



INTERIM REPORT 2010

One entity **One vision** 



One entity **One vision**

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HIGHLIGHTS

SUCCESSFUL IPO AND CAPITAL RAISE

NZX LISTING

DISTRIBUTABLE PROFIT AFTER TAX OF \$9.8M

SEPTEMBER QUARTER DIVIDEND OF 2.0 CENTS

POSITIVE SHARE PRICE GROWTH

PORTFOLIO HIGHLIGHTS

Weighted Average Lease Term (WALT) 4.4 years

Portfolio Occupancy 96.1%

Portfolio Value \$669.6m

CHAIRMAN & CHIEF EXECUTIVE'S REPORT

DNZ PROPERTY FUND LIMITED INTERIM REPORT FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2010

Dear Shareholder,

The Board and Management are pleased to present shareholders with DNZ Property Fund Limited's first interim report as an NZX listed property entity.



TIM STOREY
CHAIRMAN



PAUL DUFFY
CHIEF EXECUTIVE

It has been a positive six month period that has seen a number of significant changes to the structure and governance of DNZ Property Fund to the benefit of shareholders. The termination of the external management agreement, a \$45m capital raise and the successful listing of DNZ on the NZX have positioned the Company to deliver sustainable earnings and distributions, and the capacity to deliver future value added benefits to shareholders.

The Board is pleased to announce a second quarter cash dividend of 2.0 cents per share, which is consistent with the guidance provided in the July 2010 Investment Statement & Prospectus. This dividend will carry imputation credits of 0.231 cents per share with a record date of 26 November 2010 and payment to shareholders to be made on 10 December 2010.

Financial Performance

The Company reports a distributable profit of \$9.8m for the six months ended 30 September 2010.

	30 September 2010
Portfolio value (\$M) ¹	669.6
Net loss after tax (\$M)	(112.8)
Distributable profit per share – weighted (cents)	4.69
Distributable profit after tax (\$M)	9.8
Bank debt (\$M)	291.1
Bank debt to property value ratio (%) ^{1,2}	43.9
NTA backing per share (\$) ³	1.28
NZ IFRS adjusted NTA backing per share (\$) ⁴	1.57

¹ Fair value as determined by the Board as at 30 September 2010.

² Includes fair value of interest rate hedges and part Laminex development costs.

³ The NTA backing per share as at 30 September 2009 was \$0.82 which was prior to the 2 for 5 share consolidation on 17 November 2009.

⁴ Excludes deferred tax on items that will not crystallise, intangibles and the after tax fair value of interest rate derivatives.

The Company reported a net profit from operations before significant one-off items and taxation of \$8.1m for the period. DNZ changed from a Multi-rate PIE to a Listed PIE on 1 July 2010, and as such, it must account for current and deferred tax going forward. The Government budget announcement on 20 May 2010 removed the ability to claim depreciation expense on buildings, effective from 1 April 2011. As a result of this change, a deferred tax liability is required to be booked on the full carrying value of buildings. These changes have resulted in \$86.3m of deferred tax being charged to the statement of comprehensive income. DNZ also terminated the external management agreement, effective from 1 July 2010, in return for making a termination payment of \$32.0m (inclusive of the purchase of fixed assets of \$0.2m), of which \$31.8m has also been charged to the statement of comprehensive income. As a result of these one-off items, DNZ recorded an overall net loss of \$112.8m for the period.

Capital Management

DNZ has strengthened its financial position over the last six months through a series of prudent capital management initiatives including:

- \$45m capital raise,
- Negotiating the renewal of debt facilities to 30 September 2013,
- Entering into \$150m of interest rate hedges,
- Completion of the asset sales programme.

The asset sales programme has realised \$31.3m (gross) during the period. An additional \$39.7m (gross) of sales are contracted unconditionally with settlements to occur between November 2010 and July 2011. These sales have been successfully concluded at, or close to, the most recent valuations, despite the difficult market conditions. The net proceeds from the sales have been utilised to repay bank debt.

DNZ's Loan to Value Ratio (LVR) as at 30 September 2010 was 43.9%, with the LVR expected to reduce further following the settlement of the remaining sales.

Property Portfolio

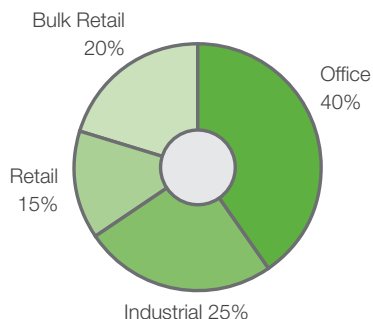
Portfolio Overview as at 30 September 2010

Properties	54
Tenants	279
Net lettable area (m ²)	379,934
Net contract rental (\$M)	55.7
Weighted Average Lease Term (WALT) (years)	4.4
Occupancy rate by area (%)	96.1
Portfolio value (\$M)	669.6

Portfolio Valuation

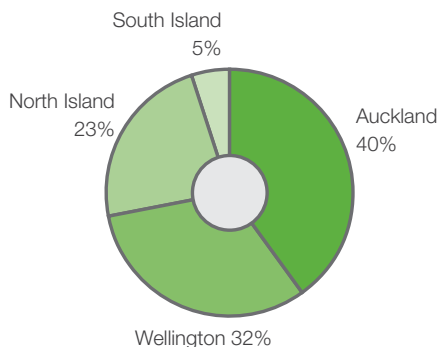
The Board has reviewed the fair value of the investment properties as at 30 September 2010 on an asset by asset basis, and is satisfied that there has been no significant change to the overall carrying value, other than three assets that were subject to independent valuations due to significant capital expenditure works that were undertaken during the six month period ended 30 September 2010.

