Argosy

INTERIM REPORT 30 SEPTEMBER 2012

The strategy of selling non core assets during the global financial crisis has ensured that the Argosy portfolio is stronger now than it was pre crisis.

Bank facility

RESTRUCTURED ON IMPROVED TERMS

Growth opportunities

ACTIVELY BEING PURSUED BY THE BOARD

SUMMARY

DISTRIBUTABLE INCOME

3.6 cents per share ↑

TOTAL PORTFOLIO VALUE

$906m ↔

DEBT TO TOTAL ASSETS

40.7% ↓

OCCUPANCY

96.3% ↑

NET PROPERTY INCOME

$35.4m ↔

WEIGHTED AVERAGE LEASE TERM

5.3 years ↑

LEASE TRANSACTIONS COMPLETED

29

GUIDANCE TO ANNUAL DISTRIBUTION

6 cents per share ↔

Argosy Property Limited is pleased to report its interim results to 30 September 2012.

The momentum generated by internalisation and corporatisation in the prior period has continued over the first six months of this year. The cost savings from internalisation have been considerable and are in line with that originally indicated to shareholders. In addition, the strong focus on leasing activity in the period has improved occupancy, increased the weighted average lease term and significantly reduced pending 2013 expiries.

Net distributable income for the six months was $20.2 million (2011: $15.7 million) an increase of 29% on the previous interim period.

Net property income for the six months was comparable to the previous interim period at $35.4 million (2011: $35.6 million), despite the sale of fifteen properties in the year ended 31 March 2012, and a further two this period.

The operating surplus before tax for the six months was $5.5 million compared to a loss of $23.8 million for the previous interim period. The previous interim period included one-off items amounting to $28.2 million relating to the management rights buy-out and associated expenses, an unsolicited merger proposal and the write-down of a previous management contract.

Interest expense was $3.6 million lower than in the previous interim period due to the restructure of our banking facility and treasury initiatives undertaken during the last twelve months, as well as capitalised interest of $2.1 million relating to development activities.

DIVIDENDS

The Board confirms its previous guidance that the full-year dividend is expected to be 6.0 cents per share.

A cash distribution of 1.50 cents per share, consistent with the first quarter, has been declared for the September quarter. There are no imputation credits attached to the dividend and the dividend reinvestment plan ("DRP") will continue with a discount of 1% applied to the price at which shares will be issued under the DRP. The record date is 13 December 2012 and the payment date will be 21 December 2012.

GOVERNANCE

At the Annual Meeting, Andy Evans was reappointed as an Independent Director of Argosy Property Limited and Mark Cross was elected as a Director. The Board has determined that Mark Cross is not an Independent Director because he is an associated person of MFL Mutual Fund Limited which holds 15.96% of the shares in the Company (as at 23 November 2012).

CAPITAL MANAGEMENT

Argosy's debt levels have reduced to 40.7% of total assets (31 March 2012: 41.4% and 30 September 2011: 43.6%). When allowance is made for the settlement of unconditional contracts in respect of vacant land and two buildings in Palmerston North, the debt to total assets ratio reduces further to 39.5%. The divestment of vacant land and under-yielding assets will continue to be a key strategy for the Company.

BANK FACILITY

In August Argosy restructured its syndicated bank facility with ANZ Bank New Zealand Limited, Bank of New Zealand and the Hongkong and Shanghai Banking Corporation on improved terms.

The facility amount was increased from $450 million to $500 million and is now split into two even tranches of $250 million. The first tranche expires on 30 June 2015 and the second on 30 June 2017. The company received immediate margin and line fee reductions on both tranches averaging 25 basis points (after including upfront fees).

TAXATION

As reported last year, Argosy is in discussions with the Inland Revenue Department over the classification of its leasehold payment for Albany E Block as depreciable intangible property. Should the outcome be successful, a deduction will be available. The Board has determined not to recognise any deduction in respect of the leasehold payment until the outcome is certain.

