

INTERIM REPORT 2011

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2011

One entity **One vision** 



DNZ Property Fund

One entity **One vision** 



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Highlights

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2011



INCREASED CASH DIVIDEND FOR Q2 FY12

2.1 cent cash dividend for the quarter (nil imputation credits)
and 8.3 cent cash dividend expected for FY12

2.1c



DISTRIBUTABLE PROFIT

(\$13.0m or 5.27 cents per share)

\$13.0M



NET RENTAL INCOME

\$25.9M



LOAN TO VALUE RATIO (LVR)

(40.4% as at 31 March 2011)

37.8%



114 LEASE TRANSACTIONS

over 147,750m²



OCCUPANCY

(97.9% as at 31 March 2011)

98.3%



WEIGHTED AVERAGE LEASE TERM (WALT)

(4.3 years as at 31 March 2011)

4.5 years

Chairman & Chief Executive's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2011

Dear Shareholder,

We are pleased to announce a positive performance by the Company for the half year ended 30 September 2011.

The Company has completed a successful transition from being externally managed to a fully integrated internal management structure. Our active management style has continued to deliver in line with, and in some respects ahead of, expectations, which has led DNZ to be in a position to increase its cash dividend, while maintaining a prudent distribution policy.

Financial Performance

DNZ has delivered a sound operating performance over the period which is consistent with guidance provided at the beginning of the financial year.

Net rental income was \$25.9m, the same as the corresponding period last year. Distributable profit after tax was \$13.0m or 5.27 cents per share (\$9.8m or 4.69 cents per share as at 30 September 2010). This enabled the Company to fund its capital works programme out of the free cash flows achieved in the first six months of the financial year. DNZ continues to be in a tax loss position following the binding tax ruling regarding the termination payment of the management contract. It is expected that DNZ will be in a tax payable position in FY13.

The DNZ adjusted net tangible asset value (NTA) per share¹ has remained stable during the six month period and was \$1.54 as at 30 September 2011 (\$1.55 as at 31 March 2011).



TIM STOREY
CHAIRMAN



PAUL DUFFY
CHIEF EXECUTIVE

¹ Excludes intangibles and the after tax fair value of interest rate swaps.

Distributable Profit

	Unaudited 6 months 30 Sep 11 (\$ millions)	Unaudited 6 months 30 Sep 10 (\$ millions)	Variance (\$ millions)
Net profit/(loss) before taxation	11.0	(26.1)	37.1
NZ IFRS and other adjustments:			
- Net change in fair value of investment properties	1.0	(0.1)	1.1
- Net change in fair value of share subscription agreements	-	(1.1)	1.1
- Net change in fair value of investments	(0.3)	-	(0.3)
- Chief Executive option scheme	-	1.2	(1.2)
- Payment for termination of management contract	-	31.8	(31.8)
- Amortisation and impairment of renegotiation payment	-	3.6	(3.6)
- Loss on disposal of investment properties	1.2	0.2	1.0
- Net rent free incentives	(0.1)	(0.1)	-
- Net lease contribution incentives	0.1	0.1	-
- Other adjustments	0.1	0.7	(0.6)
Less: current taxation paid	-	(0.4)	0.4
Distributable profit after tax	13.0	9.8	3.2
Basic distributable profit after tax per share - weighted	5.27 cents	4.69 cents	0.58 cents
Weighted average number of ordinary shares (millions)	247.4	208.9	

Financial Summary

	As at 30 Sep 11 (\$ millions)	As at 31 Mar 11 (\$ millions)
Property values ¹	608.2	637.7
Bank debt drawn	222.0	252.9
Bank loan to value ratio ²	37.8%	40.4%
Equity	378.9	382.3
Shares on issue	247.6	246.6
NTA per share ³	\$1.52	\$1.54
Adjusted NTA per share ⁴	\$1.54	\$1.55

¹ Assets sales were completed during the period.

² Includes fair value of interest rate swaps.

³ Excludes intangibles.

⁴ Excludes intangibles and the after tax fair value of interest rate swaps.



1-25 O'Rorke Road, Penrose, Auckland

Capital Management

DNZ has continued to maintain a strong balance sheet position over the first six months of the financial year through a series of prudent capital management initiatives that have included:

- A further gross realisation of \$31.6m from asset sales.
- The use of free cash flows to fund the on-going capital works programme.
- \$95m of forward starting swaps entered into.
- Reduction in the Company's debt facility limit from \$350m to \$300m.
- Implementation of a revised \$300m term debt bank facility post balance date (effective 31 October 2011), which has resulted in expected savings of approximately \$2.0m per annum.

As at 30 September 2011 DNZ's LVR reduced to 37.8%.

Share Buyback Scheme

The Board has approved implementing an on-market share buyback of up to 5% of the Company's issued shares.

The Board believes that the market price of the shares is not reflective of the true value of DNZ, given the strong performance of the underlying property portfolio and the significant cost savings achieved by the refinancing of DNZ's debt facility. The Board's view is that the share buyback scheme is in the best interests of DNZ and its shareholders.

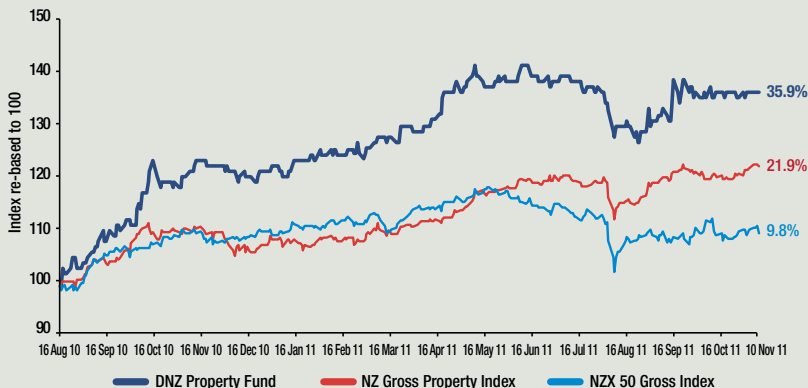
Dividends

Given the performance of the Company in the first half of the financial year, combined with the on-going finance cost savings, the Board has reviewed the Company's cash dividend.

