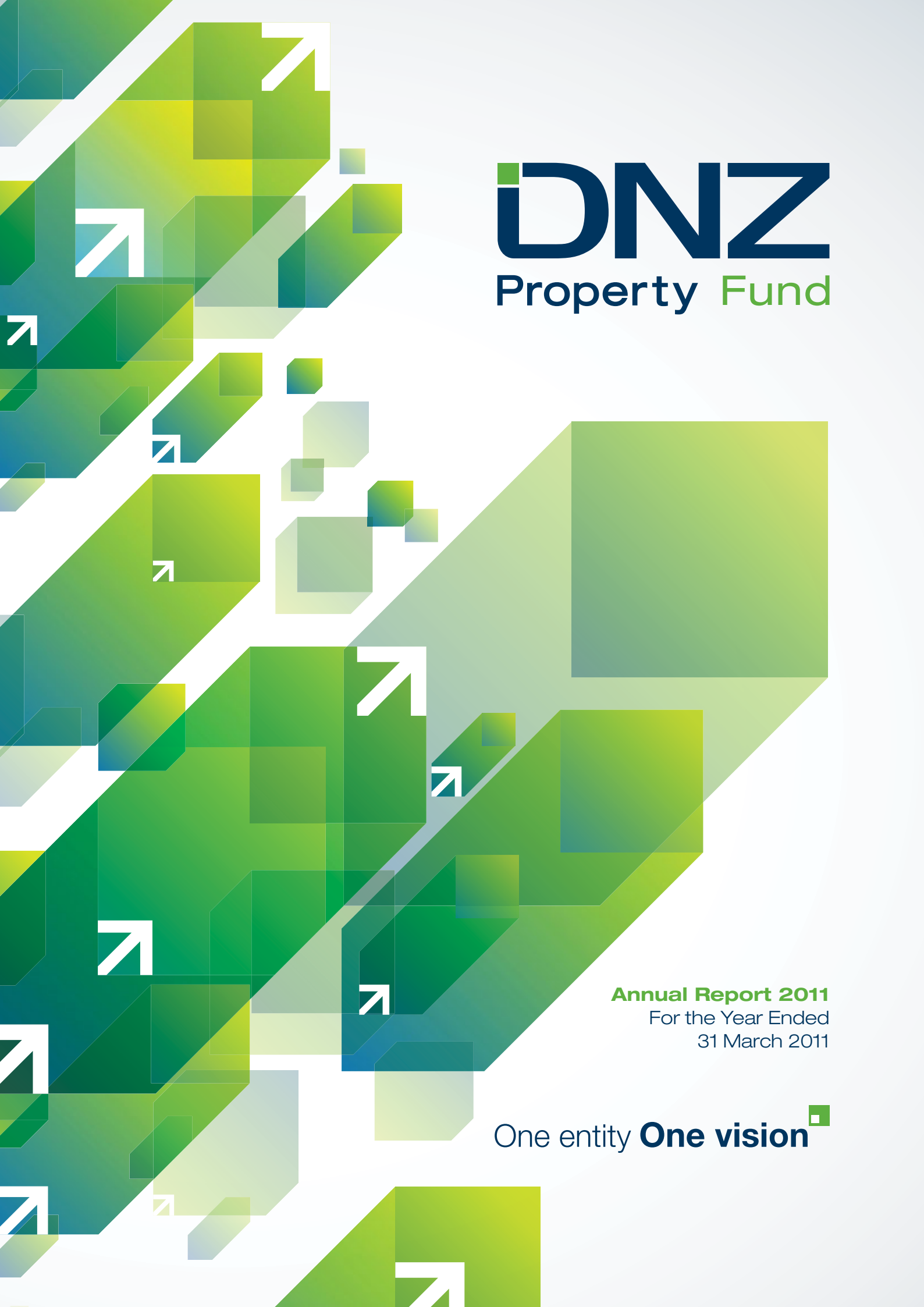




DNZ

Property Fund

Annual Report 2011
For the Year Ended
31 March 2011

One entity **One vision** 



Fletcher Building Laminex Group, 25 O'Rorke Road, Penrose, Auckland



DNZ

Property Fund

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 Highlights

SHARE PRICE

UP **28%**
from listing to 31 March 2011DISTRIBUTABLE
PROFIT**14%**
AHEAD OF FORECAST

OCCUPANCY

98%
by area as at 31 March 2011LOAN TO VALUE
RATIO (LVR)**40.4%**MARCH
QUARTER
DIVIDEND**\$0.02**SUCCESSFUL
IPO & CAPITAL
RAISING**\$45m**NZX LISTING
16 AUGUST 2011FAVOURABLE
BINDING IRD
TAX RULINGFIRST
INTERNALLY
MANAGED LISTED
PROPERTY
ENTITY



Results Overview

Financial Performance	Year ended 31 March 2011	PFI*	Year ended 31 March 2010
Net rental income	\$52.0m	\$52.8m	\$54.8m
Net profit before tax and other one-off items	\$19.7m	\$19.7m	\$19.0m
Property revaluations (fair value change)	(\$11.5m)	\$0.0m	(\$34.1m)
Tax expense	(\$9.6m)	(\$90.4m)	\$0.0m
Net loss after tax	(\$35.1m)	(\$106.0m)	(\$15.5m)
Distributable profit after tax	\$21.9m	\$19.2m	\$24.1m
Distributable profit per share - weighted	9.60 cents	8.66 cents	12.80 cents

Financial Summary	As at 31 March 2011	PFI*	As at 31 March 2010
Property assets	\$637.7m	\$665.5m	\$700.1m
Bank debt drawn	\$252.9m	\$280.0m	\$322.0m
Bank loan to value ratio (includes fair value of interest rate hedges)	40.4%	42.4%	46.9%
IFRS adjusted NTA per share (excludes intangibles, after tax fair value of interest rate derivatives and deferred tax on items that will not crystallise).	\$1.55	\$1.58	\$2.02

* PFI (Prospective Financial Information) as per DNZ's Investment Statement and Prospectus (Offer Document) dated 9 July 2010.



“ Since listing, over 70 million shares have traded and the strong share price growth confirms the listing decision has been a success.”

TIM STOREY CHAIRMAN

Chairman's Report

DNZ Delivers a Solid Result in 2011

Looking back over the past financial year for DNZ Property Fund there is cause for satisfaction and I believe we have laid a very solid foundation for the future of the business, particularly as there are signs that indicate the economy may finally be starting to emerge from the long shadow cast by recent global economic turmoil.

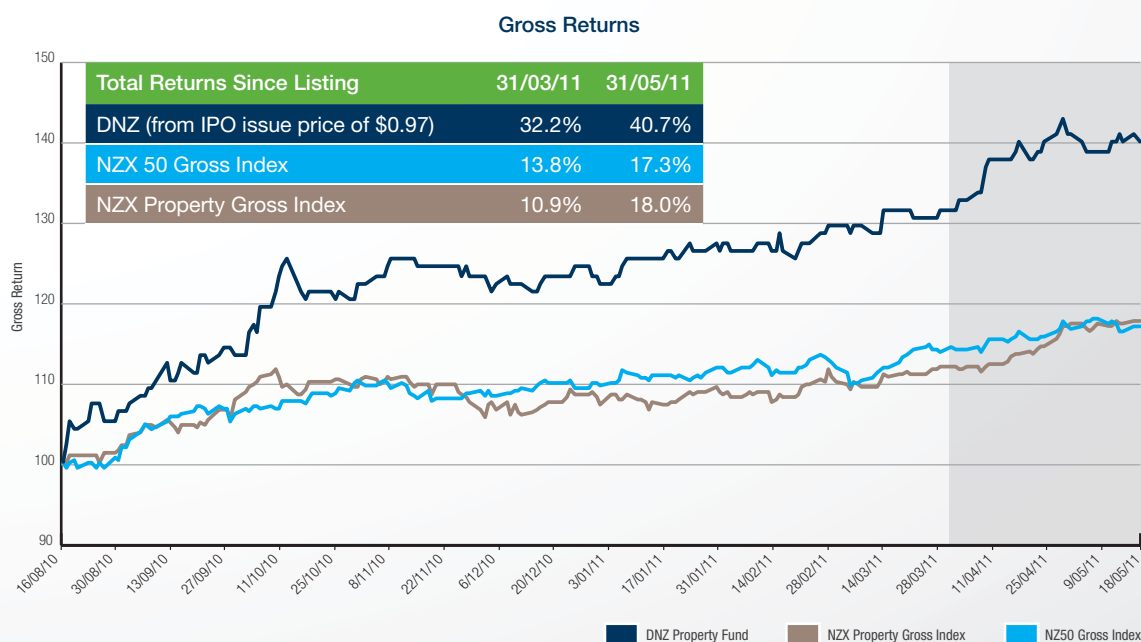
The 2011 financial year was a significant year for DNZ as it moved to an internal management structure – a structure that more property entities are choosing to emulate – and the Company also listed on the NZX under stock code 'DNZ'.

The key benefits and drivers of listing were to provide liquidity and an improved share price for our shareholders. Since listing, over 70 million shares have traded and the strong share price growth confirms the listing decision has been a success. The steps we've taken position the Company strongly going forward and allow us to explore opportunities that become available.

For the year ended 31 March 2011, DNZ recorded distributable profit* of \$21.9m, or 9.60 cents per share being 14% or \$2.7 million above the Offer Document forecast, showing a solid underlying operating performance. The net profit before renegotiation payment, termination payment, changes in fair value and taxation was \$19.7m, in-line with the Offer Document forecast.

The after tax loss of \$35.1m for the full year to 31 March 2011 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 (total return including dividends of 32%) make a very satisfying start to life as a listed property company.



* Distributable profit is a measure adopted by DNZ and is defined as net profit/(loss) before tax adjusted for non-recurring and/or non-cash items and current taxation.

“We have evolved into a successful listed entity with a sound platform on which to base future growth and sustained dividends for our shareholders.”



Meridian Energy, 33 Customhouse Quay, Wellington

The capital management initiatives undertaken during the year have ensured the Company is well capitalised and well within its banking covenants. The successful capital raising and completion of the asset sales programme has reduced our bank Loan to Value Ratio (LVR) to 40.4% as at 31 March 2011, down from 46.9% last year.

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. The decline predominately occurred in the Wellington office sector of the portfolio, a market currently characterised by slow growth and increasing vacancy.

The Board is pleased to have approved a final cash dividend for the fourth quarter, consistent with guidance, of 2.0 cents per share. This dividend carried no imputation credits. The final quarterly payment brings the total cash distribution to 7.3 cents per share for the 2011 financial year. On an annualised basis (excluding the first quarter dividend that was paid prior to listing) this equates to 8.0 cents per share.

The record date for the final dividend was 8 June 2011, with payment to shareholders made on 22 June 2011.

The positive binding tax ruling on the deductibility of the \$31.8 million cost of terminating the Company's management contract 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 and use them to enhance longer-term earnings. In reaching this decision, the Board gave careful consideration to making sure it had the right balance between investors' desire for income and maintaining the Company's sound financial position.

In light of the positive impact of the ruling, the Board has amended the Company's distribution policy to distribute between 75 – 85% of distributable profit. The policy takes effect from the first quarter dividend payment for the 2012 financial year, scheduled for payment in September 2011. The amendment to the distribution policy is to ensure sufficient funds are retained for reinvestment to enhance long-term earnings of the Company and dividend sustainability for investors.

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

The 2011 financial year saw a number of significant milestones met by the Company, with the result that we are well placed to take advantage of any opportunities that may arise during the coming year. The markets appear to be stabilising following the turmoil of the global financial crisis, and the Board, with its stronger governance and the support of a highly regarded and experienced management team will continue to drive value for DNZ shareholders.

Your Board will also continue to look for opportunities that may arise to enhance and grow your Company. A sound financial position and our proven management team enable us to take those opportunities when they become available but I would reiterate that we will only pursue them when they are beneficial to 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 sustained dividends for our shareholders.

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

Yours faithfully,



TIM STOREY
Chairman

* Differs from the financial statements for the year ended 31 March 2011 due to reclassification of Investment Property to Property, Plant and Equipment plus gain/(loss) in fair value previously booked on Investment Property disposed of during the year.

MICHAEL STIASSNY

TIM STOREY

JOHN HARVEY



Board of Directors

The Board of DNZ Property Fund has a wide range of skills and experience that provides the governance necessary to monitor and assess the Company's business activities. The role of the Independent Directors of DNZ includes ensuring that Shareholders' interests are fully considered in all Board decisions.

Tim Storey

Chairman (Independent)

Tim has spent more than 25 years as a commercial lawyer and company director, with 15 years involvement in managed property funds in Australia and New Zealand. Tim was a partner in the legal practice Bell Gully until 2006 when he left to pursue various interests. Tim holds a Bachelor of Laws and Bachelor of Arts from the University of Auckland.

Paul Duffy

Executive Director

Paul was appointed as the Chief Executive of DNZ Property Group in March 2001. Paul has over 30 years experience in the property industry, both within New Zealand and internationally. He was previously general manager of Fletcher Property Limited and, prior to that, joint managing director of an offshore government property investment agency (Abu Dhabi Investment Authority), responsible for the formation of a large real estate portfolio in the United States and Europe. Paul is a Trustee of the Keystone Property Education Trust.



DAVID VAN SCHAARDENBURG

PAUL DUFFY

One entity **One vision**

John Harvey

Director (Independent)

John has over 35 years professional experience as a Chartered Accountant. He was a partner in PricewaterhouseCoopers New Zealand from 1986 until he retired in 2009 to pursue a career as a director. As a partner in PwC John held a number of management and governance responsibilities. He is a member of the Institute of Directors of New Zealand and is currently a director of a number of companies including APN News & Media Limited, Kathmandu Holdings Limited, Heartland Building Society, Port Otago Limited and NZ Opera Limited. John holds a Bachelor of Commerce degree from the University of Canterbury.

Michael Stiassny

Director (Independent)

Michael Stiassny has widespread experience in all matters financial. Michael is the senior partner of KordaMentha in New Zealand, a chartered accountancy firm specialising in financial consulting work. He is currently Chairman of Vector Limited and The New Zealand Racing Board. He is a Fellow of the Institute of Directors (FinstD) and a Council Member of the Institute of Directors in New Zealand Inc. Michael has a Bachelor of Commerce and a Bachelor of Laws and is a Chartered Accountant.

David van Schaardenburg

Director (Independent)

David is a Principal of investment firm, New Zealand Funds Management. David has worked in financial analysis and portfolio management roles for 25 years, including three years in London. From 1994 he directed Fundsource Limited, New Zealand's leading investment research group, and from 1997 was Chief Investment Officer at NZ Funds, overseeing the management of \$1 billion across a variety of asset classes. David has a Bachelor of Commerce from the University of Auckland and holds a Chartered Accountant (CA) designation from the New Zealand Institute of Chartered Accountants.

“The primary focus of the management team for the 2012 financial year will be to continue maintaining the Company's occupancy levels and rental streams.”

PAUL DUFFY CHIEF EXECUTIVE

Portfolio Highlights

188 lease transactions completed **over 218,205m²** of net lettable area

Annualised **rental growth** of **3.8%** p.a. from rent reviews

Occupancy rate of **98%** with a weighted average lease term (**WALT**) of **4.3** years

Chief Executive's Report

The Company's financial result has been underpinned by the performance of the property portfolio, with the successful conclusion of 188 lease transactions contributing to the high occupancy rate, and a WALT (weighted average lease term) of 4.3 years.

The portfolio occupancy rate of 98% is a particularly satisfying result considering the current economic climate. The management team's ongoing focus on tenant retention is clearly evident in this result.

Lease Transactions

Key components of achieving rental income growth in the portfolio are lease renewals and rental reviews. DNZ currently has a target of having 25% of the portfolio's rental reviews being a combination of fixed and/or stepped increases at a review date, or being linked to an increase in inflation based on movements in CPI.

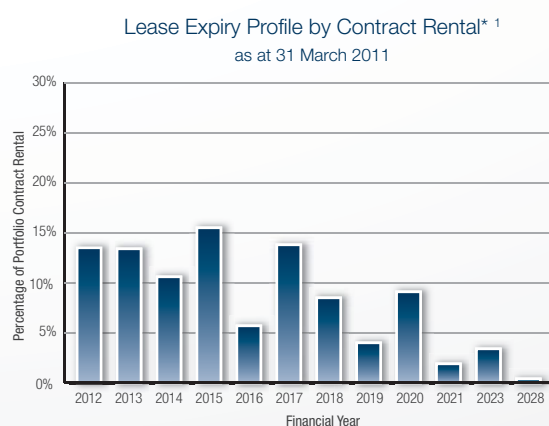
The 188 lease transactions management completed during the period included:

- 100 rent reviews over 138,766m² for a total rental of \$25.8 million
- 32 lease renewals completed over 32,234m² for a total rental of \$4.4 million
- 56 new lettings completed over 47,205m² for a total rental of \$8.0 million

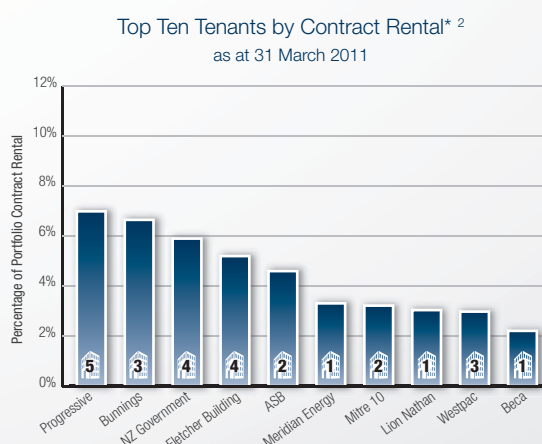
Major Transactions Completed

Tenant	Commencement	Area m ²	Term
Lion Nathan Wines & Spirits	October 2011	21,349	3 years
Laminex Group (Fletcher Building)	November 2010	18,836	12 years
Pacific Coilcoaters (Fletcher Building)	April 2010	5,978	9 years
Beca	April 2010	5,938	3 years
RPS Switchgear	February 2011	3,978	6 years
Briscoes	May 2011	2,588	6 years
Colorite Group	August 2010	2,271	6 years
Rebel Sport	May 2011	2,128	6 years
AFT Pharmaceuticals	April 2011	1,121	4 years
Beam Global	August 2010	904	6 years

These transactions reduced DNZ's lease expiry risk and contributed to our strong occupancy rate of 98%.



¹ Represents the scheduled expiry for each lease, excluding any rights of renewal that may be granted under each lease, for the entire portfolio as at 31 March 2011, as a percentage of Contract Rental.



² Based on Contract Rental for all properties leased to individual tenants and their affiliates as at 31 March 2011. The numbers at the foot of each bar represent the number of properties leased by the tenant.

* Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to DNZ by that tenant under the terms of the relevant lease as at 31 March 2011, and annualised for the 12 month period on the basis of the occupancy level for the relevant property as at 31 March 2011, and assuming no default by the tenant.

Completion of Fletcher Building Laminex Group Design Build at O’Rorke Road, Penrose

The 12,534m² warehouse/associated administration offices/staff amenity, and the 2,217m² office building, on a 2.89 hectare site, was completed on 19 November 2010, with a new 12 year lease. The project was completed on time and under budget, and was accretive in value to the portfolio. The management team is currently looking to negotiate terms for a warehouse/office design/build facility for the residual 2.28 hectares of the site.



Fletcher Building Laminex Group, 25 O’Rorke Road, Penrose, Auckland

Development Activity

Development activity is only undertaken with appropriate levels of risk mitigation, tenant pre-commitment and appropriate investment returns. Less than 2% of DNZ’s total portfolio by value is represented by development land.

A review of the Johnsonville Shopping Centre redevelopment is on-going and a project timetable is yet to be established. The Directors are carefully reviewing the project feasibility prior to any decision being made. In any event, no development works will commence in the financial period ending 31 March 2012.

Asset Sales Programme

The asset sales programme realised \$72.2 million (gross) during the year, with the sales at, or close to, valuations, despite the difficult market conditions. The net proceeds from these sales were used to repay bank debt.

Asset sales completed included:

• 7-19 Croftfield Lane, Auckland (\$7.9m)	• Cnr First Ave & Cameron Road, Tauranga (\$5.5m)
• Cnr Cambridge Terrace & Hollands Crescent, Lower Hutt (\$8.4m)	• 231 Bush Road, Auckland (\$7.0m)
• 266 High Street, Lower Hutt (\$9.2m)	• 33-43 Jackson Street, Wellington (\$13.6m)
• Tauriko Industrial Estate, Lots 71, 73-76, Tauranga (\$3.0m)	• Cnr Tauroa & State Highway 1, Whangarei (\$13.5m)
• Airpark Business Centre, Lots 2 & 3, Auckland (\$2.9m)	• Tauriko Industrial Estate, Lots 105 & 107, Tauranga (\$1.3m)

Note: Values above may not sum due to rounding.

Asset Valuations

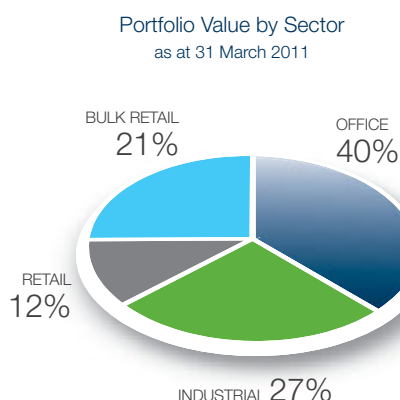
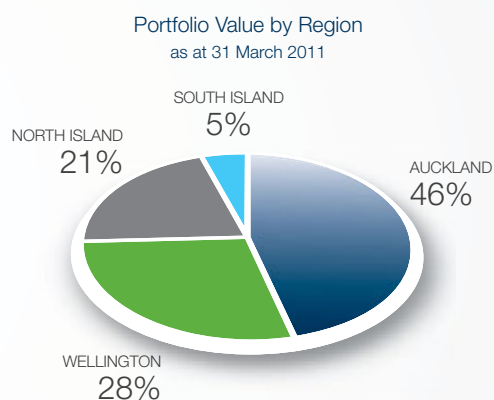
The annual independent market valuation of DNZ's property portfolio has resulted in a minimal reduction in the portfolio value for the year of 1.9%, or \$11.8 million, to \$637.7 million on a "like for like" basis (i.e excluding the effect on the portfolio value of acquisitions and divestments during the year).

The value of DNZ's office portfolio decreased by 4.4%, or \$11.7 million, with the Wellington office portfolio contributing 69% to the downward movement through a 6.3%, or \$8.1 million, decrease in value. The office sector makes up 40% (by value) of DNZ's total portfolio, with just under half of the office properties in Wellington. The retail sector decreased by 1.1%, bulk retail decreased by 0.7% and industrial increased by 1.2%.

The value of DNZ's portfolio has remained firm, with the weighted average capitalisation rate across the portfolio remaining stable at 8.75%.

DNZ's two Christchurch properties are less than 3% of DNZ's total portfolio and after the latest earthquake in June, we continue to monitor the two DNZ Christchurch property assets. Combined they experienced a minor valuation decrease of 1.6%. The DNZ portfolio is insured for earthquake damage, including business interruption insurance for loss of rent, subject to agreed policy limits and restrictions.

DNZ's strategy of maintaining a diversified property portfolio by sector and location softened the impact of any location specific events such as the Christchurch earthquake, or any sector specific valuation movements such as the Wellington office market.



In Summary

The primary focus of the management team for the 2012 financial year will be to continue maintaining the Company's occupancy levels and rental streams. We will maintain a proactive tenant management focus that will continue to deliver strong and sustainable returns to our Shareholders.

Yours faithfully,

PAUL DUFFY
Chief Executive



Case Study: From the Past - For the Future

Fletcher Building Laminex Group
25 O'Rorke Road, Penrose, Auckland

This new design build 12,534m² distribution centre facility for The Laminex Group is an excellent example of a brownfield redevelopment utilising the latest in sustainability principles.

The facility has also been built with expansion flexibility and future proofed to allow for a rail siding. The development includes a standalone two-level 2,217m² head office with a café operator, located on the high profile and prominent corner of O'Rorke and Station Roads. The office can be sub-divided for future tenants, creating a sustainable investment for the Company.

- 12,170m² high stud warehouse
- 364m² of warehouse administration offices and staff amenity
- 4,375m² of canopies
- Standalone two-level 2,217m² office building
- Expansion land of 3,520m²
- Total site area for distribution centre of 23,187m²
- 72% site coverage including canopies
- Practical Completion 19 November 2010
- New 12 year lease commenced November 2010 with annual rental reviews.

Property Council NZ Awards 2011 - Merit Award



Sustainability Features



Crushing for recycled fill.



Full site soakage of stormwater. Grey water harvesting for toilets.



Natural lighting in the interior of the warehouse, with sensor lights fitted.



Large canopy areas and full site circulation.



Modern office facility co-located with the distribution centre and Kream Cafe providing excellent staff amenity.



Strong tenant covenant of a Fletcher Building company.