LOOKING AHEAD

The property market remains challenging; however the Company's portfolio is well-placed with quality properties in good locations.

Your Board continues to actively pursue opportunities accretive to shareholders.

P Michael Smith
Chairman, Argosy Property Limited

The first 12 months of an internally managed business have delivered savings in line with those projected at the time of internalisation.

Argosy has delivered a strong performance over the first six months of this financial year demonstrating the benefits of a well-diversified portfolio. Proactive and hands-on management of tenant relationships has translated directly into improved shareholder returns.

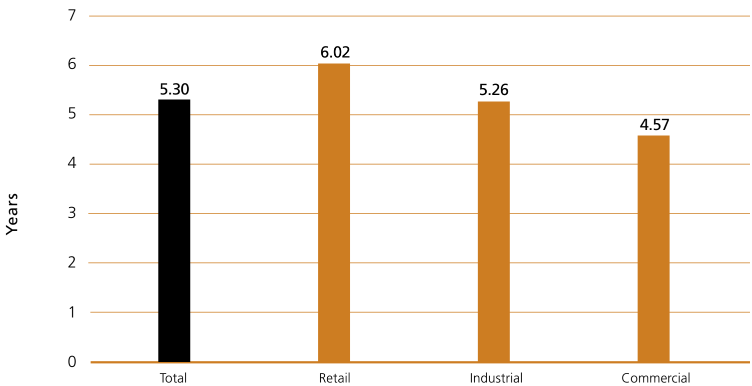
PORTFOLIO ACTIVITY

The property market is starting to show signs of improvement, particularly in the Auckland market with the potential for growth improving. Net effective rents in the Wellington market have continued to suffer mainly as a result of insurance increases over the past few years.

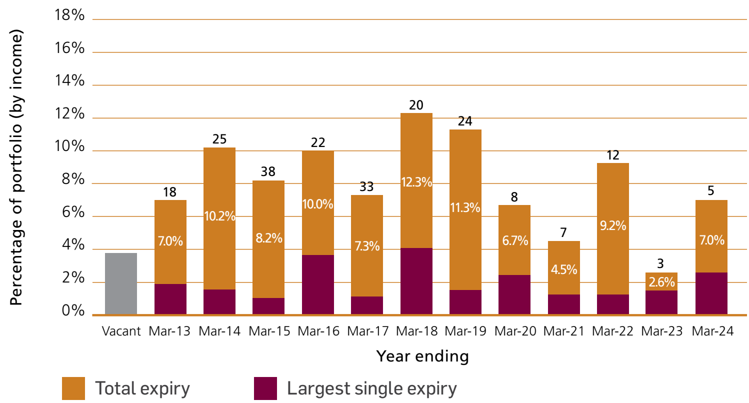
Leasing

The Management team has continued to focus on occupancy and near-term lease expiries with pleasing results. Occupancy (by rental) has improved to 96.3% from 94.1% at 31 March 2012. Outstanding lease expiries for the period to 31 March 2013 have reduced to 7.0% from 17.9% at 31 March 2012.

WALT
BY SECTOR



LEASE MATURITY EXPIRY
BY RENT



The number above each bar denotes the total tenant expiries per year (excluding monthly car parks and tenants with multiple leases within one property).

During the interim period, 29 lease transactions were completed, including 16 new leases and 13 lease renewals and extensions. The weighted average lease expiry improved to 5.30 years from 4.77 years at 31 March 2012.

Capital projects

Major refurbishment projects, resulting from solid leasing commitments, are nearing completion at Argosy's two largest Wellington office towers, Te Puni Kokiri (143 Lambton Quay) and TSB Tower (46 Waring Taylor Street). Works are expected to be completed by 31 March 2013 and are on budget.

Divestments

Two properties were sold at less than book value during the interim period (221 Bush Rd, Albany which was sold vacant and 221 Wakefield St, Wellington which was cash flow negative). A small parcel of land at 211 Albany Highway was also sold during the interim period.

As noted in the last Annual Report, one of Argosy's key strategies is to divest vacant land and under-yielding assets in the near-term.