Portfolio Contract Rental by Sector*



* As at 30 September 2010.

Portfolio Contract Rental by Region*



* As at 30 September 2010.

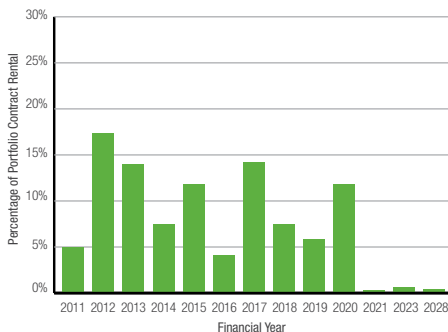
Lease Transactions

Despite the challenging economic climate, DNZ's proactive leasing strategies are maintaining both income and occupancy levels within the portfolio. Occupiers do, however, still remain cautious regarding expansion planning, but there are encouraging signs of a modest upturn in leasing activity. This is particularly evident in the retail and industrial sectors.

Management have worked diligently to extend lease terms and increase rental income for DNZ. During the six month period ended 30 September 2010, 105 lease transactions were completed:

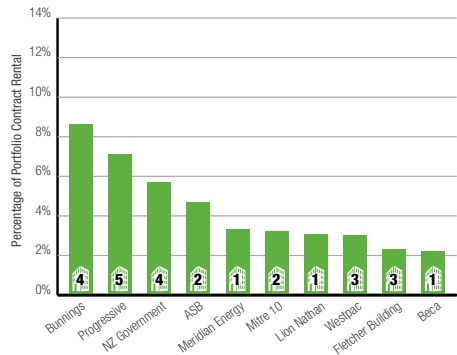
- 53 rent reviews over 109,013m², representing contract rental of \$18.1m. Of the remaining 55 rent reviews to be concluded prior to 31 March 2011, 24 are CPI based, 28 are market reviews and 3 are stepped increases,
- 18 lease renewals over 7,558m², representing contract rental of \$1.5m,
- 34 new lettings over 18,018m², representing contract rental of \$2.9m.

Lease Expiry Profile by Contract Rental*



* Represents the scheduled expiry for each lease, excluding any rights of renewal that may be granted under each lease, for the entire portfolio as at 30 September 2010, as a percentage of contract rental.

Top Ten Tenants by Contract Rental**



** Based on contract rental for all properties leased to individual tenants as at 30 September 2010. The numbers at the foot of each bar represent the number of properties leased.

Fletcher Building Laminex Group New Facility

Laminex Group's new 12,000m² warehouse and 1,800m² office facility has been completed on 2.89 hectares of the O'Rorke Road site in Penrose. A new 12 year lease to Fletcher Building commenced on practical completion which occurred on 19 November 2010. The management team is actively marketing the residual 2.28 hectares of the site for further design/build opportunities.



In Conclusion


Key benefits and drivers of listing were to enable shareholders to trade their shares easily and to improve DNZ's share price. Since issuing shares at \$0.97 as part of the capital raise and NZX listing on 16 August 2010, over 43 million shares have been traded on the exchange and the share price has appreciated to \$1.22 as at the close of trading on 18 November 2010. The Board believes the performance of the share price since listing is a strong market indication that transparency, good governance and internal management structures, such as DNZ's, form an attractive model for the listed property sector. With our new structure in place, the Board and management can now look for positive opportunities to generate shareholder wealth and improve distributable earnings per share.

The Company's results for the first six months of the 2011 financial year show DNZ to have performed well in a challenging business environment. The quality of DNZ's tenants, its contracted rental streams, an occupancy rate of 96% and a Weighted Average Lease Term (WALT) of 4.4 years as at 30 September 2010 shows DNZ to be a robust and resilient business with strong underlying fundamentals.

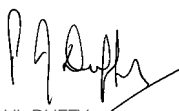
Looking forward, the primary focus of the Board and the management team is to meet the Company guidance for the current financial year. This will be achieved through prudent capital management, a continued focus on tenant relationships and tenant retention, and maintaining and where possible, improving, occupancy levels, lease terms and rental income streams.

We would like to take this opportunity to thank shareholders for their support over the last six months, and to reiterate that shareholder interests are paramount in all Board decisions with the primary objective of maximising total shareholder returns.

