

# Argosy

INTERIM REPORT 30 SEPTEMBER 2014



# DIVERSITY

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

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PROPERTIES

TENANTS

63

192

## HIGHLIGHTS

- ▶ Further divestment of non-Core properties.
- ▶ Completion and official opening of 15 Stout Street, Wellington.
- ▶ Positive interim revaluation gain of \$24.9 million.

## NET DISTRIBUTABLE INCOME

**\$23.4<sub>m</sub>**

Net distributable income of \$23.4 million.

## TOTAL PORTFOLIO VALUE

**\$1.22<sub>b</sub>**

Total portfolio value of \$1.22 billion.

## DEBT TO TOTAL ASSETS

**37.2%**

Debt to total assets ratio of 37.2%.

## OCCUPANCY

**99.1%**

Occupancy rate of 99.1% – the highest rate in six years.

## NET PROPERTY INCOME

**\$43.8<sub>m</sub>**

Net property income increased to \$43.8 million.

## WALT

**5.77 yrs**

Weighted average lease term of 5.77 years.

## LEASE TRANSACTIONS COMPLETED

**21**

21 lease transactions completed during the period.

## GUIDANCE TO ANNUAL DIVIDEND

**6 cents**

Expected dividend of 6 cents per share for year to 31 March 2015.

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Argosy Property Limited is pleased to report its interim results to 30 September 2014.

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The first six months of the 2015 financial year has been a period in which Argosy has continued the positive momentum from the prior year: increasing net property income, improving key property metrics, completing the major building development at 15 Stout Street, Wellington and divesting non-Core assets.

Gross distributable income for the six months to 30 September 2014 increased by 22.7% to \$29.1 million (2013: \$23.7 million). Net distributable income for the same period decreased to \$23.4 million (2013: \$23.7 million). This decrease is due to tax payments made for the first time since the 2011 financial year.

Net property income was \$43.8 million (2013: \$40.3 million), an increase of 8.7% on the previous interim period. Profit before tax was \$42.8 million, compared with \$39.7 million in the previous interim period.<sup>1</sup>

Interest expense was \$12.6 million for the period, a decrease of \$0.3 million compared with the previous interim period, despite higher average debt during the period. This has resulted from lower fixed interest rates following the restructuring of the Company's interest rate swaps in March and June 2014, the renegotiation of the Company's banking facilities and the capitalisation of \$1.3 million (2013: \$0.5 million) of interest expense relating to the Stout Street development.

#### DIVIDENDS

A cash dividend of 1.50 cents per share, consistent with the first quarter, has been declared for the September quarter. Imputation credits of 0.4865 are 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 3 December 2014 and the payment date will be 17 December 2014.

The Board is pleased to confirm that, based on current projections for the portfolio, a dividend of 6 cents per share, is expected to continue for the year to 31 March 2015. It is anticipated that this

<sup>1</sup> 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.



▲ 101 Carlton Gore Road AUCKLAND

may marginally exceed net distributable income as Argosy has returned to a tax-paying position. While projections beyond March 2015 are heavily dependent on the market and legislative environment, based on current conditions, it is envisaged 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.

#### **TOTAL SHAREHOLDER RETURN**

Argosy's Total Shareholder Return (TSR), which combines share price appreciation and dividends paid, has outperformed the NZX 50 Gross Index (11.0%) and the NZX Gross Property Index (12.3%) for the 12 months to 30 September 2014. Argosy's TSR for this period was 14.6%.

#### **GOVERNANCE**

At the Annual Meeting held in Auckland in August 2014, both Andrew Evans and Mark Cross were re-elected. Effective from the Annual Meeting, Trevor Scott, one of the Company's original directors, resigned from the Argosy board. Once again, I thank Trevor for his years of service to the Company since listing in 2002 and I wish Trevor all the best for his future endeavours.

#### **CAPITAL MANAGEMENT**

As has been previously communicated, the Company policy is to maintain a debt-to-total assets ratio of 35-40% in the medium term. As at 30 September 2014, the ratio was 37.2% and is therefore sitting comfortably within the target range.

#### **VALUATIONS**

For the first time since September 2009, Argosy has performed an independent interim revaluation of the portfolio. This has been completed due to a material change in market conditions since the last valuation date of 31 March 2014. The revaluation has resulted in an increase in property values of \$24.9 million, which is a 2.0% increase on book values immediately prior to the interim revaluation. Independent property valuations will also be completed at year end as usual.

#### **BANK FACILITY**

The \$500 million bank facility was extended for a further year in June 2014 on significantly improved terms. The expiry of the first tranche is now 30 June 2017 and the second tranche is 30 June 2019. Argosy is now receiving further margin and line fee savings (after including upfront fees) of approximately \$0.7 million per annum.

Argosy continues to maintain strong relationships with its banking partners and remains well within its banking covenants.

#### **OUTLOOK**

Argosy has made significant progress in delivering against its investment strategy in the first six months of this financial year. We continue to look for opportunities to realign the portfolio in line with our strategy and to deliver solid returns to you, our shareholders.

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

**P MICHAEL SMITH**  
Chairman

# CONTINUED MOMENTUM

Another six months of significant progress with improved operating results and stronger portfolio metrics on the back of a clearly defined portfolio investment strategy and investment policy.

## DIVESTMENTS OF NON-CORE ASSETS

During the six month period to 30 September 2014, Argosy successfully divested \$13.9 million of non-Core assets. Argosy also announced the unconditional sale of the Waitakere Mega Centre for \$45.75 million, which is due to settle in late March 2015 and will be managed by Argosy in consultation with the purchaser until settlement.

As part of the Company's strategy, approximately \$70 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.

## DEVELOPMENTS

During the interim period, the redevelopment of Argosy's building at 15 Stout Street in Wellington was completed and officially opened, with the Ministry of Business, Innovation and Employment (MBIE), moving in from July 2014. The leasing to



▲ NZ Post House WELLINGTON

MBIE was part of the new accommodation strategy for the Crown, managed by the Property Management Centre of Excellence (PMCoE).

