Argosy

INTERIM REPORT 30 SEPTEMBER 2013

HIGHLIGHTS

ARGOSY PROPERTY LIMITED
INTERIM REPORT 30 SEPTEMBER 2013

A clear Strate

Acquisition

OF FOUR HIGH QUALITY BUILDINGS

Completion

OF 1 FOR 7 PRO-RATA RENOUNCEABLE RIGHTS ISSUE

Bank facility

RESTRUCTURERED ON IMPROVED TERMS

▲ COVER IMAGE: 23-27 Customs Street AUCKLAND gy

Argosy is, and will remain, invested in a portfolio that is diversified by primary sector, grade, location and tenant mix.

SUMMARY

NET DISTRIBUTABLE INCOME ▲

$23.7m

TOTAL PORTFOLIO VALUE ▲

$1.13b

DEBT TO TOTAL ASSETS ▼

34.2%

OCCUPANCY ▲

97.3%

NET PROPERTY INCOME ▲

$40.3m

WEIGHTED AVERAGE LEASE TERM ▲

5.9 years

LEASE TRANSACTIONS COMPLETED

35

GUIDANCE TO ANNUAL DIVIDEND ◄►

6 cents per share

Argosy Property Limited is pleased to report its interim results to 30 September 2013.

Argosy has continued to execute the strategy that was reaffirmed earlier in the year and has continued to improve key operating metrics such as occupancy and weighted average lease term.

In line with the Company's overall strategy, Argosy has acquired four high quality assets which will significantly enhance the portfolio.

Net property income was $40.3 million (2012: $35.4 million), an increase of 13.7% on the previous interim period.

Net distributable income for the six months was $23.7 million (2012: $20.2 million), an increase of 17.8% on the previous interim period.

Profit before tax was $39.7 million, compared with $5.5 million in the previous interim period. Profit before tax and distributable income are alternative performance measures used to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution to shareholders. Note 13 of the financial statements provides a full reconciliation between the two measures.

Interest expense was $12.9 million for the period, which is an increase of $0.5 million compared with the previous interim period, reflecting the impact of higher capitalised interest in the previous interim period. Approximately $0.5 million of interest costs have been capitalised to the Stout Street redevelopment project (2012: $2.1 million was capitalised to the subdivisions at Manawatu Business Park and Albany E Block).

IBM Centre AUCKLAND

Argosy made a net gain on derivatives of $16.0 million compared with a loss of $13.0 million in the previous interim period, reflecting recent increases in long term interest rates.

DIVIDENDS

A cash dividend 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 the shares will be issued under the DRP. The record date is 5 December 2013 and the payment date will be 19 December 2013.

The Board is pleased to confirm that, based on current projections for the portfolio, a distribution of 6 cents per share, paid fully from distributable income, is expected to continue for the year to 31 March 2014.

Although future net distributable income will be impacted by increased taxation payments in the 2015 year, it is expected that the dividend will be maintained at 6 cents per share in the year to 31 March 2015, by applying carry-forward undistributed income from the previous two years. While projections beyond that date are heavily dependent on the market and legislative environment, based on current information, it is anticipated that the current 6 cents per share dividend, paid from net distributable income, will be a minimum level for the years following the 2015 financial year.

GOVERNANCE

At the Annual Meeting, Peter Brook and I were re-elected as directors and Chris Hunter and Jeff Morrison were both elected for the first time.

CAPITAL MANAGEMENT

In August 2013, Argosy successfully raised $86.9 million through a 1 for 7 renounceable rights issue. The funds raised were used to repay bank debt incurred to complete recent acquisitions and provide the Company with the balance sheet flexibility to pursue property acquisitions that fit within Argosy's investment criteria. As a result, Argosy's debt levels are 34.2% of total assets (31 March 2013: 33.1% and 30 September 2012: 40.7%). This level of gearing is slightly below the Company policy of maintaining a debt-to-total assets ratio of 35-40% in the medium term.

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 at 30 September 2013. Independent property valuations will be completed at year end as usual.

BANK FACILITY

The $500 million bank facility was renegotiated in June 2013 on significantly improved terms. The expiry of the first tranche ($250 million) is 30 June 2016 and the second tranche ($250 million) is 30 June 2018. Argosy is now receiving further margin and line fee savings (after including upfront fees) of approximately $0.7 million per annum.

