Argosy

INTERIM REPORT 2011

The strength harnessed in bringing together many parts.

HIGHLIGHTS

6cpu

GUIDANCE
to annual distribution

Internalisation
achieved, with immediate cost savings to follow

Corporatisation
proposal to be presented to unitholders in early 2012

Bank facility
restructured on improved terms

35.6m

NET PROPERTY INCOME
maintained despite asset sales and lower occupancy

38

LEASE TRANSACTIONS COMPLETED

4.84yrs

WALT
steady (31 March 2011: 4.92 years)

A NOTE FROM THE MANAGER

Argosy Property Trust is pleased to report its interim results to 30 September 2011.

This has been a time of significant change for Argosy, setting the platform for significant cost savings and other unitholder benefits. A key achievement of the interim period was the internalisation of the management of the Trust, resulting in the establishment of a new manager operating on a cost recovery basis with the board of the new manager being elected by unitholders.

The cost savings from this new structure (and other measures put in place during the interim period, such as the restructured bank facility) are considerable and will be evident in Argosy's performance for the second half of the current financial year. However, in the meantime, the substantial costs associated with internalisation and other abnormal events, such as an unsolicited merger proposal from DNZ Property Fund Limited, have been recorded in the interim financial statements.

Net property income for the six months was unchanged from the previous interim period at $35.6m, despite lower occupancy and the sale of seven properties. Earnings before finance costs and tax were $3.4m (2010: $31.4m). The $21.6m cost of the management internalisation and associated expenses, a further $0.5m related to the merger attempt and the write-down of the remaining $5.4m value of a previous management contract were the main contributors to the decrease. Without these one-off items, Argosy's

Waring Taylor, Wellington

comparable earnings for the interim period would have been down only slightly to $30.9m, with the main variance between the two periods being an incentive fee of $0.5m paid to the previous manager in accordance with contractual obligations.

Net distributable income for the six months was $15.6m (2010: $17.6m), due to higher finance costs (resulting primarily from higher average debt levels, capitalised interest in the prior period and higher line fees), as well as the incentive fee mentioned above.

The after-tax result for the six months was a loss of $20.0m, compared to a profit of $6.0m for the 2010 interim period. Again, this was affected by the costs outlined above, as well as a non-cash reduction of $11.4m in the mark-to-market valuation of Argosy's interest rate swaps.

The after-tax result has been affected by changes to the tax depreciation rules removing depreciation on buildings, which apply from 1 April 2011.

UNIT PRICE PERFORMANCE

Argosy's unit price performance has exceeded both the NZX50 and the NZX Gross Property Index for both the interim period and the previous 12 months.

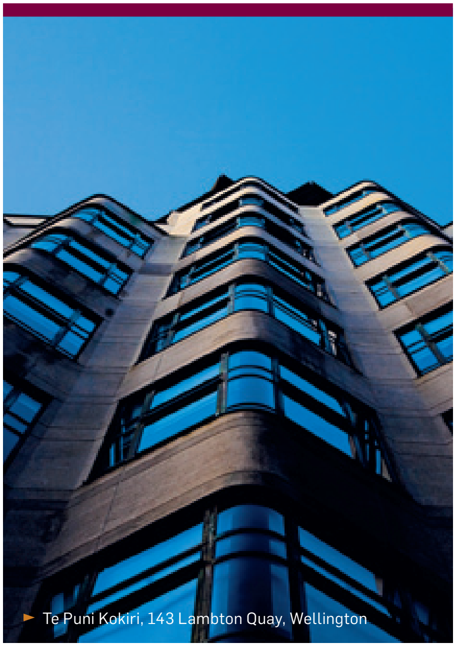
DISTRIBUTIONS

The Board has indicated that the current full-year distribution is likely to be 6.0 cents per unit and this guidance remains appropriate.

A cash distribution of 1.50 cents per unit – consistent with the first quarter – has been declared for the September quarter. There are no imputation credits attached to the distribution and the distribution reinvestment 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 6 December 2011 and the payment date will be 20 December 2011.