Portfolio

Portfolio Summary	As at 31 March 2011	As at 31 March 2010
Number of properties	50	58
Number of tenants	283	272
Net Lettable Area	371,481m ²	397,696m ²
Current WALT (years)	4.3 years	4.7 years
Current occupancy rate (by area)	97.9%	95.6%
Asset Valuation	\$638m	\$700m

Property	City	Tenants (no.)	Major Tenant	Occupancy (%)	Net Lettable Area (m ²)	WALT	31 March 2011 Valuation	Net Contract Rental	Market Cap Rate	Contract Yield
OFFICE										
129 Hurstmere Road, Takapuna	Auckland	7	A.C. Nielsen (N.Z.)	100%	7,246	2.4	18,000,000	\$2,009,534	9.50%	11.16%
33 Corinthian Drive, Albany	Auckland	1	ASB Bank	100%	10,936	5.5	31,700,000	\$2,638,525	8.50%	8.32%
8 Rockridge Avenue, Penrose	Auckland	2	UGL (NZ), Matrix Security Group	74%	3,112	2.4	6,400,000	\$569,212	9.38%	8.89%
650 Great South Road, Greenlane	Auckland	4	Unisys New Zealand, healthAlliance New Zealand	93%	8,390	2.0	22,000,000	\$2,337,066	9.50%	10.62%
132 Vincent Street	Auckland	1	Beca	100%	5,938	2.0	9,000,000	\$1,300,000	10.50%	14.44%
80 Greys Avenue	Auckland	3	DDB New Zealand	87%	5,500	1.1	11,150,000	\$1,121,037	9.75%	10.05%
7 - 9 Fanshawe Street	Auckland	14	IPFX, Rubicon	69%	4,818	2.2	12,100,000	\$1,253,230	10.50%	10.36%
21 - 25 Teed Street, Newmarket	Auckland	8	Beam Global (NZ), MYOB NZ	59%	4,012	3.8	12,300,000	\$855,237	9.25%	6.95%
22 The Terrace	Wellington	7	Department of Internal Affairs	100%	4,780	3.8	13,500,000	\$1,351,622	8.75%	10.01%
99 - 105 Customhouse Quay	Wellington	19	Dimension Data	81%	4,294	2.6	13,400,000	\$1,082,427	9.00%	8.08%
13 Jarden Mile, Ngauranga Gorge	Wellington	1	Armourguard Security	100%	1,182	0.7	2,500,000	\$250,133	8.00%	10.01%
33 Customhouse Quay	Wellington	2	Meridian Energy	100%	5,237	6.0	30,000,000	\$2,394,985	7.25%	7.98%
1 Grey Street	Wellington	12	Westpac (NZ) Investments, Ministry of Foreign Affairs & Trade, Maritime New Zealand	100%	10,454	2.8	41,500,000	\$3,790,474	8.25%	9.13%
3 - 11 Hunter Street	Wellington	14	Dimension Data, Employers' Chamber of Commerce Central, Telecom New Zealand	94%	8,331	3.6	21,100,000	\$2,040,365	9.00%	9.67%
7 Winston Avenue, Papanui	Christchurch	5	Ministry of Social Development	100%	4,447	5.7	9,300,000	\$836,594	10.00%	9.00%
OFFICE TOTAL		100		92.60%	88,676	3.4	\$253,950,000	\$23,830,438	8.88%	9.38%

RETAIL

Cnr Mt Wellington Highway & Penrose Road	Auckland	20	Progressive Enterprises	100%	8,889	3.9	24,200,000	\$2,028,544	9.00%	8.38%
Cnr Ward, Bryce and Tristram Streets	Hamilton	16	Kmart (New Zealand)	92%	8,119	6.0	13,700,000	\$1,358,528	9.63%	9.92%
Johnsonville Retail	Wellington	86	Specialty Retail	96%	6,986	2.0	37,000,000	\$2,673,060	8.29%	7.22%
RETAIL TOTAL		122		96.12%	23,995	3.5	\$74,900,000	\$6,060,133	8.76%	8.09%

* Totals may not sum accurately due to rounding.

Property	City	Tenants (no.)	Major Tenant	Occupancy (%)	Net Lettable Area (m ²)	WALT	31 March 2011 Valuation	Net Contract Rental	Market Cap Rate	Contract Yield
BULK RETAIL										
Cnr Kamo Road & Manse Street	Whangarei	1	Mitre 10 (New Zealand)	100%	4,197	6.6	6,250,000	\$528,650	8.50%	8.46%
446 Te Rapa Road	Hamilton	1	Bunnings	100%	12,763	8.2	16,400,000	\$1,357,966	8.38%	8.28%
Cnr Anglesea and Liverpool Streets	Hamilton	1	Progressive Enterprises	100%	5,265	7.8	8,200,000	\$852,456	9.00%	10.40%
65 Chapel Street	Tauranga	25	The Sports Authority, Briscoes (NZ)	99%	16,367	4.1	31,500,000	\$2,762,673	8.63%	8.77%
230 - 240 Fenton Street	Rotorua	1	Progressive Enterprises	100%	5,172	2.4	10,900,000	\$940,000	8.63%	8.62%
26-48 Old Taupo Road	Rotorua	1	Bunnings	100%	13,940	8.2	15,400,000	\$1,260,726	8.50%	8.19%
170 - 180 Taradale Road	Napier	3	Fletcher Distribution	100%	5,775	0.9	4,250,000	\$404,388	9.25%	9.52%
Cnr Tremaine Avenue and Railway Road	Palmerston North	1	Bunnings	100%	13,730	8.2	15,500,000	\$1,290,510	8.25%	8.33%
Cnr Te Irirangi Drive & Bishop Dunn Place, East Tamaki	Auckland	1	Mitre 10 (New Zealand)	100%	12,124	6.6	16,400,000	\$1,362,500	8.50%	8.31%
35 MacLaggan Street	Dunedin	1	The Warehouse	100%	6,433	1.3	8,000,000	\$806,667	9.50%	10.08%
BULK RETAIL TOTAL		36		99.75%	95,766	5.7	\$132,800,000	\$11,566,536	8.61%	8.71%

INDUSTRIAL										
15 Ride Way, Albany	Auckland	1	New Zealand Post	100%	6,027	0.4	6,260,000	\$552,171	8.25%	8.82%
20-22 Pollen Street, Grey Lynn	Auckland	1	Colorite Group	100%	2,271	5.4	4,200,000	\$320,000	9.00%	7.62%
968 Great South Road, Penrose	Auckland	1	Fletcher Steel	100%	5,978	9.0	6,100,000	\$483,475	8.25%	7.93%
15 Rockridge Avenue, Penrose	Auckland	1	Premier Autos	100%	2,216	0.5	1,560,000	\$214,000	9.25%	13.72%
20 Rockridge Avenue, Penrose	Auckland	1	CEVA Logistics (New Zealand)	100%	10,239	1.2	10,500,000	\$920,707	8.50%	8.77%
9 Springs Road, East Tamaki	Auckland	1	Lion Nathan Wines & Spirits (New Zealand)	100%	21,349	3.5	17,800,000	\$1,786,150	9.35%	10.03%
8 Reg Savory Place, East Tamaki	Auckland	1	National Glass	100%	4,025	6.4	5,350,000	\$429,629	8.15%	8.03%
415 East Tamaki Road, East Tamaki	Auckland	1	Chrisco Hampers	100%	9,727	4.4	11,000,000	\$939,521	8.65%	8.54%
22-30 Airpark Drive, Mangere	Auckland	1	DHL Supply Chain (New Zealand)	100%	13,733	3.4	14,850,000	\$1,288,994	8.75%	8.68%
22 Ha Crescent, Wiri	Auckland	1	Storage Dynamics	100%	8,757	3.9	8,200,000	\$763,448	8.85%	9.31%
460 Rosebank Road, Avondale	Auckland	1	Croxley Stationery	100%	12,263	5.0	9,350,000	\$840,000	9.00%	8.98%
Airpark Business Centre - Lot 10 (Ground Lease), Mangere	Auckland	1	MPI International	100%	-	16.8	3,000,000	\$220,500	8.25%	7.35%
25 O'Rorke Road, Penrose	Auckland	2	Fletcher Building Products	100%	19,126	11.5	32,510,000**	1,729,181	7.88%	5.32%
8 Burnham Street, Petone	Wellington	4	Fletcher Steel, Winstone Wallboards	100%	9,260	5.3	8,500,000	\$644,142	8.50%	7.58%
19-21 Bouverie Street, Lower Hutt	Wellington	1	RPS Switchgear	100%	645	5.9	810,000	\$59,005	8.00%	7.28%
7-17 Bouverie Street, Lower Hutt	Wellington	1	RPS Switchgear	100%	3,333	5.9	3,100,000	\$288,211	8.25%	9.30%
12 Tyers Road, Ngauranga Gorge	Wellington	1	Fonterra Brands (New Zealand)	100%	1,304	3.5	2,350,000	\$215,598	8.00%	9.17%
14 Tyers Road, Ngauranga Gorge	Wellington	1	ACM New Zealand	100%	2,639	11.0	4,300,000	\$335,000	7.75%	7.79%
70 Nayland Road	Nelson	1	Carter Holt Harvey	100%	3,340	1.7	3,750,000	\$363,121	8.75%	9.68%
62 Columbia Avenue, Hornby	Christchurch	1	Progressive Enterprises	100%	12,665	0.4	9,200,000	\$1,039,298	9.50%	11.30%
709 Te Rapa Road	Hamilton	1	NDA Engineering	100%	14,146	5.6	11,100,000	\$1,135,000	10.00%	10.23%
INDUSTRIAL TOTAL		25		100.00%	163,044	5.0	\$173,790,000	\$14,567,151	8.65%	8.38%

PROPERTIES HELD FOR DEVELOPMENT										
Lots 82 - 85, Tauriko Industrial Estate	Tauranga			N/A	N/A	N/A	2,265,000	N/A	N/A	N/A
PROPERTIES HELD FOR DEVELOPMENT TOTAL							2,265,000			

Property	Number of Properties	Tenants (no.)	Occupancy (%)	Net Lettable Area (m ²)	WALT	31 March 2011 Valuation	Net Contract Rental	Market Cap Rate	Contract Yield
TOTAL ALL PROPERTIES	50	283	97.92%	371,481	4.3	\$637,705,000	\$56,024,258	8.75%	8.82%

** 25 O'Rorke Road valuation of \$32,510,000 includes 2.28 hectares of development land.

Portfolio

DNZ Property Fund



WHANGAREI

CNR KAMO ROAD & MANSE STREET, WHANGAREI

Completed in July 2004, this 4,197m² Mitre 10 store incorporates a main retail store, drive through yard, offices, garden centre, café and 90 carparks.

Valuation 31 Mar 2011	\$6,250,000
Net Contract Rental	\$528,650
Net Lettable Area	4,197m ²
Occupancy	100%
WALT	6.6 yrs
Market Cap Rate	8.50%
Contract Yield	8.46%



NORTH SHORE

15 RIDE WAY, ALBANY, NORTH SHORE

This property provides quality warehouse, office and canopies of 6,027m² in a well established industrial area of Albany. The site is currently utilised by NZ Post as their North Shore Courier Depot.

Valuation 31 Mar 2011	\$6,260,000
Net Contract Rental	\$552,171
Net Lettable Area	6,027m ²
Occupancy	100%
WALT	0.4 yrs
Market Cap Rate	8.25%
Contract Yield	8.82%



NORTH SHORE

129 HURSTMERE ROAD, TAKAPUNA, NORTH SHORE

This is a six level office building located in Takapuna that has commanding views of Rangitoto Island from the majority of its floors. There is excellent basement parking for 145 vehicles and ground floor retail that incorporates three restaurants. The major tenant is A.C. Nielsen (NZ).

Valuation 31 Mar 2011	\$18,000,000
Net Contract Rental	\$2,009,534
Net Lettable Area	7,246m ²
Occupancy	100%
WALT	2.4yrs
Market Cap Rate	9.50%
Contract Yield	11.16%



NORTH SHORE

33 CORINTHIAN DRIVE, ALBANY, NORTH SHORE

Completed in October 2001, the building is located adjacent to the Albany Mega Centre. It comprises a substantial 10,936m² office building and a parking structure for 106 cars. ASB Bank is the building's sole tenant.

Valuation 31 Mar 2011	\$31,700,000
Net Contract Rental	\$2,638,525
Net Lettable Area	10,936m ²
Occupancy	100%
WALT	5.5 yrs
Market Cap Rate	8.50%
Contract Yield	8.32%



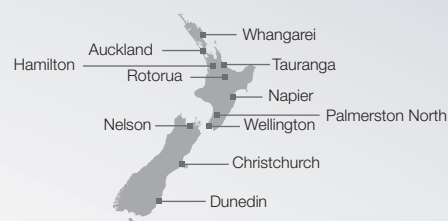
AUCKLAND

20-22 POLLEN STREET, GREY LYNN, AUCKLAND

Built in 1986, this office/warehouse building is located in the inner city suburb of Grey Lynn, on the fringe of the Auckland CBD. The building is leased to Colorite.

Valuation 31 Mar 2011	\$4,200,000
Net Contract Rental	\$320,000
Net Lettable Area	2,271m ²
Occupancy	100%
WALT	5.4 yrs
Market Cap Rate	9.00%
Contract Yield	7.62%

One entity **One vision**



AUCKLAND

968 GREAT SOUTH ROAD, PENROSE, AUCKLAND

The property comprises a large 5,978m² industrial complex that is fully occupied by Pacific Coilcoaters, a subsidiary of Fletcher Steel. The facility is used to colour coat long run roofing iron.

Valuation 31 Mar 2011	\$6,100,000
Net Contract Rental	\$483,475
Net Lettable Area	5,978m ²
Occupancy	100%
WALT	9.0 yrs
Market Cap Rate	8.25%
Contract Yield	7.93%



AUCKLAND

8 ROCKRIDGE AVENUE, PENROSE, AUCKLAND

This office building accommodates UGL (NZ) Limited and Matrix Security. UGL occupy one and a half floors, with Matrix Security occupying 690m² over two floors.

Valuation 31 Mar 2011	\$6,400,000
Net Contract Rental	\$569,212
Net Lettable Area	3,112m ²
Occupancy	74%
WALT	2.4 yrs
Market Cap Rate	9.38%
Contract Yield	8.89%



AUCKLAND

15 ROCKRIDGE AVENUE, PENROSE, AUCKLAND

This property comprises a manufacturing complex constructed in the 1960s. The site area is 4,600m² located in central Penrose. The property is leased to Premier Autos.

Valuation 31 Mar 2011	\$1,560,000
Net Contract Rental	\$214,000
Net Lettable Area	2,216m ²
Occupancy	100%
WALT	0.5 yrs
Market Cap Rate	9.25%
Contract Yield	13.72%



AUCKLAND

20 ROCKRIDGE AVENUE, PENROSE, AUCKLAND

Located in Stadium Business Park close to the Ellerslie/Penrose motorway interchange, this purpose built warehouse facility with a nine metre stud height is occupied by CEVA Logistics.

Valuation 31 Mar 2011	\$10,500,000
Net Contract Rental	\$920,707
Net Lettable Area	10,239m ²
Occupancy	100%
WALT	1.2 yrs
Market Cap Rate	8.50%
Contract Yield	8.77%



AUCKLAND

9 SPRINGS ROAD, EAST TAMAKI, AUCKLAND

This 21,349m² warehouse building with accompanying hardstand areas for storage is one of New Zealand's largest liquor packaging and distribution operations. Lion Nathan Wines and Spirits New Zealand occupies the whole site.

Valuation 31 Mar 2011	\$17,800,000
Net Contract Rental	\$1,786,150
Net Lettable Area	21,349m ²
Occupancy	100%
WALT	3.5 yrs
Market Cap Rate	9.35%
Contract Yield	10.03%



Portfolio

DNZ Property Fund



AUCKLAND

CNR MT WELLINGTON HIGHWAY & PENROSE ROAD, AUCKLAND

Mt Wellington Shopping Centre is an established and successful single level neighbourhood shopping centre servicing the growing Mt Wellington locality and surrounding residential districts. The Centre is well located on the prominent corner of Mt Wellington Highway and Penrose Road, two key arterials within the area. The shopping centre is anchored by a Countdown supermarket and has 19 complementary specialty stores.

* includes turnover rental

Valuation 31 Mar 2011	\$24,200,000
Net Contract Rental*	\$2,028,544
Net Lettable Area	8,889m ²
Occupancy	100%
WALT	3.9 yrs
Market Cap Rate	9.00%
Contract Yield	8.38%



AUCKLAND

8 REG SAVORY PLACE, EAST TAMAKI, AUCKLAND

Leased to National Glass, this property comprises a medium stud warehouse and quality offices located in the developing industrial precinct of East Tamaki.

Valuation 31 Mar 2011	\$5,350,000
Net Contract Rental	\$429,629
Net Lettable Area	4,025m ²
Occupancy	100%
WALT	6.4 yrs
Market Cap Rate	8.15%
Contract Yield	8.03%



AUCKLAND

415 EAST TAMAKI ROAD, EAST TAMAKI, AUCKLAND

Leased to Chrisco Hampers, this property comprises warehouse space of 8,700m² with associated offices. This property is located on a high profile corner in the industrial precinct of East Tamaki.

Valuation 31 Mar 2011	\$11,000,000
Net Contract Rental	\$939,521
Net Lettable Area	9,727m ²
Occupancy	100%
WALT	4.4 yrs
Market Cap Rate	8.65%
Contract Yield	8.54%



AUCKLAND

22 HA CRESCENT, WIRI, AUCKLAND

This office and warehouse building was completed in December 2005 and is located in the Auckland industrial precinct of Wiri in close proximity to Auckland International Airport and motorways. The property is leased by Storage Dynamics.

Valuation 31 Mar 2011	\$8,200,000
Net Contract Rental	\$763,448
Net Lettable Area	8,757m ²
Occupancy	100%
WALT	3.9 yrs
Market Cap Rate	8.85%
Contract Yield	9.31%



AUCKLAND

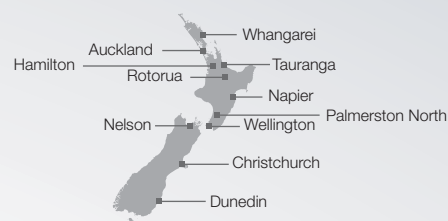
1-25 O'RORKE ROAD, PENROSE, AUCKLAND

The property consists of 5.1 hectares of prime industrial land in an established part of Penrose. A new 2,217m² head office and a new 12,534m² high stud (9m) warehouse / office Distribution Centre was completed in November 2010. The office also includes a new Kreem Café.

* Valuation of \$32,510,000 includes 2.28 hectares of development land.

Valuation 31 Mar 2011	\$32,510,000*
Net Contract Rental	\$1,729,181
Net Lettable Area	19,126m ²
Occupancy	100%
WALT	11.5 yrs
Market Cap Rate	7.88%
Contract Yield	5.32%

One entity **One vision**



AUCKLAND

CNR TE IRIRANGI DRIVE & BISHOP DUNN PLACE,
EAST TAMAKI, AUCKLAND

Completed in 2004, this 12,124m² Mitre 10 Mega Store incorporates a main retail store, drive through yard, offices, garden centre, café and 244 carparks.

Valuation 31 Mar 2011	\$16,400,000
Net Contract Rental	\$1,362,500
Net Lettable Area	12,124m ²
Occupancy	100%
WALT	6.6 yrs
Market Cap Rate	8.50%
Contract Yield	8.31%



AUCKLAND

460 ROSEBANK ROAD, AVONDALE, AUCKLAND

Leased to Croxley Stationery, this property is a substantial warehouse, manufacturing and office building. The property is located in an industrial area that has experienced significant gentrification into a showroom and office park environment.

Valuation 31 Mar 2011	\$9,350,000
Net Contract Rental	840,000
Net Lettable Area	12,263m ²
Occupancy	100%
WALT	5.0 yrs
Market Cap Rate	9.00%
Contract Yield	8.98%



AUCKLAND

650 GREAT SOUTH ROAD, GREENLANE, AUCKLAND

Unisys House is a purpose built office building situated in Greenlane, 15 minutes drive from Auckland International Airport. The building hosts four quality tenants: Unisys, ViaLactia Biosciences, the Ministry of Health and healthAlliance. These tenants enjoy secure undercover parking and easy access to the Southern Motorway interchange.

Vialactia vacated the premises post balance date.

Valuation 31 Mar 2011	\$22,000,000
Net Contract Rental	\$2,337,066
Net Lettable Area	8,390m ²
Occupancy	93%
WALT	2.0 yrs
Market Cap Rate	9.50%
Contract Yield	10.62%



AUCKLAND

132 VINCENT STREET, AUCKLAND

This office building is located on the fringe of the Auckland CBD with close proximity to the Southern, North Western and Northern motorway systems. The property has large floor plates and accommodates Beca's business units.

Valuation 31 Mar 2011	\$9,000,000
Net Contract Rental	\$1,300,000
Net Lettable Area	5,938m ²
Occupancy	100%
WALT	2.0 yrs
Market Cap Rate	10.50%
Contract Yield	14.44%



AUCKLAND

80 GREYS AVENUE, AUCKLAND

Located close to central motorway access, this air-conditioned, eight-level office building enjoys the benefit of refurbished common areas and excellent parking. The building is primarily leased to DDB, with DNZ occupying the fourth level.

Valuation 31 Mar 2011	\$11,150,000
Net Contract Rental	\$1,121,037
Net Lettable Area	5,500m ²
Occupancy	87%
WALT	1.1 yrs
Market Cap Rate	9.75%
Contract Yield	10.05%



Portfolio

DNZ Property Fund

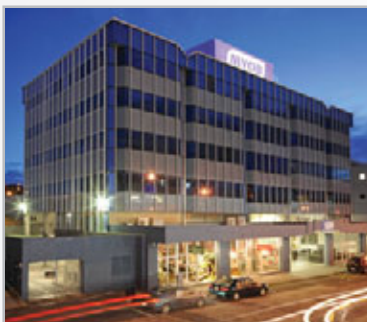


AUCKLAND

7-9 FANSHAWE STREET, AUCKLAND

This office building located at Viaduct Harbour has seven levels of offices with basement car parking. The building was constructed in the mid 1960s and extensively refurbished in 2000. The floor plates are 650m² with 101 car parks. The major tenants are Rubicon, AT&T, IPFX, Landmark Education, NEC, Epson, Delegat's Wines and Clearpoint.

Valuation 31 Mar 2011	\$12,100,000
Net Contract Rental	\$1,253,230
Net Lettable Area	4,818m ²
Occupancy	69%
WALT	2.2 yrs
Market Cap Rate	10.50%
Contract Yield	10.36%



AUCKLAND

21-25 TEED STREET, NEWMARKET, AUCKLAND

This office building is well located in the popular retail precinct of Newmarket. This property consists of five floors of office space that have undergone refurbishment to position the office space for leasing. The upper level views span from central Newmarket through to Rangitoto. There are ground floor retail tenants including a florist, homewares, a café and an optometrist. The refurbished office floors are tenanted by Beam Global, MYOB and Wisdom Management.

Valuation 31 Mar 2011	\$12,300,000
Net Contract Rental	\$855,237
Net Lettable Area	4,012m ²
Occupancy	59%
WALT	3.8 yrs
Market Cap Rate	9.25%
Contract Yield	6.95%



SOUTH AUCKLAND

AIRPARK BUSINESS CENTRE, LOT 10, MANGERE, AUCKLAND

DNZ has a ground lease with MPI International. The ground lease is perpetually renewable for 20 year terms. The ground lessee has developed an airport parking facility that is sub-leased to a carparking operator.

Valuation 31 Mar 2011	\$3,000,000
Net Contract Rental	\$220,500
Net Lettable Area	-
Occupancy	100%
WALT	16.8 yrs
Market Cap Rate	8.25%
Contract Yield	7.35%



SOUTH AUCKLAND

22-30 AIRPARK DRIVE, MANGERE, AUCKLAND

Located in close proximity to Auckland International Airport, this 13,733m² high stud office/warehouse was completed in August 2005 as a design built facility for DHL. The site fronts onto George Bolt Memorial Drive, the main arterial to Auckland International Airport.

Valuation 31 Mar 2011	\$14,850,000
Net Contract Rental	\$1,288,994
Net Lettable Area	13,733m ²
Occupancy	100%
WALT	3.4 yrs
Market Cap Rate	8.75%
Contract Yield	8.68%



HAMILTON

446 TE RAPA ROAD, HAMILTON

Leased to Bunnings, the property comprises substantial bulk retail premises on a high profile 2.83 hectare site fronting Te Rapa Road, Hamilton. The property consists of a 12,763m² warehouse/showroom including associated offices and amenities, timber sales, trade yard and outdoor nursery area.

Valuation 31 Mar 2011	\$16,400,000
Net Contract Rental*	\$1,357,966
Net Lettable Area	12,763m ²
Occupancy	100%
WALT	8.2 yrs
Market Cap Rate	8.38%
Contract Yield	8.28%

One entity **One vision**



HAMILTON

CNR ANGLESEA & LIVERPOOL STREETS, HAMILTON

This property is located in central Hamilton with the convenience of three road frontages and ample car parking. This supermarket was completely re-fitted in 2003 to become a leading Countdown store. Shell now sub-leases the petrol outlet formerly operated by Countdown.

* includes turnover rental

Valuation 31 Mar 2011	\$8,200,000
Net Contract Rental*	\$852,456
Net Lettable Area	5,265m ²
Occupancy	100%
WALT	7.8 yrs
Market Cap Rate	9.00%
Contract Yield	10.40%



HAMILTON

CNR WARD, BRYCE & TRISTRAM STREETS, HAMILTON

This property is located in the Hamilton CBD and is a single level retail mall with basement car parking. Kmart is the anchor tenant, with 23 smaller tenancies, including a food court. The building has significant street exposure with large frontages along the northern, western and southern boundaries.

Valuation 31 Mar 2011	\$13,700,000
Net Contract Rental	\$1,358,528
Net Lettable Area	8,119m ²
Occupancy	92%
WALT	6.0 yrs
Market Cap Rate	9.63%
Initial Yield	9.92%



HAMILTON

709 TE RAPA ROAD, HAMILTON

This is a large complex situated in Te Rapa. The complex encompasses 11 industrial buildings with car parking for 153 vehicles. NDA Engineering, a multinational stainless steel fabricator, occupies the entire site.

Valuation 31 Mar 2011	\$11,100,000
Net Contract Rental	\$1,135,000
Net Lettable Area	14,146m ²
Occupancy	100%
WALT	5.6 yrs
Market Cap Rate	10.00%
Contract Yield	10.23%



TAURANGA

LOTS 82 - 85, TAURIKO INDUSTRIAL ESTATE, TAURANGA

1.6949 hectares located in the Tauriko Industrial Estate, an industrial land subdivision located to the South of Tauranga. Design-build opportunities are being sourced for the development of this vacant land.

Valuation 31 Mar 2011	\$2,265,000



TAURANGA

65 CHAPEL STREET, TAURANGA

This retail centre has excellent exposure and access to major arterial routes to Tauranga and Mt Maunganui. Major tenants include Briscoes, Rebel Sport, Lighting Direct, Toyworld, Chipmunks and Hunting & Fishing.

