	2,069	1,172
(Decrease)/increase in tax payable	(1,153)	760	1,117
Net cash provided by operating activities	15,067	16,490	34,929

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 9: Investment Properties

	Office \$000	Industrial \$000	Retail \$000	Large Format Retail \$000	Land/ Development \$000	Total \$000
Balance 31 Mar 16 (Audited)	209,450	169,325	369,335	466,550	2,100	1,216,760
Subsequent capital expenditure	3,980	673	1,442	18	304	6,417
Net capitalised incentives	(11)	(401)	(420)	–	–	(832)
Spreading of fixed rental income amortisation	41	(103)	269	(525)	–	(318)
Disposals	–	–	–	(11,300)	–	(11,300)
Net change in fair value	1,490	13,001	474	7,207	96	22,268
Demerger of properties to Investore Property Limited	–	–	–	(373,950)	–	(373,950)
Balance 31 Mar 17 (Audited)	214,950	182,495	371,100	88,000	2,500	859,045
Subsequent capital expenditure	1,752	37	1,292	13	–	3,094
Net capitalised incentives	2	(215)	(180)	–	–	(393)
Spreading of fixed rental income amortisation	135	(82)	94	(206)	–	(59)
Net change in fair value	1,061	5,860	3,294	193	(325)	10,083
Reclassification	–	(2,925)	–	–	2,925	–
Balance 30 Sep 17 (Unaudited)	217,900	185,170	375,600	88,000	5,100	871,770
Balance 31 Mar 16 (Audited)	209,450	169,325	369,335	466,550	2,100	1,216,760
Subsequent capital expenditure	2,078	524	896	–	300	3,798
Net capitalised incentives	65	(155)	6	–	–	(84)
Spreading of fixed rental income amortisation	(145)	(37)	(15)	(107)	–	(304)
Disposals	–	–	–	(11,300)	–	(11,300)
Demerger of properties to Investore Property Limited	–	–	–	(373,950)	–	(373,950)
Net change in fair value	3,202	2,748	5,113	107	100	11,270
Balance 30 Sep 16 (Unaudited)	214,650	172,405	375,335	81,300	2,500	846,190

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 9: Investment Properties (Continued)

In the current period, there was a reclassification of land from 25 O'Rorke Road, Auckland, to 15 Rockridge Avenue, Auckland, as part of the development of the final building forming part of the wider industrial estate development. The land was valued at \$2,925,000 as at 31 March 2017. There have been no acquisitions of investment properties in the current period.

Capital expenditure commitments contracted for

As at 30 September 2017, Stride had committed to \$4,369,068 (30 Sep 2016: \$2,502,000, 31 Mar 2017: \$1,759,031) in total for various capital expenditure works to be undertaken on a number of investment properties in this financial year and a further \$716,791 for capital expenditure works at 33 Customhouse Quay, Wellington, expected to be completed by 31 March 2020.

Subsequent to balance date, Stride has committed to a further \$375,619 in total for various capital expenditure works to be undertaken on a number of investment properties in this financial period.

On 21 November 2017, Stride agreed with Waste Management NZ Limited (Waste Management) to a new redevelopment project at 11 Springs Road, Auckland. 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 income. This transaction is subject to resource management consent and Overseas Investment Office approval (refer note 18).

Stride has no other material capital commitments as at 30 September 2017.

Valuation basis

The Stride Board has reviewed the fair value of the investment properties as at 30 September 2017 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 eleven investment properties which were subject to independent valuations due to significant capital expenditure works undertaken, contractual rental variance or which were considered to have asset specific issues to which the market was responding differently in the current period:

	Valuer	Unaudited 30 Sep 17 \$000	Audited 31 Mar 17 \$000
33 Corinthian Drive, Auckland	Bayleys	47,300	46,050
7 - 9 Fanshawe Street, Auckland	Colliers	8,700	9,500
33 Customhouse Quay, Wellington	CBRE	33,900	32,700
1 Grey Street, Wellington	CBRE	50,050	49,750
22 The Terrace, Wellington	CBRE	16,800	15,800
22 Ha Crescent, Auckland	Bayleys	13,300	10,700
8 Reg Savory Place, Auckland	CBRE	7,700	6,600
460 Rosebank Road, Auckland	Colliers	15,300	14,500
15 Ride Way, Auckland	Bayleys	11,050	9,950
Cnr Mt Wellington Highway & Penrose Road, Auckland	Colliers	36,500	35,100
61 Silverdale Street, Auckland	CBRE	93,100	90,000

