

# Argosy

INTERIM REPORT 30 SEPTEMBER 2015



PROPERTIES

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67

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TENANTS

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194

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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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DIVERSITY

D



▶ **8 NUGENT STREET**  
 – ACQUIRED SEPTEMBER 2015

This high quality, fully leased property, which was built in 2009, is a five level, four Green Star designed office building with a net lettable area of 8,125 square metres. It contains a diversified group of 11 tenants and has a weighted average lease term of approximately 5 years.

- ▶ Increase in gross distributable income per share of 7.8%
- ▶ Divestment of non Core properties
- ▶ Acquisition of 8 Nugent Street, Grafton
- ▶ Positive interim revaluation gain of \$27.6 million.

NET DISTRIBUTABLE INCOME

**3.10**cents

Net distributable income of 3.10 cents per share

DIVIDEND

**6**cents

Expected dividend of 6 cents per share to 31 March 2016

NET PROPERTY INCOME

**\$48.6**m

Net property income increased to \$48.6 million

OCCUPANCY

**99.4**%

Occupancy (by rental) 99.4% – the highest rate in eight years

WALT

**5.39**yrs

Weighted average lease term of 5.39 years

PORTFOLIO

**\$1.37**b

Total portfolio value of \$1.37 billion



Argosy Property Limited is pleased to report its interim results to 30 September 2015.

**CONSISTENCY**

The ongoing execution of our strategy over the past six months has enabled Argosy to produce another strong operating result.

Gross distributable income<sup>1</sup> for the six months to 30 September 2015 increased by 9.3% to \$30.1 million (2014: \$27.5 million). Net distributable income<sup>1</sup> for the same period increased by 6.2% to \$24.9 million (2014: \$23.4 million).

Net property income was \$48.6 million (2014: \$43.8 million), an increase of 11.1% on the previous interim period. Profit before tax was \$50.3 million, compared with \$42.8 million in the previous interim period.

Interest expense was \$14.2 million, an increase of \$1.6 million compared with the previous interim period. This is primarily due to capitalised interest in the prior interim period of \$1.3 million relating to the Stout Street development (there is no capitalised interest in the period to 30 September 2015). The impact of a higher average level of debt has been partly offset by a lower weighted average interest rate following the renegotiation of the Company's banking facility.

#### **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 0.3965 cents per share 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 2015 and the payment date will be 17 December 2015.

The Board is pleased to confirm that a dividend of 6 cents per share is expected for the year to 31 March 2016. While projections beyond that

<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 14 of the financial statements on page 30 provides a full reconciliation between the two measures.

date are heavily dependent on the market and legislative environment, based on current conditions, it is expected that the dividend will increase in the 2017 financial year.

#### GOVERNANCE

At the Annual Meeting held in Auckland in August 2015, both Chris Hunter and Jeff Morrison were re-elected.

#### CAPITAL MANAGEMENT

Argosy's capital management policy is to maintain a debt-to-total assets ratio of 35-40% in the medium term. As at 30 September 2015, the ratio was 39.3% and is therefore sitting within the target range. While this is at the upper end of the range, it is important to remember that Argosy has further divestments (totalling \$20.3 million) settling in the second half of the financial year, including 65 Upper Queen Street, Auckland, the Porirua Mega Centre and 7 El Prado Drive in Palmerston North.

The debt-to-total assets ratio is expected to be in the order of 38% as at 31 March 2016.

#### VALUATIONS

Argosy has arranged an independent interim revaluation of the portfolio. This was completed due to evidence of improved market conditions since the last valuation date of 31 March 2015. The revaluation has resulted in an increase in property values of \$27.6 million, which is a 2.1% 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 bank facility was restructured in August 2015 on improved terms. The expiry of the first tranche of \$275 million is now 30 September 2018 and the second tranche, also \$275 million, is 30 September 2020. An additional tranche of \$50 million expires on 30 September 2016.

Argosy is now receiving further margin and line fee savings (after including upfront fees) of approximately \$420,000 per annum.



▲ The Warehouse TAUPŌ

Argosy continues to maintain strong relationships with its banking partners, ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited, and remains well within its banking covenants.

#### OUTLOOK

The current soft economic environment that we are experiencing at the moment has created some nervousness in financial markets around the world. The situation of low inflation and low interest rates is becoming the norm, which presents its own challenges for those in the property market. We are confident that we have a diverse portfolio of increasing quality that is in a good position to meet any challenges that may come our way.

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

**P MICHAEL SMITH**  
Chairman

**CHIEF EXECUTIVE OFFICER'S REPORT**

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015



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

# P

**PROGRESS**

**GROSS DISTRIBUTABLE INCOME**

# \$30.1<sub>m</sub>

**POSITIVE PROPERTY REVALUATION**

# \$27.6<sub>m</sub>

**ACQUISITIONS**

In September 2015, Argosy acquired the property at 8 Nugent Street, Grafton in Auckland for \$42.0 million. This is a quality building in an area where Argosy already owns two properties (25 Nugent Street and 99 Khyber Pass Road).

**DIVESTMENT OF NON-CORE ASSETS**

In August 2015, Argosy announced that it had entered into an unconditional agreement to divest the non Core property at 65 Upper Queen Street in Auckland for \$6.5 million, with settlement to take place in December 2015.

Post 30 September 2015, the Porirua Mega Centre, which was sold for \$11.5 million, was settled with \$11.0 million received in October 2015 and the remaining \$500,000 due in October 2016. A further 11,000 square metres of vacant land was settled at the Manawatu Industrial Park for \$1.4 million.