The upgrade of the New Zealand Post building, also in Wellington, is continuing with the expectation that this upgrade will be completed by late 2016.

The recently completed redevelopment at 143 Lambton Quay, tenanted to Te Puni Kōkiri, was awarded a merit award at the Property Industry Awards in the Commercial Office Property Section. This building is the first Wellington building to gain a 5 *Green Star NZ – Office Built Rating* from the New Zealand Green Building Council and has also been awarded a 4 star NABERSNZ rating, signifying excellence in energy performance.



▲ Albany Lifestyle Centre AUCKLAND

## LEASING

Argosy has achieved some significant leasing success in the first half of the current financial year. Of particular note was the inclusion of two of Argosy's properties on the short list for consideration by PMCoE for future government accommodation options in Wellington.

The occupancy rate (by rental income) has continued to improve and is now 99.1% at 30 September 2014 (31 March 2014: 98.7% and 30 September 2013: 97.3%). Outstanding lease expiries have reduced and enquiry levels from potential tenants remain at very encouraging levels.

During the period, 21 lease transactions were completed, including 8 new leases and 13 lease renewals and extensions. The weighted average lease term at 30 September 2014 continues to be strong at 5.77 years, largely unchanged from 5.68 years at 31 March 2014 and 5.91 years at 30 September 2013.

## OUTLOOK

As the property market shows signs of continued buoyancy, our focus will remain firmly on adhering to our strategy. Our goals for the remainder of the 2015 financial year are to continue to manage the portfolio's occupancy and lease expiry profile, while searching for opportunities to improve the quality and balance of our property assets.

Argosy is well positioned, with our diversified portfolio, to continue to provide excellent returns to shareholders.

PETER MENCE  
Chief Executive Officer

## CHIEF EXECUTIVE OFFICER'S REPORT

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### TOTAL PORTFOLIO VALUE

BY SECTOR

AS AT 30 SEPTEMBER 2014

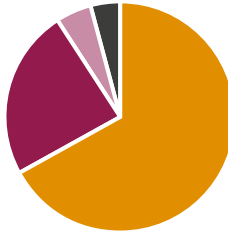


- 25% Retail
- 38% Office
- 37% Industrial

### TOTAL PORTFOLIO VALUE

BY REGION

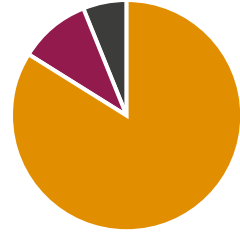
AS AT 30 SEPTEMBER 2014



- 67% Auckland
- 24% Wellington
- 5% Palmerston North
- 4% Other regional

### PORTFOLIO MIX

AS AT 30 SEPTEMBER 2014

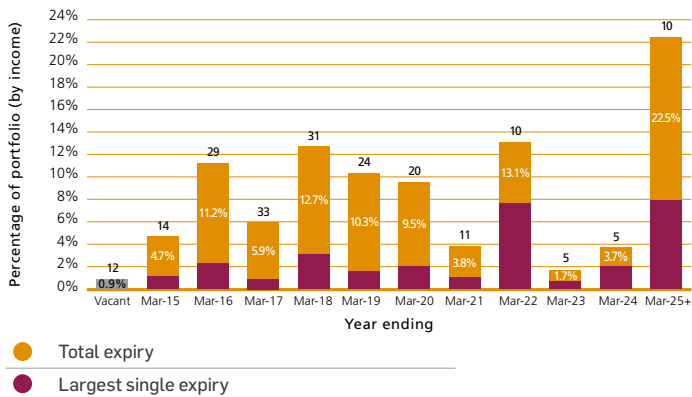


- 84% Core
- 10% Value Add
- 6% Properties and land to divest

The above charts all exclude properties held for sale.

### LEASE MATURITY EXPIRY BY RENT

AS AT 30 SEPTEMBER 2014



- 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).



# FOCUS

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“Argosy is well positioned,  
with our diversified portfolio,  
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returns to shareholders.”

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The first six months of the 2015 financial year has seen the New Zealand economy continue to grow which has in turn led to an improvement in the property market.

Leasing activity has been strong which has seen very low levels of vacancy. This, coupled with strong demand for New Zealand property from offshore buyers, has led to a further firming of market yields across all sectors of the property market.

Argosy undertook an independent interim desktop revaluation of all properties in the portfolio except for those held for sale and those in Palmerston North, where it was agreed with the Valuer that there was little evidence of significant change.

# Industrial

## INDUSTRIAL PORTFOLIO STATISTICS

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### NUMBER OF BUILDINGS

35

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### MARKET VALUE OF ASSETS (\$M)

\$450.51

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### VACANCY FACTOR (BY RENT)

0.6%

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### WALT (YEARS)

