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# DNZ PROPERTY FUND LIMITED ANNUAL MEETING
10:00 AM, 10 AUGUST 2011

## CHAIRMAN'S INTRODUCTION – TIM STOREY

Welcome to the annual meeting of DNZ Property Fund, and thank you for joining us.

My name is Tim Storey and I am an Independent Director and the Chairman of the Company.

Before we start the annual meeting, I would like to introduce the other directors and executives who are seated next to me.

From my far right:

- Jennifer Whooley, Chief Financial Officer and Company Secretary
- John Harvey, Independent Director
- David van Schaardenburg, Independent Director
- Michael Stiassny, Independent Director
- Paul Duffy, Executive Director

I would also like to welcome:

- the Company's auditors, Staples Rodway;
- representatives of Computershare, the Company's share registrar; and
- the Company's solicitors, Bell Gully.

We also have several members of the executive team here today.

Moving to the formalities of the Meeting, I record that Notice of the Meeting was duly given on 26 July 2011 and there is a quorum present. Accordingly, I declare the Meeting open.

AGENDA

The order of events for this morning's meeting will be as follows:

- I will deliver a short address and that will be followed by a presentation on the Company's performance by the Chief Executive Paul Duffy and the presentation of the Annual Report and financial statements.
- Following those presentations, questions and comments from Shareholders will be taken.
- We will then move to the formal resolutions of the Meeting.
- And finally we will then attend to any general business.

After the meeting concludes, please join us for refreshments - the directors will be available to discuss matters with you if you wish.

A. CHAIRMAN'S ADDRESS – TIM STOREY

Powerpoint Presentation

A review of the 2011 financial year for DNZ Property Fund shows there is cause for real satisfaction for us as Shareholders. I believe that the Board and management team have laid a very solid foundation for the future of the business.

## HIGHLIGHTS

Before I go into more detail on the Company's performance, I would like to reflect on where we have come from over the past 12 months – you will recall we listed on the NZX nearly 12 months ago on 16 August 2010 – in fact, next Tuesday.

It has been a very busy and successful year for us:-

- we led the way by internalising our management
- we have adopted best governance practices
- we have a strong management team that has performed well in difficult times
- our share price has moved from 97 cents at listing to $1.24 at 31 March 2011
- and we are paying a sustainable cash dividend of 8 cents per share per annum

We have a very different Company at this AGM to the one we had at the last AGM.

Anyway, to some detail

## OVERVIEW

### *FINANCIAL PERFORMANCE*

For the year ended 31 March 2011, the Company recorded a distributable profit of $21.9m, or 9.60 cents per share. This was 14% or $2.7 million above the Offer Document forecast, and demonstrates a solid underlying operating performance by the Company.

The net profit before renegotiation and termination payments, changes in fair value and taxation, was $19.7m, which was in line with the Offer Document forecast.

The Company recorded an after tax loss of $35.1m for the full year to 31 March 2011. This was driven by one-off items such as the termination payment of the management contract and non-cash items such as deferred tax and unrealised revaluation movements.

The distributable profit result and DNZ's share price increase of 28% to 31 March 2011, gave Shareholders a total return including dividends of 32% since listing.

In all, I think we can be delighted that the Company has made a very satisfactory start to life as a listed property company.

## CAPITAL MANAGEMENT

The financial year end independent valuations of the portfolio saw a minimal correction, with the book value of the Company's portfolio reducing over the year by 1.9%, or $11.8m, to $637.7m on a like for like basis and taking into account the effect of maintenance and capital expenditure.

The successful capital raising and completion of the asset sales programme reduced our bank Loan to Value Ratio (LVR) to 40.4% as at 31 March 2011; this was down from 46.9% last year.

During the year, $150 million of interest rate swaps were entered into, and the Company's debt facility was renegotiated out to 30 September 2013.

The capital management initiatives undertaken during the 2011 financial year have ensured the Company is well capitalised and well within its banking covenants.