The Board is pleased to have approved an increased second quarter cash dividend of 2.1 cents per share. This dividend will carry no imputation credits. The record date for this dividend was 2 December 2011, with payment to shareholders made on 15 December 2011.

The Board currently expects the full year cash dividend for the year to 31 March 2012 to be 8.3 cents per share. This is within the current distribution policy range of 75-85% of distributable profit. We anticipate the distribution policy will be reviewed in the next financial year to reflect the expectation of the Company being in a tax paying position.

Total Shareholder Returns*



Source: IRESS

* Assumes the reinvestment of dividends (but not imputation credits) on the ex-date

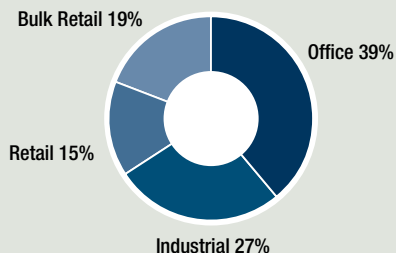


22-30 Airpark Drive, Mangere, Auckland

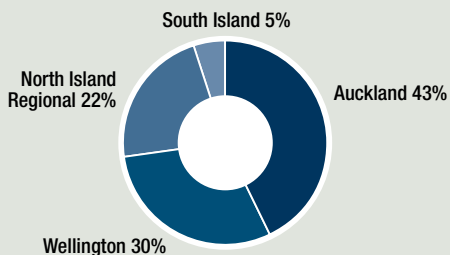
Property Portfolio

Portfolio Overview	30 Sep 11	31 Mar 11	30 Sep 10
Properties	48	50	54
Tenants	261	283	279
Net Lettable Area (m ²)	360,683	371,481	379,934
WALT (years)	4.5	4.3	4.4
Occupancy Rate (by area)	98.3%	97.9%	96.1%
Asset Valuation	\$608m	\$638m	\$700m

Portfolio Contract Rental by Sector
as at 30 Sep 11



Portfolio Contract Rental by Region
as at 30 Sep 11



Portfolio Valuation

Nine properties in the portfolio were subject to significant leasing transactions and/or had significant building works completed during the first six months of the financial year. The Board took the prudent view that these nine properties should be independently revalued at 30 September 2011.

The Board reviewed all other properties on an asset by asset basis and was satisfied that there was no significant change to the overall carrying value.

Lease Transactions

For the six month period to 30 September 2011 DNZ completed 114 lease transactions made up of the following:

- 53 rent reviews completed over 93,400m² for a total rental of \$14.8m.
- 32 lease renewals completed over 32,005m² for a total rental of \$5.0m.
- 29 new lettings completed over 22,345m² for a total rental of \$4.7m.

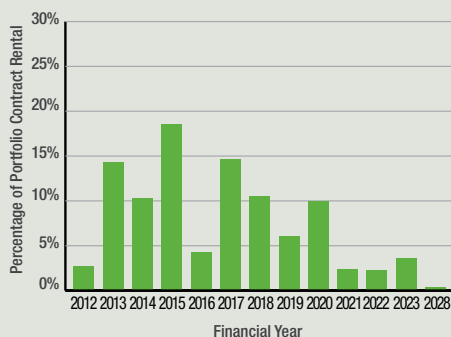
Of the remaining 44 rent reviews to be concluded prior to 31 March 2012, 22 are CPI based, 16 are market reviews and 6 are stepped increases.

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

We have maintained portfolio occupancy in a difficult leasing environment with over 100 transactions completed in the first half of the year. DNZ's remaining expiries in FY12 represent less than 3% of contract rental and we are now moving our focus to those expiries occurring in the 2013 and 2014 financial years.

Lease Expiry Profile by Contract Rental*

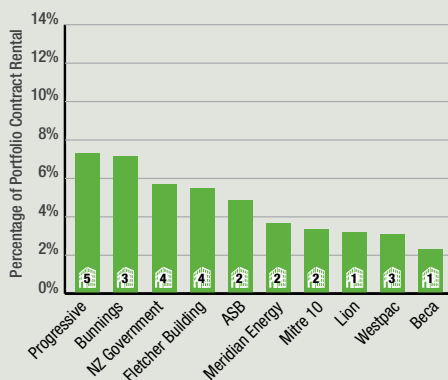
as at 30 Sep 11



* 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 2011, as a percentage of contract rental.

Top Ten Tenants by Contract Rental**

as at 30 Sep 11



 denotes number of properties

** Based on contract rental for all properties leased to individual tenants as at 30 September 2011. The numbers at the foot of each bar represent the number of properties leased.

Foodstuffs Portfolio

Post the 30 September 2011 balance date, the Company purchased three Foodstuffs supermarkets located in Napier, New Plymouth and Wellington for \$40.73m.

This transaction secures the strong tenant covenant of Foodstuffs for DNZ, with new long term leases in three strategic regional North Island locations. This transaction enhances the Company's portfolio, adds another quality tenant, further improves the portfolio's weighted average lease term and provides contracted future income growth in locations that have excellent potential.

The new 18 year leases contain fixed annual increases with market reviews every five years.



New World, Wellington



New World, Napier



PAK n'SAVE, New Plymouth

Seismic Review

A seismic review previously undertaken has rated all four of DNZ's Wellington office buildings with Grade A or Grade A+ ratings under the NZ Society for Earthquake Engineering (NZSEE) system for grading buildings. DNZ has also instigated seismic reviews for the Company's remaining office properties that are located in Auckland. DNZ's two Christchurch assets are fully occupied with any remedial works completed.