On behalf of the Board and Management:



TIM STOREY
CHAIRMAN



PAUL DUFFY
CHIEF EXECUTIVE



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Notes	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Rental income	4, 14	29,013	31,462	61,864
Property operating expenses	14	(3,152)	(3,671)	(7,109)
Net rental income		25,861	27,791	54,755
Management fee income	14	342	-	-
Loss on disposal of investment properties		(239)	(71)	(141)
Less corporate expenses				
Manager's fees and expenses	14	(1,614)	(3,530)	(7,005)
Restructure expenses		(520)	-	-
IPO expenses	14	(190)	-	(5,272)
Chief Executive option scheme		(1,243)	-	-
Corporate overhead expenses		(1,296)	-	-
Administration expenses		(1,286)	(951)	(2,213)
Total corporate expenses		(6,149)	(4,481)	(14,490)
Net profit before finance expenses, renegotiation payment, termination payment, changes in fair value and taxation		19,815	23,239	40,124
Finance income	5, 14	92	396	485
Finance expenses	5	(11,846)	(11,008)	(21,579)
Net finance expenses		(11,754)	(10,612)	(21,094)
Net profit before renegotiation payment, termination payment, changes in fair value and taxation		8,061	12,627	19,030
Amortisation and impairment of renegotiation payment	14	(3,600)	(200)	(400)
Payment for termination of management contract	14	(31,761)	-	-
Net change in fair value of share subscription agreements	14	1,113	-	-
Net change in fair value of investment properties	6, 7	129	(23,436)	(34,147)
Net loss before taxation		(26,058)	(11,009)	(15,517)
Income tax expense	13	(86,775)	-	-
Net loss for the period		(112,833)	(11,009)	(15,517)
Other comprehensive income:				
Movement in cash flow hedges, net of tax	11, 13	2,312	3,339	5,005
Total comprehensive loss for the period		(110,521)	(7,670)	(10,512)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Notes	Share capital \$000	Retained earnings \$000	Other reserves \$000	Total \$000
Balance at 1 April 2010		377,834	6,742	(6,140)	378,436
Issue of shares	15	55,000	-	-	55,000
Share subscription agreements liability	15	(1,670)	-	-	(1,670)
Capital raising expenses		(3,342)	-	-	(3,342)
Distributions paid		-	(4,900)	-	(4,900)
Chief Executive option scheme		-	-	1,243	1,243
Movement in employee long term share incentive plan		-	-	27	27
Cash flow hedge movement recognised in other comprehensive income	11,13	-	-	2,312	2,312
Net loss for the period		-	(112,833)	-	(112,833)
Balance at 30 September 2010		<u>427,822</u>	<u>(110,991)</u>	<u>(2,558)</u>	<u>314,273</u>
Balance at 1 April 2009		377,301	42,829	(11,145)	408,985
Shares issued through dividend reinvestment plan	15	533	-	-	533
Distributions paid		-	(12,237)	-	(12,237)
Cash flow hedge movement recognised in other comprehensive income	11	-	-	3,339	3,339
Net loss for the period		-	(11,009)	-	(11,009)
Balance at 30 September 2009		<u>377,834</u>	<u>19,583</u>	<u>(7,806)</u>	<u>389,611</u>
Balance at 1 April 2009		377,301	42,829	(11,145)	408,985
Shares issued through dividend reinvestment plan	15	533	-	-	533
Distributions paid		-	(20,570)	-	(20,570)
Cash flow hedge movement recognised in other comprehensive income	11	-	-	5,005	5,005
Net loss for the year		-	(15,517)	-	(15,517)
Balance at 31 March 2010		<u>377,834</u>	<u>6,742</u>	<u>(6,140)</u>	<u>378,436</u>

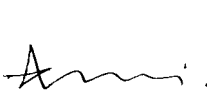
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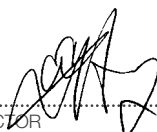
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2010

	Notes	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
CURRENT ASSETS				
Cash and cash equivalents		4,579	9,013	4,101
Trade receivables	14	1,336	971	819
Prepayments and other assets		2,479	933	898
Capitalised lease incentives		617	501	583
Taxation receivable		129	-	-
Non-current assets held for sale	6, 7	39,700	6,570	62,028
		<u>48,840</u>	<u>17,988</u>	<u>68,429</u>
NON-CURRENT ASSETS				
Property, plant and equipment	6	2,150	-	-
Work in progress	8	19,141	2,440	5,911
Investment properties	6	627,629	723,116	636,095
Intangible asset	14	3,000	3,800	3,600
Capitalised lease incentives		1,057	874	1,044
		<u>652,977</u>	<u>730,230</u>	<u>646,650</u>
TOTAL ASSETS		<u>701,817</u>	<u>748,218</u>	<u>715,079</u>
CURRENT LIABILITIES				
Trade and other payables	14	5,697	3,504	8,497
Share subscription agreements liability	14, 15	557	-	-
Deferred tax liability	13	1,388	-	-
Derivative financial instruments	11	1,101	2,536	3,335
		<u>8,743</u>	<u>6,040</u>	<u>11,832</u>
NON-CURRENT LIABILITIES				
Bank borrowings	12	291,129	347,297	322,007
Deferred tax liability	13	83,390	-	-
Derivative financial instruments	11	4,282	5,270	2,804
		<u>378,801</u>	<u>352,567</u>	<u>324,811</u>
TOTAL LIABILITIES		<u>387,544</u>	<u>358,607</u>	<u>336,643</u>
NET ASSETS		<u>314,273</u>	<u>389,611</u>	<u>378,436</u>
EQUITY		<u>314,273</u>	<u>389,611</u>	<u>378,436</u>