Argosy maintains strong relationships with its banking partners and remains well within its banking covenants.

OUTLOOK

The first six months of this financial year have been a busy and exciting time for Argosy. Looking forward, we will continue to look for opportunities to develop the portfolio in line with our strategy and create additional value for you, our shareholders.

On behalf of my fellow Directors, I thank you for your continued support.

Michael Smith
Chairman, Argosy Property Limited

Argosy has continued to improve its key operating metrics and is well positioned to continue to deliver sustainable and attractive returns to our Shareholders.

ACQUISITIONS AND DIVESTMENTS

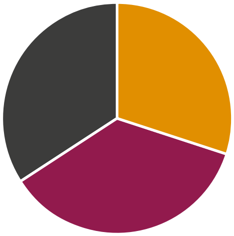
During the six month period to 30 September 2013, Argosy acquired four significant property assets. These acquisitions included 80-120 Favona Road, Mangere for $74 million, 15 Stout Street, Wellington for $33.2 million and 101 Carlton Gore Road, Newmarket for $22.3 million.

The Company also unconditionally entered into an agreement to purchase a new, purpose-built warehouse at 19 Nesdale Avenue, Wiri for $38 million. This property has a 15 year lease to Cardinal Logistics and is expected to settle in December 2013.

As part of the Company's strategy, approximately $113 million of property, including vacant land, has been designated as neither Core nor Value Add and these properties will be divested as market conditions allow. While no disposals were made in the first half of this financial year, the divestment of these properties remains a key focus for Argosy.

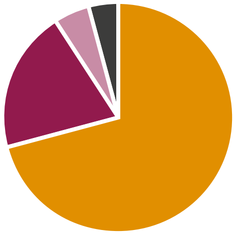
▲ 107 Carlton Gore Road AUCKLAND

TOTAL PORTFOLIO VALUE
BY SECTOR
AS AT 30 SEPTEMBER 2013



30%	Retail
36%	Commercial
34%	Industrial

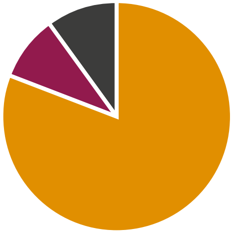
TOTAL PORTFOLIO VALUE
BY REGION
AS AT 30 SEPTEMBER 2013



71%	Auckland
20%	Wellington
5%	Palmerston North
4%	Other regional

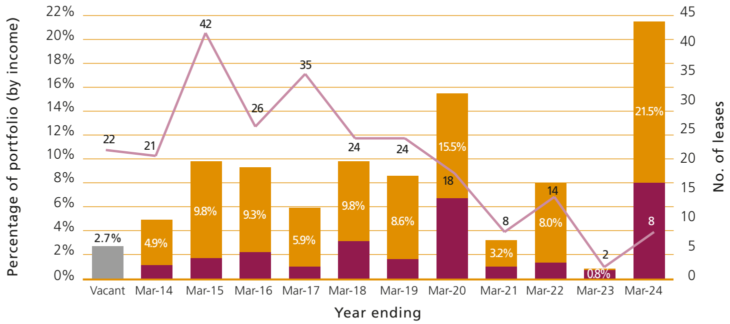
PORTFOLIO MIX

AS AT 30 SEPTEMBER 2013



81%	Core
9%	Value Add
10%	Properties and land to divest

LEASE MATURITY EXPIRY BY RENT
AS AT 30 SEPTEMBER 2013



- Total expiry
- Largest single expiry

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

DEVELOPMENTS

In December 2012, Argosy announced that it was acquiring two high profile Wellington properties for redevelopment. The New Zealand Post Building settled in March 2013. The contract to complete the redevelopment will be awarded in November 2013 and development is due to commence in early 2014.

Argosy settled the acquisition of 15 Stout Street on 31 July 2013. The redevelopment of this building is progressing well, is on budget and is expected to be completed by mid-2014.

During the interim period, Argosy also completed a significant refurbishment of The Warehouse building in Cavendish Drive, Manukau which included the purchase of the adjoining building for $2.3 million.