## TAX RULING

Following the year end, the Company received a positive binding tax ruling on the deductibility of the cost of terminating the Company's management contract. This led to discussions by the Board on how best to use the tax benefit arising from this ruling, with the Board deciding to retain the excess funds to strengthen the Company's financial position. In reaching this decision, the Board gave careful consideration to making sure it had the right balance between Shareholders' desire for income and maintaining the Company's sound financial position.

## DISTRIBUTION POLICY

In light of the positive impact of the ruling, the Board amended the Company's distribution policy to distribute between 75 and 85% of distributable profit. This policy takes effect from the first quarter dividend payment for the 2012 financial year, scheduled for payment in September 2011 – the dividend payment that I will refer to shortly.

Notwithstanding the adjustment in dividend policy, the Board has previously confirmed that it is expecting to pay a minimum cash dividend of 8 cents per share for the year ending 31 March 2012, subject to economic conditions and trading performance.

It is to be expected that the Board will again review this policy as the benefits of the tax ruling are utilised.

## DIVIDEND

In respect of dividends, I am pleased to confirm that this morning the Board approved a cash dividend of 2 cents per share for the first quarter of the current financial year. This dividend will carry no imputation credits and have a record date of 25 August 2011, with payment made on 8 September 2011.

## GOING FORWARD

Since listing, the Board and management have continued to look at and review the options available to DNZ to improve its performance and enhance its position going forward.

Management will continue to focus on day-to-day operations and look to achieve the best possible outcomes for both its customers and Shareholders. As the results for the last financial year demonstrate, this is a core management competency and something which distinguishes our Company from many of the other listed property entities in the New Zealand market.

Alongside that, the Board and management will continue to look at other strategies to grow the business. While there has been further turmoil in the international markets over the last little while, we remain of the view that the New Zealand property market is around the bottom of its cycle and we should look - albeit cautiously - to take advantage of the opportunities that are available to a well capitalised and well-managed company.

This will mean a continuation of our policy of looking to acquire better quality assets and disposing of assets which have reached their maximum value. We will also continue to look at appropriate development opportunities, similar to the Laminex development completed in the last year.

Other options are also available; for example, if circumstances are appropriate, we may consider options to expand through the acquisition of attractive and well priced assets. However, we would be disciplined and do this in situations where we can add value to DNZ shareholders. The Board is also looking at reintroducing a Dividend Reinvestment Plan.

## ARGOSY MERGER PROPOSAL

As you are aware, another initiative that the Board believes has the potential to bring benefit to DNZ Shareholders if structured appropriately is our proposal to merge the DNZ and Argosy businesses. We see considerable synergies between the two businesses and their property portfolios.

We also see the opportunity to extract significant short-term and ongoing savings in combining the management of the portfolios - clearly, there will be savings in management costs by Argosy not needing to create an entire business. On the other hand, we will be able to better utilise the existing DNZ business structure. There will also be benefits of scale in managing the combined business.

If this proceeded, the merged business would be one of New Zealand's largest listed property entities – in fact, the largest internally managed listed property company. It will have the benefit of an existing, robust governance structure solely focused on ensuring the best outcome for the Company's Shareholders.

In addition, the Company will have a highly skilled and proven management team that can look to obtain the optimum performance from the combined property portfolio. As we have seen, the value of a top tier management team in turbulent times is fundamental to the success of a business.

While we remain positive as to the benefits of merging the entities, DNZ Shareholders can be assured that the Board will not proceed with the proposal unless it is clearly in the interests of the DNZ Shareholders. While presently we are in a unique position where the proposal appears of benefit to DNZ Shareholders, this position may not continue, particularly if this merger cannot be considered ahead of the proposed Argosy internalisation as material benefits will be lost forever. The Board is also conscious of the costs being incurred in pursuing this opportunity (although this is not expected to affect indicated distributable earnings for the financial year) and the potential for the project to distract us from pursuing other initiatives.

