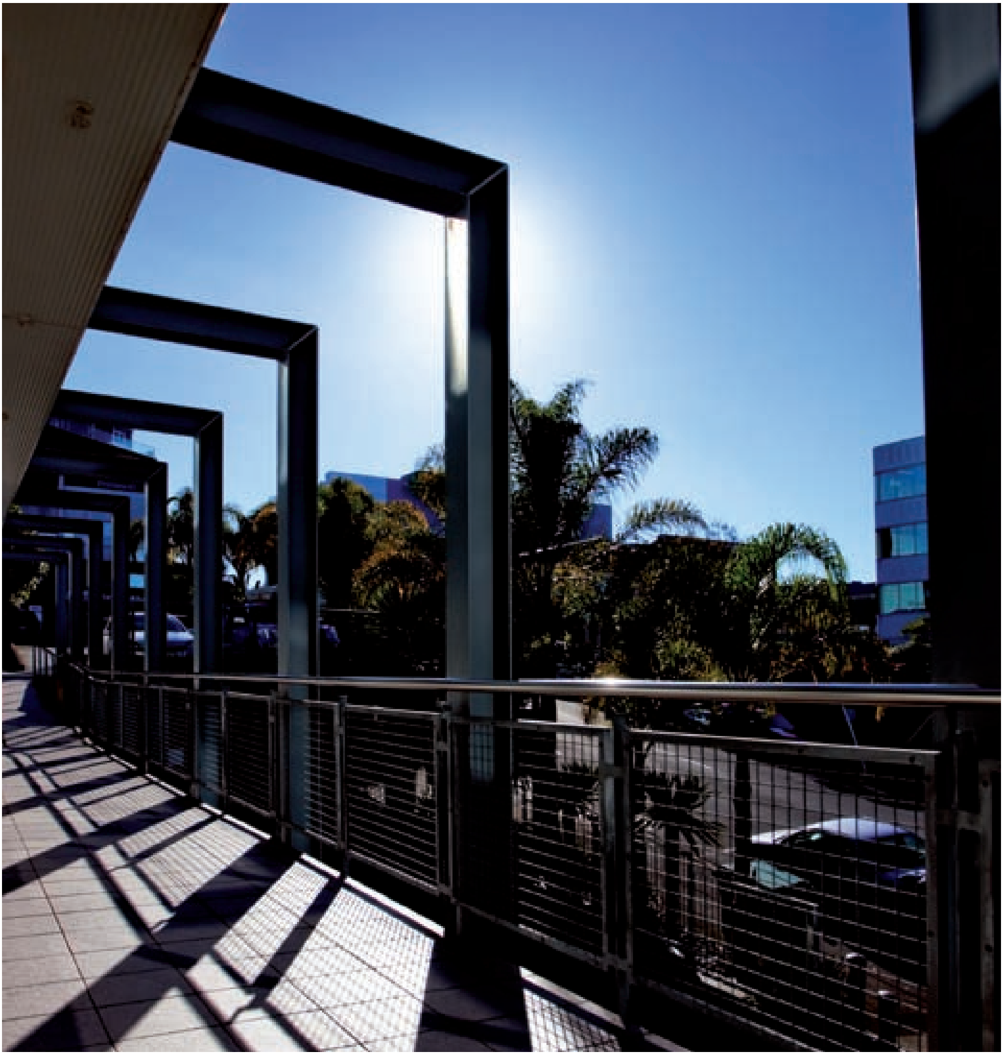
Argosy

Property Trust

Interim Report 2010



CONTENTS

COVER
25 College Hill, Auckland

BELOW
2 Carmont Place, Auckland

7cpu

GUIDANCE TO ANNUAL DISTRIBUTION

↑95.7%

OCCUPANCY

↑5.3yrs

WALT

Weighted average lease term increased

↑40

LEASE TRANSACTIONS

during the period

- **NEW INDEPENDENT BRAND IN PLACE**
- **RENTAL ARREARS AT A 12 MONTH LOW**

A NOTE FROM THE MANAGER

Argosy Property Trust has reported interim results to 30 September 2010. The core property portfolio generated $35.6m (2009: $40.9m) of net property income and produced earnings before finance costs and tax of $31.4m (2009: $34.4m). The reduced income is a result of asset sales during the last year.