Valuation 31 Mar 2011	\$31,500,000
Net Contract Rental	\$2,762,673
Net Lettable Area	16,367m ²
Occupancy	99%
WALT	4.1 yrs
Market Cap Rate	8.63%
Contract Yield	8.77%



Portfolio



ROTORUA

230-240 FENTON STREET, ROTORUA

Constructed in 1993, the property comprises a Countdown supermarket with associated office amenities. The site has 300 carparks and is situated on a large commercially zoned site on the southern fringe of Rotorua's CBD.

Valuation 31 Mar 2011	\$10,900,000
Net Contract Rental	\$940,000
Net Lettable Area	5,172m ²
Occupancy	100%
WALT	2.4 yrs
Market Cap Rate	8.63%
Contract Yield	8.62%



ROTORUA

26-48 OLD TAUPU ROAD, ROTORUA

Leased to Bunnings, this property comprises substantial bulk retail premises on a high profile 3.15 hectare site fronting Old Taupo Road, Rotorua. The property consists of a 13,940m² warehouse/showroom including associated offices and amenities, timber sales, trade yard and outdoor nursery area.

Valuation 31 Mar 2011	\$15,400,000
Net Contract Rental	\$1,260,726
Net Lettable Area	13,940m ²
Occupancy	100%
WALT	8.2 yrs
Market Cap Rate	8.5%
Contract Yield	8.19%



NAPIER

170-180 TARADALE ROAD, NAPIER

This is a large landholding situated in Taradale Road, Onekawa, Napier, that incorporates a purpose built Palmers Gardenworld and a PlaceMakers showroom including a timber yard. Laminex Group is situated at the rear of the property.

Valuation 31 Mar 2011	\$4,250,000
Net Contract Rental	\$404,388
Net Lettable Area	5,775m ²
Occupancy	100%
WALT	0.9 yrs
Market Cap Rate	9.25%
Contract Yield	9.52%



PALMERSTON NORTH

CNR TREMAINE AVENUE & RAILWAY ROAD, PALMERSTON NORTH

Leased to Bunnings, this property consists of a 13,730m² retail home improvement store comprising a bulk retail area, timber trade sales warehouse, timber yard and outdoor nursery on a three hectare site.

Valuation 31 Mar 2011	\$15,500,000
Net Contract Rental	\$1,290,510
Net Lettable Area	13,730m ²
Occupancy	100%
WALT	8.2 yrs
Market Cap Rate	8.25%
Contract Yield	8.33%



LOWER HUTT

8 BURNHAM STREET, PETONE, LOWER HUTT

This 9,260m² building is in a well established Wellington industrial location and comprises a two-level office building with an adjacent industrial warehouse. The premises are substantially leased to Fletcher Steel and Winstone Wallboards, with new six year leases being entered into with these tenants in 2010. A substantial canopy was constructed for Winstone Wallboards as part of the new lease.

Valuation 31 Mar 2011	\$8,500,000
Net Contract Rental	\$644,142
Net Lettable Area	9,260m ²
Occupancy	100%
WALT	5.3 yrs
Market Cap Rate	8.50%
Contract Yield	7.58%

One entity **One vision**



LOWER HUTT

7-17 BOUVERIE STREET, PETONE, LOWER HUTT

This industrial property adjoins 8 Burnham Street and 19-21 Bouverie Street, which are also owned by DNZ. The site has provided additional road frontage and development potential. The property adjoins a Mitre 10 Mega and is leased to Reyrolle Pacific Switchgear on a new six year term from February 2011.

Valuation 31 Mar 2011	\$3,100,000
Net Contract Rental	\$288,211
Net Lettable Area	3,333m ²
Occupancy	100%
WALT	5.9 yrs
Market Cap Rate	8.25%
Contract Yield	9.30%



LOWER HUTT

19-21 BOUVERIE STREET, PETONE, LOWER HUTT

This industrial property adjoins 8 Burnham Street and 7-17 Bouverie Street, which are also owned by DNZ. The site has provided additional road frontage and development potential. The property adjoins a Mitre 10 Mega and is leased to Reyrolle Pacific Switchgear.

Valuation 31 Mar 2011	\$810,000
Net Contract Rental	\$59,005
Net Lettable Area	645m ²
Occupancy	100%
WALT	5.9 yrs
Market Cap Rate	8.00%
Contract Yield	7.28%



WELLINGTON

12 TYERS ROAD, NGAURANGA GORGE, WELLINGTON

This NZ Milk Corporation depot is an attractive custom-designed development in one of Wellington's prime industrial locations, the Ngauranga Gorge.

Valuation 31 Mar 2011	\$2,350,000
Net Contract Rental	\$215,598
Net Lettable Area	1,304m ²
Occupancy	100%
WALT	3.5 yrs
Market Cap Rate	8.00%
Contract Yield	9.17%



WELLINGTON

33 CUSTOMHOUSE QUAY, WELLINGTON

Primarily leased to Meridian Energy, this property is a 5,237m² four level Environmentally Sustainable Design (ESD) office building with ground floor retail on Wellington's CBD waterfront. Completed in September 2007, this property was the first five green star office building to be occupied in New Zealand. The ground floor occupiers include Wagamama and Portofino Restaurants.

Valuation 31 Mar 2011	\$30,000,000
Net Contract Rental	\$2,394,985
Net Lettable Area	5,237m ²
Occupancy	100%
WALT	6.0 yrs
Market Cap Rate	7.25%
Contract Yield	7.98%



WELLINGTON

JOHNSONVILLE RETAIL, CNR BRODERICK, JOHNSONVILLE & MOOREFIELD ROADS, JOHNSONVILLE, WELLINGTON (50%)

Johnsonville Shopping Centre is a suburban shopping centre first constructed in 1969. It was refurbished and expanded in 1993, and incorporates approximately 60 specialty shops, a food court and office accommodation. A Countdown supermarket sits on adjacent land, with its entry integrated with the Centre. Due to the unrivalled location of the Centre, there is significant redevelopment potential. DNZ Property Fund owns a 50% share of the Johnsonville Shopping Centre.

Valuation 31 Mar 2011 (50%)	\$37,000,000
Net Contract Rental (50%)	\$2,673,060
Net Lettable Area (50%)	6,986m ²
Occupancy	96%
WALT	2.0 yrs
Market Cap Rate	8.29%
Contract Yield	7.22%



Portfolio

DNZ Property Fund



WELLINGTON

14 TYERS ROAD, NGAURANGA GORGE, WELLINGTON

Located in Ngauranga Gorge, this property comprises a 2,029m² warehouse and associated offices. The property is leased to ACM, a company associated with Linfox, an international transportation firm, for a 12 years and five months term from 1 November 2009.

Valuation 31 Mar 2011	\$4,300,000
Net Contract Rental	\$335,000
Net Lettable Area	2,639m ²
Occupancy	100%
WALT	11.0 yrs
Market Cap Rate	7.75%
Contract Yield	7.79%



WELLINGTON

22 THE TERRACE, WELLINGTON

Situated in the Wellington CBD, this ten-storey office building with basement car parking also comprises a historic wooden building, which is leased to Dow Corporate Real Estate. The Department of Internal Affairs leases 2,100m² over four levels.

Valuation 31 Mar 2011	\$13,500,000
Net Contract Rental	\$1,351,622
Net Lettable Area	4,780m ²
Occupancy	100%
WALT	3.8 yrs
Market Cap Rate	8.75%
Contract Yield	10.01%



WELLINGTON

99-105 CUSTOMHOUSE QUAY, WELLINGTON

This multi-tenanted office building is located on the corner of Customhouse Quay and Hunter Street. The building has 11 storeys with excellent floor plate sizes and basement parking for tenants. Dimension Data hold naming rights.

Valuation 31 Mar 2011	\$13,400,000
Net Contract Rental	\$1,082,427
Net Lettable Area	4,294m ²
Occupancy	81%
WALT	2.6 yrs
Market Cap Rate	9.00%
Contract Yield	8.08%

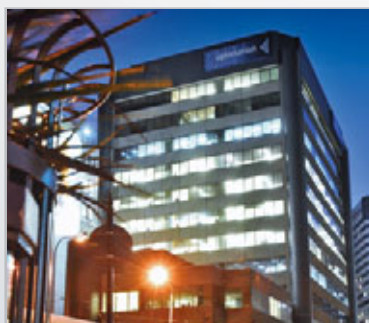


WELLINGTON

13 JARDEN MILE, NGAURANGA GORGE, WELLINGTON

Leased to Armourguard, this property has a good ratio of office to warehouse that meets the tenant's requirements. The property is conveniently located adjacent to the Wellington motorway.

Valuation 31 Mar 2011	\$2,500,000
Net Contract Rental	\$250,133
Net Lettable Area	1,182m ²
Occupancy	100%
WALT	0.7 yrs
Market Cap Rate	8.00%
Contract Yield	10.01%



WELLINGTON

1 GREY STREET, WELLINGTON

This property comprises 11 levels of office accommodation, ground floor retail and basement parking for 32 cars. The building is located on the corners of Featherston St, Grey St and Customhouse Quay, a prime location in the Wellington CBD. Westpac occupies five levels within the building, and the Ministry of Foreign Affairs occupies three levels.

Valuation 31 Mar 2011	\$41,500,000
Net Contract Rental	\$3,790,474
Net Lettable Area	10,454m ²
Occupancy	100%
WALT	2.8 yrs
Market Cap Rate	8.25%
Contract Yield	9.13%

One entity **One vision**



WELLINGTON

3-11 HUNTER STREET, WELLINGTON

Lumley House is a 13-storey air-conditioned office building located in the business sector of Wellington's CBD. The property has excellent floor plate sizes and basement parking.

Valuation 31 Mar 2011	\$21,100,000
Net Contract Rental	\$2,040,365
Net Lettable Area	8,331m ²
Occupancy	94%
WALT	3.6 yrs
Market Cap Rate	9.00%
Contract Yield	9.67%



NELSON

70 NAYLAND ROAD, NELSON

This single-level building is tenanted by Carter Holt Harvey. Purchased in February 2004, this site has an established building supplies showroom and store, a factory building assembling roof trusses and a substantial secure builders' yard.

Valuation 31 Mar 2011	\$3,750,000
Net Contract Rental	\$363,121
Net Lettable Area	3,340m ²
Occupancy	100%
WALT	1.7 yrs
Market Cap Rate	8.75%
Contract Yield	9.68%



CHRISTCHURCH

7 WINSTON AVENUE, PAPANUI, CHRISTCHURCH

Leased to government tenants, this building is a substantial, well maintained, suburban office building. The building dominates the skyline on the fringe of the Papanui suburban shopping strip and is close to Northlands Shopping Centre. The property is within 10 minutes driving time to the Christchurch CBD and the airport.

This property remains fully occupied subsequent to the recent earthquake events.

Valuation 31 Mar 2011	\$9,300,000
Net Contract Rental	\$836,594
Net Lettable Area	4,447m ²
Occupancy	100%
WALT	5.7 yrs
Market Cap Rate	10.00%
Contract Yield	9.00%



CHRISTCHURCH

62 COLUMBIA AVENUE, HORNBY, CHRISTCHURCH

This property is located in the industrial suburb of Hornby, providing easy access to both State Highway 1 and the main trunk railway line. Combining modern design, high stud height and a substantial enclosed canopy, the 12,665m² property includes a two-level office building situated on a 3.1 hectare site.

Valuation 31 Mar 2011	\$9,200,000
Net Contract Rental	\$1,039,298
Net Lettable Area	12,665m ²
Occupancy	100%
WALT	0.4 yrs
Market Cap Rate	9.50%
Contract Yield	11.30%



DUNEDIN

35 MACLAGGAN STREET, DUNEDIN

This high profile The Warehouse store is located on the fringe of Dunedin's CBD. The complex comprises two buildings that are operated as a single, integrated retail complex with undercover carparking.

Valuation 31 Mar 2011	\$8,000,000
Net Contract Rental	\$806,667
Net Lettable Area	6,433m ²
Occupancy	100%
WALT	1.30 yrs
Market Cap Rate	9.50%
Contract Yield	10.08%



JENNIFER WHOOLEY



Senior Management Team

DNZ has an in-house team of multi-disciplined and dedicated property professionals with expertise in the areas of accountancy, valuation, construction, development and asset, property and facilities management.

DNZ does not generally outsource its property or facilities management activities and performs these functions in-house wherever possible. This includes negotiating lease transactions directly with a tenant where possible. These in-house skills, combined with the specialist talents of external consultants, are a powerful resource that is directly applied to maximising the performance of the investment portfolio. DNZ's management team has a clear understanding of the current and anticipated future market trends, and the knowledge that will ensure that consistent distributions are maintained and the capital appreciation of each investment is enhanced in the future. DNZ is active and well respected in the New Zealand property market and has extensive relationships with tenants, service providers and property owners. Through these relationships, DNZ is able to obtain opportunities for the Company that are not generally available.

Jennifer Whooley

Chief Financial Officer

Prior to joining DNZ Property Group in 2002, Jennifer was Chief Accountant for Fletcher Property. She has over 20 years experience in the property industry and is responsible for DNZ's financial management and accounting reporting systems, financial budgeting, banking facilities and statutory accounting. Jennifer is also responsible for the Human Resources function within DNZ. She holds a Chartered Accountant (CA) designation from the New Zealand Institute of Chartered Accountants.



Patrick O'Reilly

General Manager Property

Prior to joining DNZ Property Group in 2003, Patrick worked for AMP Henderson Global Investors in the position of Asset Manager. He has over 20 years experience in property and has been active in the New Zealand Property Institute, holding various positions, including Branch Chairman, Councillor, and being a member on the Valuation and Property Standards Board. Patrick has a Bachelor of Commerce, a Post Graduate Diploma in Commerce, a Masters Degree in Property Studies and a Graduate Certificate in Applied Finance and Investment.

Phil Brown

General Manager Investment, Development & Capital Management

Phil has over 30 years experience in property development, property finance, corporate mergers and acquisitions in New Zealand and Australia. Phil was Investment Manager of a public property group and then Joint Managing Director of a private equity company that managed property development and venture capital. He joined DNZ Property Group in 2002. Phil has a Post Graduate Diploma in Finance from the University of Auckland, ANZIV and is a registered valuer, having specialised in the areas of commercial, retail and industrial development.

Roy Stansfield

General Manager Retail

Roy is responsible for DNZ's retail portfolio. His role includes specialty store leasing and retail planning. Roy is a qualified accountant and has over 20 years experience in the retail shopping centre industry. His knowledge of the industry includes property accountancy, centre management and retail leasing. Prior to joining DNZ, Roy was employed by Challenge Properties, St Lukes Group and Kiwi Income Property Trust, where he headed the successful leasing team at Sylvia Park.

“DNZ maintained a strong financial position over the past 12 months through a series of prudent capital management initiatives.”

JENNIFER WHOOLEY CHIEF FINANCIAL OFFICER





Chief Financial Officer's Report

It has been a significant year for DNZ and our shareholders. The last 12 months has seen management brought “in-house” - following the termination of the management agreement – a successful \$45 capital raise, and a listing on the NZX.

The Company changed from a Multi-rate PIE (Portfolio Investment Entity) to a Listed PIE on 1 July 2010, and as such, it must account for current and deferred tax going forward. This has resulted in the deferred tax expense of \$9.6m for the Company for the reporting period.

Following the internalisation of the Manager in July last year, the Company sought a binding tax ruling from the Inland Revenue Department (IRD) on the tax treatment of the \$31.8m payment for the termination of the management contract. The IRD has subsequently ruled that the payment is deductible for tax purposes. This is positive news for Shareholders.

DNZ maintained a strong financial position over the past 12 months through a series of prudent capital management initiatives including:

- A \$45 million capital raising
- Renegotiating the bank loan facility to 30 September 2013
- Entering into \$150m of interest rate swaps
- Completion of the asset sales programme
- Prudent management of capital expenditure

Net profit before one-off items and tax was \$19.7m, which was in line with the Prospective Financial Information (PFI). Net loss after tax of \$35.1m included the deferred tax expense of \$9.6m, an investment property devaluation adjustment of \$11.5m, and the one-off payment for termination of the management contract of \$31.8m.

Financial Performance	Actual 31 March 2011 (\$ millions)	PFI 31 March 2011 (\$ millions)	Variance (\$ millions)
Net rental income	52.0	52.8	(0.8)
Management fee income	1.0	1.2	(0.2)
Loss on disposal of investment properties	(1.4)	(1.3)	(0.1)
Corporate expenses (includes corporate overheads, CEO option scheme, IPO and restructure costs)	(9.7)	(9.7)	0.0
Net profit before net finance expenses, renegotiation payment, termination payment, changes in fair value and taxation	41.9	43.0	(1.1)
Net finance expenses	(22.2)	(23.4)	1.1
Net profit before renegotiation payment, termination payment, changes in fair value and taxation	19.7	19.7	0.0
Amortisation and impairment of renegotiation payment	(3.6)	(3.6)	0.0
Payment for termination of management contract	(31.8)	(31.8)	0.0
Change in fair value - share subscription agreements	1.6	0.0	1.6
Change in fair value - investment properties	(11.5)	0.0	(11.5)
Income tax expense	(9.6)	(90.4)	80.8
Net loss after tax	(35.1)	(106.0)	70.9

Note: Values in the table above are calculated to three decimal places and may not sum due to rounding.

Our 14% increase in distributable profit, as compared to the PFI, was driven primarily by lower finance expenses, the tax benefit following the recent IRD ruling and a strong underlying performance from property operating activities.

The March 2011 quarter cash dividend was confirmed as 2.0 cents per share, with nil imputation credits being associated with this dividend. (Dividend record date 8 June 2011, payment 22 June 2011).

	Actual 31 March 2011 (\$ millions)	PFI 31 March 2011 (\$ millions)	Variance (\$ millions)
Distributable Profit			
Net loss before tax	(25.5)	(15.6)	(9.9)
NZ IFRS and other adjustments:			
- Termination payment for manager	31.8	31.8	-
- Amortisation and impairment of fixed life intangible	3.6	3.6	-
- Net change in fair value of investment properties	11.5	-	11.5
- Net change in fair value of share subscription agreements	(1.6)	(0.3)	(1.3)
- Chief Executive option scheme	1.2	1.2	-
- Loss on disposal of investment properties	1.4	1.3	0.1
- Net rent free incentives	(0.1)	(1.6)	1.5
- Net lease contribution incentives	0.1	0.1	-
- Other adjustments	0.6	0.4	0.2
Less current taxation	(1.1)	(1.7)	0.6
Distributable profit after tax	21.9	19.2	2.7
Distributable profit per share - weighted	9.60 cents	8.66 cents	0.94 cents
Weighted average number of shares (millions)	227.8	221.9	5.9

Banking Facility

DNZ's banking partners are ANZ, ASB and BNZ. Following the recent capital management initiatives, the Company's loan to value ratio has reduced to 40.4% from 46.9% last year. \$150m of swaps were entered into during the period, with terms of 3-4 years and an average rate of 4.22% (excluding margin and line fee). Drawn debt is hedged at 83%, with the Company maintaining good liquidity with \$97m of undrawn banking facility. DNZ remains well within its banking covenants.

Covenant	Covenant	As at 31 March 2011
Gearing Ratio (Bank Debt / Property Values)	< 50%	40.4% ¹
Interest Cover Ratio (EBIT / Interest and Financing Costs)	> 1.75 x	2.14 x
Fully Leased Unexpired Term ²	> 3.5 years	4.18 years

¹ Includes loss on interest rate swaps.

² The unexpired leased term in a property or portfolio, assuming the property or portfolio is fully leased. This is weighted by the income applicable to each lease and a current market rental with nil term for vacant space.

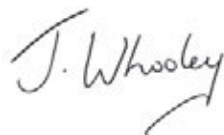
Bank Facility	As at 31 March 2011	As at 31 March 2010
Facility limit (ANZ, ASB, BNZ)	\$350m	\$500m
Balance drawn	\$253m	\$322m
Balance undrawn	\$97m	\$178m
Weighted average cost of debt (incl. margins & fees)	7.34%	6.23%
Maturity of facility	2.5 years	1.5 years
Percentage of drawn debt hedged	83%	64%
Weighted average interest rate on hedged debt (incl. margins)	6.02%	7.07%
Weighted average term to maturity of interest rate hedges	2.75 years	1.25 years

Conclusion

The Company is well placed with a strong financial position with plenty of headroom, is well within its banking covenants, has recently received a favourable binding tax ruling from the IRD, and has delivered to Shareholders a distributable profit 14% ahead of the forecast in the Offer Document. Looking forward, the Company expects to deliver a dividend of 8 cents per share to Shareholders for the 2012 financial year.

We will continue to evaluate measures that can further strengthen our financial position, including the ongoing management of our banking arrangements.

Yours faithfully,



JENNIFER WHOOLEY

Chief Financial Officer





Financial Statements

For the year ended 31 March 2011

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One entity **One vision** 



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Independent Auditor's Report To the Shareholders of DNZ Property Fund Limited

Report on the Financial Statements

We have audited the financial statements of DNZ Property Fund Limited on pages 40 to 75, which comprise the Statement of Financial Position as at 31 March 2011, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and its wholly owned subsidiary.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Group's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm carries out other assignments for the Company and Group in the area of taxation advice and consultancy projects. The firm has no other interest in the Company or Group.

Opinion

In our opinion, the financial statements on pages 40 to 75:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Company and Group as at 31 March 2011 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2011:

- i. we have obtained all the information and explanations that we have required; and
- ii. in our opinion, proper accounting records have been kept by the Group as far as appears from an examination of those records.

A handwritten signature in black ink that reads 'Staples Rodway'.

STAPLES RODWAY AUCKLAND
CHARTERED ACCOUNTANTS
AUCKLAND

23 MAY 2011

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Rental income	3,14	58,165	61,864	49,091	51,274
Property operating expenses	5,14	(6,168)	(7,109)	(5,421)	(6,349)
Net rental income		51,997	54,755	43,670	44,925
Management fee income	14	963	-	937	-
Loss on disposal of investment properties		(1,361)	(141)	(1,152)	(138)
Less corporate expenses					
Manager's fees and expenses	14	(1,614)	(7,005)	(1,614)	(7,005)
Restructure expenses	5	(520)	-	(520)	-
IPO expenses	5,14	(190)	(5,272)	(190)	(5,272)
Chief Executive option scheme	5,24,25,28	(1,243)	-	(1,243)	-
Corporate overhead expenses	5,28	(3,905)	-	(3,905)	-
Administration expenses	5,28	(2,192)	(2,213)	(2,136)	(2,036)
Total corporate expenses		(9,664)	(14,490)	(9,608)	(14,313)
Net profit before net finance expenses, renegotiation payment, termination payment, changes in fair value and taxation		41,935	40,124	33,847	30,474
Finance income	4,14	211	485	190	477
Finance expenses	4	(22,421)	(21,579)	(22,421)	(21,579)
Net finance expenses		(22,210)	(21,094)	(22,231)	(21,102)
Net profit before renegotiation payment, termination payment, changes in fair value and taxation		19,725	19,030	11,616	9,372
Amortisation and impairment of renegotiation payment	5,14,19	(3,600)	(400)	(3,600)	(400)
Payment for termination of management contract	14	(31,761)	-	(31,761)	-
Net change in fair value of subscription agreements	14	1,621	-	1,621	-
Net change in fair value of investment properties	15,16	(11,511)	(34,147)	(13,595)	(26,125)
Net loss before taxation		(25,526)	(15,517)	(35,719)	(17,153)
Income tax expense	6	(9,586)	-	(9,586)	-
Net loss for the year		(35,112)	(15,517)	(45,305)	(17,153)
Other comprehensive income:					
Movement in cash flow hedges, net of tax	25	2,551	5,005	2,551	5,005
Net change in fair value of property, plant and equipment	18,25	(95)	-	(95)	-
Total other comprehensive income for the year, net of tax		2,456	5,005	2,456	5,005
Total comprehensive income for the year		(32,656)	(10,512)	(42,849)	(12,148)
Basic earnings per share (cents)	7	(15.42)	(8.24)		
Diluted earnings per share (cents)	7	(15.30)	(8.24)		
Distributable profit after tax per share – weighted (cents)	8	9.60	12.80		

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

Group	Notes	Share capital \$000	Retained earnings \$000	Other reserves \$000	Total \$000
Balance at 1 April 2009		377,301	42,829	(11,145)	408,985
Shares issued through dividend reinvestment plan	24	533	-	-	533
Dividends paid	9	-	(20,570)	-	(20,570)
Cash flow hedge movement recognised in other comprehensive income	25	-	-	5,005	5,005
Net loss for the year after tax		-	(15,517)	-	(15,517)
Balance at 31 March 2010		377,834	6,742	(6,140)	378,436
Issue of shares	14,24	55,000	-	-	55,000
Share subscription agreements liability	24	(1,670)	-	-	(1,670)
Capital raising expenses	5	(3,342)	-	-	(3,342)
Dividends paid	9	-	(14,767)	-	(14,767)
Chief Executive option scheme	5,24,25,28	-	-	1,243	1,243
Movement in employee long term share incentive plan	5,25	-	-	65	65
Cash flow hedge movement recognised in other comprehensive income, net of tax	25	-	-	2,551	2,551
Fair value movement of property, plant and equipment recognised in other comprehensive income	18,25	-	-	(95)	(95)
Net loss for the year after tax		-	(35,112)	-	(35,112)
Balance at 31 March 2011		427,822	(43,137)	(2,376)	382,309

Parent		Share capital \$000	Retained earnings \$000	Other reserves \$000	Total \$000
Balance at 1 April 2009		377,301	49,442	(11,145)	415,598
Shares issued through dividend reinvestment plan	24	533	-	-	533
Dividends paid	9	-	(20,570)	-	(20,570)
Cash flow hedge movement recognised in other comprehensive income	25	-	-	5,005	5,005
Net loss for the year after tax		-	(17,153)	-	(17,153)
Balance at 31 March 2010		377,834	11,719	(6,140)	383,413
Issue of shares	14,24	55,000	-	-	55,000
Share subscription agreements liability	24	(1,670)	-	-	(1,670)
Capital raising expenses	5	(3,342)	-	-	(3,342)
Dividends paid	9	-	(14,767)	-	(14,767)
Chief Executive option scheme	5,24,25,28	-	-	1,243	1,243
Movement in employee long term share incentive plan	5,25	-	-	65	65
Cash flow hedge movement recognised in other comprehensive income, net of tax	25	-	-	2,551	2,551
Fair value movement of property, plant and equipment recognised in other comprehensive income	18,25	-	-	(95)	(95)
Net loss for the year after tax		-	(45,305)	-	(45,305)
Balance at 31 March 2011		427,822	(48,353)	(2,376)	377,093

