

14 April 2010

DNZ PROPERTY GROUP LIMITED

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Holder No:

Dear Shareholder,

It has been some time since we have been able to give you an update on plans for the future of your company.

Since December the Board has had two goals: managing our existing business, including the day to day management of the property portfolio; and monitoring our debt levels, including reconsidering our capital management strategy to advance the best interests of the company and its shareholders.

The business continues to perform strongly, although the current uncertainties do provide challenges to management. The thinking around our capital management strategy has been reviewed by the directors and we have a preferred path forward. But we have not reached a position with the various interest groups, particularly MMG, where the directors can be satisfied there is sufficient support for its implementation.

The purpose of this letter is to:

- Update you on director changes
- Inform you on the status of our discussions with various parties including MMG Advisory Partners and the Money Managers Action Group representatives
- Provide information about the Special Meeting to be held at 10am on Wednesday 12 May, 2010 at Ellerslie Racecourse, Auckland, where we will consider various matters including the election of two further directors to the board
- Update you on the Board's views of the options available to DNZ, ahead of the Special Meeting
- Provide you with the schedule for a series of Shareholder Briefings being held prior to the Special Meeting.

Update on Director Changes

There have been a number of changes to the Board in recent months.

- Mark Hopkinson and Simon Botherway resigned following the deferral of the capital raising and listing.
- Alastair Hasell has resigned, as was previously indicated in November, and will be an alternate director for Paul Duffy.
- John Harvey has been appointed as a "B shareholder" director, leaving room for the Group A shareholders to appoint an additional two directors.
- Michael Stiassny has been appointed as a "B shareholder" director. He is a very experienced independent director and will be of considerable benefit to the Board.

The current Board is Tim Storey (Chairman), John Harvey and Michael Stiassny who are independent directors and Paul Duffy is an executive director. This reflects the desire to have an independent and professional core director group that continues to govern DNZ until the way forward becomes clear.

Shareholders will also have the opportunity to appoint two new directors at the Special Meeting in May.

Biographies of John Harvey and Michael Stiassny are included at the end of this letter.

Discussions with MMG Advisory Partners (MMG)

Shareholders will be aware the actions of MMG (MMG states it advises and represents a large number of shareholders in DNZ) were a factor leading to the directors' decision to withdraw the November Offer. Since that withdrawal the Board has been in discussions with MMG to try to agree a way forward that works for all parties.

This has included, following detailed input from MMG, engaging an additional independent valuer (Deloitte) to provide another valuation of the Management Contract and requesting PricewaterhouseCoopers to further review the options available to DNZ. Waiting for those reports meant the Board delayed the shareholder meeting (with the agreement of MMG) to elect new A shareholder directors and consider other resolutions. Our expectation was that an agreed position would be found for your consideration.

While the Board had hoped to clarify and agree the best way forward with MMG, this has not yet been achieved despite four months of discussions. As a result the Board has decided it is best to hold the shareholder meeting requested by MMG while continuing discussions with MMG and other interested parties.

This failure to reach an agreement with MMG by now is a disappointing outcome as the Board genuinely believed we could reach consensus in a timely fashion.

Discussions with Money Managers Action Group (MMAG)

The Board received a communication from the MMAG in early March in which they nominated two of their representatives, Peter Bruce and Peter Fletcher, to stand for election as directors at the Special Meeting. The Board met with MMAG to brief them on the status of events and to discuss the options going forward.

MMAG will stand two director candidates at the Special Meeting in May.

Key Issues Facing DNZ

The key issues facing the company are the same as they were in November and include:

| | |
|------------------------|--|
| <i>Dividends</i> | Future dividend levels are uncertain due to high debt levels and likely increased borrowing costs |
| <i>Trading Volumes</i> | Low volumes of share trading on Unlisted (illiquidity- the lack of demand for or inability to trade shares) |
| <i>Share Price</i> | Low Share trading price compared to the net value of the assets of the company (referred to as Net Tangible Asset value or NTA) |
| <i>Debt Levels</i> | High debt levels (Loan to Value Ratio or LVR as measured by bank loans divided by property values) relative to listed property companies and close to our debt level maximum under the bank facility (the long term maximum debt level is 50% LVR with the ability to increase this to 60% for up to 12 months to finance property acquisitions and developments). |
| <i>Governance</i> | Legacy corporate governance and limited shareholder rights |

Over the past few months the Board has taken the prudent step to undertake a controlled programme of asset sales to address debt levels and ensure the company remains within the covenants required under its bank facility. The total sale proceeds of \$44,700,000 is near the combined 31 December 2009

valuations for these properties, and represents an excellent result given the difficult circumstances and uncertainty in the commercial property market at the moment.