Summary

We have announced another pleasing financial performance by the Company for DNZ shareholders despite the subdued New Zealand property market and continuing uncertainty in global financial markets. DNZ is well placed with high occupancy and contracted rental income streams from a sector diversified property portfolio that is located throughout New Zealand.

Our primary focus is to maintain the Company's rental streams and high occupancy levels, by engaging with, and retaining tenants through proactive management.

This interim result sees DNZ deliver an increased cash dividend of 2.1 cents per share, which increases the expected full year FY12 cash dividend to 8.3 cents per share. This is unquestionably another excellent result for DNZ shareholders.

TIM STOREY
CHAIRMAN

PAUL DUFFY
CHIEF EXECUTIVE



Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011



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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Notes	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 (restated) \$000	Audited 12 Months 31 Mar 11 \$000
Rental income	3,9	29,297	29,013	58,165
Property operating expenses	9	(3,372)	(3,152)	(6,168)
Net rental income		25,925	25,861	51,997
Management fee income	9	658	342	963
Less corporate expenses				
Corporate overhead expenses		(2,692)	(1,296)	(3,905)
Administration expenses		(1,063)	(1,286)	(2,192)
Manager's fees and expenses	9	-	(1,614)	(1,614)
Chief Executive option scheme		-	(1,243)	(1,243)
Total corporate expenses		(3,755)	(5,439)	(8,954)
Operating profit before net finance expenses and income tax		22,828	20,764	44,006
Finance income	4	84	92	211
Finance expenses	4	(9,299)	(11,846)	(22,421)
Net finance expenses		(9,215)	(11,754)	(22,210)
Operating profit before income tax		13,613	9,010	21,796
Non-operating (expenses)/income				
Restructure expenses		(700)	(520)	(520)
IPO expenses		-	(190)	(190)
Loss on disposal of investment properties	11	(1,213)	(239)	(1,361)
Amortisation and impairment of renegotiation payment	9	-	(3,600)	(3,600)
Payment for termination of management contract	9	-	(31,761)	(31,761)
Net change in fair value of subscription agreements	9	49	1,113	1,621
Net change in fair value of other investments		265	-	-
Net change in fair value of investment properties	11	(1,031)	129	(11,511)
Net profit/(loss) before taxation		10,983	(26,058)	(25,526)
Income tax expense	5	(2,821)	(17,428)	(9,586)
Net profit/(loss) for the period		8,162	(43,486)	(35,112)
Other comprehensive income:				
Movement in cash flow hedges, net of tax	15	(1,854)	2,312	2,551
Net change in fair value of property, plant and equipment	15	20	-	(95)
Total other comprehensive income for the period, net of tax		(1,834)	2,312	2,456
Total comprehensive income for the period		6,328	(41,174)	(32,656)
Basic earnings per share (cents)	6	3.30	(20.81)	(15.42)
Diluted earnings per share (cents)	6	3.28	(20.64)	(15.30)

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 2011

	Notes	Share capital \$000	Retained earnings \$000	Other reserves \$000	Total \$000
Balance at 1 April 2011		427,822	(43,137)	(2,376)	382,309
Dividends paid		-	(9,903)	-	(9,903)
Movement in employee long term share incentive plan	15	-	-	123	123
Cash flow hedge movement recognised in other comprehensive income, net of tax	15	-	-	(1,854)	(1,854)
Fair value movement of property, plant and equipment recognised in other comprehensive income	15	-	-	20	20
Transfer from property, plant and equipment revaluation reserve on sale of property	15	-	(75)	75	-
Net profit for the period after tax		-	8,162	-	8,162
Balance at 30 September 2011		427,822	(44,953)	(4,012)	378,857
Balance at 1 April 2010		377,834	6,742	(6,140)	378,436
Issue of shares	9,14	55,000	-	-	55,000
Share subscription agreements liability	14	(1,670)	-	-	(1,670)
Capital raising expenses		(3,342)	-	-	(3,342)
Dividends paid		-	(4,900)	-	(4,900)
Chief Executive option scheme	15	-	-	1,243	1,243
Movement in employee long term share incentive plan	15	-	-	27	27
Cash flow hedge movement recognised in other comprehensive income, net of tax	15	-	-	2,312	2,312
Net loss for the period after tax		-	(43,486)	-	(43,486)
Balance at 30 September 2010 (restated)		427,822	(41,644)	(2,558)	383,620
Balance at 1 April 2010		377,834	6,742	(6,140)	378,436
Issue of shares	9,14	55,000	-	-	55,000
Share subscription agreements liability	14	(1,670)	-	-	(1,670)
Capital raising expenses		(3,342)	-	-	(3,342)
Dividends paid		-	(14,767)	-	(14,767)
Chief Executive option scheme	15	-	-	1,243	1,243
Movement in employee long term share incentive plan	15	-	-	65	65
Cash flow hedge movement recognised in other comprehensive income, net of tax	15	-	-	2,551	2,551
Fair value movement of property, plant and equipment recognised in other comprehensive income	15	-	-	(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

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

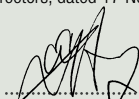
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