RIGHT
105 Carlton Gore Road, Auckland

The Trust incurred an after-tax loss of $93.0m for the six month period to 30 September 2010 which compares to the 2009 loss of $5.6m. This result includes the $103.2m deferred tax adjustment as a result of the Government Budget changes to remove the ability to claim depreciation on building structure. However, if this non-cash adjustment is excluded, it would result in a profit of $10.2m.

UNIT PRICE PERFORMANCE

The unit price performance was above the NZX Property Gross Index for the 6 months under review and also out-performed the NZX50. The 12-month performance to 30 September was again above that of both the NZX50 and the NZX Property Gross Index.

TRUST ACTIVITIES

Trust activities over the half year have been focused on maintaining and improving the quality of the property portfolio.

The first of these was the sale of the 792 Great South Road retail property for $10.5m, a figure more than $700,000 above the valuation at 31 March 2010. A simultaneous acquisition of the remaining strata title not already owned by the Trust at Wagener Place, St Lukes increased our exposure in this prime bulk retail location. The valuation on acquisition was approximately $1m higher than the $10.5m acquisition price. Both transactions were contracted during the period, although settlement occurred post 30 September. Considered together, the transactions were value enhancing, and were accretive to the yield and average lease term of the portfolio while improving property investment quality.

The Trust also agreed to the acquisition of the freehold title underlying the Albany Block E ground leased property. The acquisition improves the investment quality of the asset particularly in the current economic environment where investor sentiment to leasehold assets is largely

negative. Importantly, this also significantly improves the Trust's flexibility in managing the asset in the future.

Within the Trust's industrial portfolio there is a joint venture interest in North East Industrial Limited which has a significant land holding in Palmerston North. As previously advised the Trust is deemed to be in control of the joint venture and the holding is consolidated within the Trust's industrial portfolio with the appropriate minority interest shown in the accounts. Unconditional agreements are in place to sell three investment properties and some vacant land in the park for approximately $26.4m with settlement of the transactions occurring through to mid 2013.

GOVERNANCE

At the Annual Meeting of unitholders held on 23rd August 2010 at Eden Park, Peter Brook was re-appointed as an independent director of the Manager. Mr Brook, who has served as an independent director since the inception of the Trust in 2002, stood unopposed and was elected by a show of hands at the meeting.

TAXATION

As a result of the changes announced in the 2010 Government Budget, specifically the removal of the ability to claim depreciation on building structures, an adjustment was required to the deferred tax computation. For the Trust to comply with the relevant International Financial Reporting Standards (IFRS), there is an increase in the deferred tax liability by approximately $103.2m ($96.8m excluding the North East Industrial Limited joint venture) on the Statement of Financial Position with a corresponding increase in the deferred tax expense shown on the Statement of Comprehensive Income. This is a non-cash adjustment and will not form part of the calculation of the net distributable income available to unitholders under the terms of the Trust Deed.

RIGHT

23 Customs Street East, Auckland

It should be noted that the International Accounting Standards Board is reported to be looking at amending the Accounting Standards which required the recognising of a deferred tax liability as a result of the Budget changes. Should this happen then the deferred tax liability would be reversed.

As highlighted at the Annual Meeting, it is important to note that this deferred tax adjustment does not affect the Trust's bank loan covenants, nor, under current legislation, would the liability created be required to be paid to the Inland Revenue Department.

DISTRIBUTION PAYABLE

Prior to the changes in depreciation deduction allowances the Board indicated that the current annual distribution was likely to be 7.0 cents per unit. This guidance remains appropriate and the board have declared a cash distribution of 1.75 cents per unit for the September quarter. There will be no imputation credits attached to the distribution and the dividend re-investment plan ("DRP") will continue with a discount of 2.5% applied to the price at which units will be issued under the DRP. The record date is to be 7th December 2010 and the payment date will be 21st December 2010.

CAPITAL MANAGEMENT

Debt levels following acquisition and expenditure activity up to 30 September 2010 have increased to 41.8% (31 March 2010: 40.1%) of total assets. Management is actively negotiating the sale of a number of properties in order to reduce this.

RISK MITIGATION

Tenant retention rates have remained strong through the first half of the year. The portfolio occupancy rate has been maintained at over 95% and the majority of the space that has been vacated has been re-leased. This reflects well on the type and nature of the space making up the property portfolio.

The effective management of tenant needs and relationships remains a key management focus particularly in the current economic environment.