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 9: Investment Properties (Continued)

These valuations were performed by independent registered valuers who hold an annual practising certificate with the Valuers Registration Board and are members of the New Zealand Institute of Valuers. The investment properties were valued by CIVAS Limited ("Colliers"), Bayleys Valuations Limited ("Bayleys"), and CBRE Limited ("CBRE"). These valuations are dated effective 30 September 2017. Valuers are engaged on terms ensuring no valuer values the same investment property for more than three consecutive years.

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 96.83% at balance date);
- average lease term (weighted average lease term ("WALT") at balance date is 5.23 years); and
- discount rates (ranged from 7.25% to 10.00%).

Capitalisation rates ranged from 5.75% to 10.50% for the investment properties valued.

In addition to the above eleven revaluations at 30 September 2017, the development, including land, at 15 Rockridge Avenue, Auckland, was independently valued by Jones Lang LaSalle Limited. This resulted in a devaluation of \$325,000 in land value and a \$4,181,340 revaluation movement in the work in progress value (refer note 10) recorded in the consolidated statement of comprehensive income as a component of net change in fair value of investment properties.

Investment property measurements are categorised as Level 3 in the fair value hierarchy as inputs for the valuations are not based on observable market data. During the period, there were no transfers of investment properties between levels of the fair value hierarchy.

Note 10: Work In Progress

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

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
15 Rockridge Avenue, Auckland	10,620	–	484
Johnsonville Shopping Centre, Wellington	871	611	865
Total work in progress	11,491	611	1,349

As at 30 September 2017, the development at 15 Rockridge Avenue, Auckland, was fair valued, with a resulting \$4,181,340 movement recorded in the consolidated statement of comprehensive income as a component of net change in fair value of investment properties. Stride has committed to \$6,875,138 to complete this development. The development is expected to be completed in January 2018.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 11: Inventory – Development Property

Stride'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 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
NorthWest Two, Auckland	36,269	30,594	36,247

NorthWest Two, a purpose-built main street retail environment, dining offer and office complex, opened in October 2016 opposite NorthWest Shopping Centre.

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

- Stride can obtain an initial 35 year ground lease from the landowner, WTCL, at no cost and there is no annual ground rental payable. Stride obtained a ground lease effective from 19 December 2014.
- WTCL can acquire the development from Stride within three years of the ground lease's effective date, at a price equal to 115% of Stride's total development cost, including holding costs.
- If WTCL does not acquire the development within the three year period, Stride can obtain freehold title to the land for \$1.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 12: Income Tax

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
The income tax expense is represented by			
Current tax	(4,677)	(5,725)	(9,963)
Deferred tax	(875)	3,272	2,092
Income tax expense per the consolidated statement of comprehensive income	(5,552)	(2,453)	(7,871)
Profit before income tax from continuing operations	38,841	26,555	62,074
Prima facie income tax using the company tax rate of 28%	(10,875)	(7,435)	(17,381)
Decrease/(increase) in income tax due to:			
Net change in fair value of investment properties	3,957	3,131	6,235
Non-taxable income	1,042	228	1,391
Assessable income	(22)	(8)	(25)
Depreciation	1,434	1,408	2,995
Depreciation loss/(recovered) on disposal of investment properties	39	(2,828)	(2,828)
Non-deductible expenses	(212)	(1,076)	(1,334)
Expenditure deductible for tax	26	286	248
Over-provision in prior year	–	504	465
Temporary differences	(66)	65	271
Current tax expense	(4,677)	(5,725)	(9,963)
Depreciation	(758)	3,277	2,224
Other	(117)	(5)	(132)
Deferred tax charged to profit or loss	(875)	3,272	2,092
Income tax expense per the consolidated statement of comprehensive income	(5,552)	(2,453)	(7,871)
Gross movement in net deferred tax liability			
Opening balance	(14,173)	(14,236)	(14,236)
Charged to profit or loss	(875)	3,272	2,092
Credited to other comprehensive income	142	(620)	(2,029)
Closing balance	(14,906)	(11,584)	(14,173)