As part of the Company's strategy, approximately \$124.4 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.

**MAJOR PROJECTS**

Argosy has a five-year evergreen lease with NZ Post from the development completion date over the entire building at 7-27 Waterloo Quay in Wellington. Notwithstanding this lease, the





▲ NZ Post House WELLINGTON

requirements of NZ Post have changed and subsequently progress on the development has slowed as we work with NZ Post to determine their future requirements.

The construction contract for the redevelopment of the earthquake damaged property at 8 Foundry Drive, Christchurch has been executed and demolition work has commenced on site. This project is still in the very early stages but remains on program and budget, with completion expected to be in late 2016.

#### LEASING

Argosy has achieved a number of leasing successes during the period, most notably a 15 year lease over the property at 4 Henderson Place, Onehunga in Auckland to Compac Sorting Equipment Limited.

The occupancy rate (by rental income) has remained stable since year end and is 99.4% at 30 September 2015 (31 March 2015: 99.2% and 30 September 2014: 99.1%). Outstanding lease expiries have reduced and enquiry levels from potential tenants remain at encouraging levels.

During the period, 26 lease transactions were completed, including 12 new leases and 14 lease renewals and extensions. The weighted average lease term at 30 September 2015 continues to

be very good at 5.39 years. This compares to 5.54 years at 31 March 2015 and 5.77 years at 30 September 2014.

#### OUTLOOK

Argosy, as ever, will remain focussed on adhering to our strategy. Our goals for the remainder of the 2016 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.

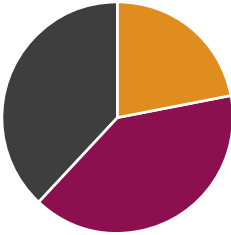
A handwritten signature in black ink, appearing to read 'Peter Mence'.

**PETER MENCE**  
Chief Executive Officer

**CHIEF EXECUTIVE OFFICER'S REPORT**

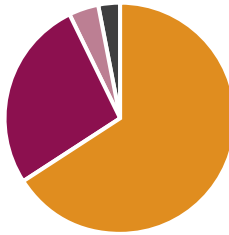
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**TOTAL PORTFOLIO VALUE BY SECTOR**  
AS AT 30 SEPTEMBER 2015



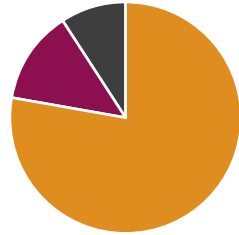
- 22% Retail
- 40% Office
- 38% Industrial

**TOTAL PORTFOLIO VALUE BY REGION**  
AS AT 30 SEPTEMBER 2015



- 66% Auckland
- 27% Wellington
- 4% Palmerston North
- 3% Other regional

**PORTFOLIO MIX**  
AS AT 30 SEPTEMBER 2015

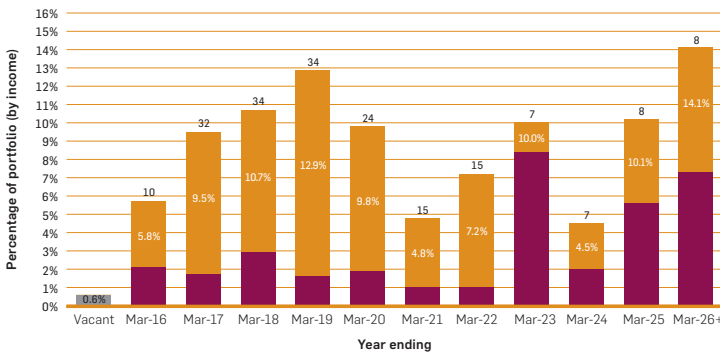


- 78% Core properties
- 13% Value Add properties
- 9% Properties and land to divest

The above charts all exclude properties held for sale.

**LEASE EXPIRY PROFILE BY RENT**

AS AT 30 SEPTEMBER 2015



- Total expiry
- Largest single expiry

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





The New Zealand economy is currently facing a period of stabilisation, with low inflation and interest rates and subdued domestic growth.

The property market is still experiencing low levels of vacancy, especially in well located, high quality properties. Property values continue to increase from firming yields, particularly with lower value properties suiting private investors. The reduction in current and projected interest rates is expected to see yields continue to firm.

Due to market evidence of falling yields, Argosy undertook an independent interim desktop revaluation of all properties in the portfolio which resulted in a further gain of \$27.6 million, taking the total portfolio value to \$1.374 billion.

# Industrial

## INDUSTRIAL PORTFOLIO STATISTICS

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### NUMBER OF BUILDINGS

40

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

\$527.1

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### VACANCY FACTOR (BY RENT)

0.2%

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### WALT (YEARS)