The Board will continue to monitor the situation in the lead-up to the Argosy AGM, and will keep DNZ Shareholders informed.

## CONCLUSION

In summary, the 2011 financial year was a significant year for DNZ as it moved to an internal management structure and listed on the New Zealand Stock Exchange.

The key benefits and drivers of listing on the NZX were to provide liquidity and an improved share price for DNZ Shareholders.

Since listing, over 90 million shares have traded and the strong share price growth confirms the listing decision has been a success. The performance of the business in terms of distributable profit has exceeded the forecast at listing; so too have many of the other indicators such as vacancy rates and gearing. DNZ is well placed to take advantage of the opportunities that will arise.

The Board, with its strong governance and the support of a highly regarded and experienced management team, will continue to drive value for DNZ Shareholders.

Finally, I would like to thank my fellow Board members and the management team for their work and support during the year. We have evolved into a successful listed entity with a sound platform on which to base future growth and sustainable dividends for our Shareholders. And I thank you our Shareholders for your patience over the last 18 months or so while the Company has been reshaped into what I think we can all agree is a successful listed public company.

The Company looks forward to continuing its strong performance in the 2012 financial year.

I will now pass over to Paul Duffy for an overview of the operating performance of the Company.

## B. CHIEF EXECUTIVE'S ADDRESS

### Powerpoint Presentation

Thank you, Tim and good morning ladies and gentlemen.

DNZ Property Fund was listed on 16 August 2010, and since that date, we have out-performed the forecasts in the Investment Statement and Prospectus. In addition, the share price has risen significantly and liquidity has increased considerably with the listing on the NZX.

Over the past 12 months, the property investment markets have been challenging. The DNZ management team has been focused on maximising value for Shareholders by ensuring strong occupancy, maintaining revenue streams and prudent management of expenditure. We pride ourselves on our strong tenant relationships and this is reflected in our occupancy rate and tenant retention.

Looking at the portfolio as at 31 March 2011, the occupancy was at 98%, an improvement of over 2% from the previous year. This is one of the highest occupancy rates in the listed property sector. With over 283 tenants and 50 properties in a diversified portfolio of retail, office and industrial, the dedicated management team have delivered a strong result.

As at 31 March 2011, the portfolio had a market valuation of $637.7m, which was a minor reduction from the previous year of 1.9% on a like for like basis. The majority of the downward valuation movement was in the Wellington office market. Indications are the overall property market is now more stable.

DNZ Property Fund is a diversified portfolio split into office – 40%, bulk retail – 21%, retail – 12% and industrial – 27% located throughout NZ. Moving forward, the portfolio will see a slight reduction in the office sector, where we see shifting demand, with a slight rebalancing to retail and industrial.

The leasing in the portfolio has been strong, with over 188 transactions completed and an annualised rental growth of 3.8% per annum.

The tenant covenant is a very important aspect of property investment and our top ten tenants represent 44% of the contract rental, with such companies as Progressive/Woolworths, Fletcher Building, ASB, Meridian Energy, and Westpac included in the top ten. In addition, we carefully structure the leases so that approximately 30% have a CPI or fixed rental growth component, to ensure consistent income growth in uncertain times.

The Weighted Average Lease Term (or WALT) stood at 4.3 years as at 31 March 2011. The benefit of a longer WALT is security in relation to rental cash flows in the future and it insulates the portfolio from negative market forces.

Another key performance indicator is our lease expiry profile. Our aim is to have a maximum of 15% of leases expiring in any one year. At 31 March 2011, we had over 13.5% of leases expiring in FY12. With a strong management focus, this has now been reduced down to 7.22% following the successful negotiation of lease renewals with NZ Post, DDB and Woolworths.  We will continue to reduce this amount further over the forthcoming months, in addition to commencing work on FY13 lease expiries.