▲ 107 Carlton Gore Road AUCKLAND

LEASING

Leasing activity in the first half of the current financial year has been strong. The occupancy rate (by rental income) has improved to 97.3% (31 March 2013: 96.2% and 30 September 2012: 96.3%). Outstanding lease expiries have reduced and enquiry levels from potential tenants remain at very encouraging levels.

During the interim period, 35 lease transactions were completed, including 22 new leases and 13 lease renewals and extensions. The weighted average lease term as at 30 September 2013 has improved significantly to 5.91 years, up from 5.24 years at 31 March 2013 and 5.30 years at 30 September 2012.

OUTLOOK

Improving consumer and business confidence both point to solid GDP growth in 2014, and a corresponding improvement in underlying property market performance.

Our focus remains firmly on adhering to our clearly articulated strategy, while continuing to improve the portfolio's occupancy, lease expiry profile and tenant retention rates. Argosy is well positioned, with our diversified portfolio, to continue to provide appropriate returns to shareholders.

Peter Mence
Chief Executive Officer, Argosy Property Limited

The weighted average lease term has improved significantly to 5.91 years, up from 5.24 years at 31 March 2013.

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 2013. 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 2013 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 2013 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 2013 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 21 November 2013 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 2013 included on Argosy Property Limited's website. The Board of Directors is responsible for the maintenance and integrity of Argosy Property Limited's website. We have not been engaged to report on the integrity of Argosy Property Limited'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 unaudited condensed consolidated interim financial statements and related review report dated 21 November 2013 to confirm the information included in the 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 2013 (UNAUDITED)

	Note	Group (unaudited) 30 September 2013 $000s	Group (unaudited) 30 September 2012 $000s	Group (audited) 31 March 2013 $000s
Non-current assets				
Investment properties	4	1,130,886	905,706	976,862
Other non-current assets		2,136	111	411
Derivative financial instruments	6	1,596	–	–
Total non-current assets		1,134,618	905,817	977,273
Current assets				
Cash and cash equivalents		2,281	2,082	2,265
Trade and other receivables		939	7,522	1,267
Other current assets		1,221	1,067	299
Taxation receivable		4,858	4,704	4,858
		9,299	15,375	8,689
Non-current assets classified as held for sale	5	–	–	6,787
Total current assets		9,299	15,375	15,476
Total assets	3	1,143,917	921,192	992,749
Shareholders' funds				
Share capital	7	748,140	556,694	658,824
Hedging reserves		(2,934)	(5,583)	(4,257)
(Accumulated losses)/retained earnings		(45,014)	(69,226)	(53,230)
Total shareholders' funds		700,192	481,885	601,337
Non-current liabilities				
Borrowings	8	388,808	371,859	326,045
Derivative financial instruments	6	24,837	47,582	41,115
Deferred tax	10	23,287	14,045	13,259
Total non-current liabilities		436,932	433,486	380,419
Current liabilities				
Trade and other payables		4,762	3,654	9,379
Other current liabilities		2,031	2,167	1,614
Total current liabilities		6,793	5,821	10,993
Total liabilities		443,725	439,307	391,412
Total shareholders' funds and liabilities		1,143,917	921,192	992,749

For and on behalf of the Board:

P Michael Smith
Director

Trevor Scott
Director

Date: 21 November 2013

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 2013 (UNAUDITED)

	Note	Group (unaudited) 30 September 2013 $000s	Group (unaudited) 30 September 2012 $000s
Gross property income from rentals		43,270	36,653
Gross property income from expense recoveries		8,477	8,164
Property expenses		(11,484)	(9,392)
Net property income	3	40,263	35,425
(Loss)/gain on disposal of investment properties		(123)	(803)
Total income		40,140	34,622
Administration expenses		3,708	2,884
Corporatisation related costs		–	78
Acquisition investigation costs		15	820
Total expenses before financial income/(expenses) and other gains/(losses)		3,723	3,782
Profit before financial income/(expenses) and other gains/(losses)		36,417	30,840
Financial (expense)/income			
Interest expense	14	(12,870)	(12,362)
Gain/(loss) on derivative financial instruments held for trading		17,874	(11,203)
Transfer from hedge reserve		(1,838)	(1,834)
Finance income		78	50
		3,244	(25,349)
Profit before income tax attributable to shareholders		39,661	5,491
Taxation expense/(credit)	9	9,513	947
Profit for the period attributable to shareholders		30,148	4,544
Other comprehensive income			
Movement in cash flow hedge reserve		1,838	1,834
Income tax expense relating to other comprehensive income	9	(515)	(514)
Total other comprehensive income after tax		1,323	1,320
Total comprehensive income after tax		31,471	5,864

All amounts are from continuing operations.

