

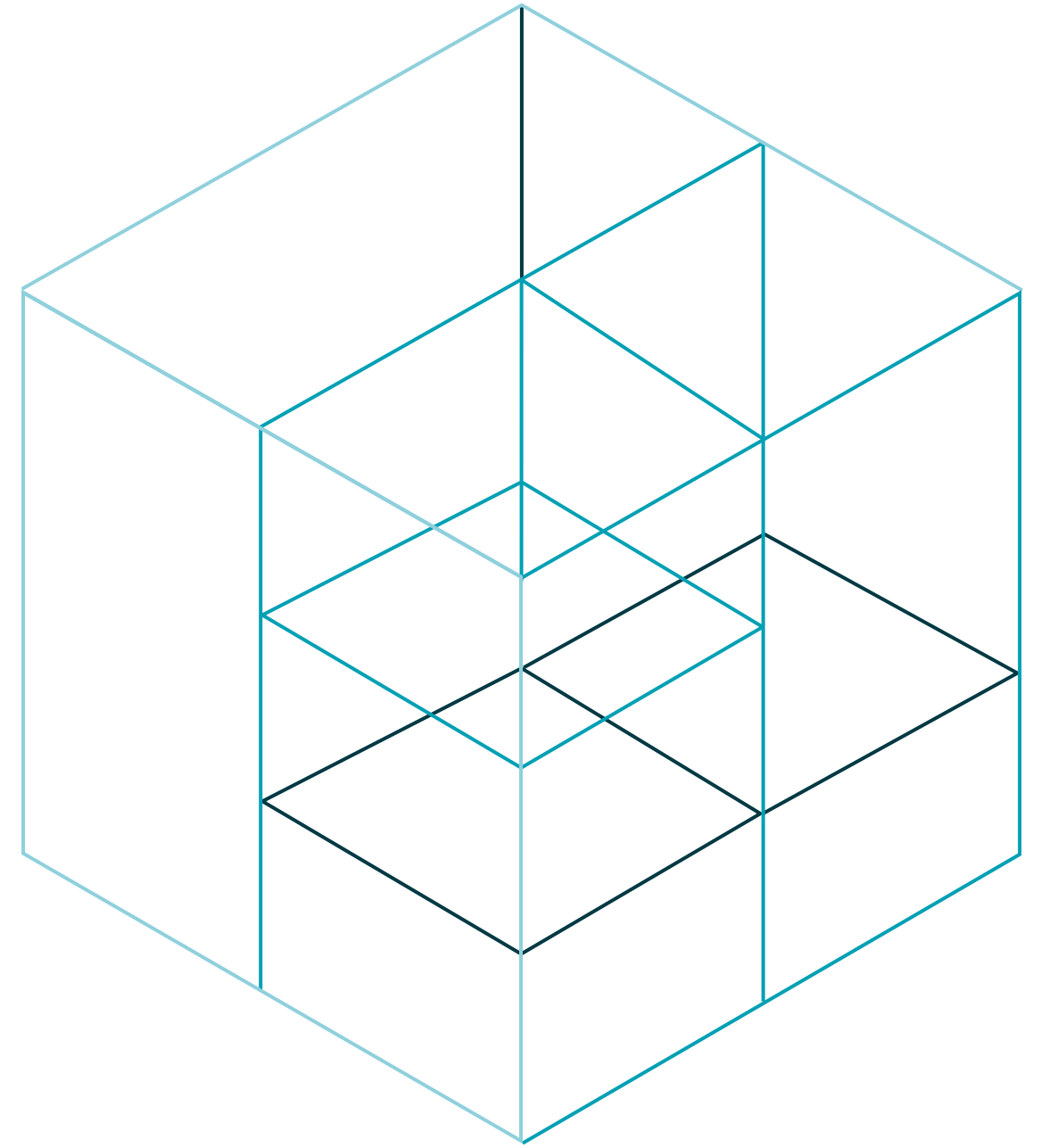
investore

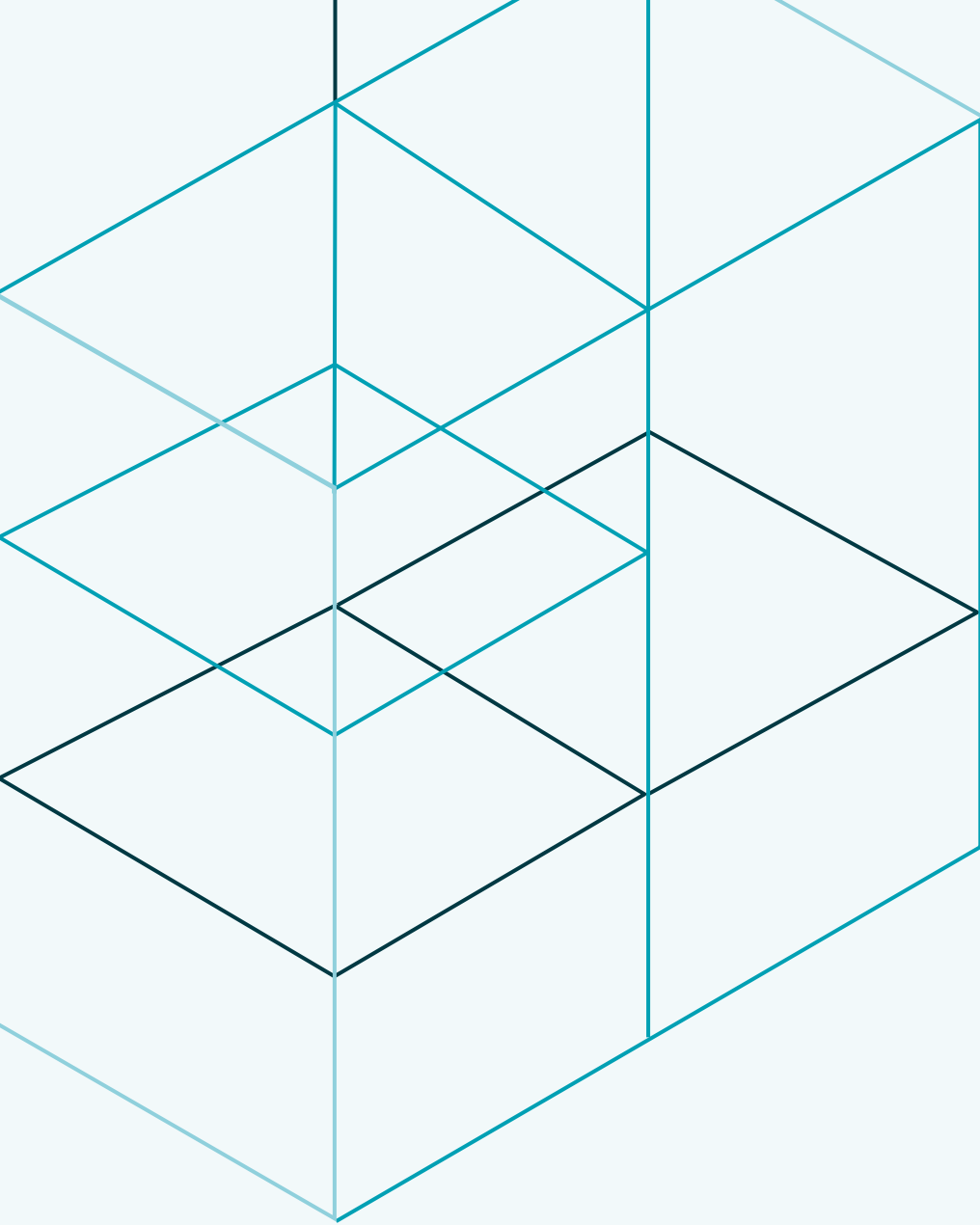
Managed by Stride Investment
Management Limited



Interim Report

For the six months ended 30 September 2020





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Highlights

For the six months ended
30 September 2020 (HY21)

Profit after
income tax

\$91.0m

Up \$80.1m
from HY20

Distributable profit¹
after current
income tax

\$13.7m

Up \$4.0m
from HY20

Cash dividend
guidance² for FY21

7.60cps

Portfolio value³ as at
30 September 2020

\$980.3m

representing a
net valuation
increase for the
six months to
30 September of
\$83.7m or 9.4%⁴