I am pleased to confirm that we completed the Fletcher Building Laminex Group new distribution centre and head office ahead of budget and time. The residual of the site of approximately 2 hectares is currently being marketed for potential design/build opportunities, which will add value to the portfolio.

Since 31 March, the team has completed a further 51 transactions, which includes 23 rent reviews with a rental of $7.1m, 13 lease renewals with a rental of $2.7m, and 15 new lease transactions with a rental of $3m. This increased the WALT to 4.5 years as at 30 June 2011.

During the 2011 financial year, we continued to reposition the assets in the portfolio and completed 10 divestments representing $72.2m. The assets sold included non-income producing vacant land and properties which we believe had reached their rental and capital growth maturity.

As part of the active management of the portfolio, we have purchased three Foodstuffs supermarkets in New Plymouth, Napier and Wellington with 18 year leases, annual increases and market reviews at five yearly intervals. If these Foodstuffs assets were included in the 30 June 2011 WALT, it would increase to 5.17 years.

The devastating earthquakes in Christchurch had a major effect on the people of Canterbury and indeed, the whole country. DNZ owns two properties in Christchurch and we were very relieved to confirm that no staff or customers were injured on site during the earthquakes. The two properties consist of a distribution warehouse for Woolworths located in Sockburn, which suffered no damage, and an office building in Papanui. The office building suffered some structural damage and is currently being repaired, with the existing tenant (a NZ Government department) taking back occupancy when these works are completed in October.

The portfolio is fully insured for full replacement and loss of rents. While we managed to secure an advantageous insurance cost for this year, early indications are that premiums will increase significantly in 2012.

Due to the earthquake in Christchurch, there is greater tenant interest in the seismic ratings of buildings and it is important to ensure assets within the portfolio have a good rating to ensure strong occupancy.

We continue to have a good relationship with our banking partners, ANZ, ASB and BNZ, and are currently comfortably within all our banking covenants.

Work is continuing on the development opportunity at Johnsonville, with negotiations advanced with major anchors and the retail planning ongoing. The Board will continue to assess this opportunity, but construction will not start in this financial year.

Looking forward, the Company remains committed to a strong and diversified portfolio. The office sector remains the most challenging, with many of the traditional markets having limited demand and over-supply, especially in Wellington. While the retail market has seen flat growth in sales, the Company has focused on neighbourhood centres with specialty stores anchored by a supermarket, such as Mt Wellington Shopping Centre.

The management team is focused on maintaining strong tenant relationships and continues to review asset mix and portfolio strength to enhance Shareholder value through prudent capital management and value add opportunities.

The sustainability of the distributions and the enhancement of the capital value of the portfolio in the forthcoming 12 months is a primary focus of the management team in delivering results for our Shareholders.

I would like to thank the management team for their hard work and dedication. I am proud of the capabilities of the team and value their contribution to the Company. As a new listed company, I would also like to say thank you to the Board, Tim, John, Michael and David.

And finally special thanks to you, our Shareholders, whose support is critical to the Company. We will continue to work to enhance the income and capital value of your investment.

[TIM STOREY] Thank you Paul.

## C. FINANCIAL STATEMENTS

I record that the annual report and audited financial statements for the year ended 31 March 2011 have been sent to Shareholders.

No resolution is required to be put to the meeting about the annual report or the financial statements but I will now open the meeting for questions about them or the Company's performance generally. Other issues can be addressed as General Business later in the meeting.

I would like to remind you that only Shareholders, proxy holders or Shareholder company representatives have a right to speak.

In addressing the Chair with questions would you please state your name and advise whether you are a Shareholder, a proxy holder or a Shareholder company representative.

If you have a question, there are Company representatives with cordless microphones in the aisles, please use these so we may all hear your question.

Q & A ON COMPANY PERFORMANCE

Do I have any questions from the floor?

QUESTIONS

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D. RESOLUTIONS

We will now consider the formal resolutions for the Meeting.

The resolutions for consideration today may only be voted on by Shareholders (either in person or by postal vote), proxy holders, and Shareholder company representatives.