For and on behalf of the Board of Directors, dated 10 November 2010:


.....
DIRECTOR


.....
DIRECTOR

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Notes	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Rent received		27,845	31,425	62,034
Management fee income		342	-	-
Finance income		86	395	479
Finance expenses		(12,380)	(11,608)	(22,611)
Operating expenses		(7,785)	(10,187)	(17,945)
Restructure expenses		(520)	-	-
Withdrawn IPO expenses		(2,170)	-	(3,292)
Income tax paid		(570)	(141)	(141)
Net cash provided by operating activities	18	<u>4,848</u>	<u>9,884</u>	<u>18,524</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Loan repaid from related party		-	7,598	7,598
Proceeds from sale of investment properties		30,489	19,893	45,404
Capitalised expenditure on investment properties		(15,734)	(8,193)	(10,154)
Investment properties purchased		-	-	(3,479)
Payment for renegotiation of management contract		-	(4,000)	(4,000)
Payment for acquisition of management contract	14	(3,000)	-	-
Payment for termination of management contract	14	(31,761)	-	-
Fixed assets purchased	14	(244)	-	-
Net cash (applied to)/provided by investing activities		<u>(20,250)</u>	<u>15,298</u>	<u>35,369</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Drawdown on bank borrowings		50,986	5,965	5,965
Repayment of bank borrowings		(81,864)	(19,551)	(44,841)
Distributions paid		(4,900)	(12,768)	(21,101)
Proceeds from equity issued		55,000	-	-
Fundraising expenses		(3,342)	-	-
Net cash provided by/(applied to) financing activities		<u>15,880</u>	<u>(26,354)</u>	<u>(59,977)</u>
Net increase/(decrease) in cash held		478	(1,172)	(6,084)
Cash at the beginning of the period		<u>4,101</u>	<u>10,185</u>	<u>10,185</u>
Cash at the end of the period		<u><u>4,579</u></u>	<u><u>9,013</u></u>	<u><u>4,101</u></u>

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements presented are those of DNZ Property Fund Limited 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 out 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 interim financial statements have been approved for issue by the Board of Directors on 10 November 2010.

(a) Basis of preparation

The unaudited interim financial statements have been prepared in accordance with NZ IAS 34 - Interim Financial Reporting. The unaudited interim financial statements have been prepared using New Zealand Dollar functional and reporting currency and have been rounded to the nearest thousand dollars (\$000).

These unaudited interim financial statements should be read in conjunction with the financial statements and related notes included in the Group's Annual Report for the year ended 31 March 2010. There has been no change in accounting policies and all policies have been applied on a consistent basis with those used in the financial statements for the year ended 31 March 2010.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the unaudited interim financial statements management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group when applying the accounting policies. Actual results may differ from the judgements, estimates and assumptions made by management. Except as described below, the same accounting policies and methods of computation are followed in the interim financial statements as with the most recent annual financial statements.

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 30 September 2010 has not had any impact on the profits or financial position of the Group.

NOTE 3: OPERATING SEGMENTS

The Group has adopted NZ IFRS 8 - Operating Segments which was mandatory for the first time for the financial year beginning 1 April 2009.

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 compared to previous segments reported under NZ IAS 14 - Segment Reporting.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 4: RENTAL INCOME

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Rental income	28,941	31,406	61,789
Capitalised lease incentives	413	294	555
Lease incentive amortisation	(341)	(238)	(480)
	<u>29,013</u>	<u>31,462</u>	<u>61,864</u>

NOTE 5: NET FINANCE EXPENSES

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Finance income			
Interest income:			
- Bank	87	78	150
- Related party loan	-	316	316
- Other interest income	5	2	19
	<u>92</u>	<u>396</u>	<u>485</u>
Finance expenses			
Interest expenses:			
- Bank borrowings	10,684	11,008	21,579
- Refinancing expenses	1,159	-	-
- Other interest expenses	3	-	-
	<u>11,846</u>	<u>11,008</u>	<u>21,579</u>

NOTE 6: INVESTMENT PROPERTIES

The Board of Directors has reviewed the fair value of the investment properties as at 30 September 2010 on an asset by asset basis and is satisfied that there has been no significant change to the overall carrying value, other than the following three assets that were subject to independent valuations due to significant capital expenditure works undertaken in the current period:

	Valuer	\$000
- 8 Burnham Street, Wellington	Jones Lang LaSalle Limited	8,450
- 8 Rockridge Avenue, Auckland	Colliers International NZ Limited	6,400
- 7-9 Fanshawe Street, Auckland	Colliers International NZ Limited	12,800

At 31 March 2010, the investment properties owned by the Group were revalued on the basis of current market valuations made by independent registered valuers. The adopted fair value of the investment properties is a weighted combination of the following methodologies: using market data and the capitalisation of net contracted income, capitalisation of market income and discounted cash flow analysis adopting a ten year investment horizon.