	Notes	Unaudited 30 Sep 11 \$000	Unaudited 30 Sep 10 (restated) \$000	Audited 31 Mar 11 \$000
CURRENT ASSETS				
Cash and cash equivalents		4,515	4,579	5,190
Trade receivables	9	513	1,336	560
Deferred property settlement receivable		-	-	500
Prepayments and other current assets		2,326	2,479	1,641
Capitalised lease incentives		707	617	633
Taxation receivable		1,133	129	-
Non-current assets held for sale	10	30,752	39,700	-
		<u>39,946</u>	<u>48,840</u>	<u>8,524</u>
NON-CURRENT ASSETS				
Investment properties	11	576,255	627,629	635,884
Work in progress		2,728	19,141	2,618
Property, plant and equipment		1,687	2,150	2,034
Intangible asset		3,000	3,000	3,000
Capitalised lease incentives		984	1,057	1,034
Taxation receivable		-	-	1,133
Other investments		410	-	105
		<u>585,064</u>	<u>652,977</u>	<u>645,808</u>
TOTAL ASSETS		<u>625,010</u>	<u>701,817</u>	<u>654,332</u>
CURRENT LIABILITIES				
Trade and other payables	9	6,266	5,697	5,885
Share subscription agreements liability	9	-	557	49
Derivative financial instruments	12	-	1,101	-
		<u>6,266</u>	<u>7,355</u>	<u>5,934</u>
NON-CURRENT LIABILITIES				
Bank borrowings	13	222,038	291,129	252,915
Deferred tax liability	5	10,291	15,431	8,191
Derivative financial instruments	12	7,558	4,282	4,983
		<u>239,887</u>	<u>310,842</u>	<u>266,089</u>
TOTAL LIABILITIES		<u>246,153</u>	<u>318,197</u>	<u>272,023</u>
NET ASSETS		<u>378,857</u>	<u>383,620</u>	<u>382,309</u>
EQUITY		<u>378,857</u>	<u>383,620</u>	<u>382,309</u>

For and on behalf of the Board of Directors, dated 17 November 2011:



Tim Storey
DIRECTOR



John Harvey
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 2011

	Notes	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Rent received		28,773	27,845	58,417
Management fee income		658	342	963
Finance income		84	86	217
Finance expenses		(8,576)	(12,380)	(22,923)
Operating expenses		(7,179)	(7,701)	(13,139)
Restructure expenses		(700)	(520)	(520)
Withdrawn IPO expenses		-	(2,170)	(2,170)
Net GST (paid)/collected		(96)	(84)	560
Income tax paid		-	(570)	(1,131)
Net cash provided by operating activities	8	12,964	4,848	20,274
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investment properties		31,547	30,489	69,851
Expenditure on investment properties		(4,014)	(15,734)	(21,742)
Other investment activities		(392)	-	(75)
Payment for acquisition of management contract	9	-	(3,000)	(3,000)
Payment for termination of management contract	9	-	(31,761)	(31,761)
Fixed assets purchased	9	-	(244)	(257)
Net cash provided by/(applied to) investing activities		27,141	(20,250)	13,016
CASH FLOWS FROM FINANCING ACTIVITIES				
Drawdown on bank borrowings		-	50,986	52,192
Repayment of bank borrowings		(30,877)	(81,864)	(121,284)
Dividends paid		(9,903)	(4,900)	(14,767)
Proceeds from equity issued	9,14	-	55,000	55,000
Capital raising expenses		-	(3,342)	(3,342)
Net cash (applied to)/provided by financing activities		(40,780)	15,880	(32,201)
Net (decrease)/increase in cash and cash equivalents held		(675)	478	1,089
Opening cash and cash equivalents		5,190	4,101	4,101
Closing cash and cash equivalents		4,515	4,579	5,190

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 2011

NOTE 1: ACCOUNTING POLICIES

Reporting entity

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 incorporated and 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 and is listed on the New Zealand Stock Exchange (NZX). The financial statements of DNZ Property Fund Limited have been prepared in accordance with the Financial Reporting Act 1993. The Group is designated as a profit-oriented entity for financial reporting purposes.

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 interim financial statements have been approved for issue by the Board of Directors on 17 November 2011.

Basis of preparation

The unaudited interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and NZ IAS 34 and 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), unless otherwise stated.

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 2011. To ensure consistency with the current period, comparatives have been restated where appropriate.

Significant accounting judgements, estimates and assumptions

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 IAS 24 - Related Party Disclosures (minor changes to the definition of related parties);
- NZ IFRIC 19 - Extinguishing Liabilities with Equity Instruments (in relation to debt for equity swaps);
- Improvements to NZ IFRS (July 2010).

The adoption of these standards for the period ended 30 September 2011 has not had any impact on the profits or financial position of the Group.

The Group adopted the following standard early in the reporting period ended 31 March 2011:

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

The amendment introduces a rebuttable presumption that investment property measured at fair value is recovered entirely through sale. As the Group does not rebut the presumption of recovery of investment properties through sale, the deferred tax liability is determined on the tax consequences of sale. The Group has retrospectively applied this standard to the comparatives for the period ended 30 September 2010. 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. This has resulted in a reduced tax charge and corresponding reduced deferred tax liability, and has increased basic earnings per share by 33.19 cents per share and increased diluted earnings per share by 32.91 cents per share. No change was made as at 1 April 2010 as the Group was a Multi-rate PIE (MRP) until 30 June 2010 where 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 2: OPERATING SEGMENTS

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

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

NOTE 3: RENTAL INCOME

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Rental income	29,184	28,941	58,038
Capitalised lease incentives	646	413	1,011
Lease incentive amortisation	(533)	(341)	(884)
	<u>29,297</u>	<u>29,013</u>	<u>58,165</u>

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

NOTE 4: NET FINANCE EXPENSES

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Finance income			
- Bank interest income	68	87	206
- Other income	16	5	5
	<u>84</u>	<u>92</u>	<u>211</u>
Finance expenses			
Interest expenses:			
- Bank borrowings	9,299	10,684	21,259
- Refinancing expenses	-	1,159	1,159
- Other interest expenses	-	3	3
	<u>9,299</u>	<u>11,846</u>	<u>22,421</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 5: INCOME TAX

(a) Income tax

From 1 October 2008 until 30 June 2010, the Group was an 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. As a result of the Parent becoming a Listed PIE, the Group has accounted for current and deferred tax from 1 July 2010.