6.07

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### PASSING YIELD

7.52%

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PROPERTY ADDRESS	VALUATION \$000S	WEIGHTED AVERAGE LEASE TERM (YEARS)	NET LETTABLE AREA (SQM)	VACANT SPACE (SQM)	PASSING YIELD
<b>Auckland</b>					
67 Dalgety Drive, Manukau City	\$4,450	2.50	3,698	-	8.38%
90-104 Springs Road, East Tamaki	\$3,400	0.75	3,875	-	7.85%
8 Forge Way, Panmure	\$15,300	4.00	4,230	-	8.11%
10 Transport Place, East Tamaki	\$24,800	9.83	10,641	-	7.49%
1 Rothwell Avenue, Albany	\$18,600	11.50	12,936	-	7.69%
4 Henderson Place, Onehunga	\$11,500	1.09	10,453	-	9.02%
1-3 Unity Drive, Albany	\$8,050	0.92	6,204	-	8.53%
5 Unity Drive, Albany	\$4,350	1.50	3,046	-	8.05%
80 Springs Road, East Tamaki	\$8,750	0.74	9,675	-	9.16%
211 Albany Highway, Albany	\$14,100	3.34	13,878	-	9.19%
80-120 Favona Road, Mangere	\$75,500	9.91	59,448	-	8.01%
19 Nesdale Avenue, Wiri	\$39,800	14.29	20,677	-	7.02%
12-16 Bell Avenue, Mt Wellington	\$16,500	5.45	14,809	-	8.05%
18-20 Bell Avenue, Mt Wellington	\$10,100	6.67	8,998	-	8.19%
32 Bell Avenue, Mt Wellington	\$7,600	1.55	8,810	-	9.01%
9 Ride Way, Albany	\$15,700	3.00	8,459	-	7.10%
1 Allens Road, East Tamaki	\$2,980	0.57	1,806	-	8.16%
2 Allens Road, East Tamaki	\$3,864	3.89	2,920	-	7.35%
12 Allens Road, East Tamaki	\$2,576	3.89	2,372	-	8.94%
106 Springs Road, East Tamaki	\$4,760	3.89	3,846	-	7.81%
5 Allens Road, East Tamaki	\$2,980	4.17	2,663	-	7.64%
960 Great South Road, Penrose	\$4,800	2.88	3,677	-	7.96%
17 Mayo Road, Wiri	\$17,200	3.52	13,351	-	8.34%
Cnr William Pickering Drive & Rothwell Avenue, Albany	\$9,900	0.36	7,074	-	8.16%
19 Richard Pearse Drive & 26 Ascot Avenue, Mangere	\$6,700	2.92	3,721	660	5.30%
Wagener Place, St Lukes	\$10,500	4.33	9,730	-	5.24%
<b>Wellington</b>					
Cnr Wakefield, Taranaki & Cable Streets	\$14,130	8.99	3,307	-	6.41%
<b>Other</b>					
7 El Prado Drive, Palmerston North†	\$2,232	2.10	3,572	398	4.34%
31 El Prado Drive, Palmerston North†	\$26,240	1.42	24,656	-	8.90%
44 Neil Lane, Palmerston North†	\$3,139	0.50	3,232	-	9.08%
1 Pandora Road, Napier	\$8,700	0.50	18,431	-	11.73%
8 Foundry Drive, Woolston, Christchurch	\$5,340	0.08	4,160	-	8.99%
1478 Omaha Road, Hastings	\$8,550	8.83	8,514	-	7.60%
223 Kioreroa Road, Whangarei	\$12,500	7.44	9,797	-	8.80%
Manawatu Business Park, Palmerston North†	\$24,917	0.00	-	-	0.00%
<b>TOTAL</b>	<b>\$450,508</b>	<b>6.07</b>	<b>326,666</b>	<b>1,058</b>	<b>7.52%</b>

† The properties that comprise the Manawatu Business Park were not included in the independent interim desktop revaluation and are being carried at their book value.

## PORTFOLIO

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## Office

## OFFICE PORTFOLIO STATISTICS

## NUMBER OF BUILDINGS

17

## MARKET VALUE OF ASSETS (\$M)

\$469.14

## VACANCY FACTOR (BY RENT)

1.3%

## WALT (YEARS)

5.75

## PASSING YIELD

8.09%

PROPERTY ADDRESS	VALUATION \$000S	WEIGHTED AVERAGE LEASE TERM (YEARS)	NET LETTABLE AREA (\$QM)	VACANT SPACE (\$QM)	PASSING YIELD
<b>Auckland</b>					
99-107 Khyber Pass Road, Newmarket	\$6,925	2.90	2,442	-	8.62%
101 Carlton Gore Road, Newmarket	\$23,600	3.09	4,714	-	7.51%
39 Market Place, Viaduct Harbour	\$34,400	7.10	10,233	266	9.46%
105 Carlton Gore Road, Newmarket	\$26,800	3.48	5,312	-	7.68%
302 Great South Road, Greenlane	\$6,500	3.20	1,890	-	8.44%
308 Great South Road, Greenlane	\$5,000	2.63	1,570	-	9.18%
626 Great South Road, Ellerslie	\$7,300	0.96	2,647	-	9.07%
25 Nugent Street, Grafton	\$8,900	3.69	3,028	-	7.43%
65 Upper Queen Street	\$6,400	1.01	2,519	764	9.19%
107 Carlton Gore Road, Newmarket	\$26,600	4.64	6,061	-	7.43%
Citibank Centre, 23 Customs Street East	\$42,100	3.00	9,542	656	7.64%
IBM Centre, 82 Wyndham Street	\$27,000	3.52	6,154	-	8.84%
<b>Wellington</b>					
143 Lambton Quay	\$26,700	4.75	6,216	-	7.80%
46 Waring Taylor Street	\$35,550	3.24	9,014	-	7.92%
8-14 Willis Street	\$13,850	2.26	5,056	646	8.16%
New Zealand Post House, 7-27 Waterloo Quay	\$85,500	7.00	24,977	-	9.01%
15-21 Stout Street	\$86,017	11.83	19,629	-	7.04%
<b>TOTAL</b>	<b>\$469,142</b>	<b>5.75</b>	<b>121,004</b>	<b>2,332</b>	<b>8.09%</b>