PORTFOLIO ACTIVITY

Argosy's portfolio has delivered a stable performance, showing the benefits of a well-diversified portfolio as positive movements



► Te Puni Kokiri, 143 Lambton Quay, Wellington

CASE STUDY

TE PUNI KOKIRI REFURBISHMENT

Argosy is investing in a $5.8m refurbishment project to transform the heritage Te Puni Kokiri building into modern energy-efficient office premises with a reduced carbon footprint.

The current tenant, Government department Te Puni Kokiri, has taken a new six-year lease over all 10 levels in the building, at an increased rent and with a further six-year right of renewal. The new lease commences from completion of the refurbishment project, targeted for November 2012.

The project involves the installation of a new chiller, boiler system, building management system and lift drives. The office areas will be refurbished with new ceilings, carpets and energy-efficient lighting.

The project will significantly enhance this attractive building.

A NOTE FROM THE MANAGER

have offset negatives. The focus has continued to be on positioning the portfolio for the future.

Although the property market in general is yet to show any substantive evidence of improvement and the leasing market is continuing to present challenges, enquiry levels over recent weeks have been encouraging.

Leasing

During the interim period, 38 lease transactions were completed, including 24 new leases and 14 lease renewals and extensions.

Argosy is committed to improving occupancy by year-end which, if successful, will result in higher earnings.

Capital projects

Major refurbishment projects are underway at Argosy's two largest Wellington office towers, Te Puni Kokiri (143 Lambton Quay) and TSB Tower (46 Waring Taylor Street). New six-year leases have been agreed with the key tenants, Te Puni Kokiri and the Department of Internal Affairs.

Divestments

Seven properties – three in Auckland and four in Palmerston North – were sold during the interim period, realising a small gain on their combined book values based on their 31 March valuations.

Over the past three years, Argosy has gradually re-aligned its investment focus away from many provincial locations and now has its assets concentrated in the Auckland area. This reflects the lesser risk profile of Auckland, in terms of both longer term tenant demand and the size of the prospective buyer market as and when asset sales are required.

One of the strengths of Argosy's portfolio during the global financial crisis has been the liquidity available through a lower average value of assets, illustrated by the ability to carry out asset sales, rather than raise capital. Argosy will maintain a number of assets in a liquid price range to retain this flexibility.

Two further properties are currently being marketed for sale. Beyond this point, future sales will be driven by normal asset management activity.

Development

Steady progress is being made at Manawatu Business Park. Subdivision works are expected to be complete and titles obtained for the remaining lots in the first half of 2012.

Valuations

After analysis of the portfolio and market conditions, the Board did not consider there was a requirement for interim property revaluations. Independent property revaluations will be completed at year-end as normal.

CORPORATE STRUCTURE AND GOVERNANCE

Internalisation

The internalisation of Argosy's management was approved by unitholders at the Annual Meeting on the 30th August 2011 and has now been completed, with the majority of staff transferring to the new manager, Argosy Property Management Limited ("APML"). The manager will relocate its office to Argosy's property at 39 Market Place, Auckland, from December this year.

Corporatisation

The Board resolved in August that, if appropriate, a proposal to corporatise Argosy would be presented to unitholders for approval at the 2012 Annual Meeting. The Board has determined that there is no purpose in Argosy remaining as a trust under the Unit Trusts Act 1960, and is confident that corporatisation would bring about further cost savings, as well as providing investors the protections offered by the Takeovers Code. The directors are pleased to advise that this proposal is well advanced and is expected to be presented to unitholders before the end of this financial year.

Governance

At the Annual Meeting, Trevor Scott was reappointed as an independent director of the previous manager, a role in which he had served since the inception of the Trust in 2002. Following internalisation, Mr Scott is now a director of APML and all directors of APML, other than the Rt Hon Philip Burdon, are independent for the purposes of NZSX Listing Rule 3.3.2.

CAPITAL MANAGEMENT

Argosy's debt levels have increased to 43.2% of total assets (31 March 2011: 42.1%). The Board's intention is to bring this below 40% in the medium term. In the current environment, where property sales have the potential to be strongly earnings-dilutive, the divestment of non-income earning vacant land will be the key strategy to reduce debt levels.