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 (restated) \$000	Audited 12 Months 31 Mar 11 \$000
The income tax expense is represented by:			
Current period tax	-	441	-
Deferred tax	<u>2,821</u>	<u>16,987</u>	<u>9,586</u>
Taxation expense per the statement of comprehensive income	<u>2,821</u>	<u>17,428</u>	<u>9,586</u>
Net profit/(loss) before taxation	<u>10,983</u>	(26,058)	(25,526)
Less net profit derived as an MRP	<u>-</u>	<u>(5,850)</u>	<u>(5,850)</u>
Net profit/(loss) attributable to Listed PIE period	<u>10,983</u>	<u>(31,908)</u>	<u>(31,376)</u>
Income tax using the company tax rate	<u>3,075</u>	(9,572)	(9,413)
Net change in fair value of investment properties	<u>289</u>	(39)	3,453
Non-deductible expenses	<u>498</u>	9,807	170
Depreciation	<u>(1,055)</u>	(1,159)	(3,426)
Depreciation recovered	<u>1,664</u>	-	8
Temporary differences:			
- Impairment of renegotiation payment	-	1,050	1,050
- Other temporary differences	<u>(103)</u>	354	578
Tax losses	<u>(4,368)</u>	-	7,580
Deferred tax credited to the statement of comprehensive income on recognition of tax losses due to the change in tax rate	<u>-</u>	-	(506)
Deferred tax charged to the statement of comprehensive income	<u>2,821</u>	<u>16,987</u>	<u>10,092</u>
Taxation expense per the statement of comprehensive income	<u>2,821</u>	<u>17,428</u>	<u>9,586</u>

The corporate tax rate reduced from 30% to 28% from 1 April 2011.

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 prior 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 INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 5: 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. The deferred tax 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:

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 (restated) \$000	Audited 12 Months 31 Mar 11 \$000
Opening balance	(8,191)	-	-
Charged to statement of comprehensive income	(2,821)	(16,987)	(9,586)
Credited to other comprehensive income in the statement of comprehensive income	721	1,556	1,395
Closing balance	(10,291)	(15,431)	(8,191)

	Audited 31 Mar 11 \$000	Recognised in profit/ (loss) \$000	Recognised in other comprehensive income \$000	Unaudited 30 Sep 11 \$000	Unaudited 30 Sep 10 (restated) \$000
Deferred tax assets					
Tax losses	7,074	(4,368)	-	2,706	-
Derivative financial instruments	1,395	-	721	2,116	1,556
Refinancing costs	318	(114)	-	204	441
Other temporary differences	219	61	-	280	152
	<u>9,006</u>	<u>(4,421)</u>	<u>721</u>	<u>5,306</u>	<u>2,149</u>

Deferred tax liabilities

Building depreciation	(16,700)	1,656	-	(15,044)	(17,069)
Lease incentives	(467)	(6)	-	(473)	(476)
Reinstatement receipts	(30)	(50)	-	(80)	(35)
	<u>(17,197)</u>	<u>1,600</u>	<u>-</u>	<u>(15,597)</u>	<u>(17,580)</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 6: BASIC AND DILUTED EARNINGS PER SHARE

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

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 (restated) \$000	Audited 12 Months 31 Mar 11 \$000
Earnings from continuing activities	8,162	(43,486)	(35,112)
Weighted average number of ordinary shares for purpose of basic earnings per share	247,409	208,948	227,762
Basic earnings per share (cents)	3.30	(20.81)	(15.42)
Weighted average number of ordinary shares for purpose of diluted earnings per share	248,742	210,710	229,556
Diluted earnings per share (cents)	3.28	(20.64)	(15.30)

Weighted average number of ordinary shares for purpose of diluted earnings per share in the current period has been adjusted for the final 1,000,000 shares issued under the Chief Executive option scheme (issued on 2 May 2011), 825,000 rights issued in the prior year under the long term incentive scheme for scheme one and 681,266 rights issued in the current period under the long term incentive scheme for scheme two. In the prior year, it was 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 for scheme one.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 7: DISTRIBUTABLE PROFIT

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

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Net profit/(loss) before taxation	10,983	(26,058)	(25,526)
NZ IFRS and other non-recurring and non-cash adjustments:			
- Net change in fair value of investment properties	1,031	(129)	11,511
- Net change in fair value of share subscription agreements	(49)	(1,113)	(1,621)
- Net change in fair value of investments	(265)	-	-
- Chief Executive option scheme	-	1,243	1,243
- Payment for termination of management contract	-	31,761	31,761
- Amortisation and impairment of renegotiation payment	-	3,600	3,600
- Loss on disposal of investment properties	1,213	239	1,361
- Net rent free incentives	(113)	(71)	(127)
- Net lease contribution incentives	89	21	86
- Other adjustments	147	748	715
Less: current taxation paid	-	(441)	(1,133)
Distributable profit after tax	13,036	9,800	21,870
Weighted average number of ordinary shares for purpose of basic distributable profit per share	247,409	208,948	227,762
Basic distributable profit after tax per share – weighted (cents)	5.27	4.69	9.60

On 23 May 2011, the Board of Directors amended its distribution policy to distribute between 75 – 85% of distributable profit with effect from the first quarter dividend payment for the 2012 financial year, paid on 8 September 2011. The amendment to the policy was to ensure sufficient funds are retained for reinvestment to enhance long term earnings of the Group and dividend sustainability for shareholders.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 8: CASH FLOW STATEMENT RECONCILIATION