# Retail

## RETAIL PORTFOLIO STATISTICS

### NUMBER OF BUILDINGS

# 11

### MARKET VALUE OF ASSETS (\$M)

# \$302.92

### VACANCY FACTOR (BY RENT)

# 0.8%

### WALT (YEARS)

# 5.37

### PASSING YIELD

# 7.70%

PROPERTY ADDRESS	VALUATION \$000S	WEIGHTED AVERAGE LEASE TERM (YEARS)	NET LETTABLE AREA (SQM)	VACANT SPACE (SQM)	PASSING YIELD
<b>Auckland</b>					
28-30 Catherine Street, Henderson	\$6,200	2.70	2,427	–	8.26%
Albany Mega Centre, Albany	\$92,000	4.94	25,155	–	7.42%
320 Ti Rakau Drive, East Tamaki	\$39,000	3.68	28,206	497	8.18%
Albany Lifestyle Centre, Albany	\$68,200	6.68	25,029	–	7.79%
7 Wagener Place, St Lukes	\$26,000	4.27	7,056	–	7.77%
50 & 54-62 Cavendish Drive, Manukau City	\$22,800	10.47	10,346	–	7.23%
252 Dairy Flat Highway, Albany	\$5,250	5.50	2,107	–	7.27%
<b>Wellington</b>					
180-202 Hutt Road, Kaiwharawhara	\$7,770	3.87	6,019	–	9.48%
Stewart Dawsons Corner	\$15,100	3.91	1,752	499	7.54%
Porirua Mega Centre, 2-10 Semple Street, Porirua	\$11,500	2.45	7,046	–	7.80%
<b>Other</b>					
Cnr Taniwha & Paora Hape Streets, Taupo	\$9,100	8.00	4,187	–	7.48%
<b>TOTAL</b>	<b>\$302,920</b>	<b>5.37</b>	<b>119,330</b>	<b>996</b>	<b>7.70%</b>



## TO THE SHAREHOLDERS OF ARGOSY PROPERTY LIMITED

We have reviewed the condensed consolidated interim financial statements of Argosy Property Limited and its subsidiaries (“the Group”) which comprise the statement of financial position as at 30 September 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 14 to 31.

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 are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

## OUR RESPONSIBILITIES

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. As the auditor of Argosy Property Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor and the provision of other assurance services, we have no relationship with or interests in Argosy Property Limited or its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

**REVIEW REPORT****CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2014 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.



18 November 2014  
Chartered Accountants  
Auckland, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Argosy Property Limited for the six months ended 30 September 2014 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 30 September 2014 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.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2014 (UNAUDITED)

	Note	Group (unaudited) 30 September 2014 \$000s	Group (unaudited) 30 September 2013 \$000s	Group (audited) 31 March 2014 \$000s
<b>Non-current assets</b>				
Investment properties	4	1,222,570	1,130,886	1,226,266
Other non-current assets		105	2,136	103
Derivative financial instruments	6	844	1,596	1,818
<b>Total non-current assets</b>		<b>1,223,519</b>	<b>1,134,618</b>	<b>1,228,187</b>
<b>Current assets</b>				
Cash and cash equivalents		3,382	2,281	1,294
Trade and other receivables		1,201	939	1,747
Other current assets		1,110	1,221	367
Derivative financial instruments	6	95	–	159
Taxation receivable		–	4,858	–
		5,788	9,299	3,567
Non-current assets classified as held for sale	5	44,987	–	634
<b>Total current assets</b>		<b>50,775</b>	<b>9,299</b>	<b>4,201</b>
<b>Total assets</b>	3	<b>1,274,294</b>	<b>1,143,917</b>	<b>1,232,388</b>
<b>Shareholders' funds</b>				
Share capital	7	761,431	748,140	754,453
Hedging reserves		(1,172)	(2,934)	(1,758)
Retained earnings/(accumulated losses)		431	(45,014)	(13,173)
<b>Total shareholders' funds</b>		<b>760,690</b>	<b>700,192</b>	<b>739,522</b>
<b>Non-current liabilities</b>				
Borrowings	8	472,834	388,808	447,654
Derivative financial instruments	6	7,315	24,837	397
Deferred tax	10	22,089	23,287	22,089
<b>Total non-current liabilities</b>		<b>502,238</b>	<b>436,932</b>	<b>470,140</b>
<b>Current liabilities</b>				
Trade and other payables		6,635	4,762	8,790
Derivative financial instruments	6	–	–	11,057
Other current liabilities		4,469	2,031	2,321
Taxation payable		262	–	558
<b>Total current liabilities</b>		<b>11,366</b>	<b>6,793</b>	<b>22,726</b>
<b>Total liabilities</b>		<b>513,604</b>	<b>443,725</b>	<b>492,866</b>
<b>Total shareholders' funds and liabilities</b>		<b>1,274,294</b>	<b>1,143,917</b>	<b>1,232,388</b>

For and on behalf of the Board:


P Michael Smith  
Director

Mark Cross  
Director

Date: 18 November 2014



## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
Gross property income from rentals		47,446	43,270
Gross property income from expense recoveries		8,601	8,477
Property expenses		(12,289)	(11,484)
<b>Net property income</b>	3	<b>43,758</b>	<b>40,263</b>
Administration expenses		3,764	3,723
<b>Total expenses before financial income/(expenses), other gains/(losses) and tax</b>		<b>3,764</b>	<b>3,723</b>
<b>Profit before financial income/(expenses), other gains/(losses) and tax</b>		<b>39,994</b>	<b>36,540</b>
<b>Financial (expense)/income</b>			
Interest expense	14	(12,561)	(12,870)
Gain/(loss) on derivative financial instruments held for trading		(8,262)	17,874
Transfer from hedge reserve		(814)	(1,838)
Interest income		62	78
		(21,575)	3,244
<b>Other gains/(losses)</b>			
Revaluation gains on investment property	4	24,938	–
Realised gains/(losses) on disposal		(547)	(123)
		24,391	(123)
<b>Profit before income tax attributable to shareholders</b>		<b>42,810</b>	<b>39,661</b>
Taxation expense	9	5,197	9,513
<b>Profit for the period attributable to shareholders</b>		<b>37,613</b>	<b>30,148</b>
<b>Other comprehensive income</b>			
Movement in cash flow hedge reserve		814	1,838
Income tax expense relating to other comprehensive income	9	(228)	(515)
<b>Total other comprehensive income after tax</b>		<b>586</b>	<b>1,323</b>
<b>Total comprehensive income after tax</b>		<b>38,199</b>	<b>31,471</b>
All amounts are from continuing operations.			
<b>Earnings per share</b>			
Basic and diluted earnings per share (cents)	12	4.74	4.25