5.83

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### PASSING YIELD

7.49%

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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	\$4,400	1.50	3,698	-	8.30%
90 – 104 Springs Road, East Tamaki	\$3,700	0.93	3,875	-	9.35%
8 Forge Way, Panmure	\$16,000	3.02	4,230	-	7.81%
10 Transport Place, East Tamaki	\$25,600	8.84	10,641	-	6.92%
1 Rothwell Avenue, Albany	\$19,600	8.50	12,936	-	7.33%
4 Henderson Place, Onehunga	\$14,700	15.08	10,453	-	9.45%
1–3 Unity Drive, Albany	\$8,750	0.08	6,204	-	7.85%
5 Unity Drive, Albany	\$4,680	0.50	3,046	-	7.48%
80 Springs Road, East Tamaki	\$8,500	1.00	9,675	-	9.85%
211 Albany Highway, Albany	\$14,600	2.34	13,878	-	8.60%
80–120 Favona Road, Mangere	\$78,750	8.91	59,448	-	7.73%
19 Nesdale Avenue, Wiri	\$42,000	13.30	20,677	-	6.80%
15 Unity Drive, Albany	\$4,010	4.00	7,002	-	5.86%
12–16 Bell Avenue, Mt Wellington	\$17,550	4.44	14,809	-	7.57%
18–20 Bell Avenue, Mt Wellington	\$11,200	5.67	8,998	-	7.38%
32 Bell Avenue, Mt Wellington	\$9,250	4.59	8,810	-	7.62%
9 Ride Way, Albany	\$15,400	1.98	8,459	-	8.83%
2 Allens Road, East Tamaki	\$3,760	2.97	2,920	-	7.89%
12 Allens Road, East Tamaki	\$3,110	2.97	2,372	-	7.90%
106 Springs Road, East Tamaki	\$4,830	2.97	3,846	-	7.90%
5 Allens Road, East Tamaki	\$3,180	3.17	2,663	-	7.76%
960 Great South Road, Penrose	\$5,200	2.50	3,677	-	7.63%
17 Mayo Road, Wiri	\$17,600	2.52	13,351	-	8.36%
Cnr William Pickering Drive & Rothwell Avenue, Albany	\$10,700	2.56	7,074	-	7.49%
19 Richard Pearse Drive & 26 Ascot Avenue, Mangere	\$7,350	1.82	3,721	345	5.57%
Wagner Place, St Lukes	\$10,500	3.26	9,730	-	5.50%
<b>Wellington</b>					
Cnr Wakefield, Taranaki & Cable Streets	\$14,850	7.99	3,307	-	6.10%
14 Tunnel Grove, Seaview	\$2,700	5.06	2,324	-	7.22%
147 Gracefield Road, Seaview	\$11,700	1.25	8,018	-	8.48%
19 Barnes Street, Seaview	\$11,250	9.42	6,857	-	8.07%
39 Randwick Road, Seaview	\$17,450	3.01	16,167	-	8.49%
68 Jamaica Drive, Grenada North	\$16,600	5.83	9,404	-	7.38%
56 Jamaica Drive, Grenada North	\$1,100	-	-	-	-
<b>Other</b>					
31 El Prado Drive, Palmerston North	\$26,910	0.42	24,656	-	8.67%
44 Neil Lane, Palmerston North	\$3,070	2.67	3,232	-	6.51%
1 Pandora Road, Napier	\$8,700	0.46	18,269	-	12.38%
8 Foundry Drive, Woolston, Christchurch	\$5,040	12.64	4,160	-	9.52%
1478 Omaha Road, Hastings	\$8,400	7.83	8,514	-	7.74%
223 Kioreroa Road, Whangarei	\$12,600	6.44	9,797	-	8.82%
Manawatu Business Park, Palmerston North	\$21,800	-	-	-	-
<b>TOTAL</b>	<b>\$527,090</b>	<b>5.83</b>	<b>370,898</b>	<b>345</b>	<b>7.49%</b>

## PORTFOLIO

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

## Office

## OFFICE PORTFOLIO STATISTICS

## NUMBER OF BUILDINGS

17

## MARKET VALUE OF ASSETS (\$M)

\$540.8

## VACANCY FACTOR (BY RENT)

0.9%

## WALT (YEARS)

5.25

## PASSING YIELD

7.50%

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, Grafton	\$6,950	2.34	2,442	-	8.90%
101 Carlton Gore Road, Newmarket	\$24,900	2.58	4,714	-	6.93%
8 Nugent Street, Grafton	\$42,020	4.72	8,125	-	7.18%
39 Market Place, Viaduct Harbour	\$34,400	6.31	10,233	-	10.75%
105 Carlton Gore Road, Newmarket	\$27,700	2.48	5,312	-	7.43%
302 Great South Road, Greenlane	\$7,150	4.26	1,890	-	7.89%
308 Great South Road, Greenlane	\$5,100	1.98	1,570	1,151	2.52%
626 Great South Road, Ellerslie	\$8,200	3.69	2,647	-	8.50%
25 Nugent Street, Grafton	\$9,050	3.06	3,028	-	7.52%
107 Carlton Gore Road, Newmarket	\$27,000	3.64	6,061	-	7.32%
Citibank Centre, 23 Customs Street East	\$43,500	2.31	9,539	306	8.00%
IBM Centre, 82 Wyndham Street	\$27,200	2.70	6,154	-	8.72%
<b>Wellington</b>					
143 Lambton Quay	\$27,600	3.75	6,216	-	7.55%
46 Waring Taylor Street	\$37,450	2.71	9,014	-	7.73%
8-14 Willis Street	\$14,240	1.93	5,056	-	9.41%
New Zealand Post House, 7-27 Waterloo Quay	\$104,477	7.00	24,977	-	6.60%
15-21 Stout Street	\$93,900	10.81	19,629	-	6.75%
<b>TOTAL</b>	<b>\$540,837</b>	<b>5.25</b>	<b>126,607</b>	<b>1,457</b>	<b>7.50%</b>