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 (restated) \$000	Audited 12 Months 31 Mar 11 \$000
Reconciliation of net profit/(loss) after tax to net cash from operating activities:			
Net profit/(loss) after tax for the period	8,162	(43,486)	(35,112)
Add/(less) non-cash items:			
Movement in deferred taxation (refer note 5)	2,821	16,987	9,586
Net change in fair value of investment properties	1,031	(129)	11,511
Net change in fair value of other investments	(265)	-	-
Loss on sale of investment properties	1,213	239	1,361
Movement in impairment provision	255	66	(45)
Amortisation of and impairment of renegotiation payment	-	3,600	3,600
Capitalised lease incentives	(651)	(450)	(1,123)
Lease incentive amortisation	627	400	1,083
Net change in fair value of share subscription agreements	(49)	(1,113)	(1,621)
Share rights amortisation under employee long term share incentive scheme	123	27	65
Chief Executive option scheme	-	1,243	1,243
Depreciation expense	24	10	44
	13,291	(22,606)	(9,408)
Add/(less) activity classified as investing activity:			
Capitalised expenditure on investment properties	873	783	2,106
Proceeds from sale of investment properties	(1,189)	-	500
NZX bond	-	-	75
Feasibility costs written off	-	-	28
Payment for termination of management contract	-	31,761	31,761
	12,975	9,938	25,062
Movement in working capital:			
(Increase)/decrease in trade receivables	(208)	(583)	304
Increase in prepayments and other assets	(184)	(1,578)	(1,348)
Increase/(decrease) in trade and other payables	381	(2,800)	(2,611)
Decrease in taxation payable	-	(129)	(1,133)
Net cash provided by operating activities	12,964	4,848	20,274

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 9: RELATED PARTY DISCLOSURES

The Group had the following transactions with related parties:

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Diversified NZ Property Fund Limited			
- Manager's fees income	335	157	470
- Building management fee income	100	28	88
- Accounting fee income	15	8	23
- Leasing fee income	62	14	45
- Project management fee income	5	58	98
HD Management Limited (the previous Manager)			
- Manager's fees and expenses	-	(1,073)	(1,073)
- Property management fees	-	(541)	(541)
- Accounting fees	-	(68)	(68)
- Project management fees	-	(476)	(476)
- Leasing fees	-	(275)	(275)
- Divestment fees	-	(143)	(143)
- Rent review fees	-	(118)	(118)
- Rent received	-	80	80
- Termination payment for management agreement	-	(31,761)	(31,761)
- Acquisition of fixed assets	-	(239)	(239)
Diversified Management Limited			
- Novation fee paid for management contract	-	(3,000)	(3,000)
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

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

Diversified NZ Property Fund Limited	202	46	186
Hayphil Investments Limited	-	(289)	(30)
Rose Star Investments Limited	-	(268)	(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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 9: RELATED PARTY DISCLOSURES (Continued)

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 HD Management Limited 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 30 September 2011, the fair value of this liability is \$Nil (30 Sept 2010 \$557,000 and 31 Mar 2011 \$49,000) and the net change has been 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, Diversified Management Limited and Hayphil Investments 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.

Interests associated with Paul Duffy own 50% of Diversified Management Limited which holds a 2% interest in Diversified NZ Property Fund Limited.

Paul Duffy and Tim Storey are directors of Diversified NZ Property Fund Limited.

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.

On 12 July 2011, the Company issued 681,266 share performance rights to key personnel (including 215,005 share performance rights to the Chief Executive) and other staff under the long term share incentive scheme two with effect from 1 April 2011. An independent valuation was prepared on the rights issued and the cost was \$70,951 for the period ending 30 September 2011. The valuation was prepared using a Monte Carlo simulation model. The key assumptions adopted were:

- simulated cash flows were discounted at the five year Government Bond rate of 3.94%;
- volatility estimated at 20%;
- price on 31 March 2011 of \$1.24 and on 12 July 2011 of \$1.30; and
- no eligibility for dividends and ordinary shares are assumed to receive an annual gross dividend of 8.00 cents per share throughout the vesting period.

The first tranche of these rights (being 50% of them) will be first capable of vesting on 31 March 2012, with tranche two (being 25% of them) and tranche three (being the remaining 25%) being capable of vesting on 31 March 2013 and 31 March 2014 respectively.

NOTE 10: NON-CURRENT ASSETS HELD FOR SALE

The Group has classified the shares in the unlisted entity Victoria Street Parking Centre Limited as non-current assets for sale at its fair value. The Group has entered into an unconditional sale and purchase agreement to sell the shares for \$352,000. The sale is expected to settle on 30 November 2011.

The Group has classified the following investment properties as non-current assets held for sale at their fair 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 2011 \$Nil, 30 Sept 2010 \$Nil and 31 Mar 2011 (\$500,000)).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 10: NON-CURRENT ASSETS HELD FOR SALE (Continued)

30 September 2011

- 3 - 11 Hunter Street, Wellington; and
- 132 Vincent Street, Auckland.

The Board of Directors has reviewed the fair value of these investment properties as at 30 September 2011 and determined that 3 - 11 Hunter Street, Wellington, be subject to an independent valuation. Refer to note 11 for further details. The fair value of these properties at 30 September 2011 is \$30,400,000. Subsequent to balance date, the Group entered into an unconditional sale and purchase agreement to sell 132 Vincent Street, Auckland, with settlement scheduled for 30 July 2012. Refer to note 17 for further details. The property at 3 - 11 Hunter Street, Wellington, is 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.

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 was \$39,700,000. These properties were sold during the year ended 31 March 2011.