BANK FACILITY

In August 2011, Argosy successfully renegotiated its banking facilities on improved terms. The existing Tranche A facility of $400m was extended to June 2015 and immediate savings in margin and line fees were achieved. The payment of the extension fee also satisfied in full Argosy's obligations under a previous amendment to the facility (May 2011), which required a payment of $900,000 in respect of changes to the Loan to Valuation Ratio and the financier's consent to internalisation.

Argosy is currently working with its financiers to obtain their consent to the proposed corporate structure.

TAXATION

Argosy is seeking a binding ruling from the Inland Revenue Department regarding the deductibility of the payment made to terminate the previous manager's rights to manage the Trust. The directors consider the outcome of this is likely to be favourable (although not certain) and as such the payment has been treated as deductible in the tax calculation for the interim period.

Argosy is also 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, further significant tax deductions may be available. The Board has determined not to book this deduction until the outcome is certain.

Argosy has received advice that the Manawatu Business Park development properties are likely to be held on revenue account. The Board has taken the most conservative position and as a result the deferred tax liability has at this time been increased by $5.9m.

OUTLOOK

In the second half of the year, Argosy expects to begin to experience the significant savings arising from internalised management and the renegotiated bank facility.

There is also scope to improve earnings by increasing occupancy.

As the market inevitably and eventually recovers, Argosy and its unitholders should expect to benefit from the repositioning of the portfolio that has occurred during the last three years.

The proposed corporatisation is another initiative intended to drive further cost savings, along with increased unitholder protection.

The Board has confirmed guidance of 6cpu for the year to 31 March 2012 and advises that at this point and with current economic projections, a similar distribution level is expected for the year to 2013.

A consolidated foundation delivering a diversified offer.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2011 (unaudited)

	Note	Group (unaudited) 30 September 2011 $000s	Group (unaudited & restated) 30 September 2010 $000s	Group (audited) 31 March 2011 $000s
Non-current assets				
Investment properties	4	924,947	946,540	948,687
Property, plant and equipment		50	–	30
Other non-current assets		–	6,772	6,037
Total non-current assets		**924,997**	**953,312**	**954,754**
Current assets				
Cash and cash equivalents		2,165	1,489	1,339
Trade and other receivables		6,923	9,220	3,478
Other current assets		517	1,137	124
Taxation receivable		7,074	704	3,556
		16,679	12,550	8,497
Non-current assets classified as held for sale	5	6,867	9,790	11,920
Total current assets		**23,546**	**22,340**	**20,417**
Total assets	3	**948,543**	**975,652**	**975,171**
Unitholders' funds				
Units on issue	7	549,252	541,683	545,070
Hedging reserves		(8,335)	(10,449)	(8,958)
(Accumulated losses) / retained earnings		(62,238)	(27,505)	(24,380)
Minority interest		–	11,654	–
Total unitholders' funds		**478,679**	**515,383**	**511,732**
Non-current liabilities				
Borrowings	9	410,640	375,417	410,874
Derivative financial instruments	6	37,278	30,688	26,804
Deferred tax	11	15,363	12,644	15,420
Total non-current liabilities		**463,281**	**418,749**	**453,098**
Current liabilities				
Borrowings	9	–	32,871	–
Trade and other payables		4,701	6,597	8,689
Derivative financial instruments	6	–	239	–
Other current liabilities		1,882	1,813	1,652
Total current liabilities		**6,583**	**41,520**	**10,341**
Total liabilities		**469,864**	**460,269**	**463,439**
Total unitholders' funds and liabilities		**948,543**	**975,652**	**975,171**

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

As at 30 September 2011 (unaudited)