Since reporting date, the Company has announced the unconditional sale of part of the vacant land on Oteha Valley Road in Albany and three vacant sites in the Manawatu Business Park subdivision in Palmerston North. The Company also announced the sale of two smaller buildings located in the Manawatu Business Park. The unconditional sales total $19.2 million ($15.5 million for the vacant land and $3.7 million for the two buildings).

Manawatu Business Park

It is pleasing to report excellent progress is being made at the Manawatu Business Park. Subdivision works are substantially complete and titles have now been issued. It is also pleasing to report an increase in activity with three sales of vacant land since reporting date.

Christchurch property

Argosy owns one Christchurch industrial property, at 8 Foundry Drive. During the interim period an insurance claim was settled for the sum of $10 million with the proceeds used to repay bank debt. The value of the residual land and buildings was assessed at $4.05 million by CBRE Limited as part of the 31 March 2012 asset valuations. The property, which represents the sole remaining asset of the business in Christchurch, is being marketed for sale.

Valuations

The Board and Management have reviewed the portfolio using available market information and consider that there has been no significant change to the valuation completed at 31 March 2012. Independent property revaluations will be completed at year-end as normal.

Seismic ratings

Initial evaluation assessments by structural engineers have been undertaken on a number of properties (including all Wellington assets) with no significant issues identified.

OUTLOOK

The Management team is actively managing current leases to meet the requirements of tenants and ensure that retention rates remain high.

The movement in leased space has been positive in the Auckland industrial and commercial markets, where the majority of Argosy's portfolio is located, and vacancy rates have fallen, particularly in office space outside the CBD. Occupancy enquiry from potential tenants has been more robust during the interim period than previously, and this, along with increased investor demand, is likely to be reflected in future capital values.

Peter Mence
Chief Executive Officer, Argosy Property Limited

Argosy continues to maintain a well-balanced, diversified portfolio of quality properties by sector.

Deloitte.

TO THE SHAREHOLDERS OF ARGOSY PROPERTY LIMITED

We have reviewed the condensed consolidated interim financial statements on pages 9 to 24. The condensed consolidated interim financial statements provide information about the past financial performance of Argosy Property Limited and its subsidiaries ("the Group") and its financial position as at 30 September 2012. This information is stated in accordance with the accounting policies set out on page 15.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed consolidated interim financial statements which present fairly the financial position of the Group as at 30 September 2012 and the results of operations and cash flows for the 6 months ended on that date.

Independent Accountant's Responsibilities

We are responsible for reviewing the condensed consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed consolidated interim financial statements do not present fairly the matters to which they relate.

Basis of Opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed consolidated interim financial statements of the Group for the 6 months ended 30 September 2012 in accordance with the Review Engagement Standards issued by the External Reporting Board.

Other than in our capacity as auditors under the Companies Act 1993, we have no relationship with or interests in Argosy Property Limited or its subsidiaries.

Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements on pages 9 to 24 do not present fairly the financial position of the Group as at 30 September 2012 and the results of its operations and cash flows for the 6 months ended on that date in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

Our review was completed on 29 November 2012 and our review opinion is expressed as at that date.

Deloitte

CHARTERED ACCOUNTANTS
Auckland, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Argosy Property Limited for the 6 months ended 30 September 2012 included on Argosy Property Limited's website. The entity's Board of Directors is responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the reviewed unaudited condensed consolidated interim financial statements and related review report dated 29 November 2012 to confirm the information included in the reviewed unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2012 (UNAUDITED)