\$2.21

share price as at
30 September
2020 with total
shareholder returns
of 36.2% since
31 March 2020
(24.6% since
31 December 2019)

10.2 years

weighted average
lease term (WALT)¹
as at 30 September
2020, compared
with 10.4 years
as at 31 March
2020⁵,

an improvement on what it would
otherwise be given the effluxion
of time, due to lease extensions
negotiated in connection with
COVID-19 rent arrangements and
other lease renewals

28.3%

Loan to Value
Ratio as at
30 September
2020⁶

\$1.93

net tangible
assets per share as
at 30 September
2020

Up \$0.20 or 11.6%
from 31 March 2020

\$125m

of 7-year listed
bonds issued in
August 2020 at a
fixed interest rate
of 2.4%, aiding
diversification
of funding and
extending the
average weighted
tenor of debt

Capital raising
undertaken
in April and
May 2020 with

\$105m

gross proceeds,
with net proceeds
used to pay down
debt and provide
funding flexibility
to continue
Investore's growth
strategy when
opportunities arise

1. See glossary on page 12.
2. Assuming no further economic deterioration due to COVID-19.
3. Portfolio value excludes: (1) \$7.0 million of seismic works to be completed by Stride Property Limited (SPL) on the three large format retail properties acquired from SPL on 30 April 2020, and the balance of the rental guarantee of \$0.4 million from SPL; and (2) lease liabilities. The valuation of the property at 35 MacLaggan Street, Dunedin, remains subject to 'material valuation uncertainty' due to the expiry of the tenant lease in July 2021; see note 2.2 to the Interim Financial Statements.
4. Compared to Investore's property portfolio as at 31 March 2020, and including the three properties acquired from SPL as if those properties had been acquired as at that date, based on the purchase price for those three properties excluding (1) the \$7.0 million of seismic works to be completed by SPL on the properties, and (2) the rental guarantee of \$0.5 million from SPL.
5. As at 31 March 2020, as if the acquisition of the three properties from SPL had settled as at that date.
6. LVR is calculated based on independent valuations, which include seismic works and rental underwrites to be funded by SPL in relation to the three properties acquired from SPL and settled in April 2020. The independent valuations also exclude lease liabilities.

Chair and Manager's Overview

Dear Investors,

The Board of Directors of Investore Property Limited (Investore) is pleased to present Investore's interim report for the six months ended 30 September 2020 (HY21), a period that has been dominated by the impacts of COVID-19. Investore is well placed to manage these impacts given its focus on large format retail property, with nationally recognised tenants focused on “everyday needs”, and a geographically diversified portfolio.



Investore has had a very positive first half of FY21, with profit after income tax of \$91.0 million, up \$80.1 million from the six months to 30 September 2019 (HY20), largely due to a strong revaluation movement which is testament to Investore's singular focus on large format retail property.

Investore has also seen a positive increase in net rental income of \$3.3 million to \$27.4 million, largely due to the addition to Investore's portfolio of the three properties acquired from Stride Property Limited (SPL) on 30 April 2020. This positive movement was partially offset by increased finance expense due to the cost of breaking swaps following the issue of the listed bonds in August 2020, the net proceeds of which were used to repay some of Investore's bank debt. This resulted in profit before income/(expense) and income tax of \$12.2 million, slightly down from \$12.9 million for HY20.

Investore is pleased to report higher distributable profit¹ after current income tax for HY21 of \$13.7 million, \$4.0 million higher than HY20, largely due to the increased rental income. This is notwithstanding that distributable profit for HY21 has been impacted by COVID-19 rent abatements, which resulted in distributable profit before current income tax for this period being approximately \$1 million lower than it would otherwise have been.

Due to the active management of rent abatement arrangements with tenants, Investore currently expects the impact of COVID-19 to result in a reduction in gross rent receivable for FY21 of approximately \$1 million, at the lower end of the previously estimated range of between \$1 million and \$2 million. This current figure includes rent arrangements agreed or forecast to be agreed with tenants in relation to the most recent COVID-19

restrictions imposed by the Government in August 2020, but assumes no significant further restrictions on activity.

In many cases Investore has been able to negotiate an extension to the lease term or early renewal of a lease along with rent abatement or deferral arrangements, with a weighted average lease extension of seven months being achieved across COVID-19 rent arrangements. This, together with lease renewals agreed during the period in review, has resulted in a largely stable WALT¹ for Investore's portfolio of 10.2 years (compared with 10.4 years as at 31 March 2020²). This is an improvement from what would otherwise have been the case at 30 September 2020, all other things being equal, as WALT naturally declines over time as remaining lease periods reduce.

Investore's singular focus on large format retail property and relative resilience to the impacts of COVID-19 has been demonstrated in the very positive revaluation gains seen in Investore's portfolio in the six months to 30 September 2020. Investore's portfolio of 43 properties is now valued at \$980.3 million³, a gross valuation increase for the six months to 30 September 2020 of approximately \$85.3 million or 9.5%⁴, and a net valuation increase of \$83.7 million or 9.4%⁴.

Investore's average portfolio capitalisation rate has compressed, due to the attractiveness of large format retail property in the investment market. As at 30 September 2020 the average portfolio capitalisation rate was 5.53%, representing a decrease of 55 basis points from 31 March 2020⁵. This reduction in the capitalisation rate is the primary driver of the revaluation movement in Investore's portfolio for HY21.

The benefits of Investore's singular focus on large format retail property, including

the predictable and stable cash flows derived from Investore's long term leases, have also been reflected in its share price, with Investore delivering total shareholder returns of 36.2% over the six months to 30 September 2020 (or 24.6% in the nine months since 31 December 2019), outperforming the gross S&P/NZX 50 Index by 16.3% over the same period (or 22.3% since 31 December 2019) and the gross S&P/NZX All Real Estate Index by 15.4% (28.3% since 31 December 2019).

The first six months of FY21 have been very active for Investore, in addition to managing the impacts of COVID-19 and the varying needs of Investore's tenants during that period. Investore has taken advantage of market opportunities created by COVID-19 to undertake a capital raise in April and May 2020, raising \$105 million in gross proceeds. The net proceeds of the capital raise were used to pay down debt, reducing Investore's loan to value ratio and providing significant available debt facilities to pursue Investore's strategy of targeted growth.

In August 2020 Investore issued its second tranche of listed bonds, issuing \$125 million of 7-year bonds with a fixed interest rate of 2.4%. The net proceeds of the bond issue were used to repay bank debt, extending the weighted average tenor of Investore's debt to 4.4 years (as at 30 September 2020), and providing Investore with a balance between bank debt and listed bonds.

Following the revaluation of Investore's portfolio as at 30 September 2020, Investore's loan to value ratio has reduced to 28.3%⁶. The capital raise and listed bond issue have ensured Investore has a stable financial position, with a low loan to value ratio, which, aligned with Investore's resilient portfolio, positions Investore well for the future.

Investore has \$166 million of undrawn debt facilities as at 30 September 2020 to pursue opportunities to grow its portfolio, as they arise. Investore has also arranged an additional \$30 million bank facility following the interim balance date, providing it with nearly \$200 million of undrawn debt facilities (on a pro forma basis, as at 30 September 2020).

In addition to these capital management initiatives, Investore actively seeks to manage its portfolio, including securing early renewals of leases where possible. During HY21, Investore's largest tenant, Countdown, renewed its lease at Mt Wellington Shopping Centre in Auckland for a further six years, to 2026. The Warehouse recently vacated Investore's property in Johnsonville at the end of the lease. Investore is actively exploring options for this property, which represents 0.6% of the portfolio's net lettable area, and is confident that a successful outcome will be achieved, as the property is well-located and represents an attractive proposition for a number of tenants.

Investore is pleased to have welcomed Adrian Walker to the Investore Board on 3 April 2020, with the majority of the Board of Directors of Investore now comprising directors that are independent of the Manager, Stride Investment Management Limited (SIML). In addition, Investore has elected to participate in the Institute of Directors' “future directors” programme, which seeks to encourage directorship by giving aspiring directors the opportunity to observe a company board and receive mentoring from experienced directors. Emma McDonald joined Investore as a future director on 17 April 2020 for a period of two years.