# Retail

## RETAIL PORTFOLIO STATISTICS

### NUMBER OF BUILDINGS

10

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

\$306.3

### VACANCY FACTOR (BY RENT)

0.8%

### WALT (YEARS)

4.89

### PASSING YIELD

7.48%

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	\$6,150	1.86	2,427	–	8.44%
Albany Mega Centre, Albany	\$96,500	4.74	25,155	–	6.94%
320 Ti Rakau Drive, East Tamaki	\$40,100	2.76	28,206	497	7.64%
Albany Lifestyle Centre, Albany	\$74,500	6.10	25,029	–	7.64%
7 Wagener Place, St Lukes	\$26,800	3.26	7,056	–	7.77%
50 & 54-62 Cavendish Drive, Manukau	\$24,000	9.47	10,346	–	6.92%
252 Dairy Flat Highway, Albany	\$5,750	4.50	2,107	–	6.92%
<b>Wellington</b>					
180-202 Hutt Road, Kaiwharawhara	\$7,770	2.87	6,019	–	9.48%
Stewart Dawsons Corner	\$15,170	3.42	1,752	302	8.97%
<b>Other</b>					
Cnr Taniwha & Paora Hapi Streets, Taupo	\$9,550	7.00	4,187	–	7.41%
<b>TOTAL</b>	<b>\$306,290</b>	<b>4.89</b>	<b>112,284</b>	<b>799</b>	<b>7.48%</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 2015, 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.



**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 2015 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*.



15 November 2015  
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 2015 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 2015 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 2015

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2015 (UNAUDITED)

	Note	Group (unaudited) 30 September 2015 \$000s	Group (unaudited) 30 September 2014 \$000s	Group (audited) 31 March 2015 \$000s
<b>Non-current assets</b>				
Investment properties	4	1,374,217	1,222,570	1,306,395
Other non-current assets		88	105	88
Derivative financial instruments	6	–	844	–
<b>Total non-current assets</b>		<b>1,374,305</b>	<b>1,223,519</b>	<b>1,306,483</b>
<b>Current assets</b>				
Cash and cash equivalents		467	3,382	1,494
Trade and other receivables		466	1,201	1,825
Other current assets		1,585	1,110	381
Derivative financial instruments	6	–	95	–
		2,518	5,788	3,700
Non-current assets classified as held for sale	5	20,198	44,987	3,003
<b>Total current assets</b>		<b>22,716</b>	<b>50,775</b>	<b>6,703</b>
<b>Total assets</b>	3	<b>1,397,021</b>	<b>1,274,294</b>	<b>1,313,186</b>
<b>Shareholders' funds</b>				
Share capital	7	771,366	761,431	766,431
Hedging reserve		–	(1,172)	(586)
Share based payments reserve	8	32	–	–
Retained earnings		24,597	431	2,881
<b>Total shareholders' funds</b>		<b>795,995</b>	<b>760,690</b>	<b>768,726</b>
<b>Non-current liabilities</b>				
Borrowings	9	498,012	472,834	495,272
Derivative financial instruments	6	28,188	7,315	21,357
Deferred tax	11	13,080	22,089	14,533
<b>Total non-current liabilities</b>		<b>539,280</b>	<b>502,238</b>	<b>531,162</b>
<b>Current liabilities</b>				
Borrowings	9	48,552	–	–
Trade and other payables		8,749	6,635	9,827
Derivative financial instruments	6	128	–	–
Other current liabilities		2,580	4,469	2,369
Taxation payable		1,737	262	1,102
<b>Total current liabilities</b>		<b>61,746</b>	<b>11,366</b>	<b>13,298</b>
<b>Total liabilities</b>		<b>601,026</b>	<b>513,604</b>	<b>544,460</b>
<b>Total shareholders' funds and liabilities</b>		<b>1,397,021</b>	<b>1,274,294</b>	<b>1,313,186</b>

For and on behalf of the Board


P Michael Smith  
Director

Mark Cross  
Director

15 November 2015

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s
Gross property income from rentals		51,458	47,446
Gross property income from expense recoveries		8,513	8,601
Property expenses		(11,361)	(12,289)
<b>Net property income</b>	3	<b>48,610</b>	<b>43,758</b>
Administration expenses		4,403	3,764
<b>Profit before financial income/(expenses), other gains/(losses) and tax</b>		<b>44,207</b>	<b>39,994</b>
<b>Financial income/(expense)</b>			
Interest expense	15	(14,203)	(12,561)
Gain/(loss) on derivative financial instruments held for trading		(6,959)	(8,262)
Transfer from hedge reserve		(814)	(814)
Interest income		51	62
		(21,925)	(21,575)
<b>Other gains/(losses)</b>			
Revaluation gains on investment property	4	27,577	24,938
Realised gains/(losses) on disposal		851	(547)
Unrealised loss on non-current assets classified as held for sale		(366)	–
		28,062	24,391
<b>Profit before income tax attributable to shareholders</b>		<b>50,344</b>	<b>42,810</b>
Taxation expense	10	4,253	5,197
<b>Profit for the period attributable to shareholders</b>		<b>46,091</b>	<b>37,613</b>
<b>Other comprehensive income</b>			
Movement in cash flow hedge reserve		814	814
Income tax expense relating to other comprehensive income	10	(228)	(228)
<b>Total other comprehensive income after tax</b>		<b>586</b>	<b>586</b>
<b>Total comprehensive income after tax</b>		<b>46,677</b>	<b>38,199</b>
All amounts are from continuing operations.			
<b>Earnings per share</b>			
Basic and diluted earnings per share (cents)	13	5.74	4.74