VALUATIONS

Following an analysis of the property portfolio and the current market the Board did not consider there was a requirement to complete a revaluation of the portfolio for the interim results. Independent property valuations will be completed at year end in line with normal policy.

POSITIONING THE PORTFOLIO FOR THE FUTURE

Many leases have been negotiated during the first half of the year including 40 lease transactions increasing the weighted average lease term of the portfolio from 5.0 years to 5.3 years. Transactions include 16 renewals or extensions and 24 new leases completed in a difficult leasing environment. Occupancy levels as at 30 September are 95.7%, down on the 97.1% at year-end.

OUTLOOK

While both the global and the domestic economy are beginning to show some positive signs of moving towards recovery, the property market continues to show the need for careful and competent management. Post balance date, activity levels in the market provide some grounds for greater optimism than existed at the time of presenting our year-end results, however a continuing focus on the risks and the structure of the portfolio is appropriate.

Argosy Property Trust has a low-risk diversified investment strategy that has provided flexibility in a difficult economic time and maintained a solid return to unitholders.

FINANCIALS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2010 (unaudited)

	Note	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s	Group (audited) 31 March 2010 $000s
Non-current assets				
Investment properties	4	946,540	992,075	925,919
Derivative financial instruments	6	–	–	147
Other non-current assets		6,772	8,013	7,386
Total non-current assets		**953,312**	**1,000,088**	**933,452**
Current assets				
Cash and cash equivalents		1,489	1,042	1,230
Trade and other receivables		9,218	3,731	7,215
Other current assets		1,137	2,421	671
Taxation receivable		704	429	714
		12,548	7,623	9,830
Non-current assets classified as held for sale	5	9,790	14,833	6,722
Total current assets		**22,338**	**22,456**	**16,552**
Total assets	3	**975,650**	**1,022,544**	**950,004**
Unitholders' funds				
Units on issue	7	541,683	534,294	538,282
Hedging reserves		(10,449)	(15,172)	(9,525)
(Accumulated losses)/retained earnings		(134,591)	42,616	(25,263)
Minority interest		8,338	–	11,656
Total unitholders' funds		**404,981**	**561,738**	**515,150**
Non-current liabilities				
Borrowings	8	375,417	18,860	–
Derivative financial instruments	6	30,688	19,301	19,177
Deferred tax		123,044	29,252	22,886
Total non-current liabilities		**529,149**	**67,413**	**42,063**
Current liabilities				
Borrowings	8	32,871	386,074	380,916
Trade and other payables		6,597	3,893	9,019
Derivative financial instruments	6	239	2,205	1,290
Other current liabilities		1,813	1,221	1,566
Total current liabilities		**41,520**	**393,393**	**392,791**
Total liabilities		**570,669**	**460,806**	**434,854**
Total unitholders' funds and liabilities		**975,650**	**1,022,544**	**950,004**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010 (unaudited)

	Note	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Gross property income from rentals		39,229	43,998
Gross property income from expense recoveries		6,733	6,864
Property expenses		(10,349)	(9,924)
Net property income	3	**35,613**	**40,938**
Administration expenses		4,181	6,505
Other expenses		36	58
Total expenses before finance income/(expenses) and other gains/(losses)		**4,217**	**6,563**
Profit before financial income/(expenses) and other gains/(losses)		**31,396**	**34,375**
Finance income/(expense)			
Finance expense		(13,489)	(13,455)
Loss on derivatives		(9,702)	(7,262)
Finance income		401	284
		(22,790)	**(20,433)**
Other gains/(losses)			
Revaluation gains/(losses) on investment property	4	50	(13,615)
Unrealised loss on construction	4	–	(1,461)
		50	**(15,076)**
Profit/(loss) before income tax		**8,656**	**(1,134)**
Taxation	9	101,606	4,478
Loss for the period		**(92,950)**	**(5,612)**
Other comprehensive income			
Movement in cash flow hedge reserve		(943)	11,222
Income tax benefit/(expense) relating to other comprehensive income	9	19	(3,367)
Total other comprehensive (loss)/income after tax		**(924)**	**7,855**
Total comprehensive (loss)/income after tax		**(93,874)**	**2,243**
Loss for the period is attributable to:			
Unitholders of the Trust		(89,632)	(5,612)
Minority interest		(3,318)	–
Total comprehensive (loss)/income for the period is attributable to:			
Unitholders of the Trust		(90,556)	2,243
Minority interest		(3,318)	–
All amounts are from continuing operations.			
Loss per unit			
Basic and diluted earnings per unit (cents)	11	(16.57)	(1.06)