At 30 September 2009, the Group obtained independent registered valuations on its investment properties.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 6: INVESTMENT PROPERTIES (Continued)

(a) Movement in carrying amounts

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Opening balance	636,095	746,343	746,343
Acquisitions	-	2,830	2,830
Subsequent capital expenditure	1,721	2,795	7,222
Disposals	-	(1,185)	(23,885)
Net change in fair value	129	(23,676)	(34,387)
Net transfers to non-current assets held for sale	(8,400)	(3,991)	(62,028)
Transfer to property, plant and equipment	(1,916)	-	-
Closing balance	627,629	723,116	636,095

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 leased 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.

NOTE 7: 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 (30 Sept 2010 \$Nil, 30 Sept 2009 \$240,000 and 31 Mar 2010 \$240,000).

30 September 2010

- 143 - 149 First Avenue and 243 - 255 Cameron Road, Tauranga;
- Cnr Tauroa Street and State Highway One, Whangarei;
- 231 - 233 Bush Road, Auckland; and
- 33 - 43 Jackson Street, Wellington.

The fair value of these properties as at 30 September 2010 is \$39,700,000. These properties are expected to be sold during the next twelve months. The Directors have put these properties up for sale as they do not meet the current strategic investment goals of the Group.

During the period ended 30 September 2010, the Directors decided not to sell 21 - 25 Teed Street, Auckland and this property has been reclassified as an investment property.

30 September 2009

- 111 - 117 Felton Mathew Avenue, Auckland; and
- 4 Lydney Place, Wellington.

31 March 2010

- 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 8: WORK IN PROGRESS

Work in progress is comprised of costs relating to the future development of Johnsonville Retail, Wellington, and the completion of the development of a new warehouse and office building at 25 O'Rorke Road, Auckland. Included as part of work in progress are capitalised borrowing costs. The effective capitalisation interest rate is the same as that paid under the Group's existing banking arrangement.

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
Johnsonville Retail, Wellington	2,581	2,400	2,546
25 O'Rorke Road, Auckland	16,560	40	3,365
	<u>19,141</u>	<u>2,440</u>	<u>5,911</u>
Capitalised interest	246	-	22

NOTE 9: EARNINGS PER SHARE

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

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

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Earnings from continuing activities	(112,833)	(11,009)	(15,517)
Weighted average number of ordinary shares for purpose of basic earnings per share	208,948	470,377	352,990
Earnings per share	(\$0.54)	(\$0.02)	(\$0.04)

NOTE 10: DISTRIBUTABLE PROFIT

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

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Net loss before taxation	(26,058)	(11,009)	(15,517)
NZ IFRS and other non-recurring and non-cash adjustments:			
- Net change in fair value of investment properties	(129)	23,436	34,147
- Net change in fair value of share subscription agreements	(1,113)	-	-
- Chief Executive option scheme	1,243	-	-
- Payment for termination of management contract	31,761	-	-
- Amortisation and impairment of renegotiation payment	3,600	200	400
- Loss on disposal of investment properties	239	71	141
- Other adjustments	698	(89)	4,931
Less: Current taxation	<u>(441)</u>	<u>-</u>	<u>-</u>
Distributable profit after tax	<u>9,800</u>	<u>12,609</u>	<u>24,102</u>
Distributable profit after tax per share - weighted (cents)	4.69	2.68	6.83
Weighted average number of ordinary shares for purpose of basic distributable profit per share	208,948	470,377	352,990

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
Fair value of interest rate swaps	5,383	7,806	6,139

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.

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
Current liability	1,101	2,536	3,335
Non-current liability	4,282	5,270	2,804
Total liability	5,383	7,806	6,139

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

Principal amount outstanding under interest rate swaps	237,000	219,500	206,400
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NOTE 12: 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:

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
Facility drawn down	291,129	347,297	322,007
Undrawn facility available	58,871	152,703	177,993
Total facility available	350,000	500,000	500,000

During the period ended 30 September 2010, 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 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 year ended 31 March 2010, 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 the Group remedied the breach. There have been no other breaches of the Group's banking covenants.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 13: INCOME TAX

(a) Income tax

From 1 October 2008 until 30 June 2010, the group was a Multi-rate PIE (MRP). As a MRP, income was effectively taxed in the hands 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, DNZ Property Fund Limited (being the parent company) ceased to be a MRP and became a Listed PIE from 1 July 2010. Its subsidiary, DNZ Holdings, has remained as a MRP. As a result of the Parent becoming a Listed PIE, the Group now accounts for current and deferred tax from 1 July 2010.