In August 2020, at the time of the listed bond offering, Investore stated that it was then considering portfolio

opportunities, including acquisition and other growth opportunities, with a combined value of approximately \$100 million. Investore continues to explore portfolio growth opportunities in what is currently a very active and competitive market, however at this time these opportunities remain subject to further investigation and due diligence.

Investore intends to continue exploring growth opportunities over the remainder of FY21. The Investore Board will seek to ensure that any such acquisitions support Investore's objective of maximising distributions and total returns to shareholders over the medium to long term.

As shareholders are aware, Investore's dividend policy, as declared by the Board, is to target a cash dividend to shareholders that is between 95% and 100% of distributable profit. The Board reconfirms annual cash dividend guidance of 7.60 cents per share to shareholders for FY21, assuming no further deterioration in economic conditions due to COVID-19.

On behalf of the Board, we thank investors for their continued support of Investore.

Mike Allen
Chair of the Board

1. See glossary on page 12.
2. See footnote 5 on page 2.
3. See footnote 3 on page 2.
4. See footnote 4 on page 2.
5. Compared to Investore's property portfolio as at 31 March 2020, and including the three properties acquired from SPL as if those properties had been acquired as at that date, based on independent valuations of those three properties obtained in preparation for the acquisition in April 2020.
6. See footnote 6 on page 2.

COVID-19 Update

Countdown, Meadowbank

Due to its focus on owning large format retail properties, Investore's portfolio has fared relatively well during the lockdown situations implemented by the New Zealand Government in response to COVID-19.

A high proportion of Investore's tenants are classified as "essential businesses" on the Government's covid19.govt.nz website, meaning that they are able to remain open under all Alert Levels. This includes supermarkets, pharmacies, and hardware stores, which supply "everyday needs" for New Zealand consumers and tradespeople.

Investore's portfolio is also well diversified geographically, meaning that regional restrictions, such as the escalation to Alert Level 3 in Auckland in August 2020, affect a limited proportion of Investore's portfolio, with a small number of tenants unable to trade in regions with restrictions, given the high proportion of Investore's portfolio that are "essential businesses".

Investore has previously stated that it expects reduced gross rent receivables for FY21 as a result of COVID-19 of between \$1 million and \$2 million. This was prior to the most recent restrictions imposed in August 2020. Investore now expects that figure to be approximately \$1 million. This assumes no further restrictions are imposed as a result of COVID-19, although the Board notes that, as stated above, Investore remains well-placed to manage the impacts from restrictions due to its focus on large format retail property and tenants that supply everyday needs, which to date have proven to be resilient under lockdown restrictions.

The reintroduction of building depreciation deduction claims for commercial properties at a level of two percent a year on diminishing value, starting in April 2020, is expected to provide a reduction in current tax of approximately \$2.2 million for FY21, more than offsetting the rent abatement arrangements agreed with tenants.

In addition, supermarkets have seen increased demand in the year to date as a result of the COVID-19 restrictions, and accordingly Investore expects improved turnover rent for FY21 from its Countdown-branded stores.

Investore has also experienced a benefit to its WALT¹ from the rent arrangements agreed in respect of COVID-19. In many cases, Investore has received an extension of the lease term or the tenant has renewed its lease early, in consideration for rent abatement and deferral arrangements agreed between Investore and the tenant, resulting in a weighted average lease extension of seven months being achieved across COVID-19 arrangements.

1. See glossary on page 12.



Active Portfolio Management

Investore’s strategy is to invest in quality, large format retail properties throughout New Zealand, and actively manage investors’ capital, to maximise distributions and total returns over the medium to long term. Investore focuses on owning well-located properties with long lease terms and high occupancy, with nationally recognised quality tenant brands, and maintaining strong and enduring tenant relationships that support the portfolio.

Investore is the only NZX listed company with a singular focus on the large format retail property asset class. Large format retail property delivers a number of positive benefits, especially in the current environment impacted by COVID-19, compared to other forms of retail in New Zealand.

	As at 30 September 2020	As at 31 March 2020 including three properties acquired from SPL	As at 31 March 2020
Number of Properties	43	43	40
Number of Tenants	130	130	78
Net Lettable Area (sqm) (NLA)	246,191	246,176	208,125
Net Contract Rental ¹ (\$m)	57.1	56.2	47.5
WALT ¹ (years)	10.2	10.4	11.5
Market Capitalisation Rate (%)	5.53	6.08	6.06
Occupancy Rate by Area (%)	99.7 ²	99.7	99.7
Portfolio Value (\$m) ³	980.3 ⁴	895.2 ⁵	761.4

1. See glossary on page 12.

2. Post balance date, The Warehouse has vacated the premises at 91 Johnsonville Road, Johnsonville, upon expiry of the lease, reducing the portfolio occupancy rate by area to 99.1%.

3. Excludes lease liabilities.

4. Excludes the \$7.0m of seismic works to be completed by SPL on the three properties acquired from SPL on 30 April 2020, and the value of the rental guarantee provided by SPL in relation to certain tenancies that form part of those properties.

5. Valuation assumes that the seismic works to be undertaken by SPL, at a value of \$7.0m, have been completed.

Countdown, Papakura



Optimisation of the Portfolio

Investore looks to develop existing properties to meet the needs of tenants and the surrounding catchment, which may include acquiring sites adjacent to existing assets, to provide development options for the future.

Countdown, Rotorua



Investore collaborated with Countdown¹ to refurbish the supermarket in Fenton Street, Rotorua, as part of the ongoing refurbishment programme conducted jointly by Investore and Countdown. Countdown completed a full internal store refurbishment of this supermarket, including new fresh food, bakery, and delicatessen areas, as well as installing new checkouts. At the same time, Investore supported its tenant to achieve a refreshed and vibrant customer experience through improving the parking amenity of the property, installing a new energy efficient heating and ventilation system, improving the entry to the store and undertaking other building improvements. As a result of this partnership, the supermarket has been transformed into an easy to access, attractive and convenient place to shop, which Investore and Countdown expect to drive improved sales. Investore targets co-investment opportunities with its tenants to improve the portfolio and which benefit Investore and the tenant through attracting higher sales, driving improved rental for Investore over the long term.

As reported in Investore's FY20 annual report, Investore acquired a small corner property adjacent to its existing Countdown supermarket in Papakura, Auckland. This site had a retail structure on it which was at the end of its useful life. Investore has now completed the transformation of this site to provide an expanded car parking amenity, as well as improved access and overall sight lines for the supermarket and Investore's nearby tenant. Investore receives improvement rent from Countdown on its investment in these works. In addition, Investore and Countdown expect improved customer amenity to drive an increase in customer visitations to the property, resulting in improved sales at the Countdown supermarket, which again is expected to deliver improved rental for Investore over the long term.

1. Countdown is owned by Woolworths NZ.

Proactive Capital Management

Bunnings, Mt Roskill



Investore's strategy is to proactively manage its capital to maintain a healthy and flexible balance sheet for growth, while preserving sustainable returns to investors.

- Key transactions undertaken in the six months to 30 September 2020:
- Capital raising conducted in April and May 2020, raising \$105 million in gross proceeds, through a fully underwritten placement and a share purchase plan. In order to ensure that the capital raising was as fair and equitable as possible to all shareholders, Investore invited eligible shareholders to subscribe under the share purchase plan for up to \$50,000 worth of shares each, which would have enabled almost all shareholders to maintain their proportionate holding in the company. In addition, the price to be paid by shareholders under the share purchase plan was set at the lower of the price paid by investors in the placement (\$1.65 per share), and a 2.5% discount to the volume weighted average market price of Investore's shares over the five business day period prior to the closing date of the share purchase plan. Ultimately, the price was set at \$1.65 per share, which was lower than the alternative.
 - Listed bond issuance, with \$125 million of 7-year listed bonds being issued in August 2020, at a fixed interest rate of 2.4%.
 - \$80 million of new bank debt facilities secured (including \$30 million post interim balance date), and \$101 million of bank facilities extended to June 2024.