Earnings per share			
Basic and diluted earnings per share (cents)	12	4.25	0.81

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 2013 (UNAUDITED)

	Note	Shares on issue $000s	Hedging reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 30 September 2013 (unaudited)					
Shareholders' funds at the beginning of the period		658,824	(4,257)	(53,230)	601,337
Profit/(loss) for the period		–	–	30,148	30,148
Movement in cash flow hedge reserve		–	1,323	–	1,323
Total comprehensive income/(loss) after tax		–	1,323	30,148	31,471
Contributions by shareholders					
Issue of shares from Dividend Reinvestment Plan	7	5,129	–	–	5,129
Issue of shares from Rights Offer	7	86,911	–	–	86,911
Issue costs of shares	7	(2,724)	–	–	(2,724)
Dividends to shareholders		–	–	(21,932)	(21,932)
Shareholders' funds at the end of the period		748,140	(2,934)	(45,014)	700,192
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

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 2013 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2013 $000s	Group (unaudited) Six months to 30 September 2012 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		48,491	42,895
Management fee income		688	656
Interest received		78	96
Proceeds from insurance		–	9,928
Taxation refund		–	146
Cash was applied to:			
Property expenses		(13,205)	(10,688)
Employee benefits		(2,343)	(1,596)
Corporatisation related costs		–	(301)
Acquisition investigation costs		(20)	(820)
Interest paid		(13,078)	(14,302)
Other expenses		(1,260)	(1,533)
Net cash from/(used in) operating activities	11	19,351	24,481
Cash flows from investing activities			
Cash was provided from:			
Sale of properties		6,893	11,362
Cash was applied to:			
Purchase of properties		(132,296)	–
Capital additions on investment properties		(23,354)	(12,013)
Net cash (used in)/from investing activities		(148,757)	(651)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		159,057	18,298
Share capital issued		86,911	–

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

	Note	Group (unaudited) Six months to 30 September 2013 $000s	Group (unaudited) Six months to 30 September 2012 $000s
Cash was applied to:			
Repayment of debt		(96,414)	(27,851)
Dividends paid to shareholders		(16,797)	(12,392)
Facility refinancing fee		(611)	(1,074)
Issue costs of shares		(2,724)	(14)
Net cash from/(used in) financing activities		129,422	(23,033)
Net increase/(decrease) in cash and cash equivalents		16	797
Cash and cash equivalents at the beginning of the period		2,265	1,285
Cash and cash equivalents at the end of the period		2,281	2,082

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Argosy Property Limited ("APL" or "the Company") is an issuer for the purposes 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 (AP No.3) 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 21 November 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements (interim financial statements) have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. These 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 interim financial statements do not include all of the information required for full annual financial statements.

The 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 New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) requires the use of certain critical accounting estimates that affect the application of policies and reported amounts 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

The following new accounting policies are effective and have been applied by Argosy Property Limited for the period to 30 September 2013:

NZ IFRS 13 Fair Value Measurement

This standard establishes a single framework for measuring fair value, which takes into account the assumptions that market participants would use when pricing an asset or liability, including assumptions about risk.

Counterparty credit risk adjustments are applied to all over-the-counter derivatives. Own credit risk adjustments are applied to reflect the Group’s own credit risk when valuing derivatives. Bilateral credit-risk adjustments consider the expected cash flows between the Group and its counterparties under the relevant terms of the derivative instruments and the effect of the credit-risk profile of the counterparties on the valuation of these cash flows.

This change in methodology has resulted in a $905,000 reduction in the liability for derivative financial instruments as at 30 September 2013.