	Note	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
Gross property income from rentals		38,735	39,229
Management fee income		84	–
Gross property income from expense recoveries		7,124	6,733
Property expenses		(10,385)	(10,349)
Net property income	3	**35,558**	**35,613**
Other income		73	–
Total income		**35,631**	**35,613**
Administration expenses		3,899	3,522
Amortisation of management contract cancellation costs		6,037	659
Management rights buy-out		19,978	–
Internalisation related costs		1,662	–
Costs related to unsolicited merger proposal		483	–
Corporate overhead expenses		180	–
Other expenses		–	36
Total expenses before finance income/(expenses) and other gains/(losses)		**32,239**	**4,217**
Profit before financial income/(expenses) and other gains/(losses)		**3,392**	**31,396**
Finance income/(expense)			
Finance expense		(15,930)	(13,489)
Loss on derivatives		(11,339)	(9,702)
Finance income		101	401
		(27,168)	**(22,790)**
Other gains/(losses)			
Revaluation gains/(losses) on investment property	4	–	50
		–	**50**
(Loss)/profit before income tax		**(23,776)**	**8,656**
Taxation	10	(3,805)	2,648
(Loss)/profit for the period		**(19,971)**	**6,008**

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 (Continued)

As at 30 September 2011 (unaudited)

	Note	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
Other comprehensive income			
Movement in cash flow hedge reserve		865	(943)
Income tax benefit/(expense) relating to other comprehensive income	10	(242)	19
Total other comprehensive (loss)/income after tax		**623**	**(924)**
Total comprehensive (loss)/income after tax		**(19,348)**	**5,084**
Loss for the period is attributable to:			
Unitholders of the Trust		(19,971)	6,010
Minority interest		–	(2)
Total comprehensive (loss)/income for the period is attributable to:			
Unitholders of the Trust		(19,348)	5,084
Minority interest		–	–
All amounts are from continuing operations.			
(Loss)/earnings per unit			
Basic and diluted (loss)/earnings per unit (cents)	13	(3.62)	1.11

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 2011 (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		**545,070**	**(8,958)**	**(24,380)**	**–**	**511,732**
(Loss)/profit for the period		–	–	(19,971)	–	(19,971)
Fair value gains on cashflow hedges net of tax		–	623	–	–	623
Total comprehensive (loss)/income after tax		**–**	**623**	**(19,971)**	**–**	**(19,348)**
Contributions by unitholders						
Issue of units from Dividend Reinvestment Plan		4,192	–	–	–	4,192
Issue costs of units		(10)	–	–	–	(10)
Distributions to unitholders		–	–	(17,887)	–	(17,887)
Unitholders' funds at the end of the period	7	**549,252**	**(8,335)**	**(62,238)**	**–**	**478,679**

For the six months ended 30 September 2010 (unaudited & restated)

	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)**	**(13,819)**	**11,656**	**526,594**
(Loss)/profit for the period		–	–	6,010	(2)	6,008
Fair value (losses) on cashflow hedges net of tax		–	(924)	–	–	(924)
Total comprehensive income/(loss) after tax		**–**	**(924)**	**6,010**	**(2)**	**5,084**
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)**	**(27,505)**	**11,654**	**515,383**

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 FLOW

For the six months ended 30 September 2011 (unaudited)

	Note	Group (unaudited) Six months to 30 September 2011 $000s	Group (unaudited) Six months to 30 September 2010 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		42,638	41,035
Management fee income		84	–
Interest received		68	127
Cash was applied to:			
Property expenses		(12,338)	(8,295)
Management and trustee fees		(3,966)	(2,890)
Management rights buy-out		(19,978)	–
Internalisation related costs		(1,073)	–
Costs related to unsolicited merger proposal		(397)	–
Loss on swap cancellation		–	(2,270)
Interest paid		(15,937)	(13,501)
Tax paid		(12)	(1,457)
Corporate overhead expenses		(143)	–
Other trust expenses		(970)	(948)
Net cash (used in)/from operating activities	12	**(12,024)**	**11,801**
Cash flows from investing activities			
Cash was provided from:			
Sale of properties		31,945	6,722
Cash was applied to:			
Capital additions on investment properties		(5,026)	(5,420)
Purchase of properties		–	(23,776)
Net cash from/(used in) investing activities		**26,919**	**(22,474)**
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		32,757	43,907
Issue of units (net of issue costs)		(9)	(5)
Cash was applied to:			
Repayment of debt		(31,693)	(15,055)
Distributions paid to unitholders		(13,666)	(16,290)
Bank facility costs		(1,458)	(1,625)
Net cash (used in)/from financing activities		**(14,069)**	**10,932**
Net increase in cash and cash equivalents		**826**	**259**
Cash and cash equivalents at the beginning of the period		1,339	1,230
Cash and cash equivalents at the end of the period		**2,165**	**1,489**