31 March 2011

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

NOTE 11: INVESTMENT PROPERTIES

The Board of Directors has reviewed the fair value of the investment properties as at 30 September 2011 on an asset by asset basis after considering recent comparable transactional evidence of market sales and leasing activity and is satisfied that there has been no significant change to the overall carrying value, other than the following nine assets that were subject to independent valuations due to significant capital expenditure works undertaken, contractual rental variance or which were considered to have asset specific issues to which the market was responding differently in the current period:

	Valuer	\$'000
- 80 Greys Avenue, Auckland	Colliers International NZ Limited	11,300
- 21 - 25 Teed Street, Auckland	Colliers International NZ Limited	13,100
- 22 The Terrace, Wellington	Jones Lang LaSalle Limited	12,700
- 3 - 11 Hunter Street, Wellington	Jones Lang LaSalle Limited	21,400
- 1 Grey Street, Wellington	Colliers International NZ Limited	40,000
- 7 Winston Ave, Christchurch	Jones Lang LaSalle Limited	10,600
- 15 Ride Way, Auckland	Colliers International NZ Limited	6,750
- 415 East Tamaki Road, Auckland	Colliers International NZ Limited	12,400
- Lots 82 - 85 Tauriko Industrial Estate, Tauranga	Colliers International NZ Limited	1,975

These valuations were 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 on terms ensuring no valuer values the same asset for more than three consecutive years.

The valuers took into account occupancy (leased area as a proportion of the portfolio net lettable area) on the individual properties (portfolio average is 98.3% at balance date), lease term (portfolio weighted average lease term at balance date is 4.5 years), discount rates and capitalisation rates under both market and contractual incomes (initial contractual yields range from 7.57% to 11.67%).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 11: INVESTMENT PROPERTIES (Continued)

At 30 September 2010, the Board of Directors reviewed the fair value of the investment properties on an asset by asset basis and was satisfied that there had 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 prior 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 2011, 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.

The following investment properties were sold during the current period for a total loss of \$1,213,309:

- 129 Hurstmere Road, Auckland; and
- 99 - 105 Customhouse Quay, Wellington.

Movement in carrying amounts

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Opening balance	635,884	636,095	636,095
Acquisitions	-	-	-
Subsequent capital expenditure	3,033	1,721	22,901
Net transfers (to)/from non-current assets held for sale	(30,400)	(8,400)	11,800
Disposals	(31,571)	-	(21,985)
Net change in fair value	(1,031)	129	(11,011)
Transfer from/(to) property, plant and equipment	340	(1,916)	(1,916)
Closing balance	576,255	627,629	635,884

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 was re-classified to property, plant and equipment as this space was deemed to be owner occupied property as defined in NZ IAS 40 and is accounted for in accordance with NZ IAS 16 – Property, Plant and Equipment.

In the current period, the space previously occupied by the Group at 99 - 105 Customhouse Quay, Wellington, was re-classified as investment property as it is no longer used as owner occupied property.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Fair value of interest rate swaps	(7,558)	(5,383)	(4,983)
The principal amount of the outstanding interest rate swap contracts is as follows:			
Principal amount outstanding under the interest rate swaps	305,000	237,000	210,000

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.

In the current period, the Group has entered into \$95,000,000 worth of forward swaps commencing November 2012, August 2013 and September 2014 for periods of up to 4 years extending out to December 2017.

NOTE 13: BORROWINGS

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Non-current			
Bank borrowings	222,038	291,129	252,915
Total borrowings	222,038	291,129	252,915
Facility drawn down	222,038	291,129	252,915
Undrawn facility available	77,962	58,871	97,085
Total facility available	300,000	350,000	350,000

Weighted average interest rate for drawn debt (inclusive of current interest rate derivatives, margins and line fees) at balance date

7.57%	7.65%	7.34%
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Bank borrowings

As at balance date, the Group's secured borrowings were via a syndicated senior secured facility with the ANZ National Bank Limited ("ANZ"), Commonwealth Bank of Australia ("CBA") and Bank of New Zealand ("BNZ"), in which each bank provided 50%, 30% and 20% respectively of loan requirements sought at any time. The term of the facility could be extended by one year on each anniversary with the approval of the banks and there were no principal repayments due over the term of the facility which had a term end of 30 September 2013. 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 security interest under a General Security Deed over substantially all the assets of the Group.

During the current period, the Group assigned the bank borrowings and interest rate derivatives, previously held by ASB Bank Limited to CBA.

Effective from 28 September 2011, the Group reduced its banking facility limit to \$300,000,000.

Subsequent to balance date, the Group refinanced its bank debt facility. Refer to note 17 for further details.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 14: EQUITY

	Ordinary shares	"A" class shares	"B" class shares
Number of shares on issue			
Opening balance 1 April 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	-	-
Balance as at 30 September 2010	244,876,090	-	-
Shares issued on exercise of Chief Executive's options	1,700,000	-	-
Balance as at 31 March 2011	246,576,090	-	-
Shares issued on exercise of Chief Executive's options	1,000,000	-	-
Closing balance as at 30 September 2011	247,576,090	-	-

On 1 July 2010, the 10 "B" class shares previously held by HD Management Limited were re-classified 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 re-classified 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. Refer to note 9 for further details.

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.

On 2 May 2011, the Group issued 1,000,000 ordinary shares to the Chief Executive, Paul Duffy under the Chief Executive option scheme. This was the final tranche to be issued under this 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 INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 15: RESERVES

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Reserves consist of:			
Cash flow hedge reserve	(5,443)	(3,828)	(3,589)
Options reserve	1,431	1,270	1,308
Property, plant and equipment revaluation reserve	-	-	(95)
Closing balance	(4,012)	(2,558)	(2,376)
Cash flow hedge reserve			
Opening balance	(3,589)	(6,140)	(6,140)
Tax on becoming a Listed PIE	-	1,718	1,718
Changes in fair value of interest rate swaps	(2,575)	756	1,157
Tax on fair value changes	721	(162)	(324)
Closing balance	(5,443)	(3,828)	(3,589)
Options reserve			
Opening balance	1,308	-	-
Chief Executive option scheme	-	1,243	1,243
Movement in employee long term share incentive plan	123	27	65
Closing balance	1,431	1,270	1,308
Property, plant and equipment revaluation reserve			
Opening balance	(95)	-	-
Property, plant and equipment change in fair value	20	-	(95)
Transfer to retained earnings on sale of property	75	-	-
Closing balance	-	-	(95)

NOTE 16: CAPITAL COMMITMENTS

Capital expenditure commitments contracted for:

As at 30 September 2011, the Group had committed to \$2,166,000 (30 Sep 2010 \$3,992,000 and 31 Mar 2011 \$1,744,000) for various capital expenditure works to be undertaken on a number of investment properties in this financial year.