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

	Note	Shares on issue \$000s	Hedging reserve \$000s	Share based payments reserve \$000s	Retained earnings \$000s	Total \$000s
For the six months ended 30 September 2015 (unaudited)						
<b>Shareholders' funds at the beginning of the period</b>		766,431	(586)	–	2,881	768,726
Profit for the period		–	–	–	46,091	46,091
Movement in cash flow hedge reserve		–	586	–	–	586
<b>Total comprehensive income for the period</b>		–	586	–	46,091	46,677
<b>Contributions by shareholders</b>						
Issue of shares from Dividend Reinvestment Plan	7	4,953	–	–	–	4,953
Issue costs of shares	7	(18)	–	–	–	(18)
Dividends to shareholders		–	–	–	(24,375)	(24,375)
Equity settled share based payments	8	–	–	32	–	32
<b>Shareholders' funds at the end of the period</b>		771,366	–	32	24,597	795,995
For the six months ended 30 September 2014 (unaudited)						
<b>Shareholders' funds at the beginning of the period</b>		754,453	(1,758)	–	(13,173)	739,522
Profit for the period		–	–	–	37,613	37,613
Movement in cash flow hedge reserve		–	586	–	–	586
<b>Total comprehensive income after tax</b>		–	586	–	37,613	38,199
<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>		761,431	(1,172)	–	431	760,690

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s
<b>Cash flows from operating activities</b>			
<i>Cash was provided from:</i>			
Property income		61,741	57,245
Interest received		51	62
<i>Cash was applied to:</i>			
Property expenses		(13,090)	(14,960)
Interest paid		(14,228)	(12,361)
Employee benefits		(2,909)	(2,464)
Taxation paid		(5,283)	(5,720)
Other expenses		(2,187)	(1,627)
<b>Net cash from/(used in) operating activities</b>	12	<b>24,095</b>	<b>20,175</b>
<b>Cash flows from investing activities</b>			
<i>Cash was provided from:</i>			
Sale of properties		4,943	13,439
<i>Cash was applied to:</i>			
Capital additions on investment properties		(16,574)	(26,705)
Capitalised interest on investment properties		–	(1,283)
Purchase of properties		(45,142)	–
<b>Net cash from/(used in) investing activities</b>		<b>(56,773)</b>	<b>(14,549)</b>
<b>Cash flows from financing activities</b>			
<i>Cash was provided from:</i>			
Debt drawdown		75,056	45,497
<i>Cash was applied to:</i>			
Repayment of debt		(23,667)	(20,359)
Dividends paid to shareholders net of reinvestments		(19,423)	(17,009)
Issue costs of shares		(15)	(22)
Facility refinancing fee		(300)	(282)
Swap contract termination payments		–	(11,363)
<b>Net cash from/(used in) financing activities</b>		<b>31,651</b>	<b>(3,538)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,027)</b>	<b>2,088</b>
Cash and cash equivalents at the beginning of the period		1,494	1,294
<b>Cash and cash equivalents at the end of the period</b>		<b>467</b>	<b>3,382</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****1. GENERAL INFORMATION**

Argosy Property Limited (APL or the Company) is an FMC reporting entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. APL is incorporated under the Companies Act 1993 and domiciled in New Zealand.

The company's principal activity is investment in properties which include industrial, office and retail 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 15 November 2015.

**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 (NZ GAAP). 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 11 – deferred tax (and taxation in Note 10).

**Change in accounting policies**

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



## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 3. SEGMENT INFORMATION

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

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

	Industrial		Office		Retail		Total	
	2015 \$000s	2014 \$000s	2015 \$000s	2014 \$000s	2015 \$000s	2014 \$000s	2015 \$000s	2014 \$000s
<b>Segment profit</b>								
Net property income	17,896	16,565	19,117	13,790	11,597	13,403	48,610	43,758
Other income/(expenses)	827	568	(5)	2	29	(1,117)	851	(547)
	18,723	17,133	19,112	13,792	11,626	12,286	49,461	43,211
Revaluation gains on investment properties	14,346	5,241	8,539	17,233	4,692	2,464	27,577	24,938
Unrealised loss on non-current assets classified as held for sale	–	–	(8)	–	(358)	–	(366)	–
<b>Total segment profit</b>	<b>33,069</b>	<b>22,374</b>	<b>27,643</b>	<b>31,025</b>	<b>15,960</b>	<b>14,750</b>	<b>76,672</b>	<b>68,149</b>
Unallocated:								
Administration expenses							(4,403)	(3,764)
Interest income/(expenses)							(14,152)	(12,499)
Gain/(loss) on derivative financial instruments held for trading and transfer from hedge reserve							(7,773)	(9,076)
<b>Profit before income tax</b>							<b>50,344</b>	<b>42,810</b>
Taxation expense							(4,253)	(5,197)
<b>Profit for the period</b>							<b>46,091</b>	<b>37,613</b>

There were no inter-segment sales during the period (30 September 2014: Nil).

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

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

	Industrial \$000s	Office \$000s	Retail \$000s	Total \$000s
<b>Segment assets as at 30 September 2015</b>				
Current assets	625	(85)	244	784
Investment properties	527,090	540,837	306,290	1,374,217
Non-current assets classified as held for sale	2,541	6,410	11,247	20,198
<b>Total segment assets</b>	<b>530,256</b>	<b>547,162</b>	<b>317,781</b>	<b>1,395,199</b>
Unallocated assets				1,822
<b>Total assets</b>				<b>1,397,021</b>
<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 31 March 2015</b>				
Current assets	480	1,482	139	2,101
Investment properties	510,420	483,560	312,415	1,306,395
Non-current assets classified as held for sale	3,003	–	–	3,003
<b>Total segment assets</b>	<b>513,903</b>	<b>485,042</b>	<b>312,554</b>	<b>1,311,499</b>
Unallocated assets				1,687
<b>Total assets</b>				<b>1,313,186</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 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 4. INVESTMENT PROPERTIES