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

Notes to the condensed consolidated interim financial statements (continued)

1. GENERAL INFORMATION

Argosy 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, 30 September 2010 and 30 August 2011. The Trust is an issuer in terms of the Financial Reporting Act 1993. ARG is incorporated and domiciled in New Zealand.

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

On 30 August 2011, the Trust's unitholders approved the internalisation of the management of the Trust by purchasing the management rights from the previous manager, Argosy Property Management Limited, which is a wholly owned subsidiary of OnePath (NZ) Limited.

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 21 November 2011.

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 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 2011.

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

Notes to the condensed consolidated interim financial statements (continued)

Change in accounting policies

The following new accounting policies are effective and have been applied by Argosy Property Trust for the period to 30 September 2011:

NZ IAS 12 Income Taxes – ARG elected to early adopt the amendment to NZ IAS 12 in the 31 March 2011 financial statements as it provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in NZ IAS 40 Investment Property. Under NZ IAS 12, the amendment introduces a presumption that an investment property is recovered entirely through sale. An exception is applied if the investment property is intended to be held for the objective of consuming substantially all of its useful life, rather than recovering through sale. The amendment has been retrospectively applied to the comparative periods with adjustments initially being made to the opening balance of retained earnings and deferred tax liability at 31 March 2009, as set out in the 31 March 2011 financial statements. The impact on the interim results reported at 30 September 2010 is as follows:

The reversal of deferred tax liabilities arising from investment properties totalling $110.4m as at 30 September 2011.

		Previously reported $000s	Restatement $000s	Restated $000s
Statement of Financial Position				
Deferred tax	30 September 2010	123,044	(110,400)	12,644
Statement of Comprehensive Income				
Tax expense	30 September 2010	101,606	(98,958)	2,648
Statement of Changes in Equity				
Retained earnings	30 September 2010	(134,591)	107,086	(27,505)
Minority interest	30 September 2010	8,338	3,316	11,654
Basic and diluted earnings per unit	30 September 2010	(16.57)	17.68	1.11

Notes to the condensed consolidated interim financial statements (continued)

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 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 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				(755)
Amortisation of management contract cancellation costs				(6,037)
Management rights buy-out				(19,978)
Internalisation related costs				(1,662)
Costs related to unsolicited merger proposal				(483)
Corporate overhead expense				(180)
Finance income/(expenses)				(15,845)
Loss on derivatives				(11,339)
Profit/(loss) before income tax				**(23,776)**
Taxation				3,805
Profit/(loss) for the period				**(19,971)**

Notes to the condensed consolidated interim financial statements (continued)

SEGMENT PROFIT/(LOSS) FOR THE PERIOD ENDED 30 SEPTEMBER 2010 (RESTATED):	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 (expenses)/income	(36)	–	–	(36)
Finance (expenses)/income	(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				(2,648)
Profit/(loss) for the period				**6,008**

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 2010: 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 PROFIT/(LOSS) FOR THE PERIOD ENDED 30 SEPTEMBER 2011 (RESTATED):	Industrial $000s	Commercial $000s	Retail $000s	Total $000s
Current assets	737	335	794	1,866
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	**342,316**	**251,273**	**340,091**	**933,680**
Unallocated assets:				14,863
Consolidated assets				**948,543**

Notes to the condensed consolidated interim financial statements (continued)

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:				13,282
Consolidated assets				**975,652**

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 2011 $000s	Group (unaudited) Six months to 30 September 2010 $000s
Movement in Investment Properties		
Balance at the beginning of the period	941,372	920,633
Acquisition of properties	–	22,526
Capitalised costs	1,452	5,938
Disposals	(18,779)	–
Transfer to properties held for sale	(6,867)	(9,790)
Change in fair value of investment property	–	50
Closing balance	**917,178**	**939,357**
Deferred initial direct costs/lease incentives		
Opening balance	7,315	5,286
Change during the period	454	1,897
Closing balance	**7,769**	**7,183**
Balance at the end of the period	**924,947**	**946,540**

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.