I have been provided with a record of the valid proxies received. Proxy votes have been received from 853 Shareholders who among them hold *70.6 million shares (70,639,968 being the exact number*).

Voting on all resolutions will be by poll. On a poll, each person voting at the meeting and each Shareholder who has cast a vote by proxy, has one vote for each share held. We will consider each resolution and then vote on that resolution immediately after discussion has taken place and before moving to the next resolution.

To vote, you should tick the relevant box on your voting form in respect of the resolution being voted on.

If you did not bring your voting form with you, you should have been given a voting form at the registration desk on arrival. If you have been overlooked, please let one of the Computershare representatives know immediately.

There will be Company representatives in the aisles who will have pens available if you require one to complete your forms. On completion of the voting, your forms will be collected. When all voting forms have been collected, they will be taken to be counted by Computershare.

If you are both a Shareholder and a proxy holder or Shareholder company representative, please complete a separate voting paper for yourself and each other Shareholder you represent.

Each of the resolutions is taken as having being moved and no seconder is required.

I will open each resolution for discussion by Shareholders. As a courtesy to all Shareholders, can I ask you to please be as concise as possible with any questions.

I would like to remind you that only Shareholders, proxy holders or Shareholder company representatives have a right to speak.

In addressing the Chair with questions would you please state your name and advise whether you are a Shareholder, a proxy holder or a Shareholder company representative.

The Board recommends that you vote in favour of each of the following resolutions. The resolutions will be binding on the Board and Company if passed.

RESOLUTION 1

I move, as an ordinary resolution

*That the Directors be authorised to fix the fees and expenses of the auditor of the Company.*

Is there any discussion?

Thank you, voting on this resolution will be by poll please tick the relevant box on your voting form in respect of resolution 1

***Note: Pause for people to complete voting papers.***

As Resolution 2 is regarding reappointing me as a director, I now pass the chair to Michael Stiassny

RESOLUTION 2

Resolution 2 – Appointment of director

I move, as an ordinary resolution

*That Timothy Ian Mackenzie Storey be re-elected as a director of the Company pursuant to clause 20.3 of the Constitution.*

Is there any discussion?

Thank you, voting on this resolution will be by poll please tick the relevant box on your voting form in respect of resolution 2

*Note: Pause for people to complete voting papers.*

I now pass the Chair back to Tim Storey

Thank you Michael

RESOLUTION 3

Resolution 3 – Appointment of director

I move, as an ordinary resolution

*That Edward John Harvey be re-elected as a director of the Company pursuant to clause 20.3 of the Constitution.*

Is there any discussion?

Thank you, voting on this resolution will be by poll please tick the relevant box on your voting form in respect of resolution 3

That completes voting on all resolutions.  I will now ask for the voting papers to be collected in the boxes being circulated.

*Note: Pause for voting papers to be collected.*

Due to the number of votes to be counted, the votes collected at this meeting will be added to those received by post and the results will be compiled by the registry, Computershare. The results will also be published on the Company's website and provided to the NZX.

## E. GENERAL BUSINESS

I now move on to general business, and open the floor for questions or comments.

Again, I ask that in addressing the Chair with questions would you please state your name and advise whether you are a Shareholder, a proxy holder or a Shareholder company representative.

I would like to remind you that only Shareholders, proxy holders or Shareholder company representatives have a right to speak.

## CHAIRMAN'S CLOSING

That completes the formal business of the meeting.

Thank you everyone for your attendance and participation this morning.

I formally declare this meeting closed.

Please join us for refreshments.

END

For Further Information Please Contact:

Tim Storey, Chairman, DNZ Property Fund Limited

Phone: +64 21 633 089

Email: tim.storey@dnzproperty.com

Paul Duffy, Chief Executive, DNZ Property Fund Limited

Phone: +64 9 912 2690 - Mobile: +64 21 843 758

Email: paul.duffy@dnzproperty.com