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010 (unaudited)

	Note	Units on issue $000s	Hedging reserve $000s	Retained earnings $000s	Minority interest $000s	Total $000s
Unitholders' funds at the beginning of the period		**538,282**	**(9,525)**	**(25,263)**	**11,656**	**515,150**
(Loss)/profit for the period		–	–	(89,632)	(3,318)	(92,950)
Fair value gains on cashflow hedges net of tax		–	(924)	–	–	(924)
Total comprehensive income/(loss) after tax		**–**	**(924)**	**(89,632)**	**(3,318)**	**(93,874)**
Contributions by unitholders						
Issue of units from Dividend Reinvestment Plan		3,406	–	–	–	3,406
Issue costs of units		(5)	–	–	–	(5)
Distributions to unitholders		–	–	(19,696)	–	(19,696)
Unitholders' funds at the end of the period	7	**541,683**	**(10,449)**	**(134,591)**	**8,338**	**404,981**

For the six months ended 30 September 2009 (unaudited)

	Note	Units on issue $000s	Hedging reserve $000s	Retained earnings $000s	Minority interest $000s	Total $000s
Unitholders' funds at the beginning of the period		**531,574**	**(23,027)**	**68,529**	**–**	**577,076**
(Loss)/profit for the period		–	–	(5,612)	–	(5,612)
Fair value (losses) on cashflow hedges net of tax		–	7,855	–	–	7,855
Total comprehensive income/(loss) after tax		**–**	**7,855**	**(5,612)**	**–**	**2,243**
Contributions by unitholders						
Issue of units from Dividend Reinvestment Plan		2,926	–	–	–	2,926
Issue costs of units		(206)	–	–	–	(206)
Distributions to unitholders		–	–	(20,301)	–	(20,301)
Unitholders' funds at the end of the period	7	**534,294**	**(15,172)**	**42,616**	**–**	**561,738**

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the six months ended 30 September 2010 (unaudited)

	Note	Group (unaudited) Six months to 30 September 2010 $000s	Group (unaudited) Six months to 30 September 2009 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		41,035	50,608
Interest received		127	240
Cash was applied to:			
Property expenses		(8,295)	(12,673)
Management and trustee fees		(2,890)	(3,373)
Loss on swap cancellation		(2,270)	(12,284)
Interest paid		(13,501)	(13,894)
Tax paid		(1,457)	(3,496)
Other trust expenses		(948)	(755)
Net cash from operating activities	10	**11,801**	**4,373**
Cash flows from investing activities			
Cash was provided from:			
Sale of properties		6,722	49,548
Cash was applied to:			
Loan to North East Industrial Limited		–	(60)
Capital additions on investment properties		(5,420)	(11,666)
Capitalised interest on investment properties		–	(463)
Purchase of properties		(23,776)	–
Net cash (used in)/from investing activities		**(22,474)**	**37,359**
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		43,907	34,166
Issue of units (net of issue costs)		(5)	2,780
Cash was applied to:			
Repayment of debt		(15,055)	(58,405)
Distributions paid to unitholders		(16,290)	(20,301)
Bank facility costs		(1,625)	–
Net cash from/(used in) financing activities		**10,932**	**(41,760)**
Net increase/(decrease) in cash and cash equivalents		**259**	**(28)**
Cash and cash equivalents at the beginning of the period		1,230	1,070
Cash and cash equivalents at the end of the period		**1,489**	**1,042**

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

1. GENERAL INFORMATION

Argosy Property Trust, formerly ING Property Trust ("ARG" or "the Trust"), is a unit trust established under the Unit Trusts Act 1960 by a Trust Deed dated 30 October 2002 as amended by a Deed of Variation and Reinstatement dated 30 September 2004, 17 October 2006, 17 December 2008, 27 May 2009 and 30 September 2010. The Trust is an issuer in terms of the Financial Reporting Act 1993. ARG is incorporated and domiciled in New Zealand.

On 1 October 2010, the Trust changed its name from ING Property Trust to Argosy Property Trust.

