

To Every DNZ Shareholder

There are currently no Directors on the DNZ Board that **represent us** - the group A shareholders of DNZ.

A vote is being held to elect two people to represent **our** interests. You have a choice as there are three candidates for the two positions.

Two, Peter Fletcher and Peter Bruce, have been nominated by the Money Managers Action Group¹. The other, David van Schaardenburg, is an employee of NZ Funds, a part owner of MMG, as Money Managers now call themselves.

So how to decide?

	Money Managers Action Group Candidates	MMG's Candidate
Personal shareholding	<ul style="list-style-type: none"> Both have personal savings invested in DNZ 	<ul style="list-style-type: none"> No record of having personal money invested in DNZ
Reason for standing	<ul style="list-style-type: none"> Determined to ensure shareholders' best interests are reflected in all decisions 	<ul style="list-style-type: none"> ?
Potential bias	<ul style="list-style-type: none"> Determined to develop a solution that preserves as much shareholder value as possible. Responsible only to you, the other shareholders 	<ul style="list-style-type: none"> Working for interests associated with Gerald Siddall and Russell Tills, two individuals who profited from the First Step Investment scheme

By now you should have received a postal voting paper – please consider the issues carefully, and cast your vote for the candidates you think will best represent you and your interests.

To ensure A-class shareholders have a genuine voice on the DNZ board, vote for

- Peter Fletcher
- Peter Bruce

Come and meet them at a shareholder meeting when it is held near you soon. Read more about the candidates, or discuss DNZ's future direction, at:

www.moneymanagersactiongroup.org.nz



Peter Fletcher



Peter Bruce

¹ More information on the Money Managers Action Group is provided at the end of this letter.

Our Views on How DNZ Should Proceed

It is very clear to us what the issues are in relation to DNZ.

The debt level

Is perilously close to the limit. It will only require a small drop in property values for the banking covenant to be breached. At the very least, that would see the company's borrowing costs increase sharply. To avoid this, DNZ must either reduce debt, or find fresh investors.

Dividends

Have dropped, and show no sign of improving. However, selling off assets would only further reduce cashflow, and the company's ability to pay dividends.

The share price

Shares are currently trading at \$0.70~0.75 (in incredibly small numbers). Without resolving the company's inherent problems there is no prospect of the share price rising toward its Net Tangible Asset value of around \$2 per share

Ability to sell the shares

At the moment we are as good as stuck with our shares. Until the shares are listed on the New Zealand sharemarket, with the company's underlying problems sorted, there will be no real market for our shares, nor appetite for people to invest in the company.

The management contract

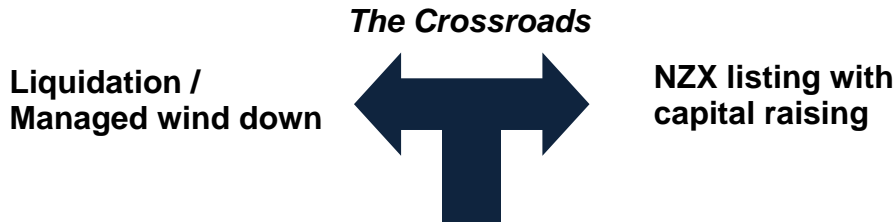
Is far too generous, and will be costly to buy out. However, buying out the contract is the only way to put a stop to the present situation, and begin to build a company that provides investors with a worthwhile proposition.

The company constitution

The A & B share structure clearly benefits the B share holders, who are also the owners of the management contract. The company cannot list without removing this unfair structure. But no change to this structure is possible without also addressing the management contract.

So how do we want to change things?

DNZ is truly at a crossroads. It cannot reasonably remain as it is. The company is undercapitalized in the present market. Banks will soon demand higher interest rates, which will progressively eat into the money available to pay investors. With no market for the shares, investors are forced to watch as the value of their savings diminishes.



To summarise our view

	Liquidation / Wind Down	NZX Listing with Capital Raising
Debt Level %	Slowly addressed	Resolved quickly
Dividend	Probably cease	Should recover over time
Share price	Not applicable	Should improve over time
Ability to sell shares	No real opportunity to exit	Traded on an active market
Management Contract	Entitled to claim as a creditor before any payments to shareholders	Will need to be bought out
Company Constitution	Not addressed	Resolved
Practicality	Legally difficult, will require a High Court winding up order	Should proceed relatively smoothly
Time to exit company if desired	3-5 years, when liquidation finalized	6 months, when float happens
Preferred		<input checked="" type="checkbox"/>

Is Liquidation a good option?