The net proceeds of the capital raising and the bond issuance were used to repay bank debt, positioning Investore to continue its strategy of growing its portfolio through considered acquisitions to enhance Investore's portfolio and support delivery of Investore's overall objective of maximising distributions and total returns to investors over the medium to long term. The listed bond issue also enabled Investore to further diversify its debt sources, and extended the weighted average maturity of Investore's debt facilities to 4.4 years (as at 30 September 2020), given the longer WALT of Investore's portfolio.

As at 30 September 2020, some of Investore's key debt metrics are:

4.4 years weighted average maturity of debt facilities	28.3% loan to value ratio¹	47% of debt facilities from non-bank funding ²
Next bank facility maturing FY23	2.6x interest cover ratio	\$196 million of available debt facilities ²

1. See footnote 6 on page 2.
2. As at 30 September 2020, as if the \$30 million new bank facility arranged post interim balance date had been in place on that date.

Glossary

Contract Rental	Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to Investore by that tenant under the terms of the relevant lease as at the relevant date, annualised for the 12-month period on the basis of the occupancy level for the relevant property as at the relevant date, and assuming no default by the tenant
Distributable Profit	Distributable profit is a non-GAAP measure and consists of profit/ (loss) before income tax, adjusted for determined non-recurring and/ or non-cash items (including non-recurring adjustments for incentives payable to anchor tenants for lease extensions) and current tax. Further information, including the calculation of distributable profit and the adjustments to profit before income tax, is set out in note 3.2 to the Interim Financial Statements
FY20	The financial year ended 31 March 2020
FY21	The financial year ending 31 March 2021
HY20	The six months ended 30 September 2019
HY21	The six months ended 30 September 2020
Investore	Investore Property Limited
LVR	Loan to Value Ratio
SIML	Stride Investment Management Limited
SPL	Stride Property Limited
Stride	Stride Property Group, comprising the stapled entities of SPL and SIML
WALT	Weighted Average Lease Term

Interim Financial Statements



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Statement of Comprehensive Income

For the six months ended 30 September 2020

	Notes	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Gross rental income		31,966	27,326
Direct property operating expenses		(4,556)	(3,229)
Net rental income	2.1	27,410	24,097
Less corporate expenses			
Management fees expense	4.0	(2,383)	(2,045)
Performance fee expense	4.0	(1,446)	(1,008)
Administration expenses		(1,194)	(983)
Total corporate expenses		(5,023)	(4,036)
Profit before net finance expense, other income/(expense) and income tax		22,387	20,061
Finance income		2	36
Finance expense		(6,661)	(7,196)
Finance expense - swap break expense	5.2	(3,553)	(37)
Net finance expense	5.3	(10,212)	(7,197)
Profit before other income/(expense) and income tax		12,175	12,864
Other income/(expense)			
Net change in fair value of investment properties	2.2	83,744	886
Loss on rental guarantee		(87)	-
Net change in fair value of derivative financial instruments		41	8
Profit before income tax		95,873	13,758
Income tax expense	6.1	(4,835)	(2,787)
Profit after income tax attributable to shareholders		91,038	10,971
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Movement in cash flow hedges, net of tax		2,874	(1,112)
Total comprehensive income after tax attributable to shareholders		93,912	9,859
Basic and diluted earnings per share (cents)	3.1	25.65	4.22

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

Statement of Changes in Equity

For the six months ended 30 September 2020

	Notes	Cents per share	Number of shares 000	Share capital \$000	Retained earnings \$000	Cash flow hedge reserve \$000	Total \$000
Balance 31 Mar 20 (Audited)			304,499	455,641	73,744	(2,694)	526,691
Transactions with shareholders:							
Q4 2020 final dividend		1.900	-	-	(6,995)	-	(6,995)
Q1 2021 interim dividend		1.900	-	-	(6,995)	-	(6,995)
New shares issued			63,636	102,667	-	-	102,667
Total transactions with shareholders			63,636	102,667	(13,990)	-	88,677
Other comprehensive income:							
Movement in cash flow hedges, net of tax	5.5		-	-	-	2,874	2,874
Total other comprehensive income			-	-	-	2,874	2,874
Profit after income tax			-	-	91,038	-	91,038
Total comprehensive income			-	-	91,038	2,874	93,912
Balance 30 Sep 20 (Unaudited)			368,135	558,308	150,792	180	709,280
Balance 31 Mar 19 (Audited)			260,076	379,609	65,830	(2,230)	443,209
Transactions with shareholders:							
Q4 2019 final dividend		1.935	-	-	(5,033)	-	(5,033)
Q1 2020 interim dividend		1.900	-	-	(4,941)	-	(4,941)
Total transactions with shareholders			-	-	(9,974)	-	(9,974)
Other comprehensive income:							
Movement in cash flow hedges, net of tax	5.5		-	-	-	(1,112)	(1,112)
Total other comprehensive income			-	-	-	(1,112)	(1,112)
Profit after income tax			-	-	10,971	-	10,971
Total comprehensive income			-	-	10,971	(1,112)	9,859
Balance 30 Sep 19 (Unaudited)			260,076	379,609	66,827	(3,342)	443,094

Statement of Financial Position

As at 30 September 2020

	Notes	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
Current assets			
Cash at bank		3,437	4,229
Trade and other receivables		821	543
Prepayments		777	53
Other current assets		1,449	1,227
Current tax asset		535	-
		7,019	6,052
Non-current assets			
Investment properties	2.2	995,778	772,547
Deposit and other prepayments on investment property		7,364	5,385
Derivative financial instruments	5.2	2,581	2,323
Deferred tax asset		-	318
		1,005,723	780,573
Total assets		1,012,742	786,625
Current liabilities			
Trade and other payables		4,309	5,914
Current tax liability		-	1,085
Lease liabilities		53	52
Derivative financial instruments	5.2	1,080	231
		5,442	7,282
Non-current liabilities			
Borrowings	5.1	277,098	236,946
Lease liabilities		15,404	11,065
Derivative financial instruments	5.2	1,337	4,641
Deferred tax liability		4,181	-
		298,020	252,652
Total liabilities		303,462	259,934
Net assets		709,280	526,691
Share capital		558,308	455,641
Retained earnings		150,792	73,744
Reserve	5.5	180	(2,694)
Equity		709,280	526,691

For and on behalf of the Board of Directors, dated 17 November 2020:



Mike Allen
Chair of the Board



Gráinne Troute
Chair of the Audit and Risk Committee

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

Statement of Cash Flows

For the six months ended 30 September 2020

	Notes	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Cash flows from operating activities			
Gross rent received		30,425	26,679
Operating expenses		(8,228)	(6,194)
Performance fee expenses		(1,290)	(1,016)
Rental guarantee		(558)	-
Interest received		2	36
Interest paid		(6,375)	(7,594)
Swap break expenses		(2,152)	-
Bond issuance expenses		(1,415)	-
Refinancing of bank borrowings		(389)	(18)
Income tax paid		(3,089)	(3,369)
Net cash provided by operating activities		6,931	8,524
Cash flows from investing activities			
Capital expenditure on investment properties		(2,667)	(1,233)
Acquisition of investment properties		(135,307)	(5,776)
Proceeds from disposal of investment properties		-	19,046
Net cash (applied to)/provided by investing activities		(137,974)	12,037
Cash flows from financing activities			
Proceeds from equity issue	5.4	105,000	-
Capital raising expenses		(2,333)	-
Repayment of bank borrowings from capital raise		(102,000)	-
Proceeds from issuance of fixed rate bonds	5.1	125,000	-
Repayment of bank borrowings from bond proceeds		(118,650)	-
Net drawdown/(repayment) of bank borrowings		137,250	(13,830)
Dividends paid		(13,990)	(9,974)
Lease liabilities payments		(26)	(138)
Net cash provided by/(applied to) financing activities		130,251	(23,942)
Net decrease in cash and cash equivalents held		(792)	(3,381)
Opening cash and cash equivalents		4,229	5,111
Closing cash and cash equivalents		3,437	1,730

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

Statement of Cash Flows (continued)