Options Available to DNZ

The main options available to DNZ, and considered for assessment by the directors ahead of the Special Meeting, include:

- Status Quo - Staying as we are and selling some of our assets to manage our debt
- Liquidation - Selling the entire property portfolio and distributing the net proceeds to our shareholders after meeting all debts and costs of the company
- NZSX Listing Only - Terminating / internalising the current Manager arrangements via debt and/or new equity and then listing the company
- NZSX Listing and Capital Raise - Capital raising and a listing on the New Zealand Stock Exchange (NZSX) with internalisation of the Management Agreement. Details of this option are:
 - Asset sales: \$70 – 80 million of asset sales
 - Capital Raising and Stock Exchange Listing: A capital raising to be undertaken as a pro-rata entitlement offer. This enables shareholders to subscribe for new shares at a more attractive price than other investors and avoid dilution arising from the offer. Shareholders who do not subscribe will be paid (in cash without brokerage costs) the amount of any premium achieved for the new shares when sold to other investors. The size of the capital raising would be set to raise approximately \$60-65m for debt reduction and costs of the raise plus the issue of additional shares on top of this to fund the costs of the management agreement internalisation.
 - Management Agreement Internalisation: The amount to be paid is to be negotiated between the Manager and the independent directors of the Board
 - Enhanced Governance: Once listed on the NZX there will be one class of shareholder, an NZX compliant Constitution and a Board comprised of professional directors
 - Reduced debt levels: A reduction in company debt levels from 48% to 34%-36% through the \$80 million assets sale programme and capital raising
 - A new dividend policy providing stable and the potential for increased shareholder distributions over time

Below is a table setting out an analysis of the various alternatives considered by the Board and reviewed by the independent expert PricewaterhouseCoopers.

| Review of Alternatives | NZSX Listing & Capital Raise | NZSX Listing Only | Liquidation |
|--|------------------------------|-------------------|-------------|
| Dividend Level/Sustainability | ✓ | ✗ | ✗ |
| Share Trading Volume (Liquidity) | ✓ | ✓ | ✗ |
| Reducing the Share Price Discount to NTA | ✓ | ✗ | ✓ |
| Debt Levels | ✓ | ✗ | ✓ |
| Improved Corporate Governance | ✓ | ✓ | ✗ |

We know many shareholders have different views and the shareholder briefings will be a chance to share those views with your Board as well as asking questions around Company performance and the alternative paths forward for DNZ in advance of the Special Meeting.

The directors are of the view that, given all the information currently available to them, a capital raising and listing on the NZX is the best option for the long term if shareholders want the opportunity to unlock the value in their shares, want to create stronger governance, a structure where all shareholders are equal and create the opportunity for a sustainable long-term dividend policy. The independent expert PricewaterhouseCoopers has also recommended the NZX listing and capital raising strategy "offers DNZ and its existing Shareholders a superior way forward" and the Board agrees with their view.

Shareholder Briefings

A series of Shareholder Briefings will be held ahead of the Special Meeting and the dates and locations are attached.

These briefings will cover our usual discussion around the performance of the property portfolio, including leasing, capital works and projects as well as the status of the banking facility and further information about the company's options. Board representatives will be available to discuss the options with you and listen to shareholder feedback. The briefings will also provide an opportunity for director candidates to present to shareholders. Please confirm your attendance by calling Computershare Investor Services on 0800 151 251 or email dnz@computershare.co.nz.

Special Meeting

A Special Meeting will be held at:

**10:00 a.m. on Wednesday 12 May 2010, Ellerslie Events Centre
Ellerslie Racecourse, 80 - 100 Ascot Ave, Greenlane, Auckland.**

A formal Notice of Meeting will be sent to all shareholders shortly. We have offered all director nominees the opportunity to include their views and additional information in this notice pack. Four people (Peter Bruce, Peter Fletcher, David van Schaardenburg and Derek Young currently have put themselves forward for the two vacant director positions to be voted on by the Group A shareholders. If there are any further nominations, please advise the company as a matter of urgency in order to be dealt with in the Notice of Meeting that will be sent to shareholders very shortly.