The Trust's principal activity is investment in properties which include commercial, retail and industrial properties throughout New Zealand. The Trust is managed by Argosy Property Management Limited ("the Manager"), formerly ING Property Trust Management Limited, which is a wholly owned subsidiary of OnePath (NZ) Limited ("OnePath").

These financial statements include those of Argosy Property Trust and its subsidiaries ("the Group").

These condensed consolidated interim financial statements are presented in New Zealand dollars which is the Trust's functional currency and have been rounded to the nearest thousand dollars ($000).

These condensed consolidated interim financial statements were approved by the Board of Directors of the Manager on 29 November 2010.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). These condensed consolidated interim financial statements comply with NZ IAS 34 Interim Financial Reporting and NZ IFRIC interpretations issued and effective at the time of preparing these statements as applicable to the Trust as a profit-oriented entity. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 March 2010.

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for derivative financial instruments and investment properties which are measured at fair value.

The preparation of financial statements in conformity with NZ IFRSs requires the use of certain critical accounting estimates that affect the application of policies and reported amount of assets and liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

Note 4 – valuation of investment property
Note 6 – valuation of derivative financial instruments
Note 9 – deferred tax

3. SEGMENT INFORMATION

The principal business activity of the Trust and its subsidiaries is to invest in New Zealand properties. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The information reported to the Group's chief operating decision maker is based on primarily three business sectors, being Retail, Commercial and Industrial, based on what occupants actual or intended use is.

The following is an analysis of the Group's results by reportable segments.

Segment Profit/(loss) for the period ended 30 September 2010	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Net property income	13,728	10,940	10,532	35,200
Administration expenses	(1,270)	(768)	(874)	(2,912)
Other income/(expenses)	(36)	–	–	(36)
Finance income/(expenses)	(49)	–	3	(46)
	12,373	**10,172**	**9,661**	**32,206**
Revaluation (loss)/gains on investment properties	50	–	–	50
Total segment profit/(loss)	**12,423**	**10,172**	**9,661**	**32,256**
Unallocated:				
Unallocated net property income				413
Administration expenses				(1,269)
Finance income/(expenses)				(13,042)
Loss on derivatives				(9,702)
Profit/(loss) before income tax				**8,656**
Taxation				(101,606)
Profit/(loss) for the period				**(92,950)**

3. SEGMENT INFORMATION (CONTINUED)

Segment profit/(loss) for the period ended 30 September 2009	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Net property income	14,597	12,519	13,406	40,522
Administration expenses	(1,230)	(985)	(1,240)	(3,455)
Other (expenses)/income	(267)	(674)	890	(51)
Finance (expenses)/income	(20)	13	5	(2)
	13,080	**10,873**	**13,061**	**37,014**
Revaluation (loss)/gains on investment properties and joint venture investment properties	–	–	(13,615)	(13,615)
Unrealised (loss)/gain on construction	–	–	(1,461)	(1,461)
Total segment profit/(loss)	**13,080**	**10,873**	**(2,015)**	**21,938**
Unallocated:				
Unallocated net property income				416
Administration expenses				(3,050)
Finance income/(expenses)				(12,979)
Other income/(expenses)				(7)
Loss on derivatives				(7,452)
Profit/(loss) before income tax				**(1,134)**
Taxation				(4,478)
Profit/(loss) for the period				**(5,612)**

Net property income consists of revenue generated from external tenants less property operating expenditure.

There were no inter-segment sales during the period (30 September 2009: Nil).

3. SEGMENT INFORMATION (CONTINUED)

Segment profit represents the profit earned by each segment including allocation of identifiable administration costs, finance costs, revaluation (losses)/gains on investment properties, and (losses)/gains on disposal of investment properties. This is the measure reported to the General Manager, who is the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets for the period ended 30 September 2010	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	3,774	16	2,250	6,040
Investment properties	374,003	267,955	304,582	946,540
Non-current assets classified as held for sale	–	–	9,790	9,790
Total segment assets	**377,777**	**267,971**	**316,622**	**962,370**
Unallocated assets:				13,280
Consolidated assets				**975,650**

Segment assets for the period ended 30 September 2009	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	784	343	2,560	3,687
Investment properties	350,635	304,984	336,456	992,075
Non-current assets classified as held for sale	12,853	–	1,980	14,833
Total segment assets	**364,272**	**305,327**	**340,996**	**1,010,595**
Unallocated assets:				11,949
Consolidated assets				**1,022,544**

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than cash and cash equivalents, derivatives, management contract and tax assets.