For the six months ended 30 September 2020

Reconciliation of profit after income tax attributable to shareholders to net cash flows from operating activities			
	Notes	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Profit after income tax attributable to shareholders		91,038	10,971
Add/(less) non-cash items:			
Movement in deferred tax	6.1	3,758	127
Current tax movement in cash flow reserve		(392)	-
Net change in fair value of investment properties		(83,744)	(886)
Loss on rental guarantee		87	-
Spreading of fixed rental increases		(123)	(608)
Capitalised lease incentives		(8)	(20)
Lease incentives amortisation		5	2
Capitalised lease incentives - COVID-19 abatements		(832)	-
Lease incentives amortisation - COVID-19 abatements		55	-
Rental income abatement provision due to COVID-19		141	-
Movement in loss allowance		25	18
Borrowings establishment cost amortisation		360	253
Accrued interest movement in derivative financial instruments		(66)	53
Amortisation of swap break expenses		1,401	-
Net change in fair value of derivative financial instruments		(41)	(8)
		11,664	9,902
(Less)/add activities reclassified (to)/from operating activities:			
Movement in borrowings/bond transaction costs classified as operating activities		(1,804)	(18)
Movement in working capital items relating to investing activities		1,686	158
		11,546	10,042
Movement in working capital:			
(Increase)/decrease in trade and other receivables		(444)	282
Increase in prepayments and other current assets		(946)	(467)
Increase in current tax asset		(1,620)	(709)
Decrease in trade and other payables		(1,605)	(624)
Net cash provided by operating activities		6,931	8,524

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

Notes to the Financial Statements

For the six months ended 30 September 2020

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1.0 General information

This section sets out Investore’s accounting policies that relate to the unaudited interim financial statements (financial statements) as a whole. Where an accounting policy is specific to a note, the policy is described within the note to which it relates.

1.1 Reporting entity

The financial statements presented are those of Investore Property Limited (Investore). Investore is domiciled in New Zealand and is registered under the Companies Act 1993. Investore is also an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

Investore’s principal activity is property investment in New Zealand. Investore is managed by Stride Investment Management Limited (SIML).

The financial statements were approved for issue by the Board of Directors (the Board) on 17 November 2020.

1.2 Basis of preparation

The financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), New Zealand International Accounting Standard 34 (NZ IAS 34) *Interim Financial Reporting* and International Accounting Standard 34 (IAS 34) *Interim Financial Reporting*.

The financial statements have been prepared under the historical cost basis except for assets and liabilities stated at fair value as disclosed.

The financial statements have been presented in New Zealand dollars and have been rounded to the nearest thousand, unless stated otherwise.

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 2020 annual financial statements.

1.3 New standards, amendments and interpretations

At the date of approval of the financial statements, there were no relevant standards in issue but not applied.

1.4 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 financial statements.

1.0 General information (continued)

1.5 COVID-19 impacts

The global COVID-19 pandemic and resulting impacts on credit and property markets has increased the level of uncertainty around certain estimates in these financial statements.

Investore has previously disclosed to the market that it has made allowances to provide its tenants with rental support as a result of COVID-19, with an expected cost to Investore in aggregate of between \$1 million and \$2 million for the year ending 31 March 2021. As at 30 September 2020, Investore has provided rent abatements of \$0.8 million and rent deferrals of \$0.1 million. Rental abatements have been accounted for as lease modifications. In addition, Investore has provided for \$141,000 rental income abatements yet to be formally agreed with the affected tenants.

As at 31 March 2020, the independent valuations of Investore's portfolio were reported on the basis of 'material valuation uncertainty', meaning less certainty and a higher degree of caution should be applied. As at 30 September 2020, Investore undertook independent valuations of the entire portfolio. The 'material valuation uncertainty' clause has been removed on all but one of the independent valuations (refer note 2.2).

1.6 Significant events and transactions

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

Acquisition of three properties from Stride Property Limited (SPL)

On 30 April 2020, Investore settled on the acquisition of three large format retail properties from SPL for \$140.75 million (refer note 2.2).

Capital raise

During April and May 2020, Investore undertook a capital raise which resulted in a gross amount of \$105 million raised, with 63,636,364 shares issued at \$1.65 per share (refer note 5.4). The net proceeds were used to repay \$102 million of Investore's bank borrowings.

Issuance of fixed rate bonds

On 31 August 2020, Investore issued \$125 million of fixed rate bonds with a 7-year term, paying an interest rate of 2.40% (refer note 5.1). The proceeds were used to repay \$119 million of Investore's bank borrowings.

Bank refinancing

Effective from 16 April 2020, Investore refinanced \$101 million of debt facility, extending this facility for a further three years to 9 June 2024. In addition, Investore secured a new \$50 million, 5-year facility with its banking group, which now includes China Construction Bank, New Zealand Branch (refer note 5.1).

Revaluation of investment properties

Investore undertook independent valuations of the entire portfolio as at 30 September 2020, which resulted in a net change in fair value of investment properties of \$83,744,000 (30 Sep 19: \$886,000) which includes (\$26,000) (30 Sep 19: (\$138,000)) in relation to the change in the fair value of the lease liabilities (refer note 2.2).

1.7 Non-GAAP measures

The statement of comprehensive income includes two non-GAAP measures; Profit before net finance expense, other income/(expense) and income tax; and Profit before other income/(expense) and income tax. These non-GAAP measures have been presented to assist investors in understanding the different aspects of Investore's financial performance.

Note 3.2 sets out Investore's calculation for distributable profit and Adjusted Funds From Operations (AFFO) which are both non-GAAP measures. Distributable profit is presented to enable investors to see an earnings measure which more closely aligns to Investore's underlying and recurring earnings from its operations. AFFO is intended as a supplementary measure of operating performance. Cash spent during the period on capital expenditure as part of maintaining a building's grade/quality, but not expensed as part of distributable profit after tax, is adjusted to reflect cash earnings for the period.

These non-GAAP measures do not have a standard meaning prescribed by GAAP and therefore may not be comparable to information presented by other entities.

2.0 Property

This section covers property assets, being large format retail properties, which generate Investore's trading performance.

2.1 Net rental income

	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Gross rental income		
Rental income and service charge income recovered from tenants	31,204	26,700
Spreading of fixed rental increases	123	608
Capitalised lease incentives	8	20
Lease incentives amortisation	(5)	(2)
Capitalised lease incentives - COVID-19 abatements	832	-
Lease incentives amortisation - COVID-19 abatements	(55)	-
Rental income abatement provision due to COVID-19	(141)	-
Total gross rental income	31,966	27,326
Direct property operating expenses		
Service charge expenses to tenants	(3,579)	(2,404)
Movement in loss allowance	(25)	(18)
Other non-recoverable property operating expenses	(952)	(807)
Total direct property operating expenses	(4,556)	(3,229)
Net rental income	27,410	24,097

The loss allowance balance of \$75,000 as at 30 September 2020 relates to tenants adversely affected by COVID-19.

Other non-recoverable property operating expenses represent property maintenance and operating expenses not recoverable from tenants and property leasing costs.

2.0 Property (continued)

2.2 Investment properties

	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
Opening balance	772,547	742,125
Initial add back of lease liabilities	-	11,160
Reassessment of lease liabilities	4,366	-
Property acquisitions	133,634	6,984
Net change in fair value	83,744	7,716
Subsequent capital expenditure	584	3,425
Spreading of fixed rental increases	123	1,095
Capitalised lease incentives	8	50
Lease incentives amortisation	(5)	(8)
Capitalised lease incentives - COVID-19 abatements	832	-
Lease incentives amortisation - COVID-19 abatements	(55)	-
Closing balance	995,778	772,547
Comprising:		
Investment property at valuation	980,321	761,430
Lease liabilities	15,457	11,117
Total	995,778	772,547

As at 31 March 2020, a \$5 million deposit had been paid in relation to the purchase of three large format retail properties, being Bunnings Mt Roskill, Auckland, Mt Wellington Shopping Centre, Auckland and Bay Central Shopping Centre, Tauranga, from SPL for \$140.75 million. Settlement of the acquisitions was completed on 30 April 2020. Under the sale and purchase agreement, SPL is to complete seismic works of \$7 million and has provided a rental guarantee of \$0.5 million. As at 30 September 2020, the seismic works had not commenced and \$0.1 million of the rental guarantee had been utilised.

Valuations are performed by independent registered valuers who hold an annual practicing certificate with the Valuers Registration Board and are members of the New Zealand Institute of Valuers.