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Notes	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
CURRENT ASSETS					
Cash and cash equivalents	10,26	5,190	4,101	5,186	4,091
Trade receivables	11,14,26	560	819	526	280
Deferred property settlement receivable	11	500	-	500	-
Prepayments and other current assets	12,26	1,641	898	1,609	826
Capitalised lease incentives	13	633	583	551	534
Advance to related party	14	-	-	-	2,921
Non-current assets held for sale	15,16	-	62,028	-	62,028
		8,524	68,429	8,372	70,680
NON-CURRENT ASSETS					
Investment properties	16	635,884	636,095	520,614	529,055
Work in progress	17	2,618	5,911	2,618	2,546
Property, plant and equipment	14,18	2,034	-	2,034	-
Intangible asset	14,19	3,000	3,600	3,000	3,600
Capitalised lease incentives	13	1,034	1,044	942	732
Taxation receivable		1,133	-	1,129	-
Other non-current assets		105	-	105	-
Investment in subsidiary	20	-	-	110,882	110,882
		645,808	646,650	641,324	646,815
TOTAL ASSETS		654,332	715,079	649,696	717,495
CURRENT LIABILITIES					
Trade and other payables	14,21,26	5,885	8,496	5,231	5,935
Share subscription agreements liability	14,24	49	-	49	-
Advance from related party	14	-	-	1,234	-
Derivative financial instruments	22,26	-	3,336	-	3,336
		5,934	11,832	6,514	9,271
NON-CURRENT LIABILITIES					
Bank borrowings	23,26	252,915	322,007	252,915	322,007
Deferred tax liability	6	8,191	-	8,191	-
Derivative financial instruments	22,26	4,983	2,804	4,983	2,804
		266,089	324,811	266,089	324,811
TOTAL LIABILITIES		272,023	336,643	272,603	334,082
NET ASSETS		382,309	378,436	377,093	383,413
EQUITY		382,309	378,436	377,093	383,413

For and on behalf of the Board of Directors, dated 23 May 2011:


 .....
 TIM STOREY
 DIRECTOR


 .....
 JOHN HARVEY
 DIRECTOR

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Rent received		58,417	62,034	49,030	51,560
Management fee income		963	-	937	-
Finance income		217	479	191	475
Finance expenses		(22,923)	(22,611)	(22,923)	(22,611)
Operating expenses		(13,139)	(16,490)	(12,492)	(15,219)
Restructure expenses	5	(520)	-	(520)	-
Withdrawn IPO expenses		(2,170)	(3,292)	(2,170)	(3,292)
Net GST collected/(paid)		560	(1,455)	560	(1,455)
Income tax paid		(1,131)	(141)	(1,129)	(141)
Net cash provided by operating activities	10	<u>20,274</u>	<u>18,524</u>	<u>11,484</u>	<u>9,317</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Loan repaid from related party		-	7,598	4,155	32,939
Proceeds from sale of investment properties		69,851	45,404	56,461	26,696
Capitalised expenditure on investment properties		(21,742)	(10,154)	(3,711)	(7,585)
Investment properties purchased		-	(3,479)	-	(3,479)
Payment for renegotiation of management contract	14	-	(4,000)	-	(4,000)
Payment for acquisition of management contract	14	(3,000)	-	(3,000)	-
Payment for termination of management contract	14	(31,761)	-	(31,761)	-
NZX bond		(75)	-	(75)	-
Fixed assets purchased	14	(257)	-	(257)	-
Net cash provided by investing activities		<u>13,016</u>	<u>35,369</u>	<u>21,812</u>	<u>44,571</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown on bank borrowings		52,192	5,965	52,192	5,965
Repayment of bank borrowings		(121,284)	(44,841)	(121,284)	(44,841)
Dividends paid	9	(14,767)	(21,101)	(14,767)	(21,101)
Proceeds from equity issued	14,24	55,000	-	55,000	-
Capital raising expenses	5	(3,342)	-	(3,342)	-
Net cash applied to financing activities		<u>(32,201)</u>	<u>(59,977)</u>	<u>(32,201)</u>	<u>(59,977)</u>
Net increase/(decrease) in cash and cash equivalents held		1,089	(6,084)	1,095	(6,089)
Opening cash and cash equivalents		4,101	10,185	4,091	10,180
Closing cash and cash equivalents		<u>5,190</u>	<u>4,101</u>	<u>5,186</u>	<u>4,091</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: ACCOUNTING POLICIES

Reporting Entity

The financial statements presented are those of DNZ Property Fund Limited (the Parent) and its subsidiary, DNZ Holdings Limited (the Group). DNZ Property Fund Limited is domiciled in New Zealand and is registered under the Companies Act 1993. DNZ Property Fund Limited is an issuer for the purposes of the Financial Reporting Act 1993 and Securities Act 1978. The financial statements of DNZ Property Fund Limited have been prepared in accordance with the Financial Reporting Act 1993.

The Group is principally involved in the ownership and leasing of investment property under operating leases and is also involved in the development of investment property.

The Group is registered on the New Zealand Stock Exchange (NZX).

The financial statements have been approved for issue by the Board of Directors on 23 May 2011.

The subsidiary applies the same accounting policies as the Group.

Summary of significant accounting policies

(a) Basis of preparation

The financial statements comply with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), which includes New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial periods beginning on or after 1 April 2011 or later periods, but which the Group has not adopted early, are as follows:

- NZ IFRS 9 - Financial Instruments (changes to measurement of financial assets and liabilities) is applicable for annual periods beginning on or after 1 January 2013.
- NZ IAS 24 - Related Party Disclosures (minor changes to the definition of related parties) is to be applied retrospectively for annual periods beginning on or after 1 January 2011.
- NZ IFRIC 19 - Extinguishing Liabilities with Equity Instruments (in relation to debt for equity swaps) is applicable from 1 July 2010.
- NZ IFRS 7 - Financial Instruments: Disclosures (introducing additional disclosures for transferred and de-recognised financial assets) is applicable for annual reporting periods beginning on or after 1 July 2011.

All standards will be adopted at their effective date (except for those standards that are not applicable to the Group). The Board of Directors is of the opinion that the impact of the application of these standards will be minor or is not currently quantifiable.

The Group has adopted the following new standards which are effective for the current reporting period:

- NZ IFRS 3 - Business Combinations;
- NZ IAS 27 - Consolidated and Separate Financial Statements (revised standard);
- NZ IAS 39 - Amendments to IAS 39 Financial Instruments.

The adoption of these standards for the period ended 31 March 2011 has not had any impact on the profits or financial position of the Group.

The Group has adopted the following standard early in the current reporting period:

- NZ IAS 12 Income Taxes amendment in relation to deferred tax on investment properties is effective for annual periods beginning on or after 1 January 2012.

The amendment introduces a rebuttable presumption that investment property measured at fair value is recovered entirely through sale. As the Group does not rebut the presumption of recovery of investment properties through sale at 31 March 2011, the deferred tax liability is determined on the tax consequences of sale.

The early adoption of this standard has resulted in the reversal of \$69,347,269 non-cash adjustment taken up in the September 2010 interim financial statements to the balance of deferred tax liabilities on building valuations. There is no retrospective amendment to be applied to comparatives as the Group was a Multi-rate PIE (MRP) as at 31 March 2010 and the Group had no tax expense or deferred tax assets or liabilities during the period it was an MRP.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain classes of assets and liabilities as identified in the following specific accounting policies.

(c) Functional and presentation currency

These financial statements are presented using New Zealand Dollars which is the Company's functional and presentation currency and the Group's presentation currency. Amounts shown have been rounded to the nearest thousand dollars (\$000) unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 1: ACCOUNTING POLICIES (Continued)

(d) Critical accounting estimates and judgements

In the application of NZ IFRS, the Board of Directors and management are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from the estimates, judgements and assumptions made by the Board of Directors and management.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

In particular, information about significant areas of estimation uncertainty that have the most significant effect on the amount recognised in the financial statements is outlined below:

Investment properties

Independent valuers are used to determine the fair value of investment property. The fair values are estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The accepted methods for assessing the current market value of a property investment are the Capitalisation and Discounted Cash Flow approaches. Each approach derives a value based on market inputs including recent comparable transactions, market rentals, contract rentals, forecast future rentals, income vacancy assumptions, maintenance and capital requirements and appropriate discount rates derived from recent comparable market transactions. Valuations of property investments which are not yet complete are based on an independent valuer's assessment of the fair value at completion and adjusted to reflect the stage of completion of a project and the costs to complete.

The Capitalisation approach is considered a "point in time" view of the property's value, based on the current contract and market income and an appropriate market yield or return for the particular property. Capital adjustments are then made to the value to reflect under or over renting, pending capital expenditure, upcoming expiries including allowance for lessee inducements and leasing costs.

The Discounted Cash Flow analysis adopts a 10 year investment horizon and makes appropriate allowances for rental income growth, leasing up costs on expiries, with an estimated terminal value at the end of the investment period. The Present Value is a reflection of market based income (inflows) and expenditure (outflows) projections over the 10 year period discounted at a market analysed return.

In deriving a market value under each approach, all assumptions are based where possible, on market based evidence and transactions for properties with similar locations, construction detail and quality of lessee covenant. The adopted market value is a weighted combination of both the Capitalisation and Discounted Cash Flow approaches.

Intangible asset

In determining whether or not the Group's intangible assets are impaired, the Board of Directors and management have prepared value in use calculations. The preparation of these calculations requires the use of estimates.

Interest rate derivatives

The interest rate swap fair values are independently valued and are calculated using a discounted cash flow model and applying observable market inputs. Fair value is defined as the amount an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The interest rate sensitivity analysis is performed by using an instantaneous parallel shift in the par yield curve at the testing date.

Deferred taxes

Deferred tax is provided on the depreciation claimed to date on the building component of the investment properties. Investment properties are independently valued each year (refer note 16) and the valuation includes a split between the land and building components. The calculation on the deferred tax on the building component places reliance on the split provided by the valuers.

(e) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements of the Group from the date that control commences until the date that control ceases.

The purchase method of accounting has been used to consolidate the subsidiary of the Company. All inter-company transactions and balances between group companies have been eliminated.

Joint venture

An unincorporated joint venture is a joint arrangement with another party in which the Group has several liabilities in respect of costs and liabilities, and shares in any resulting output. The Group's interest in the joint venture is accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 1: ACCOUNTING POLICIES (Continued)

(f) Trade and other receivables

Trade and other receivables are recognised and carried initially at their fair value plus directly attributable costs and subsequently measured at amortised cost less impairment losses. An allowance for impaired receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. In assessing collective impairment, the Group uses objective evidence such as tenants in receivership or liquidation or default. When a receivable balance is uncollectable, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income.

(g) Property, plant and equipment

Effective from 1 July 2010, the Group terminated the management agreement with HD Management Limited and consequently space occupied by the Group has been now classified to property, plant and equipment as this space is deemed to be owner occupied property as defined in NZ IAS 40 and is to be accounted for in accordance with NZ IAS 16 – Property, Plant and Equipment.

The property, plant and equipment is initially stated at cost, including related transaction costs. Owner occupied property, plant and equipment is adjusted to fair value as determined every year by an independent registered valuer. The fair value reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

Any gain or loss arising from a change in the fair value of the property is recognised in the statement of comprehensive income in other comprehensive income.

All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided at rates calculated to allocate the cost less estimated residual value over the estimated economic useful lives. The depreciation rates vary from asset to asset but in general the following principal rates apply:

- Motor Vehicles	30% DV
- Furniture, fittings and equipment	8-67% DV

(h) Work in progress

Work in progress is investment property which is being developed by the Group for rental purposes and is carried at fair value. Fair value measurement on work in progress is only applied if the fair value is considered to be reliably measurable. In order to evaluate whether the fair value of work in progress can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract;
- The stage of completion;
- Whether the project/property is standard (typical for the market) or non-standard;
- The level of reliability of cash inflows after completion;
- The development risk specific to the property;
- Past experience with similar constructions;
- Status of construction permits.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of the current market conditions. The fair value also reflects, on a similar basis, the cash outflows that could be expected in respect of the property.

(i) Investment properties

Investment properties comprise freehold land, freehold buildings and leasehold land. Investment property is that which is held either to earn rental income or for capital appreciation or both. The investment property is initially stated at cost, including related transaction costs, and then at fair value as determined every year by an independent registered valuer.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases with regard to current market conditions.

Any gain or loss arising from a change in the fair value of the property is recognised in the statement of comprehensive income. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

Non-current assets held for sale are investment properties the Group is in the process of disposing of. They are valued at fair value and are classified as non-current assets held for sale under NZ IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

The investment properties are not depreciated for accounting purposes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 1: ACCOUNTING POLICIES (Continued)

(j) Intangibles

Fixed life intangible

The Group's fixed term intangible asset had a finite useful life and was stated at cost less accumulated amortisation. The fixed term intangible asset was being amortised in the statement of comprehensive income on a straight-line basis over the period during which benefits were expected to be derived, which was 10 years.

Indefinite life intangible

The indefinite life intangible asset is not amortised but instead is tested for impairment annually. It is carried at cost less accumulated impairment losses.

(k) Investments

Non-current investments are stated at cost less any impairment losses. Non-current investments include the Company's investment in its subsidiary.

(l) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

(m) Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(o) Statement of cash flows

Cash and cash equivalents comprise cash at bank and call deposits net of bank overdrafts. Investing activities comprise the purchase and sale of investment properties, fixed assets and intangible assets. Financing activities comprise the change in equity and debt and the payment of dividends (if any). Operating activities include all transactions and other events that are not investing or financing activities.

(p) Revenue

Revenue includes rental income from the investment properties held by the Group.

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. When the Group provides incentives to its lessees, the cost of the incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Interest income is recognised on a time-proportional basis using the effective interest rate.

(q) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, being the lessor, are classified as operating leases.

Operating leases where the Group is the lessee

Payments, including prepayments made under operating leases (net of any incentives received from the lessor), are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Operating leases where the Group is the lessor

Property leased out under operating leases is included in investment property in the statement of financial position. Lease income is recognised over the term of the lease on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 1: ACCOUNTING POLICIES (Continued)

(r) Finance expenses

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. Other borrowing costs are expensed when incurred. Where the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs capitalised are the actual borrowing costs incurred on that borrowing, less any investment income on the temporary investment of those borrowings.

Where the Group borrows funds generally and uses them to fund a qualifying asset, the amount of borrowing costs capitalised is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of funding a qualifying asset.

(s) Income tax

From 1 October 2008 until 30 June 2010, the Group was a Multi-rate PIE (MRP). As an MRP, income was effectively taxed on behalf of the shareholders and therefore the Group had no tax expense or deferred tax assets or liabilities during the period it was an MRP.

Under the MRP regime, the Group attributed the taxable income to shareholders in accordance with their proportional interest in the Group. Shareholders in an MRP potentially derive two types of income, portfolio investor allocated income and dividend income. Portfolio investor allocated income is the shareholder's share of the Group's income and is taxed at the shareholder's prescribed investor rate (PIR), which was capped at 30%. Dividend income is excluded income and not subject to tax.

On 30 June 2010, DNZ Property Fund Limited (the Parent) ceased to be an MRP and became a Listed PIE from 1 July 2010. Its subsidiary, DNZ Holdings Limited, has remained as an MRP. As a result of the Parent becoming a Listed PIE, the Group now accounts for current and deferred tax from 1 July 2010.

Deferred tax

An MRP does not recognise deferred tax in its statement of financial position.

With respect to the period 1 July 2010 to 31 March 2011, movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(t) Financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised if the Group's contractual rights to the cash flows expire or if the Group transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognised if the Group's obligations specified in the contract are extinguished.

Financial assets

Depending on the purpose for which the investments were acquired, the Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. At balance date all of the Group's financial assets are classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current assets.

The Group's loans and receivables comprise receivables and cash and cash equivalents.

Purchases and sales of loans and receivables are recognised on trade date (the date on which the Group commits to purchase or sell the asset).

Loans and receivables are initially recognised at fair value plus transaction costs and are thereafter carried at amortised cost using the effective interest method.

Investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group assesses at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Other financial liabilities

This category includes all financial liabilities other than those designated as fair value through profit or loss for the year. Liabilities in this category are measured at amortised cost and include:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 1: ACCOUNTING POLICIES (Continued)

(t) Financial instruments (continued)

Borrowings

The Group has long term bank borrowings. They are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. Interest expense is recognised in the statement of comprehensive income using the effective interest method.

Other payables

Other payables include trade payables and related party payables.

(u) Derivative financial instruments and hedging activity

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value at each reporting date. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes is disclosed in note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised as other comprehensive income in the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within "finance expenses".

(v) Capital

Shares issued

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

(w) Fair value estimates

Financial instruments classified as fair value through profit or loss for the year are presented in the Group's statement of financial position at their fair value. For other financial assets and financial liabilities, fair value is estimated as follows:

Cash and cash equivalents

These assets are short term in nature and the carrying value is approximate to their fair value.

Other receivables

These assets are short term in nature and the carrying value is approximate to their fair value.

Other payables

These liabilities are short term in nature and the carrying value is approximate to their fair value.

(x) Goods and services tax

All revenue and expense transactions are recorded exclusive of GST. Assets and liabilities are similarly stated exclusive of GST, with the exception of receivables and payables, which are stated inclusive of GST.

(y) Changes in accounting policies

There have been no changes in accounting policies from the prior period. All policies have been applied consistently throughout the year.

The Group and Parent have, in the prior year, reclassified the amortisation of the renegotiation payment from Administration expenses and are now showing this separately in the statement of comprehensive income. The Group and Parent have, in the prior year, reclassified net GST collected/(paid) from Operating expenses and are now showing this separately in the statement of cash flows. These reclassifications have been done for presentation purposes and to improve the readers' understanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 2: OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors, as they make all key strategic resource allocation decisions (such as those concerning acquisition, divestment and significant capital expenditure). The Group is internally reported as a single operating segment to the chief operating decision-maker, hence no further changes to reportable segments have been made.

The Group's revenue streams are earned from properties owned in New Zealand, with no specific exposure to geographical risk. Given the Group's diverse client base, no one client represents greater than 10% of the revenues earned during the year.

NOTE 3: RENTAL INCOME

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Rental income	58,038	61,789	48,862	51,387
Capitalised lease incentives	1,011	555	876	352
Lease incentive amortisation	(884)	(480)	(647)	(465)
	<u>58,165</u>	<u>61,864</u>	<u>49,091</u>	<u>51,274</u>

Where incentives are provided in relation to letting the property, they are amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
No later than 1 year	54,115	54,026	45,296	48,323
Later than 1 year and no later than 5 years	142,817	141,222	110,607	123,159
Later than 5 years	53,973	62,773	36,173	55,179
	<u>250,905</u>	<u>258,021</u>	<u>192,076</u>	<u>226,661</u>

NOTE 4: NET FINANCE EXPENSES

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Finance income				
Interest income:				
- Bank	206	150	185	144
- Related party loan	-	316	-	316
- Other interest income	5	19	5	17
	<u>211</u>	<u>485</u>	<u>190</u>	<u>477</u>
Finance expenses				
Interest expenses:				
- Bank borrowings	21,259	21,579	21,259	21,579
- Refinancing expenses	1,159	-	1,159	-
- Other interest expenses	3	-	3	-
	<u>22,421</u>	<u>21,579</u>	<u>22,421</u>	<u>21,579</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 5: LOSS FROM OPERATING ACTIVITIES

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Loss before taxation has been determined after:				
Expenses:				
Bad and impaired debts				
- Bad debts written off	183	92	154	31
- Movement in impairment provision	(45)	29	(52)	29
	<u>138</u>	<u>121</u>	<u>102</u>	<u>60</u>
Remuneration paid/payable to the auditors for:				
- Statutory audit services	135	120	135	113
- Audit consulting services	4	13	4	13
- Tax compliance services	110	39	95	23
- Tax consulting services	61	21	59	19
	<u>310</u>	<u>193</u>	<u>293</u>	<u>168</u>

In the current year the Group also paid the auditors \$184,350, being \$117,691 for audit consulting services and \$66,659 for taxation consulting services in relation to the review of prospective financial information for the investment statement and prospectus issued on 9 July 2010. These costs have been capitalised and offset against the proceeds received from equity issued.

In the prior year the Group also paid the auditors \$534,369, being \$292,282 for audit consulting services and \$242,087 for taxation consulting services in relation to the review of prospective financial information for the investment statement and prospectus issued during the prior year. These costs were written off as at 31 March 2010, due to the Board of Directors withdrawing the investment statement and prospectus and were included in the initial public offering (IPO) costs balance disclosed.

Group and Parent	2011 \$000	2010 \$000
Directors' fees (refer note 28)	179	217
Chairman's fees (refer note 28)	100	50
	<u>279</u>	<u>267</u>
Feasibility costs written off for project concepts no longer proceeding	28	44
Amortisation of and impairment of renegotiation payment (refer note 19)	3,600	400
Restructure expenses	520	-
IPO costs written off	190	5,272
Rights issued under employee long term share incentive scheme (refer note 28)	65	-
Options issued to Chief Executive (refer note 28)	1,243	-
Depreciation expense (refer note 18)	44	-

NOTE 6: INCOME TAX

(a) Income tax

From 1 October 2008 until 30 June 2010, the Group was a Multi-rate PIE (MRP). As an MRP, income was effectively taxed on behalf of the shareholders and therefore the Group had no tax expense or deferred tax assets or liabilities during the period it was an MRP.

On 30 June 2010, the Parent ceased to be an MRP and became a Listed PIE from 1 July 2010. Its subsidiary, DNZ Holdings Limited, has remained as an MRP and therefore continues not to recognise tax expense or deferred tax assets or liabilities. As a result of the Parent becoming a Listed PIE, both the Parent and the Group account for current and deferred tax as from 1 July 2010. The Parent's deferred tax assets and liabilities include the full Group's deferred tax assets and liabilities since the tax position of the subsidiary, as an MRP, is fully attributed to the Parent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 6: INCOME TAX (Continued)

(a) Income tax (continued)

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
The income tax expense is represented by:				
Current year tax	-	-	-	-
Deferred tax	9,586	-	9,586	-
Taxation expense per the statement of comprehensive income	9,586	-	9,586	-
Net loss before taxation	(25,526)	(15,517)	(35,719)	(17,153)
Net profit derived as an MRP	(5,850)	-	(3,857)	-
Net loss derived as an MRP	-	15,517	-	17,153
Net loss attributable to Listed PIE period	(31,376)	-	(39,576)	-
Income tax using the company tax rate (30%)	(9,413)	-	(11,873)	-
Net change in fair value of investment properties	3,453	-	4,079	-
Non-deductible expenses	170	-	163	-
Income from MRP subsidiary	-	-	1,380	-
Depreciation	(3,418)	-	(2,932)	-
Temporary differences:				
- Impairment of renegotiation payment	1,050	-	1,050	-
- Other temporary differences	578	-	553	-
Tax losses	7,580	-	7,580	-
Deferred tax credited to the statement of comprehensive income on recognition of tax losses due to the change in tax rate	(506)	-	(506)	-
Deferred tax charged to the statement of comprehensive income	10,092	-	10,092	-
Taxation expense per the statement of comprehensive income	9,586	-	9,586	-

The corporate tax rate reduced from 30% to 28% as from 1 April 2011. For deferred tax liabilities and assets that reverse beyond 31 March 2011 the taxation rate applied is 28%.

Following the internalisation of the manager in July 2010, the Group received a binding tax ruling from the Inland Revenue Department on 19 April 2011 that the payment for the termination of the management contract is deductible for tax purposes. The Group has paid provisional tax for the current tax year and is now entitled to carry the tax payment forward to future tax years for offset against future income tax payable. The Group is unable to have the provisional tax paid refunded at this time as imputation credits have been attached to the dividends paid. The Group will not be required to pay income tax until this refund is utilised.

(b) Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

Group and Parent	2011 \$000	2010 \$000
<u>Deferred tax assets</u>		
Deferred tax assets to be recovered within 12 months	5,184	-
Deferred tax assets to be recovered after more than 12 months	3,822	-
	<u>9,006</u>	<u>-</u>
<u>Deferred tax liabilities</u>		
Deferred tax liabilities to be incurred within 12 months	(187)	-
Deferred tax liabilities to be incurred after more than 12 months	(17,010)	-
	<u>(17,197)</u>	<u>-</u>
Net deferred tax liability	(8,191)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 6: INCOME TAX (Continued)

(b) Deferred tax (continued)

This has been shown as a non-current liability in the statement of financial position.

The gross movement on the deferred income tax account is as follows:

Group and Parent	2011 \$000	2010 \$000
Opening balance	-	-
Charged to statement of comprehensive income	(9,586)	-
Credited to other comprehensive income in the statement of comprehensive income	1,395	-
Closing balance	(8,191)	-

Group and Parent	Tax losses \$000	Fair Value of interest rate swaps \$000	Refinancing costs \$000	Other temporary differences \$000	Total \$000
Deferred tax assets					
Balance at 1 April 2010	-	-	-	-	-
Credited to statement of comprehensive income	7,580	-	318	219	8,117
Change in tax rate charged to statement of comprehensive income	(506)	-	-	-	(506)
Credited to other comprehensive income in the statement of comprehensive income	-	1,395	-	-	1,395
Balance at 31 March 2011	7,074	1,395	318	219	9,006

Group and Parent	Reinstatement receipts \$000	Lease incentives \$000	Building depreciation \$000	Total \$000
Deferred tax liabilities				
Balance at 1 April 2010	-	-	-	-
Charged to statement of comprehensive income	(30)	(467)	(16,700)	(17,197)
Balance at 31 March 2011	(30)	(467)	(16,700)	(17,197)

(c) Imputation credits

Group and Parent	2011 \$000	2010 \$000
Opening balance	-	-
Tax payments, net of refunds	1,131	-
Credits attached to dividends received	2	-
Credits attached to dividends paid	(1,132)	-
Closing balance	1	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 7: BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net (loss)/profit for the period attributable to ordinary shareholders by the weighted average number of shares on issue.