4. INVESTMENT PROPERTIES

	Group (unaudited) Six months to 30 September 2010 $000s	Group (unaudited) Six months to 30 September 2009 $000s
Movement in investment properties		
Balance at the beginning of the period	920,633	938,338
Acquisition of properties	22,526	–
Capitalised costs	5,938	1,973
Disposals	–	(41,246)
Transfer to properties held for sale	(9,790)	(14,833)
Transfer from investment properties under construction	–	60,259
Change in fair value of investment property	50	–
Closing balance	939,357	944,491
Deferred initial direct costs/lease incentives		
Opening balance	5,286	3,922
Change during the period	1,897	572
Closing balance	7,183	4,494
Share of joint venture investment properties		
Opening balance	–	21,400
Transfer from investment properties under construction	–	21,690
Closing balance	–	43,090
Balance at the end of the period	**946,540**	**992,075**
Movement in investment properties under construction		
Balance at the beginning of the period	–	87,928
Capitalised costs	–	8,634
Interest capitalised	–	463
Transfer to investment property	–	(81,949)
Unrealised (loss)/gain on construction	–	(1,461)
Change in fair value of investment property under construction	–	(13,615)
Closing Balance	–	–

Deferred initial direct costs/lease incentives

This amount represents costs incurred with the negotiation of operating leases for the Group's investment property portfolio and which are being amortised over the term of those leases.

The Trust holds the freehold to all investment properties other than 39 Market Place, Auckland.

4. INVESTMENT PROPERTIES (CONTINUED)

Investment properties valuation

The Trust policy is for investment property to be measured at fair value for which the Trust complete property valuations at least annually by independent registered valuers. There was no independent valuation for investment properties as at 30 September 2010. The board and management consider that there has been no significant change to the investment environment since 31 March 2010 and the valuation of 31 March 2010 for investment properties are still applicable. (30 September 2009: No independent valuation for investment properties other than E Block, Albany).

5. PROPERTY HELD FOR SALE

The investment property at 792 Great South Road, Manukau, Auckland was subject to a sale and purchase agreement at balance date. The property is being held at book value at 30 September 2010 (30 September 2009: 3 properties).

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2010	Group (unaudited) 30 September 2009
Nominal value of interest rate swaps	248,000,000	346,500,000
Average fixed interest rate	7.09%	7.11%
Floating rates based on NZD BBR	4.42%	3.26%

Cash flow hedge

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of the future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The Group designates hedges of both firm commitments and highly probable forecast transactions as cash flow hedges.

Fair value hedge

The Group designates hedges of the fair value of recognised assets and liabilities as fair value hedges. These include hedges of borrowings issued at fixed interest rates which expose the Group to fair value interest rate risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

7. UNITS

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Balance at the beginning of the period	538,282	531,574
Issue of units from Dividend Reinvestment Plan	3,406	2,926
Issue costs of units	(5)	(206)
Balance at the end of the period	**541,683**	**534,294**

The number of units on issue at 30 September 2010 was 544,276,193 (30 September 2009: 534,203,938). The units have no par value and are fully paid. Fully paid ordinary units carry one vote per unit and carry the right to distributions.

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Reconciliation of number of units (in thousands of units)		
Balance at the beginning of the period	539,328	529,704
Issue of units from Dividend Reinvestment Plan	4,948	4,500
Balance at the end of the period	**544,276**	**534,204**

8. BORROWINGS

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
ANZ National Bank Limited	248,016	386,576
Bank of New Zealand	118,916	18,915
Hong Kong and Shanghai Banking Corp	43,000	–
Borrowing costs	(1,644)	(557)
Total borrowings	**408,288**	**404,934**
Shown as:		
Current	32,871	386,074
Term	375,417	18,860

The Trust has a syndicated revolving credit facility with ANZ National Bank Limited, Bank of New Zealand and The Hong Kong and Shanghai Banking Corp of $400,000,000 (30 September 2009: $500,075,000 with ANZ National Bank Limited) secured by way of mortgage over the investment properties of the Trust. The facility has a term of three years and expires on 30 June 2013.

The contractual interest rate on the borrowings as at 30 September 2010 was 6.70% per annum (30 September 2009: 5.93%). The Trust also pays a line fee of between 1.05% and 1.20% per annum on the total facility.