All investment properties were valued by independent valuers as at 30 September 2020. The investment properties were valued either by CIVAS Limited (Colliers), Colliers International (Wellington Valuation) Limited (Colliers Wellington), Jones Lang LaSalle Limited (JLL), Savills (NZ) Limited (Savills) or CBRE Limited (CBRE) as indicated. The valuations are dated effective 30 September 2020.

The \$15,457,000 (31 Mar 20: \$11,117,000) lease liabilities are in respect to the ground leases at the corner of Anglesea and Liverpool Streets, Hamilton (seven), 3 Averill Street, Auckland (one), 70 Studholme Street, Morrinsville (one), 51 Arthur Street, Blenheim (one), and the corner of Bridge and Anglesea Streets, Hamilton (one).

In the current period, Investore executed the right of renewal for one of the seven ground leases at Anglesea and Liverpool Streets, Hamilton, for a further 21 years. As at 30 September 2020, the lease liabilities and right-of-use asset has been re-assessed by \$4,366,000 to reflect the renewal and rent review. The remaining six leases at this property have a right of renewal date of January 2024.

2.0 Property (continued)

2.2 Investment properties (continued)

	Valuer	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
Cnr Butler & Kerikeri Roads, Kerikeri	Savills	22,800	18,600
3 - 7 Mill Lane, Warkworth	Savills	27,500	23,200
24 Anzac Road, Auckland	CBRE	26,800	24,100
112 Stoddard Road, Auckland	Savills	29,500	23,300
2 Carr Road, Auckland	Savills	49,250	-
Cnr Church & Selwyn Streets, Auckland	JLL	11,800	11,000
295 Penrose Road, Auckland	Savills	37,806	-
326 Great South Road, Auckland	CBRE	40,000	36,300
35a St Johns Road, Auckland	Colliers	23,700	21,400
507 Pakuranga Road, Auckland	Colliers	21,500	18,600
Cnr Te Irirangi Drive & Bishop Dunn Place, Auckland	CBRE	37,700	35,000
226 Great South Road, Auckland	Savills	40,500	37,500
3 Averill Street, Auckland	JLL	17,500	17,000
66 - 76 Studholme Street, Morrinsville	Colliers	7,000	6,500
Cnr Anglesea & Liverpool Streets, Hamilton	Savills	8,500	7,500
Cnr Hukanui & Thomas Roads, Hamilton	Savills	19,300	16,300
Cnr Bridge & Anglesea Streets, Hamilton	Savills	21,500	18,100
446 Te Rapa Road, Hamilton	JLL	35,000	31,250
65 Chapel Street, Tauranga	Savills	46,330	-
230 - 240 Fenton Street, Rotorua	Savills	22,800	18,200
26 - 48 Old Taupo Road, Rotorua	JLL	31,200	27,000
53 Leach Street, New Plymouth	Colliers	33,400	28,900
9 Gloucester Street, Napier	Colliers	19,600	16,800
Cnr Fernlea Avenue & Roberts Line, Palmerston North	Colliers Wellington	15,750	14,000
Cnr Tremaine Avenue & Railway Road, Palmerston North	Colliers Wellington	29,500	26,200
14 Russell Street, Upper Hutt	JLL	10,000	9,500
13 - 19 Queen Street, Upper Hutt	Colliers Wellington	12,250	10,900
261 High Street, Lower Hutt	Colliers Wellington	21,750	19,150
91 Johnsonville Road, Wellington	JLL	21,000	20,750
3 Main Road, Wellington	JLL	20,250	19,500
Cnr Hanson Street, John Street & Adelaide Road, Wellington	Colliers Wellington	27,500	26,250
47 Bay Road, Wellington	Colliers Wellington	14,250	12,850
Cnr Putaitai Street & Main Road, Nelson	CBRE	14,000	12,800
51 Arthur Street, Blenheim	CBRE	12,000	11,200
40 - 50 Ivory Street, Rangiora	Savills	18,600	17,200
87 - 97 Hilton Street, Kaiapoi	CBRE	13,800	13,200
219 Colombo Street, Christchurch	CBRE	20,800	19,400
24 Brighton Mall, Christchurch	Colliers	6,400	6,100
Cnr Rolleston & Masefield Drives, Rolleston	Savills	22,800	19,600
Cnr Victoria & Browne Streets, Timaru	JLL	12,285	11,930
309 Cumberland Street, Dunedin	JLL	22,400	21,500
35 MacLaggan Street, Dunedin	Colliers	9,900	9,900
172 Tay Street, Invercargill	JLL	24,100	22,950
		980,321	761,430

2.0 Property (continued)

2.2 Investment properties (continued)

As at 31 March 2020, the valuations were provided on the basis of ‘material valuation uncertainty’ meaning less certainty and a higher degree of caution should be applied to the valuations. As at 30 September 2020, the ‘material valuation uncertainty’ remains only in the valuation of the property at 35 MacLaggan Street, Dunedin, due to the expiry of the tenant lease in July 2021 and the unlikelihood of renewal.

In determining the valuations as at 30 September 2020, the valuers took into account:

- occupancy (leased area as a proportion of the total net lettable area) on individual investment properties (average is 99.7% at balance date) (31 Mar 20: 99.7%);
- average lease term (weighted average lease term (WALT) at balance date is 10.2 years (31 Mar 20: 11.5 years));
- discount rates (ranged from 3.88% to 9.50%) (31 Mar 20: 4.75% to 9.50%); and
- capital expenditure works of \$0.6 million at 3 Averill Street, Auckland, relating to the carpark works.

Capitalisation rates ranged from 4.25% to 10.25% (31 Mar 20: 4.88% to 11.25%).

The estimated sensitivity of the fair value of the total investment property portfolio to changes in the market capitalisation rate and discount rate, assuming the capitalisation rate or discount rate moved equally on all the properties, is as follows:

	Capitalisation rate		Discount rate	
	-0.25%	+0.25%	-0.25%	+0.25%
Unaudited 30 Sep 20				
Change \$000	48,019	(43,577)	18,036	(17,801)
Change %	5	(4)	2	(2)
Audited 31 Mar 20				
Change \$000	33,516	(30,411)	18,304	(17,138)
Change %	4	(4)	2	(2)

2.3 Capital expenditure commitments contracted for

As at 30 September 2020, Investore had committed to \$0.337 million (31 Mar 20: \$0.576 million) in total for various capital expenditure works to be undertaken on investment properties over the next 12 months.

With regards to the property at 2 Carr Road, Auckland, Bunnings is planning to undertake an expansion of the trade zone and associated improvements along with the planned seismic upgrades funded by SPL. Investore will contribute approximately \$6 million towards the expansion and improvement works with an associated improvements rental and a new 10-year lease on completion.

Investore has no other material commitments as at balance date.

3.0 Investor returns

This section sets out Investore’s earnings per share and how distributable profit is calculated. Distributable profit is a non-GAAP measurement and is used by Investore to calculate profit available for distribution to shareholders by way of dividends.

3.1 Basic and diluted earnings per share (EPS)

	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Profit after income tax attributable to shareholders	91,038	10,971
Weighted average number of shares for purpose of basic and diluted EPS	354,970	260,076
Basic and diluted EPS - weighted (cents)	25.65	4.22