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, and actively manage, properties in New Zealand. 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 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 2013	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Net property income	10,967	15,814	13,482	40,263
Administration expenses	–	–	(131)	(131)
Other income/(expenses)	(52)	–	(71)	(123)
Total segment profit/(loss)	10,915	15,814	13,280	40,009
Unallocated:				
Administration expenses				(3,577)
Finance income/(expenses)				(12,792)
Unrealised interest rate swaps gains/(losses)				16,036
Corporatisation related costs				–
Acquisition investigation costs				(15)
Profit/(loss) before income tax				39,661
Taxation				(9,513)
Profit/(loss) for the period				30,148

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)
Total segment profit/(loss)	10,705	11,233	12,682	34,620
Unallocated:				
Administration expenses				(2,882)
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 period				4,544

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

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 2012: Nil).

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 Chief Executive Officer, who is the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets as at 30 September 2013	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	1,112	499	432	2,043
Investment properties	388,218	408,216	334,452	1,130,886
Total segment assets	389,330	408,715	334,884	1,132,929
Unallocated assets				10,988
Total assets				1,143,917

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
Total assets				921,192

Segment assets as at 31 March 2013	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	506	469	524	1,499
Investment properties	311,381	336,341	329,140	976,862
Non-current assets classified as held for sale	863	–	5,924	6,787
Total segment assets	312,750	336,810	335,588	985,148
Unallocated assets				7,601
Total assets				992,749

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, tax assets, other non-current assets and other minor current assets that cannot be allocated to particular segments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

4 INVESTMENT PROPERTIES

	Group (unaudited) Six months to 30 September 2013	Group (unaudited) Six months to 30 September 2012	Group (audited) Year ended 31 March 2013
Movement in investment properties			
Balance at the beginning of the period	969,183	898,823	898,823
Capitalised costs	18,355	12,530	29,171
Disposals	–	(12,149)	(25,112)
Purchases	132,228	–	65,152
Transfer to properties held for sale	–	–	(8,195)
Change in fair value	–	–	9,344
Closing balance	1,119,766	899,204	969,183
Deferred initial direct costs/lease incentives			
Opening balance	7,679	6,426	6,426
Change during the period	3,441	76	1,253
Closing balance	11,120	6,502	7,679
Balance at the end of the period	1,130,886	905,706	976,862

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.

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 2013. 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 2013.

5 PROPERTY HELD FOR SALE

No property was subject to an unconditioned sale and purchase agreement at the reporting date (30 September 2012: Nil and 31 March 2013: Lot 3, 260 Oteha Valley Road, Albany and Lot 9a, Alderson Drive, Manawatu Business Park were subject to unconditional sale and purchase agreements at balance date).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

6 DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2013	Group (unaudited) 30 September 2012	Group (audited) 31 March 2013
Nominal value of interest rate swaps	283,000,000	353,000,000	283,000,000
Average fixed interest rate	5.87%	5.29%	5.87%
Floating rates based on NZD BBR (including margin)	3.54%	3.56%	3.54%

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from observable market interest rates (actual rates used were between 2.67% and 5.65%). Accepted market best practice valuation methodology using mid-market interest rates at the balance date is used, provided from sources perceived to be reliable and accurate. Interest rate swaps have been classified into level 2 of the fair value hierarchy on the basis that the valuation techniques used to determine the values at balance date use observable inputs.

The net liability for derivative financial instruments as at 30 September 2013 is $23.2 million (30 September 2012: $47.6 million and 31 March 2013: $41.1 million). The non-cash, mark-to-market reduction in the liability for derivative financial instruments is a result of the positive movement in the interest rate curve during the interim period.

7 SHARE CAPITAL

	Group (unaudited) 30 September 2013 $000s	Group (unaudited) 30 September 2012 $000s	Group (audited) 31 March 2013 $000s
Balance at the beginning of the period	658,824	552,322	552,322
Issue of shares from Dividend Reinvestment Plan	5,129	4,393	7,929
Issue of shares from Rights Issue	86,911	–	–
Issue of shares from Share Purchase Plan	–	–	20,000
Issue of shares from Placement	–	–	80,000
Issue costs of shares	(2,724)	(21)	(1,427)
Balance at the end of the period	748,140	556,694	658,824

On 1 July 2013 Argosy announced a 1 for 7 pro-rata renounceable rights offer. The rights offer and shortfall bookbuild received strong shareholder support with approximately 97.7 million new shares taken up by shareholders, and the receipt of $86.9 million.