	Note	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s	Group (audited) 31 March 2012 $000s
Non-current assets				
Investment properties	4	905,706	924,947	905,249
Property, plant and equipment		111	50	77
Derivative financial instruments		–	–	790
Total non-current assets		905,817	924,997	906,116
Current assets				
Cash and cash equivalents		2,082	2,165	1,285
Trade and other receivables		7,522	6,923	16,787
Other current assets		1,067	517	226
Taxation receivable		4,704	7,074	4,851
		15,375	16,679	23,149
Non-current assets classified as held for sale	5	–	6,867	–
Total current assets		15,375	23,546	23,149
Total assets	3	921,192	948,543	929,265
Shareholders' funds				
Share capital	7	556,694	549,252	552,322
Hedging reserves		(5,583)	(8,335)	(6,903)
(Accumulated losses)/retained earnings		(69,226)	(62,238)	(56,973)
Total shareholders' funds		481,885	478,679	488,446
Non-current liabilities				
Borrowings	8	371,859	410,640	382,009
Derivative financial instruments	6	47,582	37,278	37,170
Deferred tax	10	14,045	15,363	12,584
Total non-current liabilities		433,486	463,281	431,763
Current liabilities				
Trade and other payables		3,654	4,701	6,748
Other current liabilities		2,167	1,882	2,308
Total current liabilities		5,821	6,583	9,056
Total liabilities		439,307	469,864	440,819
Total shareholders' funds and liabilities		921,192	948,543	929,265

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 2012 (UNAUDITED)

	Note	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Gross property income from rentals		36,653	38,735
Gross property income from expense recoveries		8,164	7,208
Property expenses		(9,392)	(10,385)
Net property income	3	35,425	35,558
(Loss)/gain on disposal of investment properties		(803)	73
Total income		34,622	35,631
Administration expenses		2,884	4,079
Management contract amortisation and cancellation costs		–	6,037
Management rights buy-out		–	19,978
Internalisation related costs		–	1,662
Costs related to unsolicited merger proposal		–	483
Corporatisation related costs		78	–
Acquisition investigation costs		820	–
Total expenses before finance income/(expenses) and other gains/(losses)		3,782	32,239
Profit before financial income/(expenses)		30,840	3,392
Finance (expense)/income			
Interest expense	14	(12,362)	(15,930)
Loss on derivative financial instruments held for trading		(11,203)	(9,925)
Transfer from hedge reserve		(1,834)	(1,414)
Finance income		50	101
		(25,349)	(27,168)
Profit/(loss) before income tax		5,491	(23,776)
Taxation expense/(credit)	9	947	(3,805)
Profit/(loss) for the period		4,544	(19,971)
Other comprehensive income			
Movement in cash flow hedge reserve		1,834	865
Income tax expense relating to other comprehensive income	9	(514)	(242)
Total other comprehensive income/(loss) after tax		1,320	623
Total comprehensive income/(loss) after tax		5,864	(19,348)

All amounts are from continuing operations.

	Note		
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (cents)	12	0.81	(3.62)

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 CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012 (UNAUDITED)

	Note	Shares on issue $000s	Hedging reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 30 September 2012 (unaudited)					
Shareholders' funds at the beginning of the period		552,322	(6,903)	(56,973)	488,446
Profit/(loss) for the period		–	–	4,544	4,544
Movement in cash flow hedge reserve		–	1,320	–	1,320
Total comprehensive income/(loss) after tax		–	1,320	4,544	5,864
Contributions by shareholders					
Issue of shares from Dividend Reinvestment Plan	7	4,393	–	–	4,393
Issue costs of shares	7	(21)	–	–	(21)
Dividends to shareholders		–	–	(16,797)	(16,797)
Shareholders' funds at the end of the period		556,694	(5,583)	(69,226)	481,885
For the six months ended 30 September 2011 (unaudited)					
Shareholders' funds at the beginning of the period		545,070	(8,958)	(24,380)	511,732
Profit/(loss) for the period		–	–	(19,971)	(19,971)
Fair value gains on cashflow hedges net of tax		–	623	–	623
Total comprehensive income/(loss) after tax		–	623	(19,971)	(19,348)
Contributions by shareholders					
Issue of shares from Dividend Reinvestment Plan	7	4,192	–	–	4,192
Issue costs of shares	7	(10)	–	–	(10)
Dividends to shareholders		–	–	(17,887)	(17,887)
Shareholders' funds at the end of the period		549,252	(8,335)	(62,238)	478,679