	Industrial Six months to 30 September 2015 \$000s	Office Six months to 30 September 2015 \$000s	Retail Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2015 \$000s
<b>Movement in investment properties</b>				
Balance at the beginning of the period	506,830	476,399	310,730	1,293,959
Acquisition of properties	3,122	42,020	–	45,142
Capitalised costs	3,129	13,348	830	17,307
Disposals	(1,141)	–	–	(1,141)
Transfer to properties held for sale	(2,541)	(6,410)	(11,247)	(20,198)
Change in fair value	14,346	8,539	4,692	27,577
Unrealised loss on non-current assets classified as held for sale	–	(8)	(358)	(366)
<b>Closing balance</b>	<b>523,745</b>	<b>533,888</b>	<b>304,647</b>	<b>1,362,280</b>

#### Deferred initial direct costs/lease incentives

Opening balance	3,590	7,161	1,685	12,436
Change during the period	(245)	(212)	(42)	(499)
<b>Closing balance</b>	<b>3,345</b>	<b>6,949</b>	<b>1,643</b>	<b>11,937</b>

<b>Balance at the end of the period</b>	<b>527,090</b>	<b>540,837</b>	<b>306,290</b>	<b>1,374,217</b>
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	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
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#### Movement in investment properties

Balance at the beginning of the period	437,984	431,036	345,736	1,214,756
Capitalised costs	3,395	24,036	326	27,757
Disposals	–	(10,130)	(2,250)	(12,380)
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>

#### Deferred initial direct costs/lease incentives

Opening balance	3,797	6,304	1,409	11,510
Change during the period	199	663	114	976
<b>Closing balance</b>	<b>3,996</b>	<b>6,967</b>	<b>1,523</b>	<b>12,486</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>
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## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

	Industrial 12 months to 31 March 2015 \$000s	Office 12 months to 31 March 2015 \$000s	Retail 12 months to 31 March 2015 \$000s	Group (audited) 12 months to 31 March 2015 \$000s
<b>Movement in investment properties</b>				
Balance at the beginning of the period	437,984	431,036	345,736	1,214,756
Acquisition of properties	59,081	–	–	59,081
Capitalised costs	5,625	35,560	2,459	43,644
Disposals	(127)	(10,130)	(48,895)	(59,152)
Transfer to properties held for sale	(3,003)	–	–	(3,003)
Change in fair value	7,270	19,933	11,430	38,633
<b>Closing balance</b>	<b>506,830</b>	<b>476,399</b>	<b>310,730</b>	<b>1,293,959</b>
<b>Deferred initial direct costs/lease incentives</b>				
Opening balance	3,797	6,304	1,409	11,510
Change during the period	(207)	857	276	926
<b>Closing balance</b>	<b>3,590</b>	<b>7,161</b>	<b>1,685</b>	<b>12,436</b>
<b>Balance at the end of the period</b>	<b>510,420</b>	<b>483,560</b>	<b>312,415</b>	<b>1,306,395</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.

#### 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 and part of 19 Barnes Street, Wellington.

#### 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 2015 to determine the current valuation of each property in the portfolio. The Colliers review indicated an overall uplift in the valuation of the portfolio of \$27.6m (2014: \$24.9m) which has been recognised as a revaluation gain on investment property as at 30 September 2015. 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.

Generally as occupancy and weighted average lease terms increase, yields firm, resulting in increased fair values for investment properties. A movement in any of these assumptions could result in a significant change in fair value.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

Investment property metrics for the period ended 30 September 2015 are as follows:

		Industrial	Office	Retail	Total
Contract yield	– Average	7.49%	7.50%	7.48%	7.49%
	– Maximum	12.38%	10.75%	9.48%	12.38%
	– Minimum	0.00%	2.52%	6.92%	0.00%
Market yield	– Average	7.45%	7.37%	7.20%	7.36%
	– Maximum	11.43%	9.64%	9.17%	11.43%
	– Minimum	0.00%	6.60%	6.19%	0.00%
Occupancy (rent)		99.83%	99.09%	99.20%	99.38%
Occupancy (net lettable area)		99.91%	98.85%	99.29%	99.57%
Weighted average lease term		5.83	5.25	4.89	5.39
No. of buildings <sup>1</sup>		40	17	10	67
Fair value total ( \$000s)		527,090	540,837	306,290	1,374,217

Investment property metrics for the year ended 31 March 2015 are as follows:

		Industrial	Office	Retail	Total
Contract yield	– Average	7.59%	7.63%	7.49%	7.58%
	– Maximum	13.31%	9.91%	9.48%	13.31%
	– Minimum	0.00%	3.78%	7.22%	0.00%
Market yield	– Average	7.60%	7.59%	7.43%	7.55%
	– Maximum	18.25%	9.98%	10.27%	18.25%
	– Minimum	0.00%	6.71%	6.76%	0.00%
Occupancy (rent)		99.73%	98.78%	98.94%	99.16%
Occupancy (net lettable area)		99.75%	97.95%	99.16%	99.27%
Weighted average lease term		5.72	5.60	5.15	5.54
No. of buildings <sup>1</sup>		40	17	11	68
Fair value total ( \$000s)		\$510,420	\$483,560	\$312,415	\$1,306,395

<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 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 5. PROPERTY HELD FOR SALE

2-10 Semple Street, Porirua (\$11,247,000), 65 Upper Queen Street, Auckland (\$6,410,000), Lot 60, El Prado Drive, Palmerston North (\$783,000) and 7 El Prado Drive, Palmerston North (\$1,758,000) were subject to unconditional sale and purchase agreements at 30 September 2015 (30 September 2014: Waitakere Mega Centre, Henderson (\$44,879,000) and Lot 55, Valor Drive, Palmerston North (\$108,000) and 31 March 2015: 1 Allens Road, East Tamaki, Auckland (\$3,003,000) were subject to unconditional sale and purchase agreements).