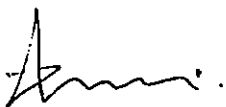
PricewaterhouseCoopers Independent Report

A summary of the independent report is being prepared by PricewaterhouseCoopers and will be sent to shareholders with the Notice of Meeting. For those who wish to look into the much greater detail contained in the full independent report, call **0800 436 776** or email investor@dnzproperty.com to have a hard copy sent to you.

In Summary

Following a very detailed review and assessment, the Board is clear on a path for your company going forward and the best independent advice supports this. However, we are very focussed on engaging with you, our shareholders, to understand and take into account your views. Shareholders should be assured that DNZ is still a sound business. The Board will be able to update you on the company's performance at the Shareholder Briefings.

Yours faithfully
DNZ Property Fund Limited



Tim Storey
Chairman

Investor Briefing Schedule

| Date | Time | Location | Venue |
|--------------------------|------------|-------------------|--|
| Monday, 26 April 2010 | 5:00 p.m. | Invercargill | Ascot Park Hotel, Tay Street, Invercargill |
| Tuesday, 27 April 2010 | 9:00 a.m. | Dunedin | Cargills Hotel, 678 George Street, Dunedin |
| Tuesday, 27 April 2010 | 3:00 p.m. | Christchurch | Millennium 14 Cathedral Square, Christchurch |
| Wednesday, 28 April 2010 | 10:00 a.m. | Nelson | Rutherford Hotel Trafalgar Square, Nelson |
| Wednesday, 28 April 2010 | 3:30 p.m. | Wellington | Westpac Stadium, Waterloo Quay, Wellington |
| Thursday, 29 April 2010 | 10:00 a.m. | Palmerston North | Convention Centre, 400 Main Street West |
| Thursday, 29 April 2010 | 4:00 p.m. | Napier / Hastings | Taradale Town Hall, cnr Lee & Meeanee Roads, Taradale |
| Friday, 30 April 2010 | 10:00 a.m. | Whangarei | Kingsgate Hotel, 9 Riverside Dr |
| Monday, 3 May 2010 | 10:00 a.m. | Hamilton | Te Rapa Racecourse, Entrance off Garnett Ave |
| Monday, 3 May 2010 | 3:00 p.m. | Tauranga | Bureta Park Motor Inn, Vale Street, Otumoetai |
| Tuesday, 4 May 2010 | 10:00 a.m. | Auckland | Ellerslie Racecourse, 80 - 100 Ascot Ave, Greenlane |

Director's Biographies

E. JOHN HARVEY - B.Com

John has over 35 year's professional experience as a chartered accountant. He was a partner in PricewaterhouseCoopers from 1986. As a partner he held a number of management and governance responsibilities for PwC in New Zealand, including the position of Auckland Managing Partner from 1998 to 2006. John retired from PwC in June 2009 to pursue a career as a director.

Throughout his career as an Assurance Partner John has provided advice on financial reporting, information systems, business evaluations, cost effectiveness reviews, acquisitions and takeovers, debt raising and new IPO's including prospectus preparation. He has extensive experience in Audit Committees and Boards generally providing advice and assistance in the area of corporate governance. His experience spans a range of industries including Retail, Technology, Entertainment, Forestry, Financial Services, Infrastructure and Construction.

John holds a Bachelor of Commerce degree from the University of Canterbury. He is a member of the Institute of Directors of New Zealand and is currently a director of Port Otago Limited, New Zealand Opera Limited, Kathmandu Holdings Limited and MARAC Finance Limited.

MICHAEL STIASSNY - CA, B.Com, LLB, F.InstD

Michael Stiassny has widespread experience in all matters financial. Michael is the senior partner of KordaMentha in New Zealand - a chartered accountancy firm specialising in financial consulting work. He is currently chairman of Vector Ltd and The New Zealand Racing Board, as well as a director of a number of public and private companies.

Michael is Fellow of Institute of Directors (FinstD) and Council Member of Institute of Directors in New Zealand Inc.