Notes to the condensed consolidated interim financial statements (continued)

Investment Properties Valuation

The Trust's policy is for investment property to be measured at fair value for which the Trust completes property valuations at least annually by independent registered valuers. There was no independent valuation for investment properties as at 30 September 2011. The board and management consider that there has been no significant change to the investment environment since 31 March 2011 and the valuation of 31 March 2011 for investment properties are still applicable (30 September 2010: No independent valuation for investment properties).

5. PROPERTY HELD FOR SALE

Two properties were subject to a sale and purchase agreement at the reporting date. Both of the properties were being held at book value at 30 September 2011 (30 September 2010: 792 Great South Road, Manukau, Auckland).

Property Address	Expected settlement date
2 Carmont Place, Mt Wellington, Auckland	October 2011
7 Maui St, Hamilton	November 2011

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
Nominal value of interest rate swaps	233,000,000	248,000,000
Average fixed interest rate	6.64%	7.09%
Floating rates based on NZD BBR (including margin)	3.99%	4.42%

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. There were no cash flow hedges at 30 September 2011.

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 profit or loss together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Notes to the condensed consolidated interim financial statements (continued)

7. UNITS

	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
Balance at the beginning of the period	545,070	538,282
Issue of units from Dividend Reinvestment Plan	4,192	3,406
Issue costs of units	(10)	(5)
Balance at the end of the period	**549,252**	**541,683**

The number of units on issue at 30 September 2011 was 554,528,297 (30 September 2010: 544,276,193). 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.

Reconciliation of number of units (in thousands of units)	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
Balance at the beginning of the period	549,186	539,328
Issue of units from Dividend Reinvestment Plan	5,342	4,948
Balance at the end of the period	**554,528**	**544,276**

8. DISTRIBUTABLE INCOME

	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
(Loss)/Profit before income tax	(23,776)	8,656
Add back/ (deduct):		
Investment disposal gains	(73)	–
Loss on derivatives	11,339	9,702
Amortisation of management contract cancellation costs	6,037	659
Management rights buy-out	19,978	–
Internalisation related costs	1,662	–
Costs related to unsolicited merger proposal	483	–
Gross distributable income	15,650	19,017
Tax paid	–	(1,445)
Net distributable income	**15,650**	**17,572**

Notes to the condensed consolidated interim financial statements (continued)

9. BORROWINGS

	Group (unaudited) 30 September 2011 $000s	Group (unaudited) 30 September 2010 $000s
ANZ National Bank Limited	258,424	248,016
Bank of New Zealand	103,370	118,916
Hong Kong and Shanghai Banking Corp	51,684	43,000
Borrowing costs	(2,838)	(1,644)
Total borrowings	**410,640**	**408,288**
Shown as:		
Current	–	32,871
Term	410,640	375,417

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 $450,000,000 (30 September 2010: $400,000,000 syndicated revolving credit with ANZ National Bank Limited, Bank of New Zealand and The Hong Kong and Shanghai Banking Corp and $33,000,000 with Bank of New Zealand) secured by way of mortgage over the investment properties of the Trust. The facility includes a Tranche A limit of $400,000,000 and a Tranche B limit of $50,000,000. Tranche A has a term of 4 years and expires on 30 June 2015. Tranche B has a term of 2 years and expires on 30 June 2013. (30 September 2010: total facility expired on 30 June 2013).

The contractual interest rate on the borrowings as at 30 September 2011 was 6.10% per annum (30 September 2010: 6.70% on syndicated revolving credit facility and 7.30% on the Bank of New Zealand facility). The Trust also pays a line fee between 0.925% and 1.15% per annum on Tranche A and between 1.00% and 1.275% per annum on Tranche B. (30 September 2010: between 1.05% and 1.20% per annum for syndicated revolving facility and 1.45% on the Bank of New Zealand facility).