The following reflects the earnings per share data used in the total operations basic and diluted earnings per share computations:

Group	2011 \$000	2010 \$000
Earnings from continuing activities	(35,112)	(15,517)
Weighted average number of ordinary shares for purpose of basic earnings per share	227,762	188,317
Basic earnings per share (cents)	(15.42)	(8.24)
Earnings from continuing activities	(35,112)	(15,517)
Weighted average number of ordinary shares for purpose of diluted earnings per share	229,556	188,317
Diluted earnings per share (cents)	(15.30)	(8.24)

Weighted average number of ordinary shares for purpose of diluted earnings per share in the current year has been adjusted for the 2,700,000 options granted under the Chief Executive option scheme and the 825,000 rights issued under the long term incentive scheme (refer note 28).

Weighted average number of ordinary shares for purpose of basic and diluted earnings per share in the prior year has been adjusted as if the share consolidation (refer note 24) had occurred on 1 April 2009.

NOTE 8: DISTRIBUTABLE PROFIT

Distributable profit consists of net (loss)/profit before taxation, adjusted for non-recurring and/or non-cash items as follows:

Group	2011 \$000	2010 \$000
Net loss before taxation	(25,526)	(15,517)
NZ IFRS and other non-recurring and non-cash adjustments:		
- Net change in fair value of investment properties	11,511	34,147
- Net change in fair value of share subscription agreements	(1,621)	-
- Chief Executive option scheme	1,243	-
- Payment for termination of management contract	31,761	-
- Amortisation and impairment of renegotiation payment	3,600	400
- Loss on disposal of investment properties	1,361	141
- Net rent free incentives	(127)	(75)
- Net lease contribution incentives	86	(266)
- Other adjustments	715	5,272
Less: current taxation paid	(1,133)	-
Distributable profit after tax	21,870	24,102
Weighted average number of ordinary shares for purpose of distributable profit per share	227,762	188,317
Distributable profit after tax per share – weighted (cents)	9.60	12.80

The Group's distribution policy, post completion of the capital raise on 13 August 2010, is to distribute not less than 95% of its distributable profit annually. In the investment statement and prospectus issued by the Group on 9 July 2010, it was assumed that 75% distribution of distributable profit for the year ended 31 March 2011 would be made. As a result of lower net finance and other expenses and the impact of the positive binding tax ruling, distributable profit is \$2,653,638 higher than the prospective financial information and consequently the amount distributed by way of dividends was 67.5%. The surplus distributable earnings have been retained within the Group to reduce bank borrowings and for reinvestment to enhance long term earnings of the Group and dividend sustainability for shareholders.

Weighted average number of ordinary shares for purpose of distributable profit per share in the prior year has been adjusted as if the share consolidation (refer note 24) had occurred on 1 April 2009.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 9: DIVIDENDS

The following dividends were declared and paid during the year:

Group and Parent	2011 \$000	2010 \$000
Dividend paid (1.58 cents per share)	-	6,409
Dividend paid (1.25 cents per share)	-	5,828
Dividend paid (1.25 cents per share)	-	5,883
Dividend paid (1.30 cents per share)	-	2,450
Dividend paid (1.30 cents per share)	2,450	-
Dividend paid (1.30 cents per share)	2,450	-
Dividend paid (2.00 cents per share)	4,932	-
Dividend paid (2.00 cents per share)	4,935	-
	<u>14,767</u>	<u>20,570</u>

As part of the prior year dividends 1,234,610 shares were issued as part of the dividend reinvestment plan (refer note 24). The value of the shares issued was \$532,863.

NOTE 10: CASH FLOW STATEMENT RECONCILIATION

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
(a) Cash and cash equivalents				
Cash at bank	5	9	5	8
Cash on deposit	<u>5,185</u>	<u>4,092</u>	<u>5,181</u>	<u>4,083</u>
	<u>5,190</u>	<u>4,101</u>	<u>5,186</u>	<u>4,091</u>
(b) Reconciliation of net loss after tax to net cash from operating activities:				
Net loss after tax for the year	(35,112)	(15,517)	(45,305)	(17,153)
Add/(less) non-cash items:				
Movement in deferred taxation (refer note 6)	9,586	-	9,586	-
Net change in fair value of investment properties	11,511	34,147	13,595	26,125
Loss on sale of investment properties	1,361	141	1,152	138
Movement in impairment provision	(45)	29	(52)	29
Amortisation of and impairment of renegotiation payment	3,600	400	3,600	400
Capitalised lease incentives	(1,123)	(896)	(973)	(515)
Lease incentive amortisation	1,083	554	746	529
Net change in fair value of share subscription agreements	(1,621)	-	(1,621)	-
Share rights amortisation under employee long term share incentive scheme	65	-	65	-
Chief Executive option scheme	1,243	-	1,243	-
Depreciation expense	<u>44</u>	<u>-</u>	<u>44</u>	<u>-</u>
	(9,408)	18,858	(17,920)	9,553
Add/(less) activity classified as investing activity:				
Capitalised expenditure on investment properties	2,106	(270)	455	1,697
Proceeds from sale of investment properties	500	212	500	212
NZX bond	75	-	75	-
Feasibility costs written off to statement of comprehensive income	28	44	28	44
Payment for termination of management contract	<u>31,761</u>	<u>-</u>	<u>31,761</u>	<u>-</u>
	25,062	18,844	14,899	11,506
Add activity classified as financing activity:				
MRP distribution	<u>-</u>	<u>1,064</u>	<u>-</u>	<u>1,064</u>
	25,062	19,908	14,899	12,570
Movement in working capital:				
Decrease/(increase) in trade receivables	304	521	(194)	962
(Increase)/decrease in prepayments and other assets	(1,348)	275	(1,388)	299
Decrease in trade and other payables	(2,611)	(975)	(704)	(3,309)
Decrease in taxation payable	<u>(1,133)</u>	<u>(1,205)</u>	<u>(1,129)</u>	<u>(1,205)</u>
Net cash provided by operating activities	<u>20,274</u>	<u>18,524</u>	<u>11,484</u>	<u>9,317</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 11: TRADE AND OTHER RECEIVABLES

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Current				
Trade receivables	801	1,105	732	538
Less impairment provision	(241)	(286)	(206)	(258)
	<u>560</u>	<u>819</u>	<u>526</u>	<u>280</u>
Movements in the impairment provision are:				
Opening balance	286	257	258	229
(Release of)/additional impairment provision	(45)	29	(52)	29
Closing balance	<u>241</u>	<u>286</u>	<u>206</u>	<u>258</u>

Deferred property settlement receivable

On 2 November 2010, the Group settled on the sale of 143 – 149 First Avenue and 243 – 255 Cameron Road, Tauranga, for \$5,500,000, with a vendor mortgage given for \$500,000. This has been secured by a second ranking mortgage over this property and is due to be repaid on 2 November 2011.

NOTE 12: PREPAYMENTS AND OTHER CURRENT ASSETS

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Prepayments	1,423	721	1,410	653
Accrued income	143	177	124	173
NZX bond	75	-	75	-
	<u>1,641</u>	<u>898</u>	<u>1,609</u>	<u>826</u>

NOTE 13: CAPITALISED LEASE INCENTIVES

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Capitalised lease incentives	<u>1,667</u>	<u>1,627</u>	<u>1,493</u>	<u>1,266</u>

The capitalised lease incentive is classified as a current asset if the item is due to be recognised within 12 months and as a non-current asset if its maturity is over 12 months.

This is comprised as follows:

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
- Current asset	633	583	551	534
- Non-current asset	<u>1,034</u>	<u>1,044</u>	<u>942</u>	<u>732</u>
	<u>1,667</u>	<u>1,627</u>	<u>1,493</u>	<u>1,266</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 14: RELATED PARTY DISCLOSURES

The Group had the following transactions with related parties:

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
The Manager - HD Management Limited (formerly known as DNZ Management Limited)				
- Manager's fees and expenses	(1,073)	(4,750)	(1,073)	(4,750)
- Property management fees	(541)	(2,255)	(541)	(2,255)
- Accounting fees	(68)	(274)	(68)	(274)
- Project management fees	(476)	(683)	(476)	(378)
- Leasing fees	(275)	(1,295)	(275)	(797)
- Divestment fees	(143)	(708)	(143)	(228)
- Rent review fees	(118)	(339)	(118)	(270)
- Capitalised acquisition fees	-	(28)	-	(28)
- Renegotiation payment for management agreement	-	(4,000)	-	(4,000)
- Reimbursement of Manager's expenses for capital raising	-	(500)	-	(500)
- Rent received	80	298	80	298
- Termination payment for management agreement	(31,761)	-	(31,761)	-
- Acquisition of fixed assets	(239)	-	(239)	-
Diversified NZ Property Fund Limited				
- Manager's fees income	470	-	470	-
- Building management fee income	88	-	88	-
- Accounting fee income	23	-	23	-
- Leasing fee income	45	-	45	-
- Project management fee income	98	-	98	-
Diversified Management Limited				
- Novation fee paid for management contract	(3,000)	-	(3,000)	-
DNZ Holdings Limited				
- Related party advance repaid	-	-	4,155	25,341
Hayphil Investments Limited				
- Subscription of shares in the Group	5,000	-	5,000	-
Rose Star Investments Limited				
- Subscription of shares in the Group	5,000	-	5,000	-
McKinney Industrial (Tauriko) Limited				
- Related party loan repayments received	-	7,598	-	7,598
- Interest payments received	-	316	-	316
- Acquisition of investment property	-	(2,800)	-	(2,800)

The Group has the following balances receivable from/(payable to) related parties:

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
HD Management Limited	-	(261)	-	(138)
Johnsonville Management Limited	-	(21)	-	(21)
Diversified NZ Property Fund Limited	186	-	186	-
DNZ Holdings Limited	-	-	(1,234)	2,921
Hayphil Investments Limited	(30)	-	(30)	-
Rose Star Investments Limited	(19)	-	(19)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 14: RELATED PARTY DISCLOSURES (Continued)

Effective from 1 April 2009, the Group entered into a new management agreement with the Manager. Northington Partners Limited, being an independent party, valued the compensation payable by the Group to the Manager, reflecting the lower management fee structure going forward. This was assessed at \$4,000,000 and was paid to the Manager on 14 April 2009. This payment was being amortised over a period of 10 years on a straight-line basis, which reflected the length of the initial term of the renegotiated management agreement. Following the termination of this agreement effective from 1 July 2010, the unamortised portion was expensed to the statement of comprehensive income.

The loan to McKinney Industrial (Tauriko) Limited was approved to a total facility of \$14,625,000 and bore interest at 9.0% per annum. During the prior period, \$315,879 in interest income was received, and the loan was repaid in full on 30 September 2009.

On 9 September 2009, the Group purchased a further four lots within the Tauriko Industrial Estate, Tauranga, being Lots 82 – 85, for \$2,800,000, the assessed market value at that time. As at 31 March 2010, the market valuation was assessed to be \$2,360,000. There continues to be a first right of refusal for the Group to purchase the developments completed on sections sold within the Tauriko Industrial Estate.

Effective from 1 July 2010, the Group terminated the management agreement with HD Management Limited in return for a termination payment of \$32,000,000 (inclusive of the purchase of fixed assets of \$239,398). This payment was negotiated by the independent Directors. No further management or other fees have been paid to the Manager from 1 July 2010.

Effective from 1 July 2010, the Group acquired the management agreement of Diversified NZ Property Fund Limited from Diversified Management Limited for \$3,000,000. This payment was negotiated by the independent Directors. The Group has received the management fee income relating to the management of the assets of Diversified NZ Property Fund Limited from this date.

On 2 July 2010, 10,000,000 shares were issued to Hayphil Investments Limited and Rose Star Investments Limited in return for an investment of \$10,000,000 under separate subscription agreements dated 4 June 2010. The subscription agreements include a mechanism which allows for a payment to be made to the shareholders if they sell their shares during the period up to seven months following the first anniversary of the share issue if the net proceeds received are less than the \$1.00 paid on issue. As at 31 March 2011, the fair value of this liability has been assessed at \$48,575 (\$29,400 relating to Hayphil Investments Limited and \$19,175 relating to Rose Star Investments Limited), with the net change from date of issue to balance date reflected in the statement of comprehensive income.

All other balances are unsecured, non-interest bearing and repayable on demand.

The Group is related to HD Management Limited, Johnsonville Management Limited, Diversified Management Limited, Hayphil Investments Limited and McKinney Industrial (Tauriko) Limited by a degree of common directorship.

DNZ Holdings Limited is a wholly owned subsidiary of the Company.

Rose Star Investments Limited is one of the shareholders of HD Management Limited.

The Group is related to Diversified NZ Property Fund Limited by a degree of common directorship. The Group became the manager of Diversified NZ Property Fund Limited effective from 1 July 2010.

All related party transactions have been conducted on an arm's length basis and no related party debts have been written off or forgiven during the period.

No other benefits have been provided by the Group to a Director for services as a Director or in any other capacity, other than those amounts disclosed in notes 5 and 28.

NOTE 15: NON-CURRENT ASSETS HELD FOR SALE

The Group has classified the following investment properties as non-current assets held for sale at their fair value, which is their contracted value. Any movement in their fair value has been recorded in the statement of comprehensive income as a component of the net change in fair value of investment properties (31 March 2011 (\$500,000) and 31 March 2010 \$240,000).

31 March 2010

The properties that were transferred to non-current assets held for sale for both the Group and Parent in the prior year were:

- 7–19 Croftfield Lane, Auckland;
- 266–274 High Street, Wellington;
- Cnr Cambridge Terrace and Hollands Crescent, Wellington;
- Airpark Business Centre, Lots 2 and 3, Auckland;
- 143–149 First Avenue and 243–255 Cameron Road, Tauranga;
- Lots 71 and 73–76 Tauriko Industrial Estate, Tauranga;
- Cnr Tauroa Street and State Highway One, Whangarei; and
- 21–25 Teed Street, Auckland.

During the current year, the Board of Directors decided not to sell 21 – 25 Teed Street, Auckland and this property has been reclassified as an investment property.

The fair value of these properties at 31 March 2010 was \$62,027,500. With the exception of 21 – 25 Teed Street, Auckland, these properties were sold during the current year for a loss of (\$835,562).

31 March 2011

As at balance date, no investment properties have been identified as non-current assets for sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 16: INVESTMENT PROPERTIES

(a) Movement in carrying amounts

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Opening balance	636,095	746,343	529,055	613,743
Acquisitions	-	2,830	-	2,829
Subsequent capital expenditure	22,901	7,222	3,155	6,051
Net transfers from/(to) non-current assets held for sale	11,800	(62,028)	11,800	(62,028)
Disposals	(21,985)	(23,885)	(8,385)	(5,175)
Net change in fair value	(11,011)	(34,387)	(13,095)	(26,365)
Transfer to property, plant and equipment	(1,916)	-	(1,916)	-
Closing balance	635,884	636,095	520,614	529,055

Capitalised expenditure consists of fit outs and other physical enhancements to the investment properties, with ownership of such capital amounts being retained by the Group.

Effective from 1 July 2010, space occupied by the Group has been reclassified to property, plant and equipment as this space is deemed to be owner occupied property as defined in NZ IAS 40. From this date, it is to be accounted for in accordance with NZ IAS 16 – Property, Plant and Equipment.

(b) Valuation basis

The fair value of the investment properties and non-current assets held for sale is based on independent valuations on an existing use basis, being the amounts for which the properties could be exchanged between knowledgeable willing parties in an arm's length transaction. The accepted methods for assessing the current market value of an investment property are the Capitalisation and Discounted Cash Flow approaches. Each approach derives a value based on market inputs including recent comparable transactions, market rentals, contract rentals, forecast future rentals, income vacancy assumptions, maintenance and capital requirements and appropriate discount rates derived from recent comparable market transactions. Valuations of investment properties which are not yet complete are based on an independent valuer's assessment of the fair value at completion and adjusted to reflect the stage of completion of a project and the costs to complete.

The Capitalisation approach is considered a "point in time" view of the property's value, based on the current contract and market income and an appropriate market yield or return for the particular property. Capital adjustments are then made to the value to reflect under or over renting, pending capital expenditure, upcoming expiries including allowance for lessee inducements and leasing costs.

Using the Capitalisation approach the subject property is divided by a market derived capitalisation rate to assess the market value of the asset. Capitalisation rates ranged from 7.25% to 10.5% (excluding vacant property) across the portfolio.

The Discounted Cash Flow analysis adopts a 10 year investment horizon and makes appropriate allowances for rental income growth, leasing up costs on expiries, with an estimated terminal value at the end of the investment period. The Present Value is a reflection of market based income (inflows) and expenditure (outflows) projections over the 10 year period discounted at a market analysed return.

In deriving a market value under each approach, all assumptions are based where possible, on market based evidence and transactions for properties with similar locations, construction detail and quality of lessee covenant. The adopted market value is a weighted combination of both the Capitalisation and Discounted Cash Flow approaches.

The valuations are performed by independent registered valuers who hold an annual practising certificate with the Valuers Registration Board and are members of the New Zealand Institute of Valuers. Valuers are engaged for a period of not more than three years.

The valuers took into account occupancy (leased area as a proportion of the portfolio nett lettable area) on individual properties (portfolio average is 97.9% at balance date), average lease term (weighted average lease term at balance date is 4.3 years), and discount rates (range from 8.5% to 11.25%).

The properties have been valued by Colliers International NZ Limited (Colliers), Jones Lang LaSalle Limited (JLL), and CB Richard Ellis Limited (CBRE). All valuations are dated effective 31 March.

The two Christchurch properties owned by the Group suffered only minimal damage in the recent earthquakes and, after safety inspections were completed, the tenants have continued their occupation of the properties.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 16: INVESTMENT PROPERTIES (Continued)

(b) Valuation basis (continued)

The Group has recorded the following properties at fair value:

	Valuer	Group 2011 \$000	Parent 2011 \$000	Market cap rate %	Occupancy rate %	WALT Years
Office						
129 Hurstmere Road, Auckland	Colliers	18,000	18,000	9.50	100	2.44
33 Corinthian Drive, Auckland	Colliers	31,700	31,700	8.50	100	5.55
8 Rockridge Avenue, Auckland	Colliers	6,400	6,400	9.38	74	2.41
650 Great South Road, Auckland	Colliers	22,000	22,000	9.50	93	2.05
132 Vincent Street, Auckland	Colliers	9,000	9,000	10.50	100	2.00
80 Greys Avenue, Auckland	Colliers	9,670	9,670	9.75	87	1.13
7-9 Fanshawe Street, Auckland	Colliers	12,100	12,100	10.50	69	2.24
21-25 Teed Street, Auckland	Colliers	12,300	12,300	9.25	59	3.83
22 The Terrace, Wellington	JLL	13,500	13,500	8.75	100	3.79
99-105 Customhouse Quay, Wellington	JLL	13,059	13,059	9.00	81	2.64
13 Jarden Mile, Wellington	JLL	2,500	2,500	8.00	100	0.68
33 Customhouse Quay, Wellington	JLL	30,000	30,000	7.25	100	6.05
1 Grey Street, Wellington	JLL	41,500	41,500	8.25	100	2.76
3-11 Hunter Street, Wellington	JLL	21,100	21,100	9.00	94	3.63
7 Winston Avenue, Christchurch	JLL	9,300	9,300	10.00	100	5.72
Office total		252,129	252,129			
Industrial						
15 Ride Way, Auckland	Colliers	6,260	6,260	8.25	100	0.42
20-22 Pollen Street, Auckland	Colliers	4,200	4,200	9.00	100	5.39
968 Great South Road, Auckland	Colliers	6,100	6,100	8.25	100	9.01
15 Rockridge Avenue, Auckland	Colliers	1,560	-	9.25	100	0.49
20 Rockridge Avenue, Auckland	Colliers	10,500	10,500	8.50	100	1.17
9 Springs Road, Auckland	Colliers	17,800	17,800	9.35	100	3.50
25 O'Rorke Road, Auckland	Colliers	32,510	-	7.88	100	11.52
8 Reg Savory Place, Auckland	Colliers	5,350	5,350	8.15	100	6.42
415 East Tamaki Road, Auckland	Colliers	11,000	11,000	8.65	100	4.42
22-30 Airpark Drive, Auckland	Colliers	14,850	14,850	8.75	100	3.38
22 Ha Crescent, Auckland	Colliers	8,200	8,200	8.85	100	3.87
460 Rosebank Road, Auckland	Colliers	9,350	9,350	9.00	100	5.01
Airpark Business Centre, Lot 10, Auckland	Colliers	3,000	3,000	8.25	100	16.85
709 Te Rapa Road, Hamilton	Colliers	11,100	-	10.00	100	5.59
8 Burnham Street, Wellington	JLL	8,500	-	8.50	100	5.34
19-21 Bouverie Street, Wellington	JLL	810	810	8.00	100	5.89
7-17 Bouverie Street, Wellington	JLL	3,100	3,100	8.25	100	5.89
12 Tyers Road, Wellington	JLL	2,350	2,350	8.00	100	3.50
14 Tyers Road, Wellington	JLL	4,300	4,300	7.75	100	11.01
70 Nayland Road, Nelson	JLL	3,750	3,750	8.75	100	1.67
62 Columbia Avenue, Christchurch	JLL	9,200	9,200	9.50	100	0.37
Industrial total		173,790	120,120			
Retail						
Cnr Mt Wellington Highway and Penrose Road, Auckland	Colliers	24,200	24,200	9.00	100	3.95
Cnr Ward, Bryce and Tristram Streets, Hamilton	Colliers	13,700	-	9.63	92	5.97
Johnsonville Retail, Wellington	JLL	37,000	37,000	8.29	96	1.98
Retail total		74,900	61,200			
Bulk Retail						
Cnr Kamo Road and Manse Street, Whangarei	Colliers	6,250	6,250	8.50	100	6.59
Cnr Te Irirangi and Bishop Dunn Place, Auckland	Colliers	16,400	-	8.50	100	6.59
446 Te Rapa Road, Hamilton	Colliers	16,400	16,400	8.38	100	8.22
Cnr Anglesea and Liverpool Streets, Hamilton	Colliers	8,200	8,200	9.00	100	7.84
65 Chapel Street, Tauranga	JLL	31,500	-	8.63	99	4.12
230-240 Fenton Street, Rotorua	Colliers	10,900	10,900	8.63	100	2.42
26-48 Old Taupo Road, Rotorua	Colliers	15,400	15,400	8.50	100	8.22
170-180 Taradale Road, Napier	JLL	4,250	4,250	9.25	100	0.88
Cnr Tremaine Avenue and Railway Road, Palmerston North	JLL	15,500	15,500	8.25	100	8.22
35 MacLaggan Street, Dunedin	JLL	8,000	8,000	9.50	100	1.34
Bulk Retail total		132,800	84,900			
*Other (refer note below)						
Lots 82-85 Tauriko Industrial Estate, Tauranga	Colliers	2,265	2,265	N/A	N/A	N/A
Other total		2,265	2,265			
Total fair value of investment properties		635,884	520,614			

* Other – This property is being held for development and consequently the market cap rate, occupancy rate and WALT (weighted average lease term) are not applicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 16: INVESTMENT PROPERTIES (Continued)

(b) Valuation basis (continued)

The Group has recorded the following properties at fair value:

	Valuer	Group 2010 \$000	Parent 2010 \$000	Market cap rate %	Occupancy rate %	WALT Years
Office						
129 Hurstmere Road, Auckland	Colliers	18,700	18,700	9.50	85	3.13
33 Corinthian Drive, Auckland	Colliers	32,000	32,000	8.50	100	6.55
8 Rockridge Avenue, Auckland	Colliers	6,200	6,200	10.50	51	2.07
650 Great South Road, Auckland	Colliers	23,300	23,300	9.50	93	3.02
132 Vincent Street, Auckland	Colliers	9,000	9,000	10.50	100	0.92
80 Greys Avenue, Auckland	Colliers	11,750	11,750	10.00	100	1.06
7-9 Fanshawe Street, Wellington	Colliers	12,700	12,700	10.00	54	2.57
22 The Terrace, Wellington	JLL	15,000	15,000	8.75	100	4.21
99-105 Customhouse Quay, Wellington	JLL	14,000	14,000	8.88	87	3.13
13 Jarden Mile, Wellington	JLL	2,500	2,500	8.00	100	1.68
33 Customhouse Quay, Wellington	JLL	31,200	31,200	7.25	100	7.15
1 Grey Street, Wellington	JLL	44,700	44,700	7.90	100	2.76
3-11 Hunter Street, Wellington	JLL	22,000	22,000	9.00	94	3.37
7 Winston Avenue, Christchurch	JLL	9,100	9,100	9.00	100	6.70
Office total		252,150	252,150			
Industrial						
15 Ride Way, Auckland	Colliers	6,300	6,300	8.25	100	1.42
231-233 Bush Road, Auckland	Colliers	7,400	7,400	8.75	0	0.00
20-22 Pollen Street, Auckland	Colliers	4,010	4,010	9.25	100	0.38
968 Great South Road, Auckland	Colliers	5,000	5,000	8.75	100	3.00
15 Rockridge Avenue, Auckland	Colliers	1,540	-	9.50	100	0.49
20 Rockridge Avenue, Auckland	Colliers	10,800	10,800	8.60	100	2.17
9 Springs Road, Auckland	Colliers	17,400	17,400	9.25	100	1.50
8 Reg Savory Place, Auckland	Colliers	5,370	5,370	8.00	100	7.42
415 East Tamaki Road, Auckland	Colliers	10,930	10,930	8.50	100	5.42
22-30 Airpark Drive, Auckland	Colliers	15,000	15,000	8.63	100	4.38
22 Ha Crescent, Auckland	Colliers	8,300	8,300	8.85	100	4.87
460 Rosebank Road, Auckland	Colliers	8,850	8,850	9.00	100	6.01
Airpark Business Centre, Lot 10, Auckland	Colliers	2,930	2,930	8.25	100	17.85
709 Te Rapa Road, Hamilton	Colliers	11,100	-	10.0	100	6.59
33-43 Jackson Street, Wellington	JLL	12,600	-	8.25	100	8.17
8 Burnham Street, Wellington	JLL	7,100	-	8.75	100	6.50
19-21 Bouverie Street, Wellington	JLL	715	715	8.25	100	0.88
7-17 Bouverie Street, Wellington	JLL	2,760	2,760	8.50	100	0.88
12 Tyers Road, Wellington	JLL	2,350	2,350	8.00	100	4.50
14 Tyers Road, Wellington	JLL	4,150	4,150	7.75	100	12.01
70 Nayland Road, Nelson	JLL	3,800	3,800	8.25	100	2.67
62 Columbia Avenue, Christchurch	JLL	9,700	9,700	9.25	100	1.37
Industrial total		158,105	125,765			
Retail						
Cnr Mt Wellington Highway and Penrose Road, Auckland	Colliers	23,400	23,400	8.85	97	3.64
Cnr Ward, Bryce and Tristram Streets, Hamilton	Colliers	14,300	-	9.88	94	6.92
Johnsonville Retail, Wellington	JLL	38,000	38,000	7.73	95	2.10
Retail total		75,700	61,400			
Bulk Retail						
Cnr Kamo Road and Manse Street, Whangarei	Colliers	6,250	6,250	8.50	100	7.59
Cnr Te Irirangi and Bishop Dunn Place, Auckland	Colliers	16,500	-	8.25	100	7.59
446 Te Rapa Road, Hamilton	Colliers	16,400	16,400	8.25	100	9.22
Cnr Anglesea and Liverpool Streets, Hamilton	Colliers	8,400	8,400	9.75	100	8.84
65 Chapel Street, Tauranga	JLL	31,000	-	8.50	97	3.34
230-240 Fenton Street, Rotorua	Colliers	11,100	11,100	8.50	100	5.42
26-48 Old Taupo Road, Rotorua	Colliers	15,800	15,800	8.25	100	9.22
170-180 Taradale Road, Napier	JLL	4,250	4,250	9.25	100	1.88
Cnr Tremaine Avenue and Railway Road, Palmerston North	JLL	15,600	15,600	8.25	100	9.22
35 MacLaggan Street, Dunedin	JLL	8,275	8,275	9.00	100	2.34
Bulk Retail total		133,575	86,075			
*Other (refer note below)						
25 O'Rorke Road, Auckland	Colliers	12,900	-	N/A	N/A	N/A
Lots 82-85, 105 and 107, Tauriko Industrial Estate, Tauranga	CBRE	3,665	3,665	N/A	N/A	N/A
Other total		16,565	3,665			
Total fair value of investment properties		636,095	529,055			

* Other – These properties were either under development or being held for development and consequently the market cap rate, occupancy rate and WALT (weighted average lease term) were not applicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 16: INVESTMENT PROPERTIES (Continued)

(b) Valuation basis (continued)

The total fair value of investment properties by valuer, are as follows:

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Colliers International NZ Limited	376,665	353,630	301,395	297,290
Jones Lang LaSalle Limited	259,219	278,800	219,219	228,100
CB Richard Ellis Limited	-	3,665	-	3,665
Total	635,884	636,095	520,614	529,055

NOTE 17: WORK IN PROGRESS

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Johnsonville Retail, Wellington	2,618	2,546	2,618	2,546
25 O'Rorke Road, Auckland	-	3,365	-	-
	<u>2,618</u>	<u>5,911</u>	<u>2,618</u>	<u>2,546</u>
Borrowing costs capitalised during the year:				
25 O'Rorke Road, Auckland	356	22	-	-
	<u>356</u>	<u>22</u>	<u>-</u>	<u>-</u>

Work in progress is comprised of costs relating to the future development of Johnsonville Retail, Wellington. During the current year, the development at 25 O'Rorke Road, Auckland, was completed and the costs have been capitalised to the investment property.

Where borrowing costs were capitalised, the effective capitalisation interest rate was the same as that paid under the Group's existing banking arrangements, which was 5.35% (2010: 3.72%).

NOTE 18: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

Group and Parent	2011 \$000	2010 \$000
Fixed assets	213	-
Owner occupied property	<u>1,821</u>	<u>-</u>
	<u>2,034</u>	<u>-</u>

Group and Parent	Plant and equipment \$000	Motor vehicles \$000	Total fixed assets \$000
Fixed assets			
Opening balance 1 April 2010	-	-	-
Fixed assets acquired from the Manager	228	11	239
Subsequent acquisitions	18	-	18
Less depreciation expense	<u>(42)</u>	<u>(2)</u>	<u>(44)</u>
Closing balance 31 March 2011	<u>204</u>	<u>9</u>	<u>213</u>

Group and Parent	2011 \$000	2010 \$000
Owner occupied property		
Opening balance	-	-
Transfer from investment property	1,916	-
Net change in fair value recognised in other comprehensive income	<u>(95)</u>	<u>-</u>
Closing balance	<u>1,821</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 18: PROPERTY, PLANT AND EQUIPMENT (Continued)

Effective from 1 July 2010, space leased by the Group has been classified to property, plant and equipment as this space is deemed to be owner occupied property as defined in NZ IAS 40. From this date it is to be accounted for in accordance with NZ IAS 16 – Property, Plant and Equipment.

In the current year, the properties in which space is leased by the Group were independently valued at 31 March 2011 and the resulting change in fair value was taken through the statement of comprehensive income as other comprehensive income. The owner occupied property consists of space leased in 80 Greys Avenue, Auckland and 99-105 Customhouse Quay, Wellington. Refer note 16 for details of the valuation assumptions.

NOTE 19: INTANGIBLE ASSET

Group and Parent	2011 \$000	2010 \$000
Fixed life intangible		
Opening balance	3,600	-
Payment for renegotiated management agreement	-	4,000
Amortisation	(100)	(400)
Impairment	(3,500)	-
Closing balance	-	3,600

The Group renegotiated its management contract with the Manager on 1 April 2009. The renegotiation payment of \$4,000,000 was recognised as a fixed life intangible and was being amortised over a period of 10 years on a straight-line basis, which reflected the length of the initial term of the renegotiated management agreement. When the management contract was terminated, effective from 1 July 2010, the remaining unamortised portion of the renegotiation payment was expensed.

Group and Parent	2011 \$000	2010 \$000
Indefinite life intangible		
Opening balance	-	-
Payment for management agreement	3,000	-
Closing balance	3,000	-

The indefinite life intangible asset relates to the amount paid to Diversified Management Limited for the acquisition of the management agreement for Diversified NZ Property Fund Limited (Diversified). An impairment test has been carried out at 31 March 2011 and the Board of Directors considers that no impairment exists at balance date.

As required by NZ IAS 36, the management agreement for Diversified was assessed on the basis of value in use, determined by discounting the future cash flows generated from the management agreement and was based on the following key assumptions:

- Diversified continues to own the existing assets for 10 years;
- capital value movements are 2.50% per annum which is consistent with long term growth rates;
- corporate overhead is in the range of 50-60% of normalised EBIT;
- no capital raisings within the forecast period; and
- all capital works are debt funded.

The discount rate was estimated assuming equity funding, with the cost of equity calculated using the Capital Asset Pricing Model. The discount rate used was 9.53% against the free cash flows generated from the management agreement.

NOTE 20: INVESTMENT IN SUBSIDIARY

	Country of incorporation
Parent entity	
DNZ Property Fund Limited	New Zealand
Subsidiary of DNZ Property Fund Limited	
DNZ Holdings Limited	New Zealand

The subsidiary is 100% owned and has a 31 March balance date. It is principally involved in the ownership and leasing out of investment property under operating leases and is also involved in the development of investment property.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 21: TRADE AND OTHER PAYABLES

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Current				
Unsecured liabilities				
Trade payables	1,429	1,761	1,277	1,487
Sundry creditors and accruals	4,456	6,735	3,954	4,448
	<u>5,885</u>	<u>8,496</u>	<u>5,231</u>	<u>5,935</u>

NOTE 22: DERIVATIVE FINANCIAL INSTRUMENTS

Group and Parent	2011 \$000	2010 \$000
Fair value of interest rate swaps	(4,983)	(6,140)

The fair value of the derivative is classified as a current liability if the item is maturing within 12 months and as a non-current liability if the maturity is over 12 months.

Group and Parent	2011 \$000	2010 \$000
Current liability	-	(3,336)
Non-current liability	(4,983)	(2,804)
	<u>(4,983)</u>	<u>(6,140)</u>

The principal amount of the outstanding interest rate swap contracts is as follows:

Principal amount outstanding under the interest rate swaps	210,000	206,400

NOTE 23: BORROWINGS

Group and Parent	2011 \$000	2010 \$000
Non-current		
Bank borrowings	252,915	322,007
Total borrowings	<u>252,915</u>	<u>322,007</u>

Bank borrowings

The Group's secured borrowings are via a syndicated senior secured facility with the ANZ National Bank Limited ("ANZ"), ASB Bank Limited ("ASB") and Bank of New Zealand ("BNZ"), in which each bank provides 50%, 30% and 20% respectively of loan requirements sought at any time. At balance date, the following facilities were available and drawn down:

Group and Parent	2011 \$000	2010 \$000
Facility drawn down	252,915	322,007
Undrawn facility available	97,085	177,993
Total facility available	<u>350,000</u>	<u>500,000</u>

During the current year, the Group renegotiated its existing banking facility, reducing the total limit available and extending its term for a further three years to 30 September 2013. As part of this renegotiation, the line fees and margin were increased. The current interest rate on the facility was 3.81% as at 31 March 2011 (2010: 3.22%).

The term of the facility can be extended by one year on each anniversary with the approval of the banks and there are no principal repayments due over the term of the facility. The bank security on the facility is managed through a security agent, being ANZ, who holds a first registered mortgage on all the properties owned by the Group and a registered first ranking General Security Arrangement charge over all the assets of the Group.

The banks, as is normal, impose a number of financial and non-financial covenants on the Group. During the prior year, the Group breached one of the non-financial covenants due to the terms of settlement relating to the acquisition of an investment property. The banks acknowledged the breach and waived their rights and the Group remedied the breach. There have been no other breaches of the Group's banking covenants.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 24: EQUITY

Group and Parent	Ordinary shares	"A" class shares	"B" class shares
Number of shares on issue			
Opening balance 1 April 2009	-	469,965,609	10
Shares issued under dividend reinvestment plan	-	1,234,610	-
Consolidation of shares	-	(282,716,711)	-
Balance as at 31 March 2010	-	188,483,508	10
Reclassification of shares as ordinary shares	188,483,518	(188,483,508)	(10)
Shares issued under subscription agreements	10,000,000	-	-
Shares issued on NZX listing	46,392,572	-	-
Shares issued on exercise of Chief Executive's options	1,700,000	-	-
Closing balance 31 March 2011	<u>246,576,090</u>	<u>-</u>	<u>-</u>

On 15 June 2009, the dividend reinvestment plan was released. Under this plan, 1,234,610 shares were issued during the period ended 30 September 2009. The dividend reinvestment plan was suspended in October 2009 and was terminated on 1 July 2010.

On 17 November 2009, the existing "A" class shares were consolidated on a two for five basis. The result of this was a reduction in the number of "A" class shares by 282,716,711.

On 1 July 2010, the 10 "B" class shares previously held by DNZ Property Group Limited were reclassified as ordinary shares on the adoption of the new constitution and are now held 50:50 by Hayphil Investments Limited and Rose Star Investments Limited.

On 1 July 2010, the "A" class shares were reclassified as ordinary shares on the adoption of the new constitution.

On 2 July 2010, 10,000,000 shares were issued to Hayphil Investments Limited and Rose Star Investments Limited in return for an investment of \$10,000,000 under separate subscription agreements dated 4 June 2010. The subscription agreements include a mechanism which allows for a payment to be made from the Group to the shareholders if they sell their shares during the period up to seven months following the first anniversary of the share issue if the net proceeds received are less than the \$1.00 paid on issue. At the time of issue, a liability for \$1,670,000 was recorded in the statement of financial position. As at 31 March 2011, the fair value of this liability has been assessed at \$48,575 (\$29,400 relating to Hayphil Investments Limited and \$19,175 relating to Rose Star Investments Limited), with the net change from date of issue to balance date reflected in the statement of comprehensive income.

On 13 August 2010, the Group issued 46,392,572 ordinary shares in accordance with the investment statement and prospectus dated 9 July 2010 at an issue price of 97 cents.

On 14 October 2010, the Group issued 1,700,000 ordinary shares to the Chief Executive, Paul Duffy under the Chief Executive option scheme.

There is now only one class of shares, being ordinary shares and they rank equally with each other. All issued shares are fully paid and have no par value. Shareholders can appoint up to eight directors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 25: RESERVES

Group and Parent	2011 \$000	2010 \$000
Reserves consist of:		
Cash flow hedge reserve	(3,589)	(6,140)
Options reserve	1,308	-
Property, plant and equipment revaluation reserve	(95)	-
Closing balance	(2,376)	(6,140)
Cash flow hedge reserve		
Opening balance	(6,140)	(11,145)
Tax on becoming a Listed PIE	1,718	-
Changes in fair value of interest rate swaps	1,157	5,005
Tax on fair value changes	(324)	-
Closing balance	(3,589)	(6,140)
Options reserve		
Opening balance	-	-
Chief Executive option scheme	1,243	-
Movement in employee long term share incentive plan	65	-
Closing balance	1,308	-
Property, plant and equipment revaluation reserve		
Opening balance	-	-
Property, plant and equipment change in fair value	(95)	-
Closing balance	(95)	-

NOTE 26: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including price risk and cash flow interest rate risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings. The accounting policy with respect to these financial instruments is described in note 1.

Risk management is carried out by the Board of Directors. The Board of Directors identifies and evaluates financial risks in close co-operation with management. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

(i) Price risk

The Group is exposed to property price and property rentals risk. As at balance date, the Group is not exposed to the market risk associated with financial instruments as it does not hold any equity securities that are traded in an open market.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings (refer note 23). Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the current year, the Board of Directors adopted a new long term interest rate policy. The previous policy was to hedge 75 - 100% of its long term borrowings by fixing the rates of interest payable in order to provide greater certainty.

The Board of Directors adopted new policy bands, which provide for both a high level of fixed interest rate cover over the near term, as well as a lengthy period of known fixed interest rate cover for a portion of term debt. The policy is applied on a rolling basis, meaning the Group will maintain a minimum of 75% fixed rate hedging out 12 months and a minimum of 50% hedging for years 2 and 3. Under these policy bands, the Group will also be required to maintain fixed rate hedging of at least 25% past 5 years. The extended profile also more closely reflects the company's WALT, with the mid policy position approximating a WALT of at least 3.5 years (and near 4.5 years at policy maximums).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

	Policy band minimum	Policy band maximum	Average hedging position
0-1 year	75%	100%	84%
1-3 years	50%	100%	59%
3-5 years	25%	80%	13%
5 plus years	0%	60%	0%

The Group will gradually work towards policy compliance over the next six months.

As at 31 March 2010, the Group was hedged to 64% as the Board of Directors was waiting for the capital management strategy to be finalised for the Group prior to entering into further swaps. The strategy was finalised during the current year and the Group entered into new swaps.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between floating contract rates and fixed rate interest amounts calculated by reference to the agreed notional principal amounts. As the Group holds interest rate swaps there is a risk that their economic value will fluctuate because of changes in market interest rates.

The value of interest rate swaps is disclosed in note 22 and it is acknowledged that there will be fluctuations in their economic value as a result of changes in market interest rates.

The Group's exposure to interest rate fluctuations is minimal, to the extent of all the non-hedged portions of bank borrowings.

As at 31 March 2011, if the floating interest rates on hedged bank borrowings had been 1% higher, with other variables remaining constant, other comprehensive income would have been \$4,987,754 (2010: \$2,037,672) higher for the year. If the floating interest rates on the hedged bank borrowings had been 1% lower, with other variables remaining constant, other comprehensive income would have been \$5,270,405 (2010: \$2,119,203) lower for the year.

The principal or contract amounts of the interest rate swaps outstanding at balance date were:

	2011 \$000	2010 \$000
Interest rate swaps	210,000	206,400

The interest rate swap agreements have an effective interest rate of 6.02% (2010: 7.07%) and are due for maturity in November 2012, August 2013, September 2014 and May 2015. The interest rate swaps have fixed interest rates throughout the term of the contracts.

Trade and other receivables and payables are interest free and have settlement dates within one year.

The Group's exposure to variable interest rate risk and the effective weighted average interest rate for interest bearing financial assets and liabilities is as follows:

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Financial assets				
Cash and cash equivalents	5,190	4,101	5,186	4,091
NZX bond	75	-	75	-
Financial liabilities				
Bank borrowings	252,915	322,007	252,915	322,007

All other assets and liabilities are non-interest bearing.

The interest rate applicable at balance date to cash and cash equivalent balances was 1.5% (2010: 1.5%), to NZX bond was 3.5% and to bank borrowings was 3.81% (2010: 3.22%). The Group's exposure to interest rates is hedged through the use of interest rate swaps.

The overall funding rate of the bank borrowings at balance date, taking into account the Group's interest rate swaps, was 7.34% (2010: 6.23%) per annum.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions.

The risk associated with trade receivables is managed with a credit policy which includes performing credit evaluations on all customers requiring credit, which ensures that only those customers with appropriate credit histories are provided with credit. Generally collateral is not required.

In addition, receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant. As the Group has a wide spread of tenants over many industry sectors, it is not exposed to any significant concentration of credit risk. Amounts which are past due are not considered impaired as the majority are due from tenants with strong credit ratings.

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Trade receivables				
Carrying amount	560	819	526	280
less than 30 days	482	706	460	208
between 31 and 60 days	67	66	55	27
between 61 days and 90 days	7	8	7	8
between 91 days and 360 days	4	39	4	37
over 360 days	-	-	-	-

The risk from financial institutions is managed by placing cash and deposits with high credit quality financial institutions only.

A credit risk also arises in the Parent from advances to subsidiaries. These amounts are non-interest bearing, and have no fixed payment terms.

The Group has placed its cash and deposits with ANZ, which is AA rated by Standard & Poors. The Group is not exposed to any other concentrations of credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's liquidity position is monitored on a regular basis and is reviewed monthly by the Board of Directors to ensure compliance with internal policies and banking covenants per the Group's syndicated lending facility.

The Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover potential shortfalls. Further details about the undrawn bank facilities available are given in note 23. The following table outlines the Group's liquidity profile based on contractual non-discounted cash flows.

	Carrying amount \$000	Total \$000	0-6 mths \$000	6-12 mths \$000	1-2 yrs \$000	2-5 yrs \$000
31 March 2010 - Group						
Trade and other payables	8,496	8,496	8,496	-	-	-
Secured bank borrowings	322,007	352,098	10,030	10,030	332,038	-
	<u>330,503</u>	<u>360,594</u>	<u>18,526</u>	<u>10,030</u>	<u>332,038</u>	<u>-</u>
31 March 2011 - Group						
Trade and other payables	5,885	5,885	5,885	-	-	-
Secured bank borrowings	252,915	299,325	9,282	9,282	18,564	262,197
	<u>258,800</u>	<u>305,210</u>	<u>15,167</u>	<u>9,282</u>	<u>18,564</u>	<u>262,197</u>
31 March 2010 - Parent						
Trade and other payables	5,935	5,935	5,935	-	-	-
Secured bank borrowings	322,007	352,098	10,030	10,030	332,038	-
	<u>327,942</u>	<u>358,033</u>	<u>15,965</u>	<u>10,030</u>	<u>332,038</u>	<u>-</u>
31 March 2011 - Parent						
Trade and other payables	5,231	5,231	5,231	-	-	-
Advance from related party	1,234	1,234	1,234	-	-	-
Secured bank borrowings	252,915	299,325	9,282	9,282	18,564	262,197
	<u>259,380</u>	<u>305,790</u>	<u>15,747</u>	<u>9,282</u>	<u>18,564</u>	<u>262,197</u>

The contractual cash flows relating to the secured bank loans include interest repayments at the Group's overall funding rate at balance date, being 7.34% (2010: 6.23%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group, as part of its capital risk management, is required to comply with covenants imposed under its banking facility. The Board of Directors regularly monitors these covenants and provides quarterly compliance certificates to the banks as part of this process.

(e) Fair values

The Group fair values its financial instruments by way of the following fair value measurement hierarchy levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2),
- inputs for the asset or liability that are not based on observable market data.

The Group carries interest rate swaps (derivative financial instruments) at fair value. Details of the interest rate swaps are provided in note 26 (a) and note 22. These instruments, are included in level 2 of the fair value measurement hierarchy and had the following fair value at balance date:

	2011 \$000	2010 \$000
Group and Parent		
Fair value of interest rate swaps	(4,983)	(6,140)

NOTE 27: CAPITAL AND LEASE COMMITMENTS

(a) Operating lease commitments

The Parent is committed under eleven operating leases. There are seven leases at the corner of Anglesea and Liverpool Streets, Hamilton, two leases at 3 - 11 Hunter Street, Wellington, one at 7 - 9 Fanshawe Street, Auckland, and one at 33 Customhouse Quay, Wellington. The Group has an additional operating lease commitment at 8 Burnham Street, Wellington. The commitment below only reflects the amounts payable under current signed lease contracts up until the next rent review, at which time the terms of the leases will be renegotiated.

	Group 2011 \$000	Group 2010 \$000	Parent 2011 \$000	Parent 2010 \$000
Payable				
- no later than 1 year	626	600	601	575
- later than 1 year and no later than 5 years	2,718	2,399	2,618	2,298
- later than 5 years	3,225	2,559	3,215	2,525
	<u>6,569</u>	<u>5,558</u>	<u>6,434</u>	<u>5,398</u>

(b) Capital expenditure commitments contracted for

As at 31 March 2011, the Group had committed to \$1,744,000 in total for various capital expenditure works to be undertaken on a number of investment properties in the next financial year.

As at 31 March 2010, the Group had a major capital commitment of \$16,450,316 for the development of a new warehouse and office building at 25 O'Roke Road, Auckland. This was completed during the current year.

The Group has no other major capital commitments as at balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 28: REMUNERATION

(a) Non-executive Directors' remuneration

The directors' fees for the non-executive Directors of the Company have been fixed, initially at \$65,000 per annum per Director, with \$100,000 per annum being payable to the Chairman. No additional fee is paid for membership of sub-committees. Paul Duffy receives remuneration in his role as Chief Executive and does not receive director fees.

The Directors are also entitled to be paid remuneration by way of consultancy fees for consultancy services provided by them other than in their capacity as Directors. The Directors are also entitled to be paid for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings, or otherwise in connection with the Company's business.

For the year ended 31 March 2011, the fees paid to the non-executive Directors of the Company were as follows:

Director	Directors fees	Other fees	Total fees
Timothy Ian Mackenzie Storey	\$100,000	-	\$100,000
Edward John Harvey	\$65,000	-	\$65,000
Michael Peter Stiasny (appointed 9 April 2010)	\$65,000	-	\$65,000
David Gregory van Schaardenburg (appointed 12 May 2010)	\$48,750	-	\$48,750
	<u>\$278,750</u>	<u>-</u>	<u>\$278,750</u>

For the year ended 31 March 2010, the fees paid to the non-executive Directors of the Company were as follows:

Director	Directors fees	Other fees	Total fees
Timothy Ian Mackenzie Storey (appointed 1 April 2009)	\$77,500	\$15,000	\$92,500
Simon John Botherway (appointed 29 October 2009, resigned 10 February 2010)	\$16,250	-	\$16,250
Edward John Harvey (appointed 15 September 2009)	\$37,083	\$15,000	\$52,083
Alastair Burkitt Hasell (resigned 31 March 2010)	\$32,500	-	\$32,500
Mark Christian Hopkinson (resigned 10 February 2010)	\$49,167	\$15,000	\$64,167
Denis Michael Wood (appointed 1 April 2009, resigned 30 May 2009)	\$9,167	-	\$9,167
	<u>\$221,667</u>	<u>\$45,000</u>	<u>\$266,667</u>

Timothy Ian Mackenzie Storey received \$27,500 in director fees prior to being appointed Chairman on 8 October 2009.

(b) Remuneration and Nomination Committee

The purpose of the Committee is to review and approve the executive remuneration policy to enable the Company to attract and retain executives, and to maintain a Board of Directors that has an appropriate mix of skills and experience to be an effective decision making body, who will create value for shareholders. The Committee must comprise at least three non-executive Directors, the majority being independent. The Board of Directors may appoint additional Directors to the Committee or remove and replace members of the Committee by resolution.

The Committee's objectives include ensuring the Company has in place a sound remuneration policy framework designed to:

- ensure the Company's management team is fairly and equitably remunerated;
- ensure the senior employees of the Company are appropriately rewarded for excellent achievement and performance;
- ensure the Company is able to attract and retain high performing people whose skills and attributes are well matched to the Company's requirements;
- ensure appropriate and required disclosure is made of Director and executive remuneration, in accordance with regulatory requirements and good governance practices;
- ensure there is an environment and framework where management talent and potential is assessed and developed in line with the requirements of the Company;
- review the key executive positions within the Company to ensure robust succession planning exists;
- review the composition of the Board of Directors and make recommendations to ensure an appropriate mix of skills and experience is maintained and that the Board of Directors is operating to a best practice standard of governance; and
- ensure planning for Board of Directors succession requirements occurs, and identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise.

Among other things, the Remuneration and Nomination Committee is responsible for setting and reviewing the remuneration of the Chief Executive and senior management team.

As at 31 March 2011, the members were: Tim Storey (Chairman), John Harvey, Michael Stiasny and David van Schaardenburg. On 13 April 2011, Michael Stiasny succeeded Tim Storey as Chairman.