The number of shares on issue at 30 September 2013 was 783,902,132 (30 September 2012: 563,643,482).

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

7 SHARE CAPITAL (CONTINUED)

Reconciliation of number of shares (in thousands of shares)	Group (unaudited) 30 September 2013	Group (unaudited) 30 September 2012	Group (audited) 31 March 2013
Balance at the beginning of the period	680,932	558,517	558,517
Issue of shares from Dividend Reinvestment Plan	5,317	5,126	8,777
Issue of shares from Renounceable Rights Offer	97,653	–	–
Issue of shares from Share Purchase Plan	–	–	22,729
Issue of shares from Placement	–	–	90,909
Balance at the end of the period	783,902	563,643	680,932

8 BORROWINGS

	Group (unaudited) 30 September 2013 $000s	Group (unaudited) 30 September 2012 $000s	Group (audited) 31 March 2013 $000s
ANZ Bank New Zealand Limited	195,662	234,380	205,428
Bank of New Zealand	117,397	93,752	82,171
Hong Kong and Shanghai Banking Corp	78,264	46,876	41,085
Borrowing costs	(2,515)	(3,149)	(2,639)
Total borrowings	388,808	371,859	326,045
Shown as:			
Term	388,808	371,859	326,045

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 2012: $500,000,000) 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 2016 and Tranche B expires on 30 June 2018 (30 September 2012: Tranche A ($250,000,000) expired on 30 June 2015 and Tranche B ($250,000,000) expired on 30 June 2017).

The contractual interest rate on the borrowings as at 30 September 2013 was 3.54% per annum (30 September 2012: 3.56%). The Group also pays a line fee between 0.675% and 0.775% per annum on Tranche A and between 0.775% and 0.875% per annum on Tranche B (30 September 2012: between 0.825% and 0.90% on Tranche A and between 0.925% and 1.00% on Tranche B).

The weighted average interest rate on borrowings (including margin, line fee and interest rate swaps) as at 30 September 2013 was 6.58% (30 September 2012: 6.94%).

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 2013 $000s	Group (unaudited) 30 September 2012 $000s
Reconciliation of accounting profit to tax expense		
Profit/(loss) before tax	39,661	5,491
Current tax expense/(credit) at 28%	11,105	1,538
Adjusted for:		
Movement in investment properties	(1,331)	(365)
Capitalised interest	(131)	(602)
Tax losses forfeited	–	420
Other	(130)	(44)
Taxation expense/(credit)	9,513	947
Total tax expense/(credit) recognised in profit or loss	9,513	947
Deferred tax recognised in other comprehensive income		
Deferred tax arising from revaluations of derivative financial instruments treated as cash flow hedges	515	514
Imputation credits		
Total imputation credits at end of year	522	517

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

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	Investment property $000s	Other $000s	Total $000s
At 1 April 2013	(5,618)	(3,772)	19,770	2,879	13,259
Credit to shareholders funds for the period	–	515	–	–	515
Charge/(credit) to profit and loss for the period	5,582	3,623	(16)	324	9,513
At 30 September 2013	(36)	366	19,754	3,203	23,287
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 2012	(9,921)	109	19,904	2,492	12,584
Credit to shareholders funds for the period	–	1,028	–	–	1,028
Charge/(credit) to profit and loss for the period	4,303	(4,909)	(134)	387	(353)
At 31 March 2013	(5,618)	(3,772)	19,770	2,879	13,259

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

	Group (unaudited) 30 September 2013 $000s	Group (unaudited) 30 September 2012 $000s
Profit/(loss) after tax	30,148	4,544
Movements in working capital items relating to investing and financing activities	521	618
Non cash items:		
Movement in deferred tax liability	10,028	1,461
Fair value change in interest rate swaps	(17,874)	11,203
Movement in cash flow hedge reserve	1,323	1,320
Movements in working capital items:		
Trade and other receivables	328	9,265
Taxation payable	–	147
Trade and other payables	(4,617)	(3,094)
Other	(506)	(983)
Net cash flows from/(used in) operating activities	19,351	24,481

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

12 EARNINGS PER SHARE

Basic and diluted earnings 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 2013 $000s	Group (unaudited) 30 September 2012 $000s
Earnings attributable to shareholders of the Company	30,148	4,544
Weighted average number of shares on issue	708,550	560,170
Basic and undiluted earnings per share (cents)	4.25	0.81
Weighted average number of ordinary shares		
Issued shares at beginning of period	680,932	558,517
Issued shares at end of period	783,902	563,643
Weighted average number of ordinary shares	708,550	560,170

On 21 November 2013 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.