3.0 Investor returns (continued)

3.2 Distributable profit

Accounting Policy		
Investore's dividend policy is to target a cash dividend to shareholders that is between 95% and 100% of its distributable profit. Distributable profit is presented to enable investors to see an earnings measure which more closely aligns to Investore's underlying and recurring earnings from its operations.		
Distributable profit is a non-GAAP measure and consists of profit/(loss) before income tax, adjusted for determined non-recurring and/or non-cash items (including non-recurring adjustments for incentives payable to anchor tenants for lease extensions) and current tax.		
Adjusted Funds From Operations (AFFO) is also a non-GAAP measure and is intended as a supplementary measure of operating performance. Although there is no standard meaning or measure per GAAP, AFFO has been determined based on guidelines established by the Property Council of Australia. Cash spent during the period on capital expenditure as part of maintaining a building's grade/quality, but not expensed as part of distributable profit after current income tax, is adjusted to enable the investors to see the cash generating ability of the business.		
	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Profit before income tax	95,873	13,758
Non-recurring and/or non-cash items, and other adjustments:		
Net change in fair value of investment properties	(83,744)	(886)
Reversal of lease liabilities movement in investment properties	(26)	(138)
Net change in fair value of derivative financial instruments	(41)	(8)
Loss on rental guarantee	87	-
Spreading of fixed rental increases	(123)	(608)
Capitalised lease incentives - rent free	(8)	(20)
Lease incentives amortisation - rent free	5	2
Capitalised lease incentives - COVID- 19 abatements	(832)	-
Lease incentives amortisation - COVID- 19 abatements	55	-
Borrowings establishment cost amortisation	360	253
Amortisation of swap break expenses	1,401	37
Swap break expenses	2,152	-
Distributable profit before current income tax	15,159	12,390
Current income tax	(1,077)	(2,660)
Adjusted for:		
Income tax movement in cashflow hedges (note 6.1)	(392)	-
Distributable profit after current income tax	13,690	9,730
Adjustments to funds from operations:		
Maintenance capital expenditure	-	(879)
Adjusted Funds From Operations (AFFO)	13,690	8,851
Weighted average number of shares for purpose of basic and diluted distributable profit per share (000)	354,970	260,076
Basic and diluted distributable profit after current income tax per share - weighted (cents)	3.86	3.74
AFFO basic and diluted distributable profit after current income tax per share - weighted (cents)	3.86	3.40

4.0 Related party disclosures

This section sets out the transactions that have occurred during the relevant periods between Investore and SIML, as manager of Investore, and Stride Property Limited (SPL), which owns a cornerstone shareholding in Investore. The shares in each of SIML and SPL are Stapled Securities and together they comprise the Stride Property Group.

	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
The following transactions with a related party took place		
SIML		
Asset management fee expense	(2,383)	(2,045)
Performance fee expense	(1,446)	(1,008)
Building management fee expense	(217)	(201)
Accounting fee expense	(125)	(125)
Leasing fee expense	(408)	(45)
Capital raising fee expense	(89)	-
Project management fee expense	(22)	(42)
Maintenance fee expense	(19)	(11)
Disposal fee expense	-	(97)
Total	(4,709)	(3,574)
SPL		
Dividends paid	(2,630)	(1,986)
Consideration received for issue of shares in capital raise	16,522	-
Consideration paid on the acquisition of investment properties (note 2.2)	(135,750)	-
The following balance was payable to a related party		
	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
SIML	(737)	(617)

Investore has appointed SIML as its exclusive provider of ongoing real estate investment management services. Investore does not have any employees, accordingly, there are no senior managers of Investore who have a relevant interest in the shares of Investore.

The performance fee expense is calculated and payable on a quarterly basis as 10% of the actual increase in shareholder returns (being share price, adjusted for dividends, and other changes in capital structure), which is above 2.5% and under 3.75% in a quarter. Where shareholder returns exceed 3.75% in a quarter, no payment is due for the actual amount of the return above 3.75% but the amount of the return above 3.75% is carried forward and added to the calculation of shareholder returns in the next seven quarters. However, if shareholder returns are less than 2.5% in a quarter, the deficit is carried forward and subtracted from the calculation of shareholder returns in the next seven quarters.

SIML received a performance fee of \$775,494 for the quarter ended 30 June 2020 (quarter ended 30 June 2019: \$523,110) and is due to receive a performance fee of \$670,205 for the quarter ended 30 September 2020 (quarter ended 30 September 2019: \$484,808). The carried forward return for the performance fee calculation for the quarter ended 31 December 2020 is 28.38% (31 Mar 20: carried forward return for the quarter ended 30 June 2020 was 3.16% deficit) which has been calculated in accordance with the management agreement.

As part of Investore's \$105 million capital raise (refer note 5.4), SPL paid Investore \$16,522,301 to acquire 10,013,516 shares on 5 May 2020. Following that capital raising SPL's shareholding in Investore became 18.8%, being 69,201,977 shares (31 Mar 20: 19.4%, being 59,188,461 shares).

5.0 Capital structure and funding

Investore’s capital structure includes debt and equity, comprising shares and retained earnings as shown in the statement of financial position. This section sets out how Investore manages its capital structure, funding exposure to interest rate risk and related financing costs.

5.1 Borrowings

	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
Non-current		
Bank facility drawn down	55,000	138,400
Fixed rate bonds	225,000	100,000
Unamortised borrowings establishment costs	(2,902)	(1,454)
Total net borrowings	277,098	236,946
Weighted average interest rate for debt (inclusive of current interest rate derivatives, bonds, margins and line fees) at balance date	3.95%	4.63%

	Issue date	Expiry date	Interest rate	Total amount \$000	Undrawn facility \$000	Drawn/ amount \$000	Fair value \$000
Unaudited 30 Sep 20							
Bank Facility A	-	31 Aug 2022	Floating	70,000	40,000	30,000	30,000
Bank Facility D	-	16 Apr 2025	Floating	50,000	50,000	-	-
Bank Facility E	-	9 Jun 2024	Floating	101,163	76,163	25,000	25,000
Bonds IPL010	18 Apr 2018	18 Apr 2024	4.40%	100,000	-	100,000	109,039
Bonds IPL020	31 Aug 2020	31 Aug 2027	2.40%	125,000	-	125,000	127,524
				446,163	166,163	280,000	291,563

	Issue date	Expiry date	Interest rate	Total amount \$000	Undrawn facility \$000	Drawn/ amount \$000	Fair value \$000
Audited 31 Mar 20							
Bank Facility A	-	31 Aug 2022	Floating	70,000	-	70,000	70,000
Bank Facility B	-	9 Jun 2021	Floating	165,000	131,600	33,400	33,400
Bank Facility C	-	9 Jun 2021	Floating	35,000	-	35,000	35,000
Bonds IPL010	18 Apr 2018	18 Apr 2024	4.40%	100,000	-	100,000	102,494
				370,000	131,600	238,400	240,894

Bank borrowings

Investore's bank borrowings are via syndicated senior secured facilities with ANZ Bank New Zealand Limited, Bank of New Zealand, Commonwealth Bank of Australia, Westpac New Zealand Limited and China Construction Bank, New Zealand Branch.

In April 2020, Investore refinanced \$101 million of debt facility extending this facility for a further three years to June 2024 and secured a new \$50 million, 5-year facility. On 31 August 2020, following the receipt of \$125 million from the retail bonds, Investore cancelled \$99 million of bank facility that was due to expire in June 2021.

Fixed rate bonds

On 31 August 2020, Investore issued \$125 million of retail bonds with a 7-year term, expiring on 31 August 2027, paying an interest rate of 2.40%. The bonds are quoted on the NZX Debt Market and their fair value is based on their listed market price as at balance date.

Interest on IPL010 is payable quarterly in April, July, October and January in equal instalments, whilst interest on IPL020 is payable quarterly in August, November, February and May also in equal instalments.

Security

The bank borrowings and fixed rate bonds are managed through a security agent who holds a first registered mortgage on all the investment properties owned by Investore and a registered first ranking security interest under a General Security Deed over substantially all the assets of Investore.

5.0 Capital structure and funding (continued)

5.2 Derivative financial instruments

	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
Notional value of interest rate swaps – fixed rate payer	80,000	150,000
Notional value of interest rate swaps – fixed rate receiver	25,000	25,000
	105,000	175,000
Fixed interest rates payer ranges	2.27%-2.54%	2.27%-3.01%
Fixed interest rate receiver	4.40%	4.40%
Weighted average fixed interest rate (excluding margins)	2.14%	2.44%
Percentage of drawn debt fixed	100%	94%

Investore enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. Investore hedged 100% of its floating rate borrowings as at 30 September 2020 (31 Mar 20: 94%). As all critical terms matched during the period, the economic relationship was 100% effective, with the exception of the \$25 million fixed rate receiver interest rate swap.

On 21 March 2018, Investore entered into a \$25 million forward start fixed rate receiver swap for the duration of the fixed rate bonds with the effect of converting a portion of the IPL010 \$100 million fixed rate bonds to floating interest rate. The life to date ineffective portion on the receiver swap, due to the misalignment to the fixed rate bonds as a result of the bonds commencing on 18 April 2018, is a fair value loss of \$27,754 (31 Mar 20: fair value loss of \$68,346), resulting in a fair value gain movement of \$40,592 (31 Mar 20: fair value loss movement of \$18,026) being recognised in the current period in the statement of comprehensive income.