As at 30 September 2011, the Group had paid a deposit of \$1,000,000 on the acquisition of three Foodstuffs (Wellington) Co-Op Society Limited's (Foodstuffs) supermarkets and had a further commitment to pay \$39,730,000. Settlement occurred on 4 October 2011. Refer note 17 for further details.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (Continued)

NOTE 17: EVENTS SUBSEQUENT TO BALANCE DATE

On 3 October 2011, the Board of Directors decided to put Lots 82 - 85 Tauriko Industrial Estate, Tauranga, up for sale as it does not meet the current strategic investment goals of the Group.

On 4 October 2011, the Group settled on the acquisition of three Foodstuffs' supermarkets for \$40,730,000.

On 7 October 2011, the Group entered into an unconditional sale and purchase agreement to sell 132 Vincent Street, Auckland, for \$9,000,000 with settlement scheduled for 30 July 2012.

On 31 October 2011, the Group refinanced its bank facility. The total facility of \$300,000,000 has been split into two equal tranches of \$150,000,000 fixed for terms of three and four years. The Group's secured borrowings are via syndicated senior secured facilities with the ANZ, CBA and BNZ, in which each bank provides 1/3 respectively of loan requirements sought at any time. The bank security on the facilities 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 security interest under a General Security Deed over substantially all the assets of the Group.

On 17 November 2011, the Board of Directors declared an un-imputed dividend of 2.1 cents per share (for the period 1 July 2011 to 30 September 2011) to be paid on 15 December 2011 to all shareholders on the register at the close of business on 2 December 2011. This dividend has not been recognised in the financial statements.

On 17 November 2011, the Board of Directors approved implementing an on-market share buyback of up to 5% of its issued shares because it believes that the market price of the shares is not reflective of the true value of the Group. The Board of Directors view is that the buyback scheme is in the best interests of the Group and its shareholders.

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

NOTE 18: 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:

	Unaudited 6 Months 30 Sep 11 \$000	Unaudited 6 Months 30 Sep 10 \$000	Audited 12 Months 31 Mar 11 \$000
Assets			
Current assets	75	123	104
Non-current assets	<u>8,573</u>	<u>6,008</u>	<u>7,253</u>
	8,648	6,131	7,357
Liabilities			
Current liabilities	272	253	208
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
	272	253	208
Net assets	<u>8,376</u>	<u>5,878</u>	<u>7,149</u>
Share of rental income	1,476	1,451	2,946
Share of expenses	<u>(249)</u>	<u>(276)</u>	<u>(499)</u>
Net share of profit	<u>1,227</u>	<u>1,175</u>	<u>2,447</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 19: CONTINGENT LIABILITIES

The Group has no contingent liabilities at balance date.



INDEPENDENT ACCOUNTANTS' REPORT

TO THE SHAREHOLDERS OF DNZ PROPERTY FUND LIMITED

Report on the Interim Financial Statements

We have reviewed the interim condensed financial statements ("financial statements") of DNZ Property Fund Limited ("the Group") on pages 14 to 32, which comprise the statement of financial position as at 30 September 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2011, and its financial performance and cash flows for the period ended on that date.

ACCOUNTANTS' RESPONSIBILITY

We are responsible for reviewing the financial statements presented by the Directors in order to report to you 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 financial statements do not present fairly the matters to which they relate.

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 financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 September 2011 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

Other than in our capacity as accountants conducting this review we have no relationship with, or interests in, DNZ Property Fund Limited.

BASIS OF OPINION

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and 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 2011 and its financial performance and cash flows for the period ended on that date.

REVIEW OPINION

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written over a large, stylized 'P'.

CHARTERED ACCOUNTANTS, AUCKLAND
17 NOVEMBER 2011

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 bi-annual investor newsletters, the Annual and Interim Reports. 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 and newsletters, are available electronically on the Company's website and shareholders can request printed copies by contacting the Company.

Annual Meeting

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

Investor Services

Shareholders can contact the Company during normal business hours with queries about their shareholding in DNZ as detailed below:

Ph: +64 9 912 2690 or Freecall (within NZ) 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 FASTER Identification Number (FIN) to access this service.

Directory

Principal Business

Ownership and leasing of investment properties

Board of Directors

Tim Storey (Chairman)
Paul Duffy
John Harvey
Michael Stiassny
David van Schaardenburg

Registered Office

DNZ Property Fund Limited
Level 2
80 Greys Avenue
AUCKLAND 1010

Registrar

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92119
Victoria Street West
AUCKLAND 1142

Ph: +64 9 488 8777
Email: dnz@computershare.co.nz

Solicitors

Bell Gully
Level 21, Vero Centre
48 Shortland Street
PO Box 4199
AUCKLAND 1140

Level 21
171 Featherston Street
PO Box 1291
WELLINGTON 6140

Auditors

PricewaterhouseCoopers New Zealand
188 Quay Street
Private Bag 92162
AUCKLAND 1142

Bankers

ANZ National Bank Limited
Commonwealth Bank of Australia
Bank of New Zealand

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

DNZ

Property Fund

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One entity **One vision** 