The Remuneration and Nomination Committee has approved the remuneration package of the Chief Executive.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 28: REMUNERATION (Continued)

(c) Chief Executive

Remuneration

Paul Duffy commenced employment as the Chief Executive of the Company at the beginning of July 2010. His employment is for a fixed term of three years, with a two year renewal exercisable by agreement. His base salary is set at \$650,000 per annum for the first year and will be reviewed annually during the term of his employment. In setting the terms of Paul Duffy's employment, the Board of Directors took advice from executive remuneration consultants to determine an appropriate package having terms similar to the total remuneration packages of chief executives (or equivalent) of Australasian listed entities in the property sector. In the year ended 31 March 2011, Paul Duffy was paid total remuneration, including salary and benefits, of \$494,064, which related to the period 1 July 2010 to 31 March 2011.

Chief Executive option scheme

The Company established a Chief Executive option scheme under which the Chief Executive, Paul Duffy, was granted 2.7 million options (CEO Options) at the beginning of July 2010. The scheme is intended to align the interests of the Chief Executive with the interests of shareholders and provide a continuing incentive for the Chief Executive's performance and retention. Exercise of the CEO Options is on the basis of one share per CEO Option at no cost without the requirement for any further approvals from the Company, including those approvals set out in rule 7.3.1 of the NZSX Listing Rules. The CEO Options become exercisable following achievement of the following performance measures:

- 700,000 CEO Options will be exercisable if, at any time within 36 months of issue, the volume weighted average price of trades of shares on the NZSX over a five day period is equal to or greater than \$0.10 above the Offer Price of 97 cents;
- 1,000,000 CEO Options will be exercisable if, at any time within 36 months of issue, the volume weighted average price of trades of shares on the NZSX over a five day period is equal to or greater than \$0.20 above the Offer Price; and
- 1,000,000 CEO Options will be exercisable if, at any time within 36 months of issue, the volume weighted average price of trades of shares on the NZSX over a five day period is equal to or greater than \$0.30 above the Offer Price.

The CEO Options will expire on the third anniversary of their issue if the performance measures have not been achieved.

A valuation was prepared on the options issued at grant date, and the cost was \$1,243,305 using a generalised Black-Scholes option pricing framework. The key assumptions adopted were:

- simulated cash flows were discounted at a continuously compounded risk free rate of 5.1% for the five year measurement period and 5.7% for the 10 year period;
- volatility estimated at 20%;
- price at issue assumed to be 97cents; and
- no eligibility for dividends and ordinary shares are assumed to receive a gross dividend of 8.4% per share throughout the vesting period.

Group and Parent	2011 000	2010 000
Chief Executive option scheme		
Opening balance	-	-
Options granted	2,700	-
Options exercised	(1,700)	-
Options forfeited	-	-
Closing balance	1,000	-

Under this CEO Option scheme, 1,700,000 shares were issued in relation to the first and second tranches on 14 October 2010 at a volume weighted average price of \$1.21. On 2 May 2011, 1,000,000 shares were issued in relation to the third and final tranche.

Shares issued under the scheme may not be disposed of during the three year initial term of the Chief Executive's employment agreement, other than under a partial or full takeover offer to all shareholders under the Takeovers Code or to the extent necessary to pay taxation on the CEO Options or in respect of their exercise.

(d) Employee remuneration

The overall remuneration structure is designed to deliver rewards that are competitive in the labour markets in which the Company competes for staff. All full time employees receive a base salary and take part in the short term incentive scheme, with the exception of the Chief Executive. Members of the senior management team also participate in the long term incentive scheme.

Salaries are reviewed annually with effect from 1 July.

The number of employees or former employees of the Company, not being Directors of the Company, who received remuneration and other benefits in their capacity as employees, the value of which was in excess of \$100,000 and was paid or accrued to those employees during the financial year ended 31 March 2011, are listed on the following page.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 28: REMUNERATION (Continued)

(d) Employee remuneration (continued)

Remuneration includes salary, incentive payments, benefits and the value of shares rights issued to senior management. For comparison purposes, the remuneration has been restated to show what the bands would have been if the remuneration related to a twelve month period.

Remuneration	Remuneration for nine months to 31 March 2011	Remuneration annualised
\$100,000 - \$109,999	3	2
\$110,000 - \$119,999	1	2
\$130,000 - \$139,999	-	1
\$140,000 - \$149,999	-	2
\$150,000 - \$159,999	1	1
\$200,000 - \$209,999	-	1
\$230,000 - \$239,999	1	1
\$260,000 - \$269,999	1	-
\$270,000 - \$279,999	1	-
\$300,000 - \$309,999	1	-
\$310,000 - \$319,999	1	-
\$350,000 - \$359,999	-	1
\$360,000 - \$369,999	-	1
\$400,000 - \$409,999	-	1
\$420,000 - \$429,999	-	1
Total number of employees	10	14

The remuneration of the Chief Executive has been excluded from the above table as he has been reported on separately in note 28 (c).

Group and Parent	2011 \$000	2010 \$000
Key management personnel costs		
Salary and other short term benefits	1,821	-
Rights issued under employee long term share incentive scheme	65	-
Options issued to Chief Executive	1,243	-
	3,129	-

Key management personnel includes the Chief Executive and the members of the senior management team.

Short term incentive scheme

The Company operates a short term incentive scheme under which employees, excluding the Chief Executive, can become eligible to receive a cash incentive on an annual basis in addition to base salary. The maximum amount of the incentive is set prior to the start of the financial year and entitlement to the incentive is subject to pre-agreed hurdles being met. A portion of the incentive relates to Total Shareholder Returns (TSR), ranging from 50% of the incentive for the senior management team down to 20% for the balance of the staff. The portion of the short term incentive scheme relating to TSR will be scaled depending on the amount by which total gross shareholder return exceeds 10% on an average annual basis. At 15% compound total gross shareholder return, 100% of the TSR portion of the incentive would be paid out.

For the year ended 31 March 2011, the period for the short term incentive scheme commenced on 1 July 2010, the effective date for employee contracts, and related to a nine month period. The total amount earned under the short term incentive scheme was \$409,840, which was paid on 20 April 2011.

Long term share incentive scheme

The Company has introduced a long term share incentive scheme for the senior management team (excluding the Chief Executive). This scheme is intended to align the interests of senior management with the interests of shareholders and provide a continuing incentive to key employees by calculating entitlements by reference to the Company's TSR. The Remuneration and Nominations Committee took advice from executive remuneration consultants as to the form of the long term share incentive scheme and determined that the scheme initially has the following characteristics:

- a share performance right that gives the participant the right, subject to satisfaction of all performance hurdles, to acquire shares in the future;
- share performance rights are divided into three tranches:
  - tranche one, comprising 50% of each annual allocation, will be measured on 31 March 2012;
  - tranche two, comprising 25% of each annual allocation, will be measured on 31 March 2013;
  - tranche three, comprising 25% of each annual allocation, will be measured on 31 March 2014,

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 28: REMUNERATION (Continued)

(d) Employee remuneration (continued)

Long term share incentive scheme (continued)

and at the end of each period, performance hurdles will be measured;

- if the performance hurdles are not met, they will be re-tested one year after the original testing date;
- the share performance rights will lapse at the end of the relevant measurement and re-test period if not vested and exercised;
- the performance hurdles will include TSR expectations, comprising annual dividends paid and share price growth;
- the number of share performance rights that vest on a vesting date will be scaled depending on the amount by which total gross shareholder return exceeds 10% on an average annual basis. At 15% compound total gross shareholder return, 100% of the tranche being tested will vest;
- participants will receive one share for every vested right at no cost; and
- the participating employee will be liable for the income tax cost of the award of shares and may choose to sell some or all shares to fund this cost upon issue of the shares.

The Company issued one million share performance rights under the long term share incentive scheme effective from 1 July 2010. As one member of the senior management team left during the period, the rights available reduced to 825,000. A valuation was prepared on the rights issued and the cost was \$65,119 for the year ending 31 March 2011. These rights will be first capable of vesting (as to 50% of them) on 31 March 2012. The valuation was prepared using a generalised Black-Scholes option pricing framework. The key assumptions adopted were:

- simulated cash flows were discounted at a continuously compounded five year risk free rate of 5.1%;
- volatility estimated at 20%;
- price at issue assumed to be 97 cents; and
- no eligibility for dividends and ordinary shares are assumed to receive a gross dividend of 8.4% per share throughout the vesting period.

Further share performance rights under the long term share incentive scheme may be issued on an annual basis. However, the terms of the scheme, eligible participants, and offers of further share performance rights may be modified by the Board of Directors from time to time, subject to the requirements of the NZSX Listing Rules and applicable laws.

Group and Parent	2011 000	2010 000
Long term incentive scheme		
Opening balance	-	-
Rights granted	1,000	-
Rights exercised	-	-
Rights forfeited	(175)	-
Closing balance	825	-

NOTE 29: EVENTS SUBSEQUENT TO BALANCE DATE

On 19 April 2011, a favourable binding tax ruling was received from the Inland Revenue Department that the payment for the termination of the management contract is deductible for tax purposes.

On 2 May 2011, 1,000,000 shares were issued to the Chief Executive for \$Nil value pursuant to the terms of the Chief Executive option scheme. This was the third and final tranche to be issued under this scheme.

On 4 May 2011, the Group purchased 500,000 units for \$390,000 in Argosy Property Trust.

On the 11th and 18th of May, the Company disclosed to the market that it is interested in entering into discussions with Argosy Property Trust with a proposed strategic merger. At this stage, no commitment has been made or agreement reached.

On 23 May 2011, the Board of Directors declared an un-imputed dividend of 2 cents per share (for the period 1 January 2011 to 31 March 2011) to be paid on 22 June 2011 to all shareholders on the Group's register at the close of business on 8 June 2011. This dividend has not been recognised in the financial statements.

On 23 May 2011, the Board of Directors amended its distribution policy to distribute between 75 – 85% of distributable profit. The policy takes effect from the first quarter dividend payment for the 2012 financial year, scheduled for payment in September 2011. The amendment to the policy is to ensure sufficient funds are retained for reinvestment to enhance long term earnings of the Group and dividend sustainability for shareholders.

There have been no other material events subsequent to balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 30: INTEREST IN UNINCORPORATED JOINT VENTURE

The Group has a 50% interest in the Johnsonville Retail unincorporated joint venture. The joint venture partner is Diversified NZ Property Fund Limited. The joint venture is principally engaged in the business of investing in the property at Johnsonville Retail, Wellington. The following amounts represent the Group's 50% share of the assets and liabilities, and income and expenses of the joint venture. They are included in the statement of financial position and statement of comprehensive income:

Group and Parent	2011 \$000	2010 \$000
Assets		
Current assets	104	99
Non-current assets	7,253	4,853
	<u>7,357</u>	<u>4,952</u>
Liabilities		
Current liabilities	208	249
Non-current liabilities	-	-
	<u>208</u>	<u>249</u>
Net assets	<u>7,149</u>	<u>4,703</u>
Share of rental income	2,946	2,879
Share of expenses	<u>(499)</u>	<u>(611)</u>
Net share of profit	<u>2,447</u>	<u>2,268</u>

There are no commitments or contingent liabilities relating to the Group's interest in the joint venture. The joint venture has a balance date of 31 March.

NOTE 31: CONTINGENT LIABILITIES

The Group has no contingent liabilities at balance date (2010: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

NOTE 32: INFORMATION MEMORANDUM FINANCIAL INFORMATION

On 9 July 2010, the Group issued an investment statement and prospectus. The following is a comparison of the prospective financial information to the Group's actual results for the year ended 31 March 2011.

Group and Parent	2011 Prospective \$000	2011 Actual \$000
Statement of comprehensive income		
Rental income	59,151	58,165
Net finance expenses	(23,358)	(22,210)
Net profit before renegotiation payment, termination payment changes in fair value and taxation	19,711	19,725
Net loss before taxation	(15,650)	(25,526)
Income tax expense	(90,384)	(9,586)
Net loss after taxation	(106,034)	(35,112)
Movement in cash flow hedges	4,830	2,551
Total comprehensive income for the year	(101,203)	(32,656)
Statement of financial position		
Current assets	7,297	8,524
Non-current assets	673,654	645,808
Current liabilities	(6,541)	(5,934)
Non-current liabilities	(370,053)	(266,089)
Equity	304,357	382,309
Statement of cash flows		
Net cash flows by operating activities	17,423	20,274
Net cash flows (applied to)/provided by investing activities	(2,883)	13,016
Net cash flows applied to financing activities	(14,448)	(32,201)
Net increase in cash and cash equivalents held	92	1,089

Commentary (references made to numbers are in \$000s)

Net loss before taxation was higher (\$9,876), largely due to the fair value movement in the investment properties (\$11,511), offset by the fair value movement in the subscription agreement \$1,621.

Total comprehensive income for the year was \$68,547 higher than forecast, primarily due to a lower tax expense as a result of:

- the early adoption of NZ IAS 12 Income Taxes amendment in relation to deferred tax on investment properties. This has resulted in the reversal of \$69,347 non-cash adjustment taken up in the September 2010 interim financial statements to the balance of deferred tax liabilities on building valuations.
- a favourable binding tax ruling was received from the Inland Revenue Department that the payment for the termination of the management contract is deductible for tax purposes. This has resulted in a tax loss position for the Group and no current taxation expense being booked. The prospective financial information assumed that the termination payment would not be deductible and consequently had assumed \$1,688 current tax expense.

Offsetting this was the movement in the fair value of interest rate swaps (\$2,279).

Non-current assets are (\$27,846) lower than the prospective financial information, largely due to the fair value movement in the investment properties (\$11,511) and the completion of a larger divestment programme than forecast.

Non-current liabilities are \$103,964 lower, primarily due to the lower deferred tax of \$79,996 resulting from the adoption of NZ IAS 12 Income Taxes amendment and the favourable binding tax ruling. Bank borrowings are \$27,134 lower due to the additional \$10,000 capital raised and the completion of a larger divestment programme than forecast.

Equity is \$77,952 higher as a result of the improved total comprehensive result of \$68,547, as previously explained, and the additional \$10,000 capital raised.

Net cash flows applied to financing activities was \$17,753 higher as a result of greater bank debt repayment resulting from the additional \$10,000 capital raised and the completion of a larger divestment programme than forecast.





Governance

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One entity **One vision** 



Corporate Responsibility

Corporate responsibility is an essential element of developing and managing commercial, industrial and retail properties and DNZ's activities demonstrate corporate leadership in introducing new technologies and practical measures in all its property related activities.

DNZ considers itself a leader in corporate responsibility, specifically our focus on addressing issues related to ESG - Environmental Sustainability, Social Responsibility and Corporate Governance. As part of this process, DNZ has become a signatory to the United Nations Principles for Responsible Investment. These principles provide a framework around which an organisation can integrate ESG into its investment decision-making and ownership practices. For further details visit the www.unpri.org website.

Environmental Sustainability

Sustainability, climate change and resource conservation are high priority subjects at all levels of Government and business. A growing public knowledge of the impacts of climate change is gathering momentum and will impact future policy. Sustainability now forms part of a wider agenda of corporate responsibility, including governance issues. It provides a framework for focusing upon and enhancing good business practices, which will contribute to shareholder value.

Buildings have a significant impact on the environment. They consume 40% of the world's energy, 12% of its water and produce 40% of landfill waste. Buildings with high energy efficiency, low water consumption and good waste control will maintain an edge within a very competitive rental market by keeping long-term costs to a minimum. There is a suggestion in the market that green buildings will become more valuable and this is a distinct point of difference in the (leasing) marketplace for companies to align themselves with property management / owners that embrace sustainability philosophy and practices.

DNZ is committed to the long-term integration of sustainability practices throughout the portfolio for the purpose of enhancing Shareholder value. Sustainability includes adopting strategies, embracing opportunities and managing risks from the recognition of environmental, social and economic responsibilities and trends. These practices are undertaken in the belief that the Company's capacity to generate Shareholder value will be enhanced by embracing such practices. The integration of these practices must be formulated in a manner which is specific, measurable, accountable and enduring as part of the business.

Sustainability provides a framework for focusing upon and enhancing good business practices which will contribute to Shareholder value. We are progressively seeking ways to improve our reporting systems and performance measures. For DNZ, sustainability means adopting business strategies and practices that meet the needs of the Company and its stakeholders today, while, as a responsible corporate citizen, protecting the human and natural resources that will be needed into the future.

The growing presence of environmental concerns and demands in New Zealand is reflected in the establishment of The New Zealand Green Building Council in July 2006. DNZ is a founding member and was actively involved in aiding one of the Council's first major goals – a rating tool for new office buildings.

Social Responsibility

DNZ is committed to being a responsible member of the corporate community. The Company is pursuing the following:

- The provision of a positive working environment that is safe, productive and rewarding. We encourage innovation, initiative and personal responsibility in our staff, with the goal of DNZ being an employer of choice.
- DNZ is a Platinum sponsor of the Keystone New Zealand Property Education Trust. This trust provides grants to students who would not normally be able to afford tertiary education, with specific emphasis relating to the property profession.
- DNZ has a school support initiative where DNZ endeavours to maximise recycling through the use of surplus materials from the Company's operations by schools wherever possible.
- DNZ is a sponsor of FYD (Foundation for Youth Development) whose aim is to inspire all school age New Zealand children to reach their full potential through programmes that help build self-esteem, promote good values and which teach valuable life, education and health skills.



Corporate Governance

The Board of DNZ is committed to undertaking its corporate governance responsibilities in accordance with best practice governance principles. The Board believes that DNZ's corporate governance practices meet the requirements of the New Zealand Securities Commission's Principles for Corporate Governance (the **Principles**) and the NZX Corporate Governance Best Practice Code (the **NZX Code**). The Securities Commission is now the Financial Markets Authority (**FMA**).

The Board has adopted a set of policies and charters in relation to corporate governance which can be found in the Corporate Responsibility section of DNZ's website www.dnzproperty.com.

The following report is based on the Principles as set out by the FMA.

Principle 1: Ethical Standards

Directors should observe and foster high ethical standards.

DNZ has adopted a **Code of Ethics** that set out how Directors and employees should conduct themselves to maintain high ethical standards and to avoid conflict between their private financial activities and their part in the conduct of company business. The Code of Ethics includes procedures for reporting and resolving breaches of the Code.

At the date of this Annual Report no serious instances of unethical behaviour had been identified and reported to the Board.

DNZ has policies to prevent insider trading, these are contained in its **Securities Trading Policies and Guidelines**. These guidelines require Directors and employees and associated persons to obtain consent before they trade in DNZ's shares. The policy provides for limited trading windows at the time of Company announcements at the end of the financial year and financial half year. Trading shares while in possession of material information is prohibited at all times. Employees have a duty of confidentiality in relation to any confidential information in relation to DNZ and are not allowed to disclose such information to third parties without ensuring that appropriate procedures are in place to ensure that confidentiality is maintained.

Principle 2: Board Composition and Performance

There should be a balance of independence, skills, knowledge, experience, and perspectives among Directors so that the Board works effectively.

Board Size and Composition

The Board has a maximum of eight Directors and a minimum of three, of which at least two must be ordinarily resident in New Zealand. At least one-third of the Directors must be Independent Directors (as defined in the Listing Rules) and meet the Board Charter criteria set out below. There are currently five Directors appointed, of which four are Independent Directors and meet these criteria. One Director is an executive director.

Details of the Directors' skills and expertise are contained in the profiles on pages 10 and 11.

Director Independence

In addition to the NZX requirements, a non-executive Director is considered to be independent providing he or she:

- a) does not hold more than five percent of the Company's class of listed voting securities;
- b) is not employed in an executive capacity by the Company or its subsidiaries;
- c) is not a principal or employee of a professional advisor to the Company and/or its entities whose billing exceeds ten percent of the advisor's total revenues;
- d) is not a significant supplier to or customer of the Company. (A significant supplier is defined as one whose revenues from the Company exceed ten percent of the supplier's total revenue; a significant customer is defined as one whose purchases from the Company exceed ten percent of the customer's total purchases);
- e) has no material contractual relationship with the Company;

f) has no other interest or relationship that could interfere with his or her ability to act in the best interests of the Company and independently of management; and

g) is determined by the Board to be independent in character and judgement.

The Board has reviewed the status of each of the Directors and confirms that, as at 31 March 2011, all Directors are independent except for Paul Duffy, due to his position as Chief Executive of DNZ.

Composition

As at 31 March 2011 the Board was comprised of the following:

Timothy Ian Mackenzie Storey	Chairman
Paul John Duffy	Executive Director
Edward John Harvey	Director
Michael Peter Stiasny	Director
David Gregory van Schaardenburg	Director

Board Performance

The Board undertakes yearly evaluation of its performance, both as a group and as individual Directors. The outcomes from the performance review are used to improve Board processes and identify areas for improvement for the following year.

Principle 3: Board Committees

The Board should use committees where this would enhance its effectiveness in key areas while retaining board responsibility.

The Board has established two board committees, Audit & Risk and Remuneration & Nomination.

Audit & Risk Committee

Edward John Harvey, Chairman (*independent*)

Michael Stiasny (*independent*)

Tim Storey (*independent*)

The Audit & Risk Committee's Charter requires that the Committee be comprised solely of non-executive Directors and shall be comprised of at least three non-executive Directors. The majority of Directors on the Committee shall be Independent Directors. The Chairperson of the Committee shall be an Independent Director and may not be the Chairperson of the Board. All Committee members need to be financially literate, and at least one member must have accounting or related financial management expertise.

Meetings of the Committee are held at least twice a year, having regard to the Company's reporting and audit cycle, or at the discretion of the Chairperson or if requested by any Committee member, the Chief Executive, external or internal audit.

The Committee provides assistance to the Directors in fulfilling their responsibility to the Shareholders, potential Shareholders, and investment community relating to corporate accounting, reporting practices of the Company, and the quality and integrity of financial reports of the Company. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Directors, the external auditors, the internal auditors, and the financial management of the Company.

The Board believes that the Audit & Risk Committee has the appropriate level of financial expertise to perform its duties.

Remuneration & Nomination Committee

Michael Stiasny, Chairman (effective from 13 April 2011) (*independent*)

Edward John Harvey (*independent*)

Tim Storey, (Chairman to 13 April 2011) (*independent*)

David van Schaardenburg (*independent*)

The Remuneration & Nomination Committee's Charter requires that the Committee will be comprised of at least three non-executive Directors of the Board and that the Chairperson of the Committee is an Independent Director and may not be the Chairperson of the Board. Executive Directors are not entitled to attend meetings where they are conflicted for personal reasons. Meetings of the Committee are held at least twice a year or at the discretion of the Chairperson or if requested any Committee member or the Chief Executive.

The objectives of the Committee include recommending remuneration packages for Directors to Shareholders, ensuring that the Company has in place a sound remuneration policy framework designed to make sure that the Company's management team is fairly and equitably remunerated, that appropriate and required disclosure is made of Director and executive remuneration, that there is an environment and framework where management talent and potential is assessed and developed in line with the requirements of the Company and to ensure robust succession planning exists. The Committee is responsible for reviewing the mix of skills and experience of Directors on the Board and succession planning to identify candidates to fill Board vacancies as and when they arise.

Meeting Attendance	Board Meetings	Audit & Risk Committee	Remuneration & Nomination Committee
<i>Total Number of Meetings Held</i>	16	3	2
Paul Duffy	16	-	-
Edward John Harvey	16	3	2
Michael Stiasny	16	3	2
Tim Storey	16	3	2
David van Schaardenburg	15	-	2

Principle 4: Reporting and Disclosure

The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

To meet the requirements of the NZX, DNZ has adopted a Market Disclosure Policy to provide guidance in the area of market disclosure and the release of material information.

DNZ is committed to:

- Ensuring that Shareholders and the market are provided with full and timely information about its activities;
- Complying with the general and continuous disclosure principles contained in the NZX Listing Rules and the Companies Act 1993; and
- Ensuring that all market participants have equal opportunities to receive externally available information issued by the Company.

A Disclosure Committee comprising of the Chief Executive, Chief Financial Officer (Disclosure Officer) and Chairman is responsible for making decisions about what information is material information and ensuring that appropriate disclosures are made in a timely manner to the market.

The Audit & Risk Committee is tasked with overseeing the quality and integrity of all financial reporting. The Committee reviews the full and half-year financial statements and has direct access as necessary to the Company's external auditors.

Principle 5: Remuneration

The remuneration of Directors and executives should be transparent, fair, and reasonable.

The remuneration paid to Directors and executives is disclosed on pages 87 to 89 of this Annual Report and the notes to the financial statements on pages 70 to 73. The Remuneration and Nomination Committee is responsible for, among other things, recommending Director remuneration packages to Shareholders and setting executives' remuneration packages.

Chief Executive Option Scheme

The Company has established a Chief Executive option scheme under which the Chief Executive, Paul Duffy, was granted 2.7 million options (CEO Options) at the beginning of July 2010. The scheme is intended to align the interests of the Chief Executive with the interests of Shareholders and provide a continuing incentive for the Chief Executive's performance and retention. The CEO Options are exercisable in three tranches as the price of trades of shares on the NZSX meets certain performance hurdles. The CEO Options will expire on the third anniversary of their issue if the performance measures have not been achieved. As at the date of this Annual Report 2,700,000 share options have been exercised after the share price met the performance hurdles. The Company and the Chief Executive have agreed that any shares issued on exercise of the CEO Options may not be disposed of during the three year initial term of the CEO's employment agreement, other than under a partial or full takeover offer to all Shareholders under the Takeovers Code or to the extent necessary to pay taxation on the CEO Options or in respect of their exercise. Full details of the CEO Options can be found on page 88 of this Annual Report and in the notes to the financial statements on page 71.

Employee Incentive Schemes

Short Term Incentive Scheme

The Company operates a short term incentive scheme under which all permanent, full-time employees, excluding the Chief Executive, can become eligible to receive a cash incentive on an annual basis in addition to base salary. The maximum amount of the incentive is set prior to the start of the financial year and entitlement to the incentive is subject to pre-agreed hurdles, to be determined by the Remuneration & Nomination Committee, being met. Details of the total amount that has been paid under the short term incentive scheme, can be found on page 89 of this Annual Report and in the notes to the financial statements on page 72.