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 CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012 (UNAUDITED)

	Note	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		42,895	42,638
Management fee income		656	84
Interest received		96	68
Proceeds from insurance		9,928	–
Taxation refund		146	–
Cash was applied to:			
Property expenses		(10,688)	(12,338)
Management and Trustee fees		–	(3,966)
Management rights buy-out		–	(19,978)
Internalisation related costs		–	(1,073)
Costs related to unsolicited merger proposal		–	(397)
Employee benefits		(1,596)	–
Corporatisation related costs		(301)	–
Acquisition investigation costs		(820)	–
Interest paid		(14,302)	(15,937)
Tax paid		–	(12)
Other expenses		(1,533)	(1,113)
Net cash from/(used in) operating activities	11	24,481	(12,024)
Cash flows from investing activities			
Cash was provided from:			
Sale of properties		11,362	31,945
Cash was applied to:			
Capital additions on investment properties		(12,013)	(5,026)
Net cash (used in)/from investing activities		(651)	26,919
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		18,298	32,757

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

	Note	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Cash was applied to:			
Repayment of debt		(27,851)	(31,693)
Dividends paid to shareholders		(12,392)	(13,666)
Bank facility costs		(1,074)	(1,458)
Issue costs		(14)	(9)
Net cash (used in)/from financing activities		**(23,033)**	**(14,069)**
Net increase/(decrease) in cash and cash equivalents		**797**	**826**
Cash and cash equivalents at the beginning of the period		1,285	1,339
Cash and cash equivalents at the end of the period		**2,082**	**2,165**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Argosy Property Limited ("APL" or "the Company") is an issuer for the purpose of the Financial Reporting Act 1993. APL is incorporated and domiciled in New Zealand.

The company's principal activity is investment in properties which include commercial, retail and industrial properties throughout New Zealand.

On 30 June 2012, Argosy Property Investments Limited, Argosy Property No.4 Limited, Argosy Property Holdings Limited and Argosy Property No. 6 Limited were amalgamated into Argosy Property No.1 Limited (AP No 1). On that date, all assets, liabilities, property, rights, powers and privileges of the amalgamating companies were vested in AP No 1, being the amalgamated company. The shares in Argosy Property No.3 Limited transferred to AP No 1 and therefore AP No.3 is a subsidiary of AP No 1 after amalgamation.

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

These condensed consolidated interim financial statements are presented in New Zealand dollars which is the company'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 on 29 November 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

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 and IAS 34 Interim Financial Reporting as applicable to the company 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 2012.

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 10 – deferred tax

Change in accounting policies

Accounting policies have been applied consistently to all periods and by all Group entities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

3. SEGMENT INFORMATION

The principal business activity of the company 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 primarily on three business sectors, being Retail, Commercial and Industrial, based on what the 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 2012	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Net property income	11,505	11,187	12,733	35,425
Administration expenses	–	(2)	–	(2)
Other income/(expenses)	(800)	48	(51)	(803)
Finance income/(expenses)	–	–	–	–
Total segment profit/(loss)	10,705	11,233	12,682	34,620
Unallocated:				
Administration expenses				(2,882)
Management contract amortisation and cancellation costs				–
Finance income/(expenses)				(12,312)
Unrealised interest rate swaps gains/(losses)				(13,037)
Corporatisation related costs				(78)
Acquisition investigation costs				(820)
Profit/(loss) before income tax				5,491
Taxation				(947)
Profit/(loss) for the year				4,544

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

Segment profit/(loss) for the period ended 30 September 2011	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Net property income	11,572	10,988	12,998	35,558
Administration expenses	(1,107)	(821)	(1,216)	(3,144)
Other income/(expenses)	(252)	392	(67)	73
Finance income/(expenses)	14	–	2	16
Total segment profit/(loss)	10,227	10,559	11,717	32,503
Unallocated:				
Administration expenses				(935)
Management contract amortisation and cancellation costs				(6,037)
Finance income/(expenses)				(15,845)
Unrealised interest rate swaps gains/(losses)				(11,339)
Management rights buyout				(19,978)
Internalisation related costs				(1,662)
Costs related to unsolicited merger proposal				(483)
Profit/(loss) before income tax				(23,776)
Taxation				3,805
Profit/(loss) for the year				(19,971)