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 12: Income Tax (Continued)

	Audited 12 Months 31 Mar 17 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000
Deferred tax assets					
Derivative financial instruments	2,204	–	142	2,346	3,613
Other temporary differences	200	90	–	290	344
	<u>2,404</u>	<u>90</u>	<u>142</u>	<u>2,636</u>	<u>3,957</u>
Deferred tax liabilities					
Depreciation on investment properties	(16,484)	(758)	–	(17,242)	(15,431)
Reinstatement receipts	(93)	(207)	–	(300)	(110)
	<u>(16,577)</u>	<u>(965)</u>	<u>–</u>	<u>(17,542)</u>	<u>(15,541)</u>

Note 13: Derivative Financial Instruments

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Outstanding interest rate derivative contracts:			
Active interest rate derivative contracts	200,000	235,000	260,000
Forward dated interest rate derivative contracts	80,000	80,000	80,000
Total notional principal amounts	<u>280,000</u>	<u>315,000</u>	<u>340,000</u>

At balance date, the fixed interest rates ranged from 2.92% to 4.95% (30 Sep 2016: 3.25% to 5.14%, 31 Mar 2017: 2.92% to 4.95%) and the main floating rate was BKBM. Gains and losses recognised in the cash flow hedge reserve in equity on interest rate derivative contracts as at 30 September 2017 will be continuously released to the consolidated statement of comprehensive income within finance expenses until the repayment of the bank borrowings.

As at 30 September 2017, the fair value of the interest rate derivatives were (\$8,574,238) (30 Sep 2016: (\$12,904,462) and 31 Mar 2017: (\$8,172,399)).

The fair values of interest rate derivatives are determined from valuations prepared by independent treasury advisors using valuation techniques classified as Level 2 in the fair value hierarchy (30 Sep 2016: Level 2, 31 Mar 2017: Level 2). These are based on the present value of estimated future cash flows based on the terms and maturities of each contract and the current market interest rates at balance date. Fair values also reflect the current creditworthiness of the derivative counterparties. The valuations were based on market rates at 30 September 2017 of between 1.96%, for the 90-day BKBM, and 3.265%, for the 10-year swap rate (30 Sep 2016: 2.20% and 2.44%, 31 Mar 2017: 2.00% and 3.45%, respectively).

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 14: Bank Borrowings

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Non-current			
Facility drawn down	356,600	337,748	347,500
Borrowing costs	(406)	(568)	(479)
Total borrowings	<u>356,194</u>	<u>337,180</u>	<u>347,021</u>
Facility available			
Facility drawn down	356,600	337,748	347,500
Undrawn facility available	43,400	62,252	52,500
Total facility available	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>
Weighted average interest rate for drawn debt (inclusive of current interest rate derivatives, margins and line fees) at balance date			
	4.46%	5.06%	4.85%

Stride's bank facility consists of Facility A for \$200 million expiring 9 June 2019 and Facility B for \$200 million expiring 9 June 2021. Stride's secured borrowings are via syndicated senior secured facilities with ANZ Bank New Zealand Limited, Bank of New Zealand, Commonwealth Bank of Australia and Westpac New Zealand Limited. 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 Stride and a registered first ranking security interest under a General Security Deed over substantially all the assets of Stride. The interest rate on the facility was 3.85% as at 30 September 2017 (30 Sep 16: 3.09%, 31 Mar 17: 3.90%).

Stride has been compliant with bank covenants during the six months ended 30 September 2017.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 15: Equity

Share Capital

Each of Stride and SIML has 364,989,277 shares authorised as at 30 September 2017.