North East Industrial Limited (NEIL), a subsidiary of Argosy Property Trust, has a committed cash advance facility with the Bank of New Zealand of $33,000,000 (30 September 2009: $40,000,000) secured by way of mortgage over the properties. The facility expires on 31 December 2010. The borrowings are subject to various covenants pursuant to the Committed Cash Advance Facility with Bank of New Zealand. At 30 September 2010, NEIL advised BNZ that it was in breach of its interest cover covenant. BNZ subsequently provided NEIL with a waiver of this event of default on 12 November 2010.

The contractual interest rate on NEIL borrowings as at 30 September 2010 was 7.30% per annum (30 September 2009: 5.92%). NEIL also pays a commitment fee of 1.45% per annum on the total facility.

9. TAXATION

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Profit before tax for the period	8,656	(1,134)
Current income tax benefit / expense at 30%	2,597	(340)
Non deductible amortisation	198	198
Capitalised interest	(390)	(139)
Depreciation	(3,042)	(3,619)
Depreciation recovered	–	1,620
Non assessable gain	10	17
Non deductible unrealised loss on swaps	2,910	2,089
Deductible costs of closing swaps	(681)	(3,596)
Provision for doubtful debts	39	490
Lease incentives	(509)	(172)
Lease incentives written off	(60)	–
Leasing costs	80	(128)
Accrued expenditure	(4)	2
Non-assessable loss on construction	–	438
Non-assessable loss on revaluation	(15)	4,085
Other adjustments	332	–
Total current taxation	**1,465**	**945**
Movements in deferred tax assets and liabilities attributable to:		
Impact of change in tax rate to 28%	(1,798)	–
Impact of change in future deductibility of building structure depreciation	103,219	–
Prior period adjustment	(36)	589
Derivative financial instruments other than hedge accounted	(2,716)	(2,089)
Deferred tax on amortisation	(184)	(198)
Depreciation	2,839	3,804
Closing of swaps	636	3,596
Reversal on buildings sold	(2,098)	(1,921)
Provision for doubtful debts	(37)	(490)
Lease incentives	531	172
Leasing costs	–	89
Accrued expenditure	4	(2)
Other	(219)	(17)
Total deferred taxation	**100,141**	**3,534**
Total income tax/benefit recognised in profit or loss	**101,606**	**4,478**

9. TAXATION (CONTINUED)

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Deferred tax recognised in other comprehensive income		
Deferred tax arising from revaluations of derivative financial instruments treated as cash flow hedges	254	(3,367)
Impact of change in tax rate to 28%	(235)	–
Total income tax recognised in other comprehensive income	**19**	**(3,367)**
Imputation credits		
Imputation credits at beginning of period	155	19
Prior period adjustment	–	(7)
New Zealand tax payments, net of refunds	1,457	3,487
Imputation credits attached to dividends received	6	4
Imputation credits attached to dividends paid	(1,008)	(3,082)
Imputation credits at end of period	**610**	**421**

The Government's budget announcements on 20 May 2010 resulted in the removal of the allowance for depreciation on buildings for taxation purposes. The tax base of existing buildings has been reduced to the tax depreciation allowance that can be claimed until the end of the 31 March 2011 financial year. The tax base of the fit-out remains unaffected by the Government budget announcement.

The corporate tax rate in New Zealand will change from 30% to 28% with effect from 1 April 2011. Deferred tax has been calculated at 28%.

10. RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Profit/(loss) after tax	(92,950)	(5,612)
Movements in working capital items relating to investing and financing activities	(908)	4,315
Non cash items:		
Movement in deferred tax liability	100,158	6,751
Fair value change in interest rate swaps	10,607	(16,245)
Fair value change in investment properties	(50)	13,615
Unrealised gain on construction	–	1,461
Movement in management contract	659	659
Movement in cash flow reserve	(906)	11,222
Movements in working capital items:		
Trade and other receivables	(2,003)	(91)
Income tax payable	10	(2,402)
Trade and other payables	(2,422)	(7,481)
Other	(394)	(1,819)
Net cash flows from operating activities	**11,801**	**4,373**

11. EARNINGS/(LOSS) PER UNIT

Basic and diluted earnings/(loss) per unit is calculated by dividing the profit attributable to unitholders of the Trust by the weighted average number of ordinary units on issue during the year.