#### 6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2015 \$000s	Group (unaudited) 30 September 2014 \$000s	Group (audited) 31 March 2015 \$000s
Nominal value of interest rate swaps	335,000	320,000	330,000
Average fixed interest rate	4.52%	4.53%	4.54%
Floating rates based on NZD BBR (including margin)	3.65%	4.62%	4.49%

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 period end 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 period end date use observable inputs.

The net liability for derivative financial instruments as at 30 September 2015 is \$28.3 million (30 September 2014: \$6.4 million and 31 March 2015: \$21.4 million). The mark-to-market increase in the liability for derivative financial instruments is a result of movements in the interest rate curve during the interim period.



## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 7. SHARE CAPITAL

	Group (unaudited) 30 September 2015 \$000s	Group (unaudited) 30 September 2014 \$000s	Group (audited) 31 March 2015 \$000s
Balance at the beginning of the period	766,431	754,453	754,453
Issue of shares from Dividend Reinvestment Plan	4,953	7,000	12,019
Issue costs of shares	(18)	(22)	(41)
<b>Balance at the end of the period</b>	<b>771,366</b>	<b>761,431</b>	<b>766,431</b>

The number of shares on issue at 30 September 2015 was 807,220,981 (30 September 2014: 798,059,769 and 31 March 2015: 802,628,756).

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 2015	Group (unaudited) 30 September 2014	Group (audited) 31 March 2015
Balance at the beginning of the period	802,629	790,912	790,912
Issue of shares from Dividend Reinvestment Plan	4,592	7,148	11,717
<b>Balance at the end of the period</b>	<b>807,221</b>	<b>798,060</b>	<b>802,629</b>

#### 8. SHARE BASED PAYMENTS RESERVE

Performance share rights were offered to the Chief Executive Officer (176,991) and Chief Financial Officer (102,212) on 1 April 2015. Performance share rights are shares in the Company which are paid to participants if specified performance hurdles are met over a three year vesting period. Performance is measured against total shareholders return relative to other listed entities included in the NZX Property Index, as selected by the Board. Participants must remain with the company throughout the vesting period. The fair value at grant date is \$194,000.

The fair value of these performance share rights are recognised as an expense in the statement of financial performance over the vesting period of the rights with a corresponding entry to the share based payments reserve.

The total expense recognised in the period to 30 September 2015 in relation to equity settled share based payments was \$32,400 (30 September 2014: Nil and 31 March 2015: Nil). No rights were exercised or forfeited during the period.

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

## 9. BORROWINGS

	Group (unaudited) 30 September 2015 \$000s	Group (unaudited) 30 September 2014 \$000s	Group (audited) 31 March 2015 \$000s
ANZ Bank New Zealand Limited	274,195	237,331	248,501
Bank of New Zealand	164,517	142,398	149,100
The Hongkong and Shanghai Banking Corporation Limited	109,678	94,932	99,400
Borrowing costs	(1,826)	(1,827)	(1,729)
<b>Total borrowings</b>	<b>546,564</b>	<b>472,834</b>	<b>495,272</b>
Shown as:			
Current	48,552	–	–
Term	498,012	472,834	495,272

The Group has a syndicated revolving credit facility with ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited of \$600,000,000 (30 September 2014: \$500,000,000 and 31 March 2015: \$550,000,000) secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of \$275,000,000, a Tranche B limit of \$275,000,000 and a Tranche C limit of \$50,000,000. Tranche A expires on 30 September 2018, Tranche B expires on 30 September 2020 and Tranche C expires on 30 September 2016.

The weighted average interest rate on borrowings (including margin, line fee and interest rate swaps) as at 30 September 2015 was 5.12% (30 September 2014: 5.72% and 31 March 2015: 5.60%).

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 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

#### 10. TAXATION

	Group (unaudited) Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s
The taxation charge is made up as follows:		
Current tax expense	4,169	5,731
Deferred tax expense	785	(534)
Adjustment recognised in the current year in relation to the current tax of prior years	(701)	–
<b>Total taxation expense/(credit) recognised in profit/(loss)</b>	<b>4,253</b>	<b>5,197</b>
<b>Reconciliation of accounting profit to tax expense</b>		
Profit before tax	50,344	42,810
Current tax expense at 28%	14,096	11,987
Adjusted for:		
Capitalised interest	–	(359)
Fair value movement on investment properties	(7,618)	(6,983)
Depreciation	(1,797)	(2,190)
Other	(512)	3,276
<b>Current taxation expense</b>	<b>4,169</b>	<b>5,731</b>
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	1,125	(3,980)
Interest rate swaps	–	641
Other	(340)	2,805
<b>Deferred tax expense/(benefit)</b>	<b>785</b>	<b>(534)</b>
Adjustment recognised in the current year in relation to the current tax of prior years	(701)	–
<b>Total tax expense recognised in profit or loss</b>	<b>4,253</b>	<b>5,197</b>
<b>Deferred tax recognised in other comprehensive income</b>		
Deferred tax arising from reclassification of amounts in hedge reserve to profit or loss	228	228
<b>Total tax recognised in other comprehensive income</b>	<b>228</b>	<b>228</b>

Imputation credits at 30 September 2015 were (\$2.2 million) (30 September 2014: (\$2.2 million)).

