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FOR THE YEAR ENDED 31 MARCH 2011

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CORPORATE DIRECTORY**FOR THE YEAR ENDED 31 MARCH 2011**

Principal Business	Ownership and leasing of investment properties
Board of Directors	Timothy Ian Mackenzie Storey (Chairman) Paul John Duffy Edward John Harvey Michael Peter Stiassny (appointed 9 April 2010) David Gregory van Schaardenburg (appointed 12 May 2010)
Registered Office	Level 4 80 Greys Avenue Auckland 1010 New Zealand
Auditors	Staples Rodway
Solicitor	Bell Gully
Bankers	ANZ National Bank Limited ASB Bank Limited Bank of New Zealand

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 5 to 54, 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 these 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 Responsibility

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.

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

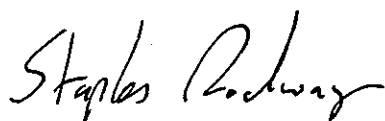
In our opinion, the financial statements on pages 5 to 54:

- 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 Company as far as appears from an examination of those records.



**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.

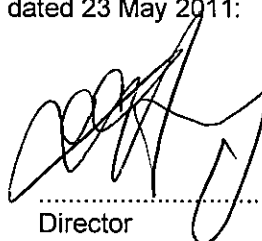
STATEMENT OF FINANCIAL POSITION**AS AT 31 MARCH 2011**

	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:



Director



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	20,274	18,524	11,484	9,317
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		13,016	35,369	21,812	44,571
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		(32,201)	(59,977)	(32,201)	(59,977)
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		5,190	4,101	5,186	4,091

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(a) Basis of preparation (continued)**

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(d) Critical accounting estimates and judgements (continued)****Investment properties (continued)**

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****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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(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****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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(t) Financial instruments (continued)****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:

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(u) Derivative financial instruments and hedging activity (continued)**

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 1: ACCOUNTING POLICIES (Continued)****(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.

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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)
	58,165	61,864	49,091	51,274

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
	250,905	258,021	192,076	226,661

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
	211	485	190	477
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	-
	22,421	21,579	22,421	21,579

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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
	138	121	102	60
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
	310	193	293	168

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
	279	267
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	-

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

	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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 6: INCOME TAX (Continued)****(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.

	2011 \$000	2010 \$000
Group and Parent		
<i>Deferred tax assets</i>		
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>
<i>Deferred tax liabilities</i>		
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	<u>(8,191)</u>	<u>-</u>

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:

	2011 \$000	2010 \$000
Group and Parent		
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	<u>(8,191)</u>	<u>-</u>

	Tax losses \$000	Fair value of interest rate swaps \$000	Refinancing costs \$000	Other temporary differences \$000	Total \$000
Group and Parent					
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	<u>7,074</u>	<u>1,395</u>	<u>318</u>	<u>219</u>	<u>9,006</u>

	Reinstatement receipts \$000	Lease incentives \$000	Building depreciation \$000	Total \$000
Group and Parent				
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	<u>(30)</u>	<u>(467)</u>	<u>(16,700)</u>	<u>(17,197)</u>

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 6: INCOME TAX (Continued)****(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	-

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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	<u>21,870</u>	<u>24,102</u>
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.

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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	5,185	4,092	5,181	4,083
	5,190	4,101	5,186	4,091
(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	44	-	44	-
	(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	31,761	-	31,761	-
	25,062	18,844	14,899	11,506
Add activity classified as financing activity:				
MRP distribution	-	1,064	-	1,064
	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	(1,133)	(1,205)	(1,129)	(1,205)
Net cash provided by operating activities	20,274	18,524	11,484	9,317

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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)
	560	819	526	280
 Movements in the impairment provision are:				
Opening balance	286	257	258	229
(Release of)/additional impairment provision	(45)	29	(52)	29
Closing balance	241	286	206	258

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	-
	1,641	898	1,609	826

NOTE 13: CAPITALISED LEASE INCENTIVES

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

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	1,034	1,044	942	732
	1,667	1,627	1,493	1,266

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

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 14: RELATED PARTY DISCLOSURES (Continued)**

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)	-

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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 14: RELATED PARTY DISCLOSURES (Continued)**

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.

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

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 16: INVESTMENT PROPERTIES (Continued)****(a) Movement in carrying amounts (continued)**

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****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			

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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
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****NOTE 16: INVESTMENT PROPERTIES (Continued)****(b) Valuation basis (continued)**

The Group has recorded the following properties at fair value:

		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, Auckland	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			

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

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	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

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****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	-	-
	2,618	5,911	2,618	2,546
Borrowing costs capitalised during the year:				
25 O'Rorke Road, Auckland	356	22	-	-
	356	22	-	-

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	1,821	-
	2,034	-

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

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

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 33 Customhouse Quay, Wellington. Refer note 16 for details of the valuation assumptions.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 19: INTANGIBLE ASSET**

	2011	2010
Group and Parent	\$000	\$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.

	2011	2010
Group and Parent	\$000	\$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****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
	5,885	8,496	5,231	5,935

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)
	(4,983)	(6,140)

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
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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 23: BORROWINGS**

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

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:

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

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****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	246,576,090	-	-

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****NOTE 25: RESERVES**

	2011 \$000	2010 \$000
Group and Parent		
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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)****(a) Market risk (continued)***(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).

	Policy band minimum	Policy band maximum	Average hedging position 2011
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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)****(a) Market risk (continued)***(ii) Cash flow and fair value interest rate risk (continued)*

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

	2011	2010
Group and Parent	\$000	\$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	Group	Parent	Parent
	2011	2010	2011	2010
	\$000	\$000	\$000	\$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****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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)****(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 26: FINANCIAL RISK MANAGEMENT (Continued)****(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	<u>(4,983)</u>	<u>(6,140)</u>

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'Rorke 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****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 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>

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;

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 28: REMUNERATION (Continued)****(b) Remuneration and Nomination Committee (continued)**

- 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 Stiassny and David van Schaardenburg. On 13 April 2011, Michael Stiassny succeeded Tim Storey as Chairman.

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

(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

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 28: REMUNERATION (Continued)****(c) Chief Executive (continued)****Chief Executive option scheme (continued)**

- 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.

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

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****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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 28: REMUNERATION (Continued)****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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 28: REMUNERATION (Continued)****Long term share incentive scheme (continued)**

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.

	2011 000	2010 000
Group and Parent		
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****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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 31: CONTINGENT LIABILITIES**

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

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.

	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).

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2011****NOTE 32: INFORMATION MEMORANDUM FINANCIAL INFORMATION (Continued)****Commentary (references made to numbers are in \$000s)**

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.