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
The income taxation expense is represented by:			
Current period tax	441	-	-
Deferred tax	86,334	-	-
Taxation expense per the statement of comprehensive income	86,775	-	-
Net loss before taxation	(26,058)	(11,009)	(15,517)
Net profit derived as a MRP	(5,850)	-	-
Net loss derived as a MRP	-	11,009	15,517
Net loss attributable to Listed PIE period	(31,908)	-	-
Income tax using the company tax rate (30%)	(9,572)	-	-
Net change in fair value of investment properties	(39)	-	-
Non-deductible expenses			
- Management termination	9,528	-	-
- Other non-deductible expenses	279	-	-
Depreciation	(1,159)	-	-
Temporary differences			
- Impairment of renegotiation payment	1,050	-	-
- Other temporary differences	354	-	-
Deferred tax charged to the statement of comprehensive income	86,334	-	-
Taxation expense per the statement of comprehensive income	86,775	-	-

The Government budget, announced on 20 May 2010, removed the depreciation expense on buildings. As a result of this change, a deferred tax liability is required to be booked on the full carrying value of buildings under NZ IAS 12. The taxation expense charged to the statement of comprehensive income in the current period includes \$86,415,558 relating to deferred taxation on buildings, of which \$69,491,471 will not be payable as the Group holds the investment properties on capital account. The balance of \$16,924,087 relates to deferred tax payable on expected depreciation recovery. The corporate tax rate will reduce from 30% to 28% effective from 1 April 2011. For deferred tax liabilities and assets that reverse beyond 31 March 2011 the taxation rate applied is 28%.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 13: 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.

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
<u>Deferred tax assets</u>			
Deferred tax assets to be recovered within 12 months	868	-	-
Deferred tax assets to be recovered after more than 12 months	1,281	-	-
	<u>2,149</u>	<u>-</u>	<u>-</u>
<u>Deferred tax liabilities</u>			
Deferred tax liabilities to be incurred within 12 months	(2,256)	-	-
Deferred tax liabilities to be incurred after more than 12 months	(84,671)	-	-
	<u>(86,927)</u>	<u>-</u>	<u>-</u>
Net deferred tax liability	<u>(84,778)</u>	<u>-</u>	<u>-</u>

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

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Opening balance	-	-	-
Charged to statement of comprehensive income	(86,334)	-	-
Credited to other comprehensive income in the statement of comprehensive income	1,556	-	-
Closing balance	<u>(84,778)</u>	<u>-</u>	<u>-</u>

	Fair value of interest rate swaps \$000	Refinancing costs \$000	Provisions \$000	Total \$000
Deferred tax assets				
Balance at 1 April 2010	-	-	-	-
Credited to statement of comprehensive income	-	441	152	593
Credited to other comprehensive income in the statement of comprehensive income	1,556	-	-	1,556
Balance at 30 September 2010	<u>1,556</u>	<u>441</u>	<u>152</u>	<u>2,149</u>

	Reinstatement receipts \$000	Lease incentives \$000	Building depreciation \$000	Total \$000
Deferred tax liabilities				
Balance at 1 April 2010	-	-	-	-
Charged to statement of comprehensive income	(35)	(476)	(86,416)	(86,927)
Balance at 30 September 2010	<u>(35)</u>	<u>(476)</u>	<u>(86,416)</u>	<u>(86,927)</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 13: INCOME TAX (Continued)

(c) Imputation credits

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Opening balance	-	-	-
Tax payments, net of refunds	568	-	-
Credits attached to distributions received	2	-	-
Closing balance	570	-	-

NOTE 14: RELATED PARTY DISCLOSURES

The Group had the following transactions with related parties:

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
The Manager – HD Management Limited (formerly known as DNZ Management Limited)			
- Manager's fees and expenses	(1,073)	(2,375)	(4,750)
- Property management fees	(541)	(1,155)	(2,255)
- Accounting fees	(68)	(137)	(274)
- Project management fees	(476)	(224)	(683)
- Leasing fees	(275)	(711)	(1,295)
- Divestment fees	(143)	(142)	(708)
- Rent review fees	(118)	(244)	(339)
- Capitalised acquisition fees	-	(28)	(28)
- Renegotiation payment for management agreement	-	(4,000)	(4,000)
- Reimbursement of Manager's expenses for capital raising	-	-	(500)
- Rent received	80	148	298
- Termination payment for management agreement	(31,761)	-	-
- Acquisition of fixed assets	(239)	-	-
Diversified NZ Property Fund Limited			
- Manager's fee income	157	-	-
- Building management fee income	28	-	-
- Accounting fee income	8	-	-
- Leasing fee income	14	-	-
- Project management fee income	58	-	-
Diversified Management Limited			
- Novation fee paid for management contract	(3,000)	-	-
Hayphil Investments Limited			
- Subscription of shares in the Group	5,000	-	-
- Share subscription agreement payable	(289)	-	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 14: RELATED PARTY DISCLOSURES (Continued)