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

## 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:

	Interest rate swaps \$000s	Investment property \$000s	Other \$000s	Total \$000s
At 1 April 2015	(5,981)	16,825	3,689	14,533
Credit to other comprehensive income for the period	228	–	–	228
Charge/(credit) to taxation expense for the period	–	1,125	(340)	785
Charge/(credit) to taxation payable	(2,176)	(247)	(43)	(2,466)
At 30 September 2015	(7,929)	17,703	3,306	13,080
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 2014	(2,690)	21,111	3,668	22,089
Credit to other comprehensive income for the year	456	–	–	456
Charge/(credit) to taxation expense for the year	3,180	(909)	17	2,288
Charge/(credit) to taxation payable	(6,927)	(3,377)	4	(10,300)
At 31 March 2015	(5,981)	16,825	3,689	14,533

## FINANCIAL STATEMENTS

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

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

	Group (unaudited) Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s
Profit after tax	46,091	37,613
Movements in working capital items relating to investing and financing activities	(800)	(916)
<b>Non cash items:</b>		
Movement in deferred tax liability	(1,453)	–
Fair value change in investment properties	(27,577)	(24,938)
Unrealised loss on non-current assets classified as held for sale	366	–
Movement in interest rate swaps	6,959	8,262
Movement in cash flow hedge reserve	586	586
<b>Movements in working capital items:</b>		
Trade and other receivables	1,359	273
Taxation payable	635	(296)
Trade and other payables	(1,078)	(2,155)
Other	(993)	1,746
<b>Net cash flows from/(used in) operating activities</b>	<b>24,095</b>	<b>20,175</b>

#### 13. 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 2015	Group (unaudited) Six months to 30 September 2014
Profit attributable to shareholders of the Company (\$000s)	46,091	37,613
Weighted average number of shares on issue (000s)	803,499	793,117
<b>Basic and diluted earnings per share (cents)</b>	<b>5.74</b>	<b>4.74</b>
<b>Weighted average number of ordinary shares</b>		
Issued shares at beginning of period (000s)	802,629	790,912
Issued shares at end of period (000s)	807,221	798,060
<b>Weighted average number of ordinary shares (000s)</b>	<b>803,499</b>	<b>793,117</b>

On 15 November 2015 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 2015

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

(CONTINUED)

**14. DISTRIBUTABLE INCOME**

	Group (unaudited) Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s
Profit before income tax	50,344	42,810
Adjustments:		
Revaluation gains on investment property	(27,577)	(24,938)
Unrealised loss on non-current assets classified as held for sale	366	–
Realised losses/(gains) on disposal of investment properties	(851)	547
Derivative fair value loss/(gain)	7,773	9,076
Gross distributable income	30,055	27,495
Tax impact of depreciation recovered on disposal of investment properties and taxable gains on disposal of revenue account properties	99	1,654
Tax paid	(5,283)	(5,720)
<b>Net distributable income</b>	<b>24,871</b>	<b>23,429</b>
Weighted average number of ordinary shares (000s)	803,499	793,117
Gross distributable income (cents per share)	3.74	3.47
Net distributable income (cents per share)	3.10	2.95

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

**15. INTEREST EXPENSE**

	Group (unaudited) Six months to 30 September 2015 \$000s	Group (unaudited) Six months to 30 September 2014 \$000s
Interest expense	(14,203)	(13,844)
Less amount capitalised to investment properties	–	1,283
<b>Total interest expense</b>	<b>(14,203)</b>	<b>(12,561)</b>

Capitalised interest for the period to 30 September 2014 related to the development project at 15-21 Stout Street, Wellington.



**FINANCIAL STATEMENTS**

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

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

(CONTINUED)

**16. COMMITMENTS****Ground rent**

A ground lease exists over 39 Market Place, Viaduct Harbour, Auckland and part of 19 Barnes Street, Wellington. The amount paid in respect of the Auckland ground lease during the period was \$0.5 million (30 September 2014: \$0.5 million). The annual ground lease commitment is \$1.0 million (30 September 2014: \$1.0 million) and is recoverable from tenants in proportion to their area of occupancy. The Auckland ground lease is renewable in perpetuity with the next renewal date in 2019.

**Building upgrades**

Estimated capital commitments contracted for building projects not yet completed at 30 September 2015 but not provided for were \$24.6 million (30 September 2014: \$31.7 million and 31 March 2015: \$22.9 million). Of this total, \$7.2 million relates to the redevelopment works at 8 Foundry Drive, Christchurch.

**17. CONTINGENCIES**

There were no contingencies as at 30 September 2015 (30 September 2014: Nil).

**18. SUBSEQUENT EVENTS**

On 15 November 2015, a gross dividend of 1.50 cents per share was approved by the Company. The record date for the dividend is 3 December 2015 with payment scheduled to shareholders on 17 December 2015. Imputation credits of 0.3965 cents per share will be attached to the dividend.

**19. RELATED PARTY TRANSACTIONS**

There were no transactions between the Group and any related parties during the period (30 September 2014: Nil).

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

**DIRECTORY**

ARGOSY PROPERTY LIMITED | INTERIM REPORT 30 SEPTEMBER 2015

**DIRECTORS****Argosy Property Limited**

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 Peter Clynton Brook, Auckland  
 Andrew Mark Cross, Auckland  
 Andrew Hardwick Evans, Auckland  
 Christopher Brent Hunter, Auckland  
 Jeffrey Robert Morrison, Auckland

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