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

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014 (UNAUDITED)

	Note	Shares on issue \$000s	Hedging reserve \$000s	Retained earnings \$000s	Total \$000s
For the six months ended 30 September 2014 (unaudited)					
<b>Shareholders' funds at the beginning of the period</b>		<b>754,453</b>	<b>(1,758)</b>	<b>(13,173)</b>	<b>739,522</b>
Profit for the period		–	–	37,613	37,613
Movement in cash flow hedge reserve		–	586	–	586
<b>Total comprehensive income after tax</b>		<b>–</b>	<b>586</b>	<b>37,613</b>	<b>38,199</b>
<b>Contributions by shareholders</b>					
Issue of shares from Dividend Reinvestment Plan	7	7,000	–	–	7,000
Issue costs of shares	7	(22)	–	–	(22)
Dividends to shareholders		–	–	(24,009)	(24,009)
<b>Shareholders' funds at the end of the period</b>		<b>761,431</b>	<b>(1,172)</b>	<b>431</b>	<b>760,690</b>
For the six months ended 30 September 2013 (unaudited)					
<b>Shareholders' funds at the beginning of the period</b>		<b>658,824</b>	<b>(4,257)</b>	<b>(53,230)</b>	<b>601,337</b>
Profit for the period		–	–	30,148	30,148
Movement in cash flow hedge reserve		–	1,323	–	1,323
<b>Total comprehensive income after tax</b>		<b>–</b>	<b>1,323</b>	<b>30,148</b>	<b>31,471</b>
<b>Contributions by shareholders</b>					
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)
<b>Shareholders' funds at the end of the period</b>		<b>748,140</b>	<b>(2,934)</b>	<b>(45,014)</b>	<b>700,192</b>

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
<b>Cash flows from operating activities</b>			
<i>Cash was provided from:</i>			
Property income		57,245	49,179
Interest received		62	78
<i>Cash was applied to:</i>			
Property expenses		(14,960)	(13,205)
Employee benefits		(2,464)	(2,343)
Interest paid		(12,361)	(12,608)
Taxation paid		(5,720)	–
Other expenses		(1,627)	(1,280)
<b>Net cash from/(used in) operating activities</b>	11	<b>20,175</b>	<b>19,821</b>
<b>Cash flows from investing activities</b>			
<i>Cash was provided from:</i>			
Sale of properties		13,439	6,893
<i>Cash was applied to:</i>			
Purchase of properties		–	(132,296)
Capitalised interest on investment properties		(1,283)	(470)
Capital additions on investment properties		(26,705)	(23,354)
<b>Net cash (used in)/from investing activities</b>		<b>(14,549)</b>	<b>(149,227)</b>
<b>Cash flows from financing activities</b>			
<i>Cash was provided from:</i>			
Debt drawdown		45,497	159,057
Share capital issued		–	86,911
<i>Cash was applied to:</i>			
Repayment of debt		(20,359)	(96,414)
Dividends paid to shareholders net of reinvestments		(17,009)	(16,797)
Facility refinancing fee		(282)	(611)
Issue costs of shares		(22)	(2,724)
Swap contract termination payments		(11,363)	–
<b>Net cash (used in)/from financing activities</b>		<b>(3,538)</b>	<b>129,422</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,088</b>	<b>16</b>
Cash and cash equivalents at the beginning of the period		1,294	2,265
<b>Cash and cash equivalents at the end of the period</b>		<b>3,382</b>	<b>2,281</b>

**FINANCIAL STATEMENTS**

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

**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 office, retail and industrial properties throughout New Zealand.

These financial statements include those of APL 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 18 November 2014.

**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 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 (and taxation in Note 9)

**Change in accounting policies**

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

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### 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, being the Chief Executive Officer, in order to allocate resources to the segments and to assess their performance.

The information reported to the Group's Chief Executive Officer is based on primarily three business sectors, being Industrial, Office and Retail, based on what the occupants actual or intended use is.

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

	Industrial \$000s	Office \$000s	Retail \$000s	Total \$000s
<b>Segment profit/(loss) for the period ended</b>				
<b>30 September 2014</b>				
Net property income	16,565	13,790	13,403	43,758
Other income/(expenses)	568	2	(1,117)	(547)
	17,133	13,792	12,286	43,211
Revaluation gains/(losses) on investment properties	5,241	17,233	2,464	24,938
<b>Total segment profit/(loss)</b>	<b>22,374</b>	<b>31,025</b>	<b>14,750</b>	<b>68,149</b>
Unallocated:				
Administration expenses				(3,764)
Finance income/(expenses)				(12,499)
Gain/(loss) on derivative financial instruments				(9,076)
<b>Profit/(loss) before income tax</b>				<b>42,810</b>
Taxation				(5,197)
<b>Profit/(loss) for the period</b>				<b>37,613</b>
<b>Segment profit/(loss) for the period ended</b>				
<b>30 September 2013</b>				
Net property income	10,967	15,814	13,482	40,263
Other income/(expenses)	(52)	–	(71)	(123)
<b>Total segment profit/(loss)</b>	<b>10,915</b>	<b>15,814</b>	<b>13,411</b>	<b>40,140</b>
Unallocated:				
Administration expenses				(3,723)
Finance income/(expenses)				(12,792)
Gain/(loss) on derivative financial instruments				16,036
<b>Profit/(loss) before income tax</b>				<b>39,661</b>
Taxation				(9,513)
<b>Profit/(loss) for the period</b>				<b>30,148</b>

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### 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 2013: Nil).

Segment profit represents the profit earned by each segment including allocation of identifiable revaluation gains/(losses) on investment properties and (losses)/gains on disposal of investment properties. This is the measure reported to the Chief Executive Officer.