13 DISTRIBUTABLE INCOME

	Group (unaudited) 30 September 2013 $000s	Group (unaudited) 30 September 2012 $000s
Profit before income tax	39,661	5,491
Add back/(deduct):		
Investment disposal losses/(gains)	123	803
Derivative fair value adjustment	(16,036)	13,037
Corporatisation costs[1]	–	51
Acquisition investigation costs [2]	–	776
Gross distributable income	23,748	20,158
Tax paid	–	–
Net distributable income	23,748	20,158
Weighted average number of ordinary shares	708,550	560,170
Distributable income after taxation per share - (cents per share)	3.35	3.60

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 was limited to $850,000 following agreement with the lenders of the syndicated revolving credit facility, $799,000 of which was recognised in the year ended 31 March 2012.

[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 2013 $000s	Group (unaudited) 30 September 2012 $000s
Interest expense	(13,340)	(14,510)
Less amount capitalised to investment properties	470	2,148
Total interest expense	(12,870)	(12,362)

Capitalised interest relates to the development project at 15 Stout Street, Wellington (30 September 2012: $2.1 million for subdivisions at Manawatu Business Park and Albany E Block).

15 COMMITMENTS

Ground rent

A ground lease exists over 39 Market Place in Auckland. The amount paid in respect of the ground lease during the period was $530,000 (30 September 2012: $313,500). The annual ground lease commitment is $1,060,000 (30 September 2012: $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 2019. The amount currently being paid in respect of the ground lease is the amount advised in the ground lessors notice of rent review. This is currently being disputed by Argosy.

Building upgrades

Estimated capital commitments contracted for building projects not yet completed at 30 September 2013 and not provided for were $80.0 million (30 September 2012: $5.9 million). Of this total, $36.1 million relates to the building upgrade at Waterloo Quay and $36.6 million relates to Stout Street, Wellington.

16 CONTINGENCIES

There were no contingencies as at 30 September 2013 (30 September 2012: Nil).

17 SUBSEQUENT EVENTS

On 21 November 2013, a gross dividend of 1.50 cents per share was announced by the Company. The record date for the dividend is 5 December 2013 and the payment date is 19 December 2013. 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 (30 September 2012: Nil).

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

DIRECTORY

DIRECTORS

Argosy Property Limited
Philip Michael Smith, Auckland (Chairman)
Peter Clynton Brook, Auckland
Andrew Mark Cross, Auckland
Andrew Hardwick Evans, Auckland
Christopher Brent Hunter, Auckland
Jeffrey Robert Morrison, Auckland
Trevor Donald Scott, Wanaka

REGISTERED OFFICE

Argosy Property Limited
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
Victoria Street West
Auckland 1142
Telephone: (09) 488 8777
Facsimile: (09) 488 8787

AUDITOR

Deloitte
Deloitte Centre
80 Queen Street
Private Bag 115033
Auckland 1140
Telephone: (09) 303 0700
Facsimile: (09) 303 0701

LEGAL ADVISERS

Harmos Horton Lusk
Vero Centre
48 Shortland Street
PO Box 28
Shortland Street
Auckland 1140
Telephone: (09) 921 4300
Facsimile: (09) 921 4319

Russell McVeagh
Vero Centre
48 Shortland Street
PO Box 8
Shortland Street
Auckland 1140
Telephone: (09) 367 8000
Facsimile: (09) 367 8163

BANKERS TO THE COMPANY

ANZ Bank New Zealand Limited
ANZ House
23–29 Albert Street
PO Box 6243
Wellesley Street
Auckland 1141

Bank of New Zealand Limited
Deloitte Centre
80 Queen Street
Private Bag 92208
Auckland 1142

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

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

www.argosy.co.nz