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 2011: Nil).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

Segment assets as at 30 September 2012	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	6,990	845	907	8,742
Investment properties	314,320	257,727	333,659	905,706
Total segment assets	321,310	258,572	334,566	914,448
Unallocated assets:				6,744
Consolidated assets				921,192

Segment assets as at 30 September 2011	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	3,997	335	794	5,126
Investment properties	336,967	250,938	337,042	924,947
Non-current assets classified as held for sale	4,612	–	2,255	6,867
Total segment assets	345,576	251,273	340,091	936,940
Unallocated assets:				11,603
Consolidated assets				948,543

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 and tax assets.

4. INVESTMENT PROPERTIES

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Movement in Investment Properties		
Balance at the beginning of the period	898,823	941,372
Capitalised costs	12,530	1,452
Disposals	(12,149)	(18,779)
Transfer to properties held for sale	–	(6,867)
Closing balance	899,204	917,178
Deferred initial direct costs/lease incentives		
Opening balance	6,426	7,315
Change during the period	76	454
Closing balance	6,502	7,769
Balance at the end of the period	905,706	924,947

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

Investment Properties Valuation

The Group's policy is for investment property to be measured at fair value for which the Group completes property valuations at least annually by independent registered valuers. There was no independent valuation for investment properties as at 30 September 2012. The Board and Management have carefully reviewed the portfolio using available market information and consider that there has been no significant change to the valuation completed at 31 March 2012.

5. PROPERTY HELD FOR SALE

No property was subject to an unconditional sale and purchase agreement at the reporting date (30 September 2011: 2 Carmont Place, Mt Wellington, Auckland and 7 Maui St, Hamilton).

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2012	Group (unaudited) 30 September 2011
Nominal value of interest rate swaps	353,000,000	233,000,000
Average fixed interest rate	5.29%	6.64%
Floating rates based on NZD BBR (including margin)	3.56%	3.99%

7. SHARES

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Balance at the beginning of the period	552,322	545,070
Issue of shares from Dividend Reinvestment Plan	4,393	4,192
Issue costs of shares	(21)	(10)
Balance at the end of the period	556,694	549,252

The number of shares on issue at 30 September 2012 was 563,643,482 (30 September 2011: 554,528,297).

All shares are fully paid and rank equally with one vote attached and carry the right to dividends. All ordinary shares have equal voting rights.

Reconciliation of number of shares (in thousands of shares)	Group (unaudited) 30 September 2012	Group (unaudited) 30 September 2011
Balance at the beginning of the period	558,517	549,186
Issue of shares from Dividend Reinvestment Plan	5,126	5,342
Balance at the end of the period	563,643	554,528

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

8. BORROWINGS

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
ANZ Bank New Zealand Limited	234,380	258,424
Bank of New Zealand	93,752	103,370
Hong Kong and Shanghai Banking Corp	46,876	51,684
Borrowing costs	(3,149)	(2,838)
Total borrowings	371,859	410,640
Shown as:		
Term	371,859	410,640

The Company has a syndicated revolving credit facility with ANZ Bank New Zealand Limited, Bank of New Zealand and The Hong Kong and Shanghai Banking Corp of $500,000,000 (30 September 2011: $450,000,000) secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of $250,000,000 and a Tranche B limit of $250,000,000. Tranche A expires on 30 June 2015 and Tranche B expires on 30 June 2017. (30 September 2011: Tranche A ($400,000,000) expired on 30 June 2015 and Tranche B ($50,000,000) expired on 30 June 2013).