	\$000
Opening balance 1 Apr 16 (Audited)	633,449
Demerger of shares in Investore Property Limited	(134,155)
Share issue expenses	(2)
Vesting of employee long term incentive plan	178
Closing balance 30 Sep 16 (Unaudited)	499,470
Vesting of employee long term incentive plan	504
Closing balance 31 Mar 17 (Audited)	499,974
Vesting of employee long term incentive plan	231
Closing balance 30 Sep 17 (Unaudited)	500,205
Stride Share Capital	500,205
SIML Share Capital	-
	500,205
Number of shares on issue	000
Opening balance 1 Apr 16 (Audited)	364,359
Shares issued under the long term share incentive plan	97
Closing balance 30 Sep 16 (Unaudited)	364,456
Shares issued under the long term incentive plan	400
Closing balance 31 Mar 17 (Audited)	364,856
Shares issued under the long term incentive plan	133
Closing balance 30 Sep 17 (Unaudited)	364,989

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 26 May 2017, each of Stride and SIML issued 133,068 ordinary shares (i.e. 133,068 Stapled Securities) under the long term share incentive scheme four.

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.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 15: Equity (Continued)

	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Profit after income tax attributable to shareholders – continuing operations	33,289	24,102	54,203
Weighted average number of shares for purpose of basic earnings per share (000)	364,949	364,424	364,443
Basic earnings per share – Stride	8.27	6.38	13.87
Basic earnings per share – SIML	0.85	0.23	1.00
Basic earnings per share – weighted (cents)	9.12	6.61	14.87
Weighted average number of shares for purpose of diluted earnings per share (000)	365,117	364,989	365,021
Diluted earnings per share – Stride	8.27	6.37	13.85
Diluted earnings per share – SIML	0.85	0.23	1.00
Diluted earnings per share – weighted (cents)	9.12	6.60	14.85
Profit after income tax attributable to shareholders – continuing and discontinued operations	33,289	23,233	53,334
Weighted average number of shares for purpose of basic earnings per share (000)	364,949	364,424	364,443
Basic earnings per share – Stride	8.27	6.14	13.63
Basic earnings per share – SIML	0.85	0.23	1.00
Basic earnings per share – weighted (cents)	9.12	6.37	14.63
Weighted average number of shares for purpose of diluted earnings per share (000)	365,117	364,989	365,021
Diluted earnings per share – Stride	8.27	6.14	13.61
Diluted earnings per share – SIML	0.85	0.23	1.00
Diluted earnings per share – weighted (cents)	9.12	6.37	14.61

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 16: Related Party Disclosures

The following transactions with a related party took place	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Investore Property Limited (Investore)			
Manager's fee income	1,816	618	2,386
Building management fee income	195	77	267
Accounting fee income	125	55	180
Leasing fee income	29	–	137
Project management fee income	7	39	131
Maintenance fee income	9	–	10
Diversified NZ Property Trust (Diversified Trust)			
Manager's fee income	1,690	369	2,002
Accounting fee income	87	–	107
Licensing fee income	93	–	56
Leasing fee income	424	–	387
Financing fees for establishing loan facilities	–	–	135
Building management fee income	1,026	303	1,269
Project management fee income	511	11	346
Services in relation to the Kaikoura earthquake at Queensgate Shopping Centre	120	–	355
Interest income	103	–	132
Rent paid	(10)	(2)	(8)
The following balances were receivable from a related party			
Investore Property Limited	5	219	37
Diversified NZ Property Trust	17	–	303

SIML received management fees for managing Diversified Trust, Investore and Stride. The management fees paid from Stride to SIML eliminate and accordingly do not appear in the consolidated statement of comprehensive income for the Stride Property Group.

Note 17: Contingent Liabilities

Stride Property Group has no contingent liabilities at balance date (30 Sep 2016: nil, 31 Mar 2017: nil).

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 September 2017

Note 18: Subsequent Events

On 13 November 2017, Stride agreed to enter into new leases with Bunnings Limited (Bunnings) for the three large format retail properties located at Hamilton, Rotorua and Palmerston North in advance of the expiry date. The new leases provide a combined annual net rental of \$4.81 million, with structured rental growth of 2.5% per annum over a 12 year initial term, increasing income security for the assets and substantially enhancing value. Under the previous lease arrangements, the tenant had the option to purchase each of the properties at the June 2019 expiry lease term at a market value reflecting vacant premises. The right to acquire the properties as if vacant has been removed from the new leases. Bunnings retain the right to acquire the properties at year 48 of the lease, on the assumption that a new six year lease term is in place.