Argosy Property No.3 Limited, a subsidiary of Argosy Property Trust, has no committed cash advance facility with the Bank of New Zealand as at 30 September 2011 (30 September 2010: $33,000,000).

Notes to the condensed consolidated interim financial statements (continued)

10. TAXATION

	Group (unaudited) 30 September 2011 $000s	Group (unaudited & restated) 30 September 2010 $000s
The taxation charge is made up as follows:		
Current taxation	(2,160)	1,465
Adjustment recognised in the current year in relation to the current tax of prior years	(1,346)	–
Total current taxation (credit)/expense	**(3,506)**	**1,465**
Deferred tax expense relating to the origination and reversal of temporary differences	(299)	2,981
Impact of change in tax rate to 28%	–	(1,798)
Total deferred tax (credit)/expense	**(299)**	**1,183**
Total tax (credit)/expense recognised in profit/(loss)	**(3,805)**	**2,648**
The expense of the year can be reconciled to the accounting profit as follows:		
(Loss)/profit before tax for the year	(23,776)	8,656
Current income tax (credit)/expense at 28% (30 September 2010: 30%)	**(6,657)**	**2,597**
Adjusted for:		
Amortisation of management contract cancellation costs	1,690	198
Non-assessable gain on sales	(20)	–
Net change on revaluation of investment properties	–	(15)
Interest costs capitalised on buildings	–	(390)
Expenditure not deductible for tax purposes	67	115
Depreciation	(971)	(3,042)
Deferred leasing costs and incentives	(94)	(569)
Net change on revaluation of derivative financial instruments other than hedge accounted	3,175	2,910
Deductible costs of closing of swaps	–	(681)
Depreciation claw back on property sold	268	–
Taxable income from swaps blend & extend	551	–
Other adjustments	(169)	342
Current taxation (credit)/expense	**(2,160)**	**1,465**
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	5,433	3,168
Derivative financial instruments other than hedge accounted	(3,948)	(2,080)
Reversal of deferred tax recognised on management contract cancellation costs	(1,690)	(184)
Other	(94)	279
Deferred tax (credit)/expense	**(299)**	**1,183**

Notes to the condensed consolidated interim financial statements (continued)

	Group (unaudited) 30 September 2011 $000s	Group (unaudited & restated) 30 September 2010 $000s
Adjustment recognised in the current year in relation to the current tax of prior years	(1,346)	–
Total tax (credit)/expense recognised in profit/(loss)	**(3,805)**	**2,648**
Deferred tax recognised in other comprehensive income		
Revaluation of derivative financial instruments treated as cash flow hedges	242	254
Impact of change in tax rate to 28%	–	(235)
Total income tax recognised in other comprehensive income	**242**	**19**
Imputation credits		
Imputation credits at beginning of period	619	155
New Zealand tax payments, net of refunds	12	1,457
Imputation credits attached to dividends received	–	6
Imputation credits attached to dividends paid	–	(1,008)
Imputation credits at end of period	**631**	**610**

The corporate tax rate in New Zealand changed from 30% to 28% with effect from 1 April 2011.

The management rights buy-out has been treated as a deductible expense. The Trust has applied for a binding ruling on this matter, the outcome of which is likely to be favourable, but is not certain.

Notes to the condensed consolidated interim financial statements (continued)

11. 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 2011 (restated)	(1,307)	(6,933)	19,210	4,450	15,420
Credit to unitholders 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
At 1 April 2010 (restated)	–	(6,777)	16,109	2,110	11,442
Credit to unitholders funds for the period	–	19	–	–	19
Charge/(credit) to profit and loss for the period	–	(2,080)	3,168	95	1,183
At 30 September 2010 (restated)	–	(8,838)	19,277	2,205	12,644