The contractual interest rate on the borrowings as at 30 September 2012 was 6.04% per annum (30 September 2011: 6.10%). The Group also pays a line fee between 0.825% and 0.90% per annum on Tranche A and between 0.925% and 1.00% per annum on Tranche B. (30 September 2011: between 0.925% and 1.15% on Tranche A and between 1.00% and 1.275% on Tranche B).

The weighted average interest rate on borrowings (including margin, line fee and interest rate swaps) as at 30 September 2012 was 6.94% (30 September 2011: 7.16%).

Borrowing costs are the costs incurred in establishing the bank facility. These costs are amortised over the life of the facility.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

9. TAXATION

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Reconciliation of accounting profit to tax expense		
Profit/(loss) before tax	5,491	(23,776)
Current tax expense/(credit) at 28%	1,538	(6,657)
Adjusted for:		
Movement in investment properties	(365)	4,462
Movement in interest rate swaps	–	(221)
Capitalised interest	(602)	–
Tax losses forfeited	420	–
Other	(44)	(43)
Taxation expense/(credit)	947	(2,459)
Adjustment recognised in the current year in relation to the current tax of prior years	–	(1,346)
Total tax expense/(credit) recognised in profit or loss	947	(3,805)
Deferred tax recognised in other comprehensive income		
Deferred tax arising from revaluations of derivative financial instruments treated as cash flow hedges	514	242
Imputation credits		
Imputation credits at beginning of year	658	619
New Zealand tax payments, net of refunds	(146)	12
Imputation credits attached to dividends received	5	–
Total imputation credits at end of year	517	631

10. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon during the current and prior reporting periods:

	Losses carried forward $000s	Interest rate swaps $000s	Revaluation of building $000s	Accruals $000s	Total $000s
At 1 April 2012	(9,921)	109	19,904	2,492	12,584
Credit to shareholders funds for the period	–	514	–	–	514
Charge/(credit) to profit and loss for the period	6,205	(5,354)	196	(100)	947
At 30 September 2012	(3,716)	(4,731)	20,100	2,392	14,045
At 1 April 2011 (Restated)	(1,307)	(6,933)	19,210	4,450	15,420
Credit to shareholders funds for the period	–	242	–	–	242
Charge/(credit) to profit and loss for the period	–	(3,948)	5,433	(1,784)	(299)
At 30 September 2011	(1,307)	(10,639)	24,643	2,666	15,363

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

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

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Profit/(loss) after tax	4,544	(19,971)
Movements in working capital items relating to investing and financing activities	618	2,285
Non cash items:		
Movement in deferred tax liability	1,461	(55)
Fair value change in interest rate swaps	11,203	10,474
Management contract amortisation and cancellation costs	–	6,037
Movement in cash flow reserve	1,320	623
Movements in working capital items:		
Trade and other receivables	9,265	(3,447)
Taxation receivable	147	(3,518)
Trade and other payables	(3,094)	(3,988)
Other	(983)	(464)
Net cash flows from/(used in) operating activities	24,481	(12,024)

12. EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings/(loss) per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Earnings/(loss) attributable to shareholders of the Company	4,544	(19,971)
Weighted average number of shares on issue	560,170	550,930
Basic and undiluted earnings/(loss) per share (cents)	0.81	(3.62)
Weighted average number of ordinary shares		
Issued shares at beginning of period	558,517	549,186
Issued shares at end of period	563,643	554,528
Weighted average number of ordinary shares	560,170	550,930

On 29 November 2012, an interim gross distribution of 1.50 cents per share was announced by the Company. Continuation of the Dividend Reinvestment Plan will increase the number of shares on issue.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

13. DISTRIBUTABLE INCOME

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Profit/(loss) before income tax	5,491	(23,776)
Add back/(deduct):		
Investment disposal losses/(gains)	803	(73)
Derivative fair value adjustment	13,037	11,339
Management contract amortisation and cancellation costs	–	6,037
Management rights buy-out	–	19,978
Internalisation related costs	–	1,662
Costs related to unsolicited merger proposal	–	483
Corporatisation costs[1]	51	–
Acquisition investigation costs[2]	776	–
Gross distributable income	20,158	15,650
Tax paid	–	–
Net distributable income	20,158	15,650
Weighted average number of ordinary shares	560,170	550,930
Distributable income after taxation per share – (cents per share)	3.60	2.84

The Company's dividend policy is based on net distributable income. Net distributable income is determined under the Company's bank facility agreement.