We have noted that by far the majority of comments left on the Action Group website are in favour liquidating DNZ in an orderly way. Initially, we shared that view.

BUT

The last valuation of DNZ's assets showed a drop in value of about \$70m on the previous year. Selling now would cement in those losses.

The property market is flat, just look at the number of shops and offices available for rent in the city. There are more sellers of buildings than buyers, so it is probable that another 15 properties hitting the market for each of the next 4 years would see the prices drop further. We would have to expect at least a 10% discount on the current valuations or a further loss of \$70m as a minimum.

The banks are going to want their money back first. This is because the loans are not against individual properties but against all the assets. This means it would be perhaps two years before the shareholders see any repayments coming their way.

The banks will want to be paid in full. Shareholders will have to accept all losses and expenses resulting from the sale process.

If it is even possible to have the company liquidated without agreement from the management company, the issue of the management contract would still have to be addressed. It is certain the owners of the management contract would want compensation. They may or may not be successful in their claim, but it would take years to resolve and cost a fortune in legal fees, which shareholders will again have to pay for. Sufficient money to cover possible compensation (perhaps \$50m) will have to be set aside until the matter is resolved.

Is a Managed Wind Down (as proposed by MMG) a good option?

No. The market conditions that make liquidation a poor choice also mean a managed wind down is unlikely to be the best option for investors.

In 2006 Money Managers recommended a managed wind down of First Step as being in investors best interests. That has turned out badly. The only people to have profited from the decision have been Money Managers/MMG, who have received fees through the years since the funds were frozen.

There is no economic case for a managed wind-down. DNZ would be transformed from a reasonable company with some problems into a basket case. Its best assets would be sold first, leaving the lower performing, less saleable, properties to fund a greatly diminished dividend.

And investors would have no market to sell their shares and no prospect of a terminal payment for years.

NZX Listing with capital raising – our preferred option

The first step towards improving DNZ's balance sheet, and restoring some real value to our investment, is making the shares more attractive to new investors. That doesn't mean depressing the price even more, it means restructuring the company so that canny investors can see that it has growth potential and that it can pay good dividends. The share price goes up in response to buyer demand.

This is going to mean some pain at the start, thanks to the need to buy out the management contract before we proceed with this option. We are advised that there is no way this contract can be legally broken. It will have to be purchased if we want to reduce the cost of managing the properties. This is a bitter pill to swallow and we are not even going to try to justify it. We don't like it either. However, we are stuck with it and we have to manage our way out of it.

Internalising the management contract is estimated to generate about \$3.5 to \$4 million additional revenue a year. So, while the up-front cost is staggering, it will pay for itself over time.

With the management contract and A & B share structure out of the way, the company can be listed on the NZX, making it easier to trade. This is expected to lead to an improvement in the share price. It also means that new money can be attracted into the company that will be used to address the debt level.

All this means, in time, share holders who want to exit can do so at something approaching fair value and those who want to remain as investors can expect better dividend returns and capital growth as the company recovers from the restructure and the economy eases out of the recession.

Some unpalatable choices will need to be made along the way, and following the shareholder meetings we expect to lobby for more changes before any plan is implemented.

Ultimately though, we are convinced the revised plan to float on the NZX with capital raising is in all of our best interests.

Important note:

In preparing this letter, we consulted with the Board and its advisors, as well as carrying out our own independent research. The conclusions and opinions expressed are our own.

It is for each of us to make up our own minds on these issues (we are definitely NOT financial advisors) so, if you are uncertain of what is best for you we strongly advise you seek **independent** advice from an accountant, lawyer, or suitably qualified family member or friend.

You should be careful of advice you receive from MMG representatives because, in promoting their own candidates, they are unable to be truly independent.

About Money Managers Action Group:

We are an organization set up for investors who have suffered financial losses as a result of investing in schemes promoted by Money Managers.

As a Group we are investigating where customer's retirement money was invested, inquiring whether it was in accordance with promises made by sales agents and pressing for recompense where a suitable case can be established.

By joining the Action Group members share a common purpose, and can draw on each others experience to find the best way to address their own individual situation.

It is free to join the group.

Find out more by visiting our website www.moneymanagersactiongroup.org.nz