	Group (unaudited) 30 September 2010 $000s	Group (unaudited) 30 September 2009 $000s
Loss attributable to unitholders of the Trust	(89,632)	(5,612)
Weighted average number of units on issue	540,848	531,081
Basic and undiluted loss per unit (cents)	**(16.57)**	**(1.06)**
Weighted average number of ordinary units		
Issued units at beginning of period	539,328	529,704
Issued units at end of period	544,276	534,204
Weighted average number of ordinary units	**540,848**	**531,081**

On 29 November 2010 an interim gross distribution of 1.75 cents per unit was announced by the Trust. Continuation of the DRP programme will increase the number of units on issue.

12. COMMITMENTS

Ground rent

Ground leases exist over the GE Capital Building in the Viaduct Harbour. The amount paid in respect of ground leases during the period was $313,500 (30 September 2009: $313,500). The annual ground lease commitment is $627,000 and is fully recoverable from tenants in proportion to their area of occupancy. The lease is renewable in perpetuity with the next renewal date in 2012.

Building upgrades

Estimated capital commitments contracted for building projects not yet completed at balance date but not provided for were $2,573,051 (30 September 2009: $5,414,249).

13. CONTINGENCIES

There were no contingencies as at 30 September 2010 (30 September 2009: nil).

14. SUBSEQUENT EVENTS

On 6 October 2010, the Trust settled the sale of the property at 792 Great South Road, Manukau, Auckland and the contemporaneous purchase of the Storage King building at 7 Wagener Place, St Lukes, Auckland.

On 29 November 2010, the Board approved the payment of a gross distribution of 1.75 cents per units to be paid on 21 December 2010.

15. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and other related parties are disclosed below.

Fees paid to the Manager

The Trust is managed by Argosy Property Management Limited ("the Manager"). The Manager is wholly owned by OnePath.

The Trust paid management fees to the Manager. The total fees incurred for the period was $2,712,041 (30 September 2009: $3,258,899) and the amount outstanding as at 30 September 2010 was $443,435 (30 September 2009: $525,043).

The Trust also reimbursed the Manager for fees paid to the Manager's directors and shareholders. These fees include directors' fees. The total amount paid in the period was $126,250 (30 September 2009: $126,250).

Properties owned by the Trust have been managed on normal commercial terms by the Manager. Property management fees charged are either included in property expenses or capitalised. The amount paid to the Manager was $891,674 (30 September 2009: $1,023,637). The amount not recovered from tenants was $567,204 (30 September 2009: $578,246).

15. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions

OnePath paid for rental and car parks within the building at 8-14 Willis Street, Wellington. The total paid by OnePath for the period was $137,739 (30 September 2009: $104,728).

ANZ National Bank Limited (100% shareholder of OnePath) paid for rental and car parks within 107 Carlton Gore Rd. The total paid by ANZ National Bank Limited for the period was $987,933 (30 September 2009: $987,933).

The Trust has a syndicated revolving credit facility with, amongst others, ANZ National Bank Limited of $400,000,000 (30 September 2009: $500,075,000). As at 30 September 2010 $377,017,406 (30 September 2009: $386,576,047) had been drawn-down. The Trust paid $11,840,607 (30 September 2009: $13,631,503) in interest and fees to ANZ National Bank Limited during the period.

Valor Ideal Limited is associated with the Trust's partner in NEIL. Valor Ideal Limited paid for services provided by the Trust in relation to the Manawatu Business Park. The total billed to Valor Ideal Limited for the period was $612,156 (30 September 2009: $612,156).

Argosy Property No.4 Limited (a subsidiary of Argosy Property Trust) has advanced loans of $9,770,050 to NEIL, of which $3,463,398 was advanced in the current financial year. $4,306,653 is charged at an interest rate of 8.00% above the Trust average interest rate per annum and $4,375,000 is charged at 3.5% above the Trust average interest rate. The total interest received from NEIL during this period was $567,719 (30 September 2009: $151,943).

Properties owned by the NEIL have been managed on normal commercial terms by the Manager. Property management fees charged are included in property expenses. The amount paid to the Manager and not recovered from tenants was $37,018 (30 September 2009: $38,395).

No related party debts have been written off or forgiven during the period (30 September 2009: Nil).

The Manager held no units in the Trust as at 30 September 2010 and 30 September 2009.

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The Hong Kong and Shanghai
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