	Industrial \$000s	Office \$000s	Retail \$000s	Total \$000s
<b>Segment assets as at 30 September 2014</b>				
Current assets	934	763	299	1,996
Investment properties	450,508	469,142	302,920	1,222,570
Non-current assets classified as held for sale	108	–	44,879	44,987
<b>Total segment assets</b>	<b>451,550</b>	<b>469,905</b>	<b>348,098</b>	<b>1,269,553</b>
Unallocated assets				4,741
<b>Total assets</b>				<b>1,274,294</b>
<b>Segment assets as at 30 September 2013</b>				
Current assets	1,112	499	432	2,043
Investment properties	388,218	408,216	334,452	1,130,886
<b>Total segment assets</b>	<b>389,330</b>	<b>408,715</b>	<b>334,884</b>	<b>1,132,929</b>
Unallocated assets				10,988
<b>Total assets</b>				<b>1,143,917</b>
<b>Segment assets as at 31 March 2014</b>				
Current assets	693	801	449	1,943
Investment properties	441,781	437,340	347,145	1,226,266
Non-current assets classified as held for sale	634	–	–	634
<b>Total segment assets</b>	<b>443,108</b>	<b>438,141</b>	<b>347,594</b>	<b>1,228,843</b>
Unallocated assets				3,545
<b>Total assets</b>				<b>1,232,388</b>

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 assets that cannot be allocated to particular segments.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

## 4. INVESTMENT PROPERTIES

	Industrial Six months to 30 September 2014 \$000s	Office Six months to 30 September 2014 \$000s	Retail Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
<b>Movement in investment properties</b>					
Balance at the beginning of the period	437,984	431,036	345,736	1,214,756	969,183
Capitalised costs	3,395	24,036	326	27,757	18,355
Disposals	–	(10,130)	(2,250)	(12,380)	–
Acquisition of properties	–	–	–	–	132,228
Transfer to properties held for sale	(108)	–	(44,879)	(44,987)	–
Change in fair value	5,241	17,233	2,464	24,938	–
<b>Closing balance</b>	<b>446,512</b>	<b>462,175</b>	<b>301,397</b>	<b>1,210,084</b>	<b>1,119,766</b>
<b>Deferred initial direct costs/lease incentives</b>					
Opening balance	3,797	6,304	1,409	11,510	7,679
Change during the period	199	663	114	976	3,441
<b>Closing balance</b>	<b>3,996</b>	<b>6,967</b>	<b>1,523</b>	<b>12,486</b>	<b>11,120</b>
<b>Balance at the end of the period</b>	<b>450,508</b>	<b>469,142</b>	<b>302,920</b>	<b>1,222,570</b>	<b>1,130,886</b>
	Industrial 12 months to 31 March 2014 \$000s	Office 12 months to 31 March 2014 \$000s	Retail 12 months to 31 March 2014 \$000s	Group (audited) 12 months to 31 March 2014 \$000s	
<b>Movement in investment properties</b>					
Balance at the beginning of the period	308,560	333,186	327,437	969,183	
Capitalised costs	7,052	41,462	5,076	53,590	
Disposals	–	(11,275)	–	(11,275)	
Acquisition of properties	112,191	55,904	2,309	170,404	
Transfer to properties held for sale	(634)	–	–	(634)	
Change in fair value	10,815	11,759	10,914	33,488	
<b>Closing balance</b>	<b>437,984</b>	<b>431,036</b>	<b>345,736</b>	<b>1,214,756</b>	
<b>Deferred initial direct costs/lease incentives</b>					
Opening balance	2,821	3,155	1,703	7,679	
Change during the period	976	3,149	(294)	3,831	
<b>Closing balance</b>	<b>3,797</b>	<b>6,304</b>	<b>1,409</b>	<b>11,510</b>	
<b>Balance at the end of the period</b>	<b>441,781</b>	<b>437,340</b>	<b>347,145</b>	<b>1,226,266</b>	

Investment properties are classified as level 3 (inputs are unobservable inputs for the asset or liability) under the fair value hierarchy on the basis that adjustments must be made to observable data of similar properties to determine the fair value of an individual property.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 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 title to all investment properties other than 39 Market Place, Auckland.

#### Valuation of investment properties

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. Following recent market property sale transactions and improved leasing activity, the Board and Management determined that a desktop review of the property portfolio should be undertaken by Colliers International New Zealand Limited (Colliers) as at 30 September 2014 to determine the current valuation of each property in the portfolio. The properties that comprise the Manawatu Business Park were not included in this review as it was agreed with the valuer that there was little evidence to support a change in property values in Palmerston North. The Colliers review indicated an overall uplift in the valuation of the portfolio of \$24.9m which has been recognised as a revaluation gain on investment property as at 30 September 2014. Colliers reviewed key information (tenancy schedules, operating expenditure and capital expenditure) associated with each property, however full property inspections were not undertaken as part of the desktop review. No independent valuations of investment properties were undertaken as at 30 September 2013 as the Board and Management determined, after assessing available market information, that there had been no significant change to the valuation completed at 31 March 2013.

Generally as occupancy and weighted average lease terms increase, yields firm, resulting in increased fair values for investment properties.

Investment property metrics for the period ended 30 September 2014 are as follows:

		Industrial	Office	Retail	Total
Contract yield	- Average	7.52%	8.09%	7.70%	7.79%
	- Maximum	11.73%	9.46%	9.48%	11.73%
	- Minimum	0.00%	7.04%	7.23%	0.00%
Market yield	- Average	7.57%	7.97%	7.38%	7.68%
	- Maximum	14.22%	9.85%	9.17%	14.22%
	- Minimum	0.00%	6.77%	6.24%	0.00%
Occupancy (rent)		99.42%	98.68%	99.19%	99.05%
Occupancy (net lettable area)		99.70%	98.07%	99.16%	99.24%
Weighted average lease term		6.07	5.75	5.37	5.77
No. of buildings <sup>1</sup>		35	17	11	63
<b>Fair value total ( \$000s)</b>		<b>\$450,508</b>	<b>\$469,142</b>	<b>\$302,920</b>	<b>\$1,222,570</b>

<sup>1</sup> Certain titles have been consolidated and treated as one.  
The table excludes properties held for sale.



## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

Investment property metrics for the year ended 31 March 2014 are as follows:

		Industrial	Office	Retail	Total
Contract yield	- Average	7.67%	8.36%	7.82%	7.96%
	- Maximum	13.11%	10.22%	9.48%	13.11%
	- Minimum	0.00%	7.17%	0.00%	0.00%
Market yield	- Average	7.73%	8.30%	7.73%	7.93%
	- Maximum	14.23%	10.16%	11.89%	14.23%
	- Minimum	0.00%	7.15%	6.51%	0.00%
Occupancy (rent)		99.37%	98.35%	98.43%	98.71%
Occupancy (net lettable area)		99.62%	97.52%	97.72%	98.73%
Weighted average lease term		6.48	5.33	5.16	5.68
No. of buildings <sup>1</sup>		35	18	13	66
<b>Fair value total ( \$000s)</b>		<b>\$441,781</b>	<b>\$437,340</b>	<b>\$347,145</b>	<b>\$1,226,266</b>

<sup>1</sup> Certain titles have been consolidated and treated as one.  
The table excludes properties held for sale.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 5. PROPERTY HELD FOR SALE

Waitakere Mega Centre, Henderson (\$44,879,000) and Lot 55, Valor Drive, Palmerston North (\$108,000) were subject to unconditional sale and purchase agreements at 30 September 2014 (30 September 2013: Nil and 31 March 2014: Lot 22, 57-86 El Prado Drive, Palmerston North (\$634,000) was subject to an unconditional sale and purchase agreement).

#### 6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2014 \$000s	Group (unaudited) 30 September 2013 \$000s	Group (audited) 31 March 2014 \$000s
Nominal value of interest rate swaps	320,000	283,000	310,000
Average fixed interest rate	4.53%	5.87%	5.10%
Floating rates based on NZD BBR (including margin)	4.62%	3.54%	3.92%

Interest rate swaps are measured at present value of future cash flows estimated and discounted based on applicable yield curves derived from observable market interest rates. 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 2014 is \$6.4 million (30 September 2013: \$23.2 million and 31 March 2014: \$9.5 million). The mark-to-market reduction in the liability for derivative financial instruments is a result of movements in the interest rate curve during the interim period as well as the restructuring of swap contracts.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 7. SHARE CAPITAL

	Group (unaudited) 30 September 2014 \$000s	Group (unaudited) 30 September 2013 \$000s	Group (audited) 31 March 2014 \$000s
Balance at the beginning of the period	754,453	658,824	658,824
Issue of shares from Dividend Reinvestment Plan	7,000	5,129	11,488
Issue of shares from Rights Offer	–	86,911	86,911
Issue costs of shares	(22)	(2,724)	(2,770)
<b>Balance at the end of the period</b>	<b>761,431</b>	<b>748,140</b>	<b>754,453</b>

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 2014 was 798,059,769 (30 September 2013: 783,902,132 and 31 March 2014: 790,911,915).

All shares are ordinary shares.

All shares are fully paid and rank equally with one vote attached and carry the right to dividends.

Reconciliation of number of shares (in thousands of shares)	Group (unaudited) 30 September 2014	Group (unaudited) 30 September 2013	Group (audited) 31 March 2014
Balance at the beginning of the period	790,912	680,932	680,932
Issue of shares from Dividend Reinvestment Plan	7,148	5,317	12,327
Issue of shares from Rights Offer	–	97,653	97,653
<b>Balance at the end of the period</b>	<b>798,060</b>	<b>783,902</b>	<b>790,912</b>

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

## 8. BORROWINGS

	Group (unaudited) 30 September 2014 \$000s	Group (unaudited) 30 September 2013 \$000s	Group (audited) 31 March 2014 \$000s
ANZ Bank New Zealand Limited	237,331	195,662	224,761
Bank of New Zealand	142,398	117,397	134,857
Hongkong and Shanghai Banking Corp	94,932	78,264	89,905
Borrowing costs	(1,827)	(2,515)	(1,869)
<b>Total borrowings</b>	<b>472,834</b>	<b>388,808</b>	<b>447,654</b>

Shown as:

Term	472,834	388,808	447,654
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The Company has a syndicated revolving credit facility with ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corp of \$500,000,000 (30 September 2013 and 31 March 2014: \$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 2017 and Tranche B expires on 30 June 2019 (30 September 2013 and 31 March 2014: Tranche A (\$250,000,000) expired on 30 June 2016 and Tranche B (\$250,000,000) expired on 30 June 2018).

The contractual interest rate on the borrowings as at 30 September 2014 was 4.62% per annum (30 September 2013: 3.54% and 31 March 2014: 3.92%). The Group also pays a line fee between 0.53% and 0.62% per annum on Tranche A and between 0.61% and 0.70% per annum on Tranche B (30 September 2013 and 31 March 2014: between 0.675% and 0.775% on Tranche A and between 0.775% and 0.875% on Tranche B).

The weighted average interest rate on borrowings (including margin, line fee and interest rate swaps) as at 30 September 2014 was 5.72% (30 September 2013: 6.58% and 31 March 2014: 6.06%).