Long Term Share Incentive Scheme

The Company has introduced a long term share incentive scheme for the senior management team (excluding the Chief Executive). This scheme is intended to align the interests of senior management with the interests of Shareholders and provide a continuing incentive to key employees by calculating entitlements by reference to DNZ's total Shareholder return. The Remuneration & Nomination Committee has taken advice from executive remuneration consultants as to the form of the long term share incentive scheme. Full details of the long term incentive scheme can be found on pages 89 and 90 of this Annual Report and in the notes to the financial statements on pages 72 and 73.

The total number of share performance rights issued in FY2011 under the long term share incentive scheme was 1.0 million rights. As one member of the senior management team left during the period, the rights available reduced to 825,000. Vestment of these rights is subject to total Shareholder return targets being met. Up to 50% of these rights are first able to vest on 31 March 2012, with vestment of up to a further 25% on each of 31 March 2013 and 31 March 2014. Further share performance rights under the long term share incentive scheme may be issued on an annual basis. However, the terms of the scheme, eligible participants, and offers of further share performance rights may be modified by the Board from time to time, subject to the requirements of the NZSX Listing Rules and applicable laws.

Principle 6: Risk Management

The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

DNZ has in place business risk management processes and policies to minimise its exposure to financial and operational risk. Internal systems have been designed to:

- Identify material risks.
- Assess the impact of specific risks.
- Identify strategies to mitigate risk.
- Monitor and report progress on risk mitigation strategies.

The Board has established an Audit & Risk Committee, which has the responsibility to:

- Ensure that management has established a risk management framework which includes policies and procedures to effectively identify, treat, monitor and report key business risks.
- Review the procedures of identifying business risks and controlling their financial impact on DNZ.
- Review management's and the external and internal auditor's reports on the effectiveness of systems for internal control, financial reporting and risk management.
- Ensure that the Board receives regular risk management compliance certificates and review reports on the principal business risks at least annually.
- Review key insurance policy terms and cover adequacy and make recommendations to the Board for adoption of the insurance cover.

Further risk management matters are contained in the Investment Policy & Strategy section of DNZ's website www.dnzproperty.com.

Principle 7: Auditors

The Board should ensure the quality and independence of the external audit process.

The Audit & Risk Committee is responsible for the monitoring of the external audit process. It has responsibilities under its charter to:

- Meet with the external auditors and financial management of the Company to review the scope of work and the procedures to be utilised, the adequacy of the external auditor's compensation and, at the conclusion thereof, review such audit or review, including any comments or recommendations of the external auditors.
- Review reports received from regulators and other legal and regulatory bodies, matters that may have a material effect on the financial statements or related company compliance policies.
- Review the internal audit function of the Company including the independence and authority of its reporting obligations, the proposed audit plans for the coming year and the coordination of such plans with the external auditors.
- Receive on a regular basis a summary of findings from completed internal audits and a progress report on the internal audit plan, with explanations for any deviations from the original plan.
- Report the results of the annual audit to the Board. If requested by the Board, invite the external auditors to attend the full Board meeting to assist in reporting the results of the annual audit or to answer other Directors' questions (alternatively, the other Directors, particularly the other Independent Directors, may be invited to attend the Committee meeting during which the results of the annual audit are reviewed).
- Review the nature and scope of other professional services provided to the Company by the external auditors and consider the relationship to the auditor's independence.
- On an annual basis, assess and confirm to the Board the independence of the external auditor.
- Make recommendations to the Board as to the appointment or discharge of external auditors.
- Establish the external auditor's fees, subject to Shareholder approval.
- On a quarterly basis, review and monitor the ratio of non-audit to audit fees.
- Ensure that the external auditor or lead audit partner is changed at least every five years.

The Audit & Risk Committee meets at least once a year with the external auditors, without any members of management present. The Board invites the auditor to attend Board Meetings or Committee Meetings as required. Directors are free to make direct contact with the auditor as necessary to obtain independent advice and information.

Principle 8: Shareholder Relations

The Board should foster constructive relationships with Shareholders that encourage them to engage with the entity.

DNZ believes a high level of disclosure and communication to Shareholders is very important. Shareholders deserve to be provided with all the information possible about the performance of their investment and to be informed of any significant transactions by the Company.

Further information regarding Shareholder relations, including reporting to Shareholders, the Annual Meeting and investor relations, can be found in the Investor Relations section on pages 84 and 85.

Principle 9: Stakeholder Interests

The Board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose.

DNZ recognises that there are a number of significant stakeholders in DNZ that are affected by the Company's activities. DNZ aims to manage its business to produce positive outcomes for all stakeholders including tenants, contractors, service providers, banks, employees and the communities in which our properties reside.

DNZ is focused on taking a leadership role with corporate responsibility, specifically on addressing issues related to ESG - Environmental Sustainability, Social Responsibility and Corporate Governance. As part of this process, DNZ has become a signatory to the United Nations Principles for Responsible Investment. These principles provide a framework around which an organisation can integrate ESG into its investment decision-making and ownership practices. For further details visit www.unpri.org. For more details on DNZ's ESG policies and activities see page 78.



Investor Relations

DNZ believes a high level of disclosure and communication to Shareholders is very important. Shareholders deserve to be provided with all the information that they require about the performance of their investment and to be informed on any significant transactions by the Company.

Reporting to Shareholders

Regular quarterly reporting to investors is provided through six-monthly Newsletters, the Annual Report and Interim Report. Events of interest within the DNZ Property Fund portfolio that occur between regular reporting periods are communicated on-line, via market announcements to the NZX (www.nzx.com, stock code DNZ) and on DNZ's website (www.dnzproperty.com), meeting the need for the market to be informed in a timely manner.

The Annual and Interim Reports are available electronically on the Company's website and Shareholders can request hard copies by contacting the Company's investor services team.

Annual Meeting

Shareholders are encouraged to attend the Annual Meeting and take the opportunity to meet the Board of DNZ and to ask questions about the performance of the Company. The Chair provides time for questions from the floor and these are answered by the appropriate member of the Board or senior management. The Company's external auditor attends the meeting and is available to take questions on the preparation of the financial accounts and the auditor's report.

The next Annual General Meeting is scheduled for August/September 2011. Further details will be sent to Shareholders closer to the time.

Investor Services Team

The investor services team is the first point of contact for Shareholders with queries about their investments. They can be contacted on:

Phone: 0800 436 977
 Fax: +64 9 912 2693
 Email: investor@dnzproperty.com.
 Mail: DNZ Property Fund, PO Box 6320, Wellesley Street, Auckland 1141.

Registrar

Computershare Investor Services Limited is the share registrar for DNZ and has responsibility for administering and maintaining the share register. If you have questions in relation to the administration of your shareholding, such as changes to your personal details, you can contact Computershare as detailed below:

Phone: +64 9 488 8777
 Fax: +64 9 488 8787
 Email: dnz@computershare.co.nz
 Mail: Computershare Investor Services Limited, Private Bag 92119, Victoria Street West, Auckland 1142.

Shareholders can view their holding details and update their personal details online on Computershare's Investor Centre website – visit www.computershare.co.nz/investorcentre - you will need your Investor Number and FIN to access this service.

Distribution Policy

The Board has amended the Company's distribution policy to distribute between 75 – 85% of distributable profit. The policy takes effect from the first quarter dividend payment for the 2012 financial year, scheduled for payment in September 2011. The amendment to the distribution policy is to ensure sufficient funds are retained for reinvestment to enhance long-term earnings of the Company and dividend sustainability for investors.

DNZ pays its distributions to Shareholders typically in the third month that follows each quarter. For example the distributions for the March 2011 quarter were paid in June 2011.

Substantial Security Holders

As at 31 May 2011 the following security holders had filed substantial security holders notices in accordance with the Securities Markets Act 1988.

Shareholder	Number and Class of Listed Voting Securities
ING (NZ) Limited (now known as OnePath (NZ) Limited)	18,273,408 ordinary shares
Accident Compensation Corporation	12,443,831 ordinary shares

The number of shares listed above are as per the last substantial security holder notices filed. As these notices are required to be filed only if the total holding of a Shareholder changes by 1% or more since the last notice filed, the numbers noted in this table may differ from those shown in the list of 20 largest holdings of quoted equity securities below.

The total number of listed voting securities of DNZ as at 31 May 2011 was 247,576,090.

20 Largest Holdings of Quoted Equity Securities as at 31 May 2011*

Rank	Holder Name	Number of Shares Held	% of Total Issued Shares
1	Premier Nominees Limited – Onepath Wholesale Property Securities – NZCSD	12,876,547	5.20
2	Accident Compensation Corporation - NZCSD	12,775,795	5.16
3	BT NZ Unit Trust Nominees Limited – NZCSD	8,678,888	3.51
4	Hayphil Investments Limited	7,311,244	2.95
5	HSBC Nominees (New Zealand) Limited – NZCSD	6,892,686	2.78
6	Rose Star Investments Limited	5,701,991	2.30
7	MFL Mutual Fund Limited – NZCSD	4,179,598	1.69
8	Citibank Nominees (New Zealand) Limited – NZCSD	3,671,224	1.48
9	Paul John Duffy	2,700,000	1.09
10	New Zealand Superannuation Fund Nominees Limited – NZCSD	2,591,494	1.05
11	Mint Nominees Limited – NZCSD	2,263,211	0.91
12	Premier Nominees Ltd – NZCSD	1,909,638	0.77
13	JBWere (NZ) Nominees Limited	1,597,235	0.65
14	New Zealand Depository Nominee Limited	1,558,104	0.63
15	HSBC Nominees (New Zealand) Limited	1,371,232	0.55
16	Superlife Trustee Nominees Limited	1,359,388	0.55
17	Geoffrey John Smith and Marlys Theresa Smith	1,340,838	0.54
18	FNZ Custodians Limited	1,058,317	0.43
19	Elizabeth Fay Thornley and Neville Thornley	1,026,888	0.41
20	Cogent Nominees (NZ) Limited – NZCSD	967,000	0.39
Shares held by 20 largest Shareholders		81,831,318	33.05
Balance of shares held		165,744,772	66.95
Total Issued Shares		247,576,090	100.00

Shareholder Distribution as at 31 May 2011*

Shareholder Range	Number of Shareholders	Number of Shares	% of Issued Shares
1 to 499	2	430	0.00
500 to 999	14	10,995	0.00
1,000 to 1,999	158	271,568	0.11
2,000 to 4,999	585	2,138,492	0.86
5,000 to 9,999	1,766	12,577,864	5.08
10,000 to 49,999	3,341	74,411,288	30.06
50,000 to 99,999	517	34,974,503	14.13
100,000 to 499,999	204	31,863,145	12.87
500,000 to 999,999	9	6,699,333	2.71
1,000,000 and above	10	84,628,472	34.18
Total	6,606	247,576,090	100.00

* Shares held by New Zealand Central Securities Depository Limited (NZCSD) are grouped under a single legal holding as reflected in the Shareholder Distribution table. The 20 Largest Holdings of Quoted Equity Securities table shows the beneficial holder of the shares in the NZCSD register - this table does not sum due to rounding.



Statutory Information

Entries Recorded in the Interests Register

The following interest register entries were recorded for the Company for the year ending 31 March 2011.

a) Directors' Interests in Transactions

i) Specific disclosures

There were no specific disclosures made during the year of any interests in transactions entered into by DNZ or any of its subsidiaries.

ii) General disclosures

Paul John Duffy	Hayphil Investments Limited	Director, shareholder
Edward John Harvey	APN News & Media Limited	Director
Michael Peter Stiasny	Vector Limited New Zealand Racing Board	Chairman, shareholder Chairman
Timothy Ian Mackenzie Storey	No additional interest register entries recorded	
David Gregory van Schaardenburg	Monitor Money Limited New Zealand Funds Superannuation Limited Client Asset Holdings Limited Van Schaardenburg Trustee Company Limited Petersham Trust MMG Advisory Partners Limited Fidelity Limited	Director, shareholder Director Director Director Trustee Director* Director*

* David van Schaardenburg is no longer a director of these two companies.

b) Share Dealings by Directors

The following share dealings by Directors were recorded during the year ended 31 March 2011:

Director	Date of Transaction	Consideration per Security	Number of Securities Acquired (Disposed of)	Nature of Relevant Interest
Paul Duffy	2 July 2010	Nil	2,700,000 options to acquire ordinary shares	Granted share options (CEO option scheme)
	14 October 2010	Nil	(1,700,000) options to acquire ordinary shares	Exercised share options
	14 October 2010	Nil	1,700,000 ordinary shares	Legal owner, exercised share options (CEO option scheme)
	13 August 2010	\$0.97	2,311,239 ordinary shares	Acquisition of shares, beneficial interest
	2 July 2010	\$1.00	5,000,000 ordinary shares	Acquisition of shares, beneficial interest
	2 July 2010	Nil	5 ordinary shares	Acquisition of beneficial interest
	2 July 2010	\$0.93	309,917 ordinary shares	Acquisition of beneficial interest
	2 July 2010	\$0.93	(309,917) ordinary shares	Disposition of beneficial interest
	2 July 2010	\$0.93	9,697 ordinary shares	Acquisition of beneficial interest
	2 July 2010	\$0.93	(9,697) ordinary shares	Disposition of beneficial interest
Edward John Harvey	13 August 2010	\$0.97	103,093 ordinary shares	Acquisition of shares, legal owner
Michael Stiasny	13 August 2010	\$0.97	103,093 ordinary shares	Acquisition of shares, legal owner and beneficial interest
Tim Storey	13 August 2010	\$0.97	103,093 ordinary shares	Acquisition of shares, beneficial interest
David van Schaardenburg	13 August 2010	\$0.97	30,929 ordinary shares	Acquisition of shares, legal owner and beneficial interest

On 2 May 2011 Paul Duffy exercised the remaining 1,000,000 options to acquire ordinary shares.

There were no other share dealings by Directors.

c) Securities of the Company in which each Director has a relevant interest as at 31 March 2011

Director	Ordinary Shares	Options
Paul Duffy	9,011,244	1,000,000
Edward John Harvey	103,093	-
Michael Stiassny	103,093	-
Tim Storey	103,093	-
David van Schaardenburg	30,929	-

NZX Waivers

The following waivers from the NZSX Listing Rules were granted to the Company or relied on by the Company during the financial year ended 31 March 2011.

1. LR 7.11.1

NZSX Listing Rule 7.11.1 requires an issuer making an issue to proceed to allotment within 5 business days after the latest date on which applications for securities close. A waiver from Listing Rule 7.11.1 was granted to allow the allotment of new DNZ shares under the 2010 public offering to occur 7 business days following the close of the offer for the non-bookbuild participants. This was for the purpose of making available the shares not taken up under the offer by non-bookbuild participants in a concentrated bookbuild process undertaken once those numbers were known.

2. LR 11.1.1

NZSX Listing Rule 11.1.1 stipulates that no issuer shall impose any restriction on the right of a holder of a quoted security to transfer that security, or any restriction upon registration of a properly completed transfer of quoted securities. A waiver from Listing Rule 11.1.1 was granted to allow restrictions to be placed on the transfer of securities issued to the Chief Executive, Paul Duffy, under the Company's Chief Executive option scheme. Under the Chief Executive option scheme, Paul Duffy was issued 2,700,000 options, which entitle him to be issued ordinary shares in the Company upon the achievement of certain performance measures. The Chief Executive option scheme restricts the transfer of any shares issued pursuant to the exercise of the options during the three year initial term of his employment agreement.

Loans to Directors

There are no loans to Directors.

Use of Company Information

No Director has requested, pursuant to section 145(3) of the Companies Act 1993, to use information received in their capacity as a Director that would not otherwise have been available to them.

Directors' Remuneration

For the year ended 31 March 2011, the fees paid to the non-executive Directors of the Company were as set out below. No fees were paid to Paul Duffy in his capacity as a Director.

Director	Directors Fees	Other Fees	Total Fees
Timothy Ian Mackenzie Storey	\$100,000	-	\$100,000
Edward John Harvey	\$65,000	-	\$65,000
Michael Peter Stiassny (appointed 9 April 2010)	\$65,000	-	\$65,000
David Gregory van Schaardenburg (appointed 12 May 2010)	\$48,750	-	\$48,750
	<u>\$278,750</u>	<u>-</u>	<u>\$278,750</u>

Remuneration of Employees**i) Chief Executive**

Paul Duffy commenced employment as the Chief Executive of the Company at the beginning of July 2010. His employment is for a fixed term of three years, with a two year renewal exercisable by agreement. His base salary is set at \$650,000 per annum for the first year and will be reviewed annually during the term of his employment. In setting the terms of Paul Duffy's employment, the Board of Directors took advice from executive remuneration consultants to determine an appropriate package having terms similar to the total remuneration packages of chief executives (or equivalent) of Australasian listed entities in the property sector. In the year ended 31 March 2011, Paul Duffy was paid total remuneration, including salary and benefits, of \$494,064, which related to the period 1 July 2010 to 31 March 2011.

Chief Executive Option Scheme

The Company established a Chief Executive option scheme under which the Chief Executive, Paul Duffy, was granted 2.7 million options (CEO Options) at the beginning of July 2010. The scheme is intended to align the interests of the Chief Executive with the interests of Shareholders and provide a continuing incentive for the Chief Executive's performance and retention. Exercise of the CEO Options is on the basis of one share per CEO Option at no cost without the requirement for any further approvals from the Company, including those approvals set out in rule 7.3.1 of the NZSX Listing Rules. The CEO Options become exercisable following achievement of the following performance measures:

- 700,000 CEO Options will be exercisable if, at any time within 36 months of issue, the volume weighted average price of trades of shares on the NZSX over a five day period is equal to or greater than \$0.10 above the price at which shares were offered to the public in connection with DNZ's NZX listing (Offer Price) of 97 cents;
- 1,000,000 CEO Options will be exercisable if, at any time within 36 months of issue, the volume weighted average price of trades of shares on the NZSX over a five day period is equal to or greater than \$0.20 above the Offer Price; and
- 1,000,000 CEO Options will be exercisable if, at any time within 36 months of issue, the volume weighted average price of trades of shares on the NZSX over a five day period is equal to or greater than \$0.30 above the Offer Price.

The CEO Options will expire on the third anniversary of their issue if the performance measures have not been achieved.

Chief Executive Option Scheme

Opening balance 1 April 2010	-
Options granted	2,700,000
Options exercised	(1,700,000)
Options forfeited	-
Closing balance 31 March 2011	1,000,000

Under this Chief Executive option scheme, 1,700,000 shares were issued in relation to the first and second tranches on 14 October 2010. On 2 May 2011, 1,000,000 shares were issued in relation to the third and final tranche.

Shares issued under the scheme may not be disposed of during the three year initial term of the Chief Executive's employment agreement, other than under a partial or full takeover offer to all Shareholders under the Takeovers Code or to the extent necessary to pay taxation on the CEO Options or in respect of their exercise.

ii) Employee Remuneration

The overall remuneration structure is designed to deliver rewards that are competitive in the labour markets in which the Company competes for staff. All full time employees receive a base salary and take part in the short term incentive scheme, with the exception of the Chief Executive. Members of the senior management team also participate in the long term incentive scheme. Salaries are reviewed annually with effect from 1 July.

The number of employees or former employees of the Company, not being Directors of the Company, who received remuneration and other benefits in their capacity as employees, the value of which was in excess of \$100,000 and was paid or accrued to those employees during the financial year ended 31 March 2011, are listed below.

Remuneration includes salary, incentive payments, benefits and the value of shares rights issued to senior management. For comparison purposes, the remuneration has been restated to show what the bands would have been if the remuneration related to a twelve month period.

Remuneration	Remuneration for nine months to 31 March 2011	Remuneration annualised
\$100,000 - \$109,999	3	2
\$110,000 - \$119,999	1	2
\$130,000 - \$139,999	-	1
\$140,000 - \$149,999	-	2
\$150,000 - \$159,999	1	1
\$200,000 - \$209,999	-	1
\$230,000 - \$239,999	1	1
\$260,000 - \$269,999	1	-
\$270,000 - \$279,999	1	-
\$300,000 - \$309,999	1	-
\$310,000 - \$319,999	1	-
\$350,000 - \$359,999	-	1
\$360,000 - \$369,999	-	1
\$400,000 - \$409,999	-	1
\$420,000 - \$429,999	-	1
Total number of employees	10	14

The remuneration of the Chief Executive has been excluded from the above table as he has been reported on separately.

Key Management Personnel Costs	2011 \$000
Salary and other short term benefits	1,821
Rights issued under employee long term share incentive scheme	65
Options issued to Chief Executive	1,243
	<u>3,129</u>

Key management personnel includes the Chief Executive and the members of the senior management team.

Short Term Incentive Scheme

The Company operates a short term incentive scheme under which employees, excluding the Chief Executive, can become eligible to receive a cash incentive on an annual basis in addition to base salary. The maximum amount of the incentive is set prior to the start of the financial year and entitlement to the incentive is subject to pre-agreed hurdles being met. A portion of the incentive relates to Total Shareholder Returns (TSR), ranging from 50% of the incentive for the senior management team down to 20% for the balance of the staff. The portion of the short term incentive scheme relating to TSR will be scaled depending on the amount by which total gross shareholder return exceeds 10% on an average annual basis. At 15% compound total gross shareholder return, 100% of the TSR portion of the incentive would be paid out.

For the year ended 31 March 2011, the period for the short term incentive scheme commenced on 1 July 2010, the effective date for employee contracts, and related to a nine month period. The total amount earned under the short term incentive scheme was \$409,840, which was paid on 20 April 2011.

Long Term Share Incentive Scheme

The Company has introduced a long term share incentive scheme for the senior management team (excluding the Chief Executive). This scheme is intended to align the interests of senior management with the interests of Shareholders and provide a continuing incentive to key employees by calculating entitlements by reference to the Company's TSR. The Remuneration and Nominations Committee took advice from executive remuneration consultants as to the form of the long term share incentive scheme and determined that the scheme initially has the following characteristics:

- a share performance right that gives the participant the right, subject to satisfaction of all performance hurdles, to acquire shares in the future;
- share performance rights are divided into three tranches:
  - tranche one, comprising 50% of each annual allocation, will be measured on 31 March 2012;
  - tranche two, comprising 25% of each annual allocation, will be measured on 31 March 2013;
  - tranche three, comprising 25% of each annual allocation, will be measured on 31 March 2014, and at the end of each period, performance hurdles will be measured;
- if the performance hurdles are not met, they will be re-tested one year after the original testing date;
- the share performance rights will lapse at the end of the relevant measurement and re-test period if not vested and exercised;
- the performance hurdles will include TSR expectations, comprising annual dividends paid and share price growth;
- the number of share performance rights that vest on a vesting date will be scaled depending on the amount by which total gross shareholder return exceeds 10% on an average annual basis. At 15% compound total gross shareholder return, 100% of the tranche being tested will vest;
- participants will receive one share for every vested right at no cost; and
- the participating employee will be liable for the income tax cost of the award of shares and may choose to sell some or all shares to fund this cost upon issue of the shares.

The Company issued one million share performance rights under the long term share incentive scheme effective from 1 July 2010. As one member of the senior management team left during the period, the rights available reduced to 825,000.

Further share performance rights under the long term share incentive scheme may be issued on an annual basis. However, the terms of the scheme, eligible participants, and offers of further share performance rights may be modified by the Board of Directors from time to time, subject to the requirements of the NZSX Listing Rules and applicable laws.

Long Term Incentive Scheme

Opening balance 1 April 2010	-
Rights granted	1,000,000
Rights exercised	-
Rights forfeited	(175,000)
Closing balance 31 March 2011	825,000

Donations

The Company has made no donations in the year ending 31 March 2011.

Fully Owned Subsidiary – DNZ HOLDINGS LIMITED

Directors of the Company in the period 1 April 2010 to 31 March 2011

Name:

Paul John Duffy

Timothy Ian Mackenzie Storey

Auditor Fees

The amount payable by the Company and its subsidiaries to Staples Rodway as audit fees in respect of the financial year ended 31 March 2011 was \$134,869. The Company and its subsidiaries also paid Staples Rodway an aggregate of \$174,794, in addition to audit fees, in respect of audit consulting \$3,866, tax compliance \$110,395 and tax consulting \$60,533 in relation to the ordinary course of business.

The Company and its subsidiaries also paid Staples Rodway \$184,350, being \$117,691 for audit consulting services and \$66,659 for taxation consulting services, in relation to the review of prospective financial information for the investment statement and prospectus issued on 9 July 2010. These costs have been capitalised and offset against the proceeds received from equity issued.

Directors' Statement

This Annual Report is dated 24 June 2011 and is signed on behalf of the Board by:



.....
TIMOTHY STOREY
CHAIRMAN



.....
JOHN HARVEY
DIRECTOR

Directory

PRINCIPAL BUSINESS

Ownership and leasing of investment properties

BOARD OF DIRECTORS

Tim Storey

Paul Duffy

John Harvey

Michael Stiassny

David van Schaardenburg

REGISTERED OFFICE

DNZ Property Fund Limited

Level 4

80 Greys Avenue

AUCKLAND 1010

REGISTRAR

Computershare Investor Services Limited

Level 2

159 Hurstmere Road

Takapuna

Private Bag 92119

Victoria Street West

AUCKLAND 1142

Phone: +64 9 488 8777

Email: dnz@computershare.co.nz

SOLICITORS

Bell Gully

Level 21, Vero Centre

48 Shortland Street

PO Box 4199

AUCKLAND 1140

Level 21, HP Tower

171 Featherston Street

PO Box 1291

WELLINGTON 6140

AUDITOR

Staples Rodway

Level 9, Tower Centre

45 Queen Street

PO Box 3899

AUCKLAND 1140

BANKERS

ANZ National Bank Limited

ASB Bank Limited

Bank of New Zealand

VALUERS

Colliers International NZ Limited

Jones Lang LaSalle Limited

CB Richard Ellis Limited

The logo for DNZ Property Fund. It features the letters 'DNZ' in a large, bold, white sans-serif font. A small green square is positioned to the left of the 'D'. Below 'DNZ', the words 'Property Fund' are written in a smaller, white sans-serif font, with 'Property' in white and 'Fund' in green.

DNZ

Property Fund

DNZ Property Fund Limited

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Wellesley Street
Auckland 1141
New Zealand

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One entity **One vision** 