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

	Group (unaudited) 30 September 2011 $000s	Group (unaudited & restated) 30 September 2010 $000s
(Loss)/profit after tax	**(19,971)**	**6,008**
Movements in working capital items relating to investing and financing activities	2,285	(908)
Non cash items:		
Movement in deferred tax liability	(55)	1,200
Fair value change in interest rate swaps	10,474	10,607
Fair value change in investment properties	–	(50)
Amortisation of management contract cancellation costs	6,037	659
Movement in cash flow reserve	623	(906)
Movements in working capital items:		
Trade and other receivables	(3,447)	(2,003)
Taxation receivable	(3,518)	10
Trade and other payables	(3,988)	(2,422)
Other	(464)	(394)
Net cash flows (used in)/from operating activities	**(12,024)**	**11,801**

Notes to the condensed consolidated interim financial statements (continued)

13. (LOSS)/EARNINGS 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 2011 $000s	Group (unaudited & restated) 30 September 2010 $000s
(Loss)/profit attributable to unitholders of the Trust	(19,971)	6,010
Weighted average number of units on issue	550,930	540,848
Basic and undiluted (loss)/earnings per unit (cents)	**(3.62)**	**1.11**
Weighted average number of ordinary units		
Issued units at beginning of period	549,186	539,328
Issued units at end of period	554,528	544,276
Weighted average number of ordinary units	**550,930**	**540,848**

On 22 November 2011 an interim gross distribution of 1.50 cents per unit was announced by the Trust. Continuation of the DRP programme will increase the number of units on issue.

14. 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 2010: $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 $9,301,833 (30 September 2010: $2,573,051).

15. CONTINGENCIES

There were no contingencies as at 30 September 2011 (30 September 2010: nil).

16. SUBSEQUENT EVENTS

On 20 October 2011, the Trust settled the sale of the property at 2 Carmont Place, Mt Wellington for $4,400,000.

On 22 November 2011, the Board approved the payment of a gross distribution of 1.50 cents per units to be paid on 20 December 2011.

Notes to the condensed consolidated interim financial statements (continued)

17. RELATED PARTY TRANSACTIONS

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

Fees paid to the Manager

Prior to 30 August 2011, The Trust was managed by Argosy Property Management Limited ("the Former Manager"). The Former Manager is wholly owned by OnePath.

The Trust paid management fees to the Former Manager. The total fees incurred for the period were $2,880,100 (30 September 2010: $2,712,041) and there were no outstanding fees as at 30 September 2011 (30 September 2010: $443,435). The Trust also paid the Former Manager an incentive fee of $494,653 (30 September 2010: nil) in accordance with our contractual obligations.

The Trust also reimbursed the Former Manager for fees paid to the Manager's directors and shareholders. These fees include directors' fees. The total amount paid in the period was $105,208 (30 September 2010: $126,250).

Properties owned by the Trust had been managed, on normal commercial terms by OnePath. Property management fees charged are either included in property expenses or capitalised. The amount paid to OnePath was $846,648 (30 September 2010: $891,674). The amount not recovered from tenants was $290,570 (30 September 2010: $567,204).

On 30 August 2011, the Trust completed the internalisation process and purchased the management rights from the Former Manager and the total payment for management rights was $19,977,744.

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 $177,304 (30 September 2010: $137,739).

ANZ National Bank Limited (100% shareholder of OnePath) paid for rental and car parks at 107 Carlton Gore Rd, Auckland. The total paid by ANZ National Bank Limited for the period was $987,933 (30 September 2010: $987,933).

The Trust has a syndicated revolving credit facility with, amongst others, ANZ National Bank Limited of $450,000,000 (30 September 2010: $400,000,000). As at 30 September 2011 $258,424,037 (30 September 2010: $235,635,879) had been drawn-down. The Trust paid $11,858,044 (30 September 2010: $11,840,607) in interest and fees to ANZ National Bank Limited during the period.

On 26 August 2011, the Trust amended the syndicated revolving credit facility. The Trust paid ANZ National Bank Limited an establishment fee of $875,000 and an arranger's fee of $200,000.

The Trust paid $40,000 to each of its two independent directors, Trevor Scott and Peter Brook, for their additional duties in relation to internalisation process. The amount outstanding at 30 September 2011 was $80,000 (30 September 2010: nil).

No related party debts have been written off or forgiven during the period (30 September 2010: nil).

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