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

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 9. TAXATION

	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
The taxation charge is made up as follows:		
Current tax expense	5,731	5,029
Deferred tax expense	(534)	4,484
<b>Total taxation expense/(credit) recognised in profit/(loss)</b>	<b>5,197</b>	<b>9,513</b>
<b>Reconciliation of accounting profit to tax expense</b>		
Profit/(loss) before tax	42,810	39,661
Current tax expense/(credit) at 28%	11,987	11,105
Adjusted for:		
Capitalised interest	(359)	(131)
Fixed asset disposals	1,037	(96)
Fair value movement on investment properties	(6,983)	–
Depreciation	(2,190)	(1,361)
Other	2,239	(4,488)
<b>Current taxation expense/(credit)</b>	<b>5,731</b>	<b>5,029</b>
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	(3,980)	(16)
Interest rate swaps	641	4,490
Other	2,805	10
<b>Deferred tax expense/(benefit)</b>	<b>(534)</b>	<b>4,484</b>
Total tax expense/(credit) recognised in profit or loss	5,197	9,513
<b>Deferred tax recognised in other comprehensive income</b>		
Deferred tax arising from reclassification of amounts in hedge reserve to profit or loss	228	515
Total tax recognised in other comprehensive income	228	515
<b>Imputation credits</b>		
Total imputation credits at 30 September 2014	(2,206)	522

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

## 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 2014	–	(2,690)	21,111	3,668	22,089
Credit to other comprehensive income for the period	–	228	–	–	228
Charge/(credit) to taxation expense for the period	–	641	(3,980)	2,805	(534)
Charge/(credit) to taxation payable	–	(5)	–	311	306
At 30 September 2014	–	(1,826)	17,131	6,784	22,089
At 1 April 2013	(5,618)	(3,772)	19,770	2,879	13,259
Credit to other comprehensive income for the period	–	515	–	–	515
Charge/(credit) to taxation expense for the period	–	4,490	(16)	10	4,484
Charge/(credit) to taxation payable	5,582	(867)	–	314	5,029
At 30 September 2013	(36)	366	19,754	3,203	23,287
At 1 April 2013	(5,618)	(3,772)	19,770	2,879	13,259
Credit to other comprehensive income for the year	–	972	–	–	972
Charge/(credit) to taxation expense for the year	–	(3,415)	1,341	(59)	(2,133)
Charge/(credit) to taxation payable	5,618	3,525	–	848	9,991
At 31 March 2014	–	(2,690)	21,111	3,668	22,089

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

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

	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
<b>Profit/(loss) after tax</b>	<b>37,613</b>	<b>30,148</b>
Movements in working capital items relating to investing and financing activities	(916)	991
<b>Non cash items:</b>		
Movement in deferred tax liability	–	10,028
Fair value change in investment properties	(24,938)	–
Movement in interest rate swaps	8,262	(17,874)
Movement in cash flow hedge reserve	586	1,323
<b>Movements in working capital items:</b>		
Trade and other receivables	273	328
Taxation payable	(296)	–
Trade and other payables	(2,155)	(4,617)
Other	1,746	(506)
<b>Net cash flows from/(used in) operating activities</b>	<b>20,175</b>	<b>19,821</b>

#### 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 period.

	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
Profit/(loss) attributable to shareholders of the Company	37,613	30,148
Weighted average number of shares on issue	793,117	708,550
<b>Basic and diluted earnings per share (cents)</b>	<b>4.74</b>	<b>4.25</b>
<b>Weighted average number of ordinary shares</b>		
Issued shares at beginning of period	790,912	680,932
Issued shares at end of period	798,060	783,902
<b>Weighted average number of ordinary shares</b>	<b>793,117</b>	<b>708,550</b>

On 18 November 2014 an interim gross dividend of 1.50 cents per share was approved by the Company. Continuation of the Dividend Reinvestment Plan will increase the number of shares on issue.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 13. DISTRIBUTABLE INCOME

	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
Profit before income tax	42,810	39,661
Adjustments:		
Revaluation gains on investment property	(24,938)	–
Realised losses/(gains) on disposal of investment properties	547	123
Tax impact of depreciation recovered on disposal of investment properties and taxable gains on disposal of revenue account properties	1,654	–
Derivative fair value loss/(gain)	9,076	(16,036)
Gross distributable income	29,149	23,748
Tax paid	(5,720)	–
<b>Net distributable income</b>	<b>23,429</b>	<b>23,748</b>
Weighted average number of ordinary shares	793,117	708,550
Distributable income after taxation per share - (cents per share)	2.95	3.35

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

#### 14. INTEREST EXPENSE

	Group (unaudited) Six months to 30 September 2014 \$000s	Group (unaudited) Six months to 30 September 2013 \$000s
Interest expense	(13,844)	(13,340)
Less amount capitalised to investment properties	1,283	470
<b>Total interest expense</b>	<b>(12,561)</b>	<b>(12,870)</b>

Capitalised interest for both periods relates to the development project at 15 Stout Street, Wellington.



**FINANCIAL STATEMENTS**

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(CONTINUED)

**15. COMMITMENTS****Ground rent**

A ground lease exists over 39 Market Place, Viaduct Harbour, Auckland. The amount paid in respect of the ground lease during the period was \$530,000 (30 September 2013: \$530,000). The annual ground lease commitment is \$1,060,000 (30 September 2013: \$1,060,000) 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 2014, but not provided for were \$31.7 million (30 September 2013: \$80 million and 31 March 2014: \$60.3 million). Of this total, \$24.9 million relates to the building upgrade at New Zealand Post House, Waterloo Quay, Wellington.

**16. CONTINGENCIES**

There were no contingencies as at 30 September 2014 (30 September 2013: Nil).

**17. SUBSEQUENT EVENTS**

On 18 November 2014, a gross dividend of 1.50 cents per share was approved by the Company. The record date for the dividend is 3 December 2014 and a payment scheduled to shareholders on 17 December 2014. Imputation credits of 0.4865 cents per share will be attached to the dividend.

**18. RELATED PARTY TRANSACTIONS**

There were no transactions between the Group and any related parties during the period (2013: Nil).

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

**DIRECTORY**

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2014

**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

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