1 The adjustment for corporatisation costs has been limited to $850,000 following agreement with the lenders of the syndicated revolving credit facility, $799,000 of which was recognised in the previous financial year.

2 The acquisition investigation costs adjustment is limited to one particular transaction.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

14. INTEREST EXPENSE

	Group (unaudited) 30 September 2012 $000s	Group (unaudited) 30 September 2011 $000s
Interest expense	(14,510)	(15,930)
Less amount capitalised to investment properties	2,148	–
Total interest expense	(12,362)	(15,930)

Capitalised interest relates to the subdivisions at Manawatu Business Park and Albany E Block.

15. COMMITMENTS

Ground rent

Ground leases exist over the 39 Market Place in Auckland. The amount paid in respect of ground leases during the period was $313,500 (30 September 2011: $313,500). The annual ground lease commitment is $627,000 and is recoverable from tenants in proportion to their area of occupancy. The lease is renewable in perpetuity with the next renewal date in 2013.

Building upgrades

Estimated capital commitments contracted for building projects not yet completed at balance date but not provided for were $5,941,710 (30 September 2011: $9,301,833).

16. CONTINGENCIES

There were no contingencies as at 30 September 2012 (30 September 2011: Nil).

17. SUBSEQUENT EVENTS

On 27 November 2012, the Company announced the unconditional sale of vacant land in Palmerston North and Albany, as well as two properties in Palmerston North (3 El Prado Drive and 57 Valor Drive) for a total of $19,200,000.

On 29 November 2012, a gross dividend of 1.50 cents per share was announced by the Company. The record date for the dividend is 13 December 2012 and the payment date is 21 December 2012. No imputation credits are attached to the dividend.

18. RELATED PARTY TRANSACTIONS

There were no transactions between the Group and any related parties during the period (2011: Nil).

No related party debts have been written off or forgiven during the year.

DIRECTORY

DIRECTORS

Argosy Property Limited
Philip Michael Smith, Auckland
Andrew Hardwick Evans, Auckland
Peter Clynton Brook, Auckland
Trevor Donald Scott, Wanaka
Andrew Mark Cross, Auckland

REGISTERED OFFICE

Argosy Property Limited
Unit A, Level 1
39 Market Place
Auckland 1010
PO Box 90214
Victoria Street West
Auckland 1142
Telephone: (09) 304 3400
Facsimile: (09) 302 0996

REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
North Shore
Private bag 92119
Auckland 1020
Telephone: (09) 488 8777
Facsimile: (09) 488 8787

AUDITOR

Deloitte
Deloitte Centre
80 Queen Street
Private Bag 115-003
Auckland 1010
Telephone: (09) 303 6700
Facsimile: (09) 303 0701

LEGAL ADVISERS

Harmos Horton Lusk
Vero Centre
48 Shortland Street
PO Box 28
Auckland 1015
Telephone: (09) 921 4300
Facsimile: (09) 921 4319

BANKERS TO THE COMPANY

ANZ Bank New Zealand Limited
ANZ House
23-29 Albert Street
PO Box 6334
Auckland

Bank of New Zealand Limited
Deloitte Centre
80 Queen Street
Private Bag 99208
Auckland 1142

The Hongkong and Shanghai Banking Corporation Limited
HSBC House
1 Queen Street
Auckland 1010
PO Box 5947
Wellesley Street
Auckland 1141

UNIT A, LEVEL 1, 39 MARKET PLACE
PO BOX 90214, VICTORIA STREET WEST, AUCKLAND 1142
P / 09 304 3400
F / 09 302 0996

www.argosy.co.nz