The Group had the following transactions with related parties (Continued):

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Rose Star Investments Limited			
- Subscription of shares in the Group	5,000	-	-
- Share subscription agreement payable	(268)	-	-
McKinney Industrial (Tauriko) Limited			
- Related party loan repayments received	-	7,598	7,598
- Interest payments received	-	316	316
- Acquisition of investment property	-	(2,800)	(2,800)

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

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
HD Management Limited	-	(210)	(261)
Johnsonville Management Limited	-	-	(21)
Diversified NZ Property Fund Limited	46	-	-

Effective from 1 April 2009, the Group entered into a new management agreement with the Manager. Northington Partners Limited 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 period ended 30 September 2009, \$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 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. As at 30 September 2010, the fair value of this liability has been assessed at \$557,000 (\$289,000 relating to Hayphil Investments Limited and \$268,000 relating to Rose Star Investments Limited), with the net change from date of issue to balance date reflected in the statement of comprehensive income.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 14: RELATED PARTY DISCLOSURES (Continued)

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.

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

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

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

NOTE 15: EQUITY

	Unaudited 30 Sep 2010 000	Unaudited 30 Sep 2009 000	Audited 31 Mar 2010 000
Number of shares on issue			
Opening balance	188,484	469,966	469,966
Shares issued under dividend reinvestment plan	-	1,235	1,235
Consolidation of shares	-	-	(282,717)
Shares issued under subscription agreements	10,000	-	-
Shares issued on NZX listing	46,392	-	-
Closing balance	<u>244,876</u>	<u>471,201</u>	<u>188,484</u>

On 15 June 2009, the dividend reinvestment plan was released. Under this plan, 1,234,610 shares were issued during the period ended 30 September 2009. The dividend reinvestment plan was suspended in October 2009 and was terminated on 1 July 2010. On 17 November 2009, the existing "A" class shares were consolidated on a two for five basis. The result of this was a reduction in the number of "A" class shares by 282,716,711.

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

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

On 2 July 2010, 10,000,000 shares were issued to Hayphil Investments Limited and Rose Star Investments Limited in return for an investment of \$10,000,000 under separate subscription agreements dated 4 June 2010. The subscription agreements include a mechanism which allows for a payment to be made from the Group to the shareholders if they sell their shares during the period up to seven months following the first anniversary of the share issue if the net proceeds received are less than the \$1.00 paid on issue. At the time of issue, a liability for \$1,670,000 was recorded in the statement of financial position. As at 30 September 2010, the fair value of this liability has been assessed at \$557,000 (\$289,000 relating to Hayphil Investments Limited and \$268,000 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.

There is now only one class of shares, being ordinary shares. All issued shares are fully paid and have no par value.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 16: CAPITAL AND LEASE COMMITMENTS

(a) Operating lease commitments

The Group is committed under twelve 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, one at 8 Burnham Street, Wellington, and one at 33 Customhouse Quay, 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.

	Unaudited 30 Sep 2010 \$000	Unaudited 30 Sep 2009 \$000	Audited 31 Mar 2010 \$000
Payable			
- no later than 1 year	631	694	600
- later than 1 year and no later than 5 years	2,399	2,430	2,399
- later than 5 years	2,259	2,859	2,559
	<u>5,289</u>	<u>5,983</u>	<u>5,558</u>

(b) Capital expenditure commitments contracted for:

As at 30 September 2010, the Group had the following major capital commitment:

- \$2,740,000 for the completion of the development of a new warehouse and office building at 25 O'Rourke Road, Auckland
 - \$786,000 for a canopy extension and tenant office works at 968 Great South Road, Auckland
 - \$466,000 for the replacement of the air-conditioning system and the toilet refurbishment at 20-22 Pollen Street, Auckland
- The Group has no other major capital commitments as at balance date.

NOTE 17: EVENTS SUBSEQUENT TO BALANCE DATE

On 14 October 2010, 1,700,000 shares were issued to the Chief Executive for \$Nil value pursuant to the terms of the Chief Executive option scheme.

On 29 October 2010, a conditional sale and purchase agreement to sell 33 - 43 Jackson Street, Wellington, for \$13,600,000 was declared unconditional. Settlement is scheduled for 25 February 2011.

On 29 October 2010, a conditional sale and purchase agreement to sell 231 - 233 Bush Road, Auckland, for \$7,100,000 was declared unconditional. Settlement is scheduled for 31 July 2011.

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 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.

On 5 November 2010, a conditional sale and purchase agreement to sell Corner Tauroa Street and State Highway One, Whangarei, for \$13,595,612 was declared unconditional. Settlement is scheduled for 19 November 2010.