On 25 November 2019, Investore broke interest rate derivative contracts with a notional value of \$30 million for a cost of \$1,562,453. Of the total swap break expense incurred, \$161,915 was recognised as finance expense in the period ended 31 March 2020 and \$1,400,538 had been recognised in equity as other reserves as at 31 March 2020. Following the repayment of bank debt on the receipt of the \$125 million from the retail bonds and the cancellation of the \$99 million bank facility, the amount remaining in other reserve has been expensed in the current period to finance expense as the hedged future cashflows are no longer expected to occur.

On 31 August 2020, Investore broke interest rate derivative contracts with a notional value of \$40 million for a cost of \$2,152,916. This cost has been expensed to the statement of comprehensive income as the hedged future cashflows are no longer expected to occur.

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 (31 Mar 20: 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 as at balance date. Fair values also reflect the current creditworthiness of the derivative counterparties. The valuations were based on market rates at 30 September 2020 of between 0.31%, for the 90-day BKBM, and 0.51%, for the 10-year swap rate (31 Mar 20: 0.49% and 0.91%, respectively). There were no changes to these valuation techniques during the reporting period.

As at 30 September 2020, the fair value of the interest rate derivatives was a net asset of \$163,726, including an accrued interest liability of \$47,033 (31 Mar 20: liability of \$2,549,350, including an accrued interest liability of \$113,085).

Gains and losses recognised in the cash flow hedge reserve in equity on interest rate derivative contracts as at 30 September 2020 will be reclassified in the same period in which the hedged forecast cash flows affect profit or loss, until the repayment of the underlying borrowings.

5.0 Capital structure and funding (continued)

5.3 Net finance expense

	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Finance income		
Bank interest income	2	33
Other finance income	-	3
Total finance income	2	36
Finance expense		
Bank borrowings interest	(3,886)	(4,743)
Fixed rate bonds interest	(2,448)	(2,239)
Lease liabilities interest	(327)	(214)
	(6,661)	(7,196)
Finance expense - swap break expense (note 5.2)	(3,553)	(37)
Total finance income	(10,214)	(7,233)
Net finance expense	(10,212)	(7,197)

5.4 Share capital

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. Investore had 368,135,033 shares on issue as at 30 September 2020 (31 Mar 20: 304,498,669).

Investore undertook a capital raise during April and May 2020 which resulted in a gross amount of \$105 million raised, \$85 million from an institutional placement which settled on 5 May 2020, and \$20 million from its share purchase plan which settled on 20 May 2020, resulting in 63,636,364 shares being issued at \$1.65 per share.

5.5 Reserve

	Unaudited 30 Sep 20 \$000	Audited 31 Mar 20 \$000
Cash flow hedge reserve		
Opening balance	(2,694)	(2,230)
Movement in fair value of interest rate derivatives	494	(669)
Tax on fair value movement	(138)	187
Transferred to profit or loss	2,518	18
Closing balance	180	(2,694)

6.0 Other

This section contains additional information to assist in understanding the financial performance and position of Investore.

6.1 Tax

	Unaudited 6 months 30 Sep 20 \$000	Unaudited 6 months 30 Sep 19 \$000
Profit before income tax	95,873	13,758
Prima facie income tax using the company tax rate of 28%	(26,845)	(3,852)
Decrease/(increase) in income tax due to:		
Net change in fair value of investment properties	23,448	248
Reversal of lease liabilities movement in investment properties	7	-
Movement in fair value of derivative financial instruments	11	2
Non-taxable income	194	274
Taxable income	30	-
Depreciation	2,154	852
Non-deductible expenses	(444)	(97)
Temporary differences	(24)	(34)
Swap break expenses released from reserve	392	-
Depreciation recovered on disposal of investment properties	-	(53)
Current tax expense	(1,077)	(2,660)
Investment property depreciation	(3,755)	(160)
Other	(3)	33
Deferred tax charged to profit or loss	(3,758)	(127)
Income tax expense per the statement of comprehensive income	(4,835)	(2,787)

In the current period, the income tax benefit of \$392,280 arising from the swap break expenses in the cash flow hedges in the prior year has been recognised in the statement of comprehensive income.

As part of its COVID-19 support package the New Zealand Government has reintroduced a 2% diminishing value depreciation deduction for commercial properties, starting in April 2020 for Investore. This is estimated to provide a reduction in current tax to Investore of approximately \$2.2 million for the year ending 31 March 2021.

6.0 Other (continued)

6.2 Operating segments

Investore is reported as a single operating segment, being large format retail properties. Investore's revenue streams are earned from investment properties owned in New Zealand, with no specific exposure to geographical risk. One tenant, General Distributors Limited (Countdown), contributes 63% of Investore's portfolio contract rental as at 30 September 2020 (30 Sep 19: 73%).

6.3 Contingent liabilities

Investore has no contingent liabilities at balance date (31 Mar 20: \$nil).

6.4 Subsequent events

Effective from 4 November 2020, Investore has secured a new \$30 million 3-year facility with Industrial and Commercial Bank of China Limited, Auckland Branch.

On 17 November 2020, Investore declared a cash dividend for the period 1 July 2020 to 30 September 2020 of 1.90 cents per share, to be paid on 2 December 2020 to all shareholders on Investore's register at the close of business on 25 November 2020. This dividend will carry imputation credits of 0.294478 cents per share. This dividend has not been recognised in the financial statements.

There have been no other material events subsequent to balance date.

Independent auditor's review report
To the shareholders of Investore Property Limited



Report on the interim financial statements

Our conclusion

We have reviewed the interim financial statements of Investore Property Limited (the Company), on pages 15 to 34 which comprise the statement of financial position as at 30 September 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that these accompanying interim financial statements of the Company do not present fairly, in all material respects, the financial position of the Company as at 30 September 2020, and its financial performance and cash flows for the six months then ended, 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).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the interim financial statements* section of our report.

We are independent of the Company in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Company in the areas of other assurance services over operating expense audits. The provision of these other services has not impaired our independence.

Directors' responsibility for the interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) 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. A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform 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 and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

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.

The engagement partner on the review resulting in this independent auditor's review report is Samuel Shuttleworth.

For and on behalf of:

Frederick Cooper

Chartered Accountants, Auckland
17 November 2020

Board of Directors

Mike Allen (Chair)
Gráinne Troute
Adrian Walker
Tim Storey (SIML Appointed Director)
John Harvey (SIML Appointed Director)

Registered Office

Level 12, 34 Shortland Street, Auckland 1010
PO Box 6320, Victoria Street West, Auckland 1142
New Zealand

W investoreproperty.co.nz

Manager

Stride Investment Management Limited
Level 12, 34 Shortland Street, Auckland 1010
PO Box 6320, Victoria Street West, Auckland 1142
New Zealand

T +64 9 912 2690

Auditor

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
15 Customs Street West, Auckland 1010
Private Bag 92162, Auckland 1142

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Victoria Street West,
Auckland 1142

T +64 9 488 8777
F +64 9 488 8787
E enquiry@computershare.co.nz

Legal Adviser

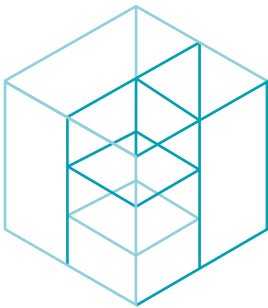
Bell Gully
Level 21, Vero Centre, 48 Shortland Street,
Auckland 1010
PO Box 4199, Auckland 1140

Bankers

ANZ Bank New Zealand Limited
Bank of New Zealand
China Construction Bank, New Zealand Branch
Commonwealth Bank of Australia
Industrial and Commercial Bank of China Limited, Auckland Branch
Westpac New Zealand Limited

Bond Supervisor

Public Trust
Level 9, 34 Shortland Street, Auckland 1010
PO Box 1598, Auckland 1140



Investore Property Limited

Level 12, 34 Shortland Street
Auckland 1010

PO Box 6320
Victoria Street West,
Auckland 1142, New Zealand

T +64 9 912 2690

F +64 9 912 2693

W investoreproperty.co.nz