As a part of the three lease restructures, Bunnings will receive a payment of \$18 million. The payment will be made by Stride on commencement of the new leases and is expected to reduce the taxable earnings of Stride for the year ended 31 March 2018 by \$5 million, being 28% of the \$18 million payment, resulting in an after-tax cost to Stride of \$13 million. As the payment is a component of investment property, it is not expected to materially affect Stride's distributable profit for the year ended 31 March 2018.

On 13 November 2017, Stride agreed with Investore Property Limited to divest the three Bunnings properties for \$78.5 million. This transaction is subject to Investore Property Limited shareholder approval. If approved, the effective date for the settlement of the proposed divestments is expected to be 28 February 2018.

On 21 November 2017, Stride agreed with Waste Management NZ Limited (Waste Management) a new redevelopment project at 11 Springs Road, Auckland. The planned redevelopment will involve the demolition of the existing site structures, making way for a purpose built 8,285m² industrial facility for Waste Management. Occupying the entire site, the development will provide comprehensive logistics and operational facilities from which Waste Management can both service the Auckland market and oversee their national operations. Following the completion of the redevelopment, (targeted for the quarter ending September 2019), Waste Management will commit to an initial 25 year lease term, with initial net rental of \$3.89 million per annum and structured rental growth. This transaction is subject to resource management consent and Overseas Investment Office approval.

On 23 November 2017, Stride declared a cash dividend for the period 1 July 2017 to 30 September 2017 of 2.07 cents per share, to be paid on 20 December 2017 to all shareholders on Stride's register at the close of business on 7 December. This dividend will carry imputation credits of 0.1966 cents per share. This dividend has not been recognised in the financial statements.

On 23 November 2017, SIML declared a cash dividend for the period 1 July 2017 to 30 September 2017 of 0.41 cents per share, to be paid on 20 December 2017 to all shareholders on SIML's register at the close of business on 7 December 2017. This dividend will carry imputation credits of 0.1508 cents per share. This dividend has not been recognised in the financial statements.

There have been no other material events subsequent to 30 September 2017.

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 (Stride) and Stride Investment Management Limited (SIML) (together the "Stapled Group") on pages 13 to 37, which comprise the consolidated statement of financial position as at 30 September 2017, 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 Stride and SIML respectively are responsible, on behalf of the Stapled Group, for the preparation and presentation of these consolidated interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34), and for such internal control as the Directors determine is necessary to enable the preparation of 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 NZ IAS 34 and IAS 34. As the auditor of the Stapled Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Stride Property Group. Other than in our capacity as auditor we have no relationship with, or interests in, the Stride Property Group.

Conclusion

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

Who we report to

This report is made solely to the shareholders of Stride 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 the Stapled Group and the shareholders of Stride and SIML, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

Chartered Accountants, Auckland
23 November 2017

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 Stride and SIML;
- in order to sell a Stride share or a SIML share, the corresponding SIML share or Stride share, as applicable, also needs to be sold to the same purchaser;
- market disclosures via NZX may be made in respect of Stride Property Group, but each of Stride and SIML will continue to be obliged to make announcements under the NZX Main Board 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 Stride share and/or a SIML share on the NZX Main Board will be the quoted price for the stapled security;
- the materiality of "Material Information" for continuous disclosure purposes under the NZX Main Board 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 Stride and SIML. Any disclosure of "Material Information" made by Stride Property Group, will explain whether the information is material to Stride and/or SIML;
- new stapled security issues will result in equal numbers of Stride shares and SIML shares being issued;
- shareholders are entitled to attend, or vote by proxy, at separate meetings of shareholders of each of Stride and SIML. For some transactions involving Stride Property Group (for example, an issuance of stapled securities being made with shareholder approval under the NZX Main Board 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 Stride and SIML; and
- distributions will be received, to the extent declared, from each of Stride and SIML.

Corporate Directory

Board of Directors

Tim Ian Mackenzie Storey (Chairman)
Edward John Harvey
Philip Ling (appointed 26 June 2017)
Michael Peter Stiassny
David Gregory van Schaardenburg
Michelle Patricia Tierney

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Bank of New Zealand
Commonwealth Bank of Australia
Westpac New Zealand Limited

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