On 10 November 2010, the Board of Directors declared a distribution of \$0.02 cents per share with imputation credits of \$0.00231 per share attached (for the period 1 July 2010 to 30 September 2010) to be paid on 10 December 2010 to all shareholders on the Group's register at the close of business on 26 November 2010. This distribution has not been recognised in the financial statements.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 18: RECONCILIATION OF NET LOSS AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Net loss after tax for the period	(112,833)	(11,009)	(15,517)
Add/(less) non-cash items:			
Movement in deferred taxation (refer note 13)	86,334	-	-
Net change in fair value of investment properties	(129)	23,436	34,147
Loss on sale of investment properties	239	71	141
Movement in provision of doubtful debts	66	(23)	28
Amortisation and impairment of renegotiation payment	3,600	200	400
Capitalised lease incentives	(450)	(351)	(896)
Lease incentive amortisation	400	262	555
Net change in fair value of share subscription agreements	(1,113)	-	-
Share rights amortisation under employee long term share incentive scheme	27	-	-
Chief Executive option scheme	1,243	-	-
Depreciation expense	10	-	-
	<u>(22,606)</u>	<u>12,586</u>	<u>18,858</u>
Add/(less) activity classified as investing activity:			
Capitalised expenditure on investment properties	783	2,283	(270)
Proceeds from sale of investment properties	-	462	212
Feasibility costs written off to statement of comprehensive income	-	-	44
Payment for termination of management contract	31,761	-	-
Add activity classified as financing activity:			
MRP distribution	-	1,064	1,064
	<u>9,938</u>	<u>16,395</u>	<u>19,908</u>
Movement in working capital:			
(Increase)/decrease in trade receivables	(583)	426	521
(Increase)/decrease in prepayments and other assets	(1,578)	236	275
Decrease in trade and other payables	(2,800)	(5,973)	(975)
Decrease in taxation payable	(129)	(1,200)	(1,205)
Net cash provided by operating activities	<u><u>4,848</u></u>	<u><u>9,884</u></u>	<u><u>18,524</u></u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (Continued)

NOTE 19: 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. 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:

	Unaudited 6 Months 30 Sep 2010 \$000	Unaudited 6 Months 30 Sep 2009 \$000	Audited 12 Months 31 Mar 2010 \$000
Assets			
Current assets	123	181	99
Non-current assets	6,008	3,836	4,853
	<u>6,131</u>	<u>4,017</u>	<u>4,952</u>
Liabilities			
Current liabilities	253	435	249
Non-current liabilities	-	-	-
	<u>253</u>	<u>435</u>	<u>249</u>
Net assets	<u>5,878</u>	<u>3,582</u>	<u>4,703</u>
Share of rental income	1,451	1,419	2,879
Share of expenses	<u>(276)</u>	<u>(272)</u>	<u>(611)</u>
Net share of profit	<u>1,175</u>	<u>1,147</u>	<u>2,268</u>

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

NOTE 20: CONTINGENT LIABILITIES

The Group has no contingent liabilities at balance date.

NOTE 21: UNAUDITED 30 SEPTEMBER 2009 COMPARATIVES

No review opinion or audit report is offered on the 30 September 2009 figures.

ACCOUNTANT'S REPORT

TO THE SHAREHOLDERS OF DNZ PROPERTY FUND LIMITED

We have reviewed the interim financial statements on pages 12 to 28. The interim financial statements provide information about the past financial performance and cash flows of the Group, comprising DNZ Property Fund Limited and its subsidiary, for the six months ended 30 September 2010 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 16.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the interim financial statements that present fairly the financial position of the Group as at 30 September 2010 and its financial performance and cash flows for the six months ended on that date.

ACCOUNTANT'S RESPONSIBILITIES

We are responsible for reviewing the interim financial statements presented by the Directors in order to report whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

BASIS OF OPINION

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the six months ended 30 September 2010 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

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

REVIEW OPINION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements, which have been prepared in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting, do not present fairly the financial position of the Group as at 30 September 2010 and its financial performance and cash flows for the six months ended on that date.

Our review was completed on 10 November 2010 and our review opinion is expressed as at that date.



CHARTERED ACCOUNTANTS
AUCKLAND

INVESTOR RELATIONS

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

Reporting to Shareholders

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

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

Annual Meeting

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

Investor Services Team

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

Ph: 0800 436 977

Fax: +64 9 912 2693

Email: investor@dnzproperty.com

Mail: DNZ Property Fund Limited, PO Box 6320, Wellesley Street, Auckland 1141

Registrar

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

Ph: +64 9 488 8777

Fax: +64 9 488 8787

Email: dnz@computershare.co.nz

Mail: Computershare Investor Services Limited, Private Bag 92119, Victoria Street West, Auckland 1142

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

DIRECTORY

REGISTERED OFFICE OF DNZ

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DIRECTORS OF DNZ

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Paul John Duffy
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B.Com, CA, Auckland

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David Gregory van Schaardenburg
B.Com, CA, Auckland

SENIOR MANAGEMENT TEAM

Paul Duffy

Chief Executive

Jennifer Whooley

Chief Financial Officer

Phil Brown

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