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28 October 2005

Mr Stephen Costley  
General Manager  
AMP Property Portfolio  
Level 14  
171 Featherston Street  
Wellington

By Courier

Dear Mr Costley

**AMP Property Portfolio Investments Limited (“AMP Property Portfolio”)  
Takeover Offer for Capital Properties New Zealand Limited (“Capital Properties”)**

The independent directors of Capital Properties (“Independent Directors”) have reviewed the various statements and comments made in your open letter of 21 October 2005 and respond as follows. This letter is also an open letter and, as such, has been released to NZX.

1. The affirmations set out in paragraph 17(c) of section 2 of the Capital Properties Target Company Statement dated 7 October 2005 (“Target Company Statement”) remain valid. There has been no material change in Capital Properties' financial position or prospects.
2. The following statement on page 21 of the Deloitte independent advisers report in section 3 of the Target Company Statement (“Deloitte Report”) remains valid:

“Dividends in 2006 are projected to increase to 10 cents per share, and further projected to increase to 11 cents per share in 2007.”
3. The statement in the Sunday Star Times of 16 October 2005 attributed to Mr Frankham, that Capital Properties was “looking at whether or not it is appropriate for us to release further forecasts” was in response to a suggestion that Capital Properties was under pressure to increase its dividends. Having considered this suggestion, the Independent Directors are of the view that there is no need to release further forecast material.

4. The Independent Directors are, however, concerned to correct any misinformation in the market about a 'revenue hole' for Capital Properties. A review of analysts' projections has been completed and it has been observed that there is a divergence of views with respect to Capital Properties' 2008 revenues and earnings. The Independent Directors consider that those analysts whose projections support the continuity of the level of the 2007 dividend through into 2008 are making a reasonable assessment .
5. We agree that the Capital Properties share price has outperformed the market. We believe that the main two factors behind this are the increase in net tangible assets per share ("NTA"), together with a general market re-rating of Capital Properties to recognise the increased potential for earnings growth. NTA is derived from the underlying value of the property portfolio as independently quantified by professional valuers in the course of portfolio revaluations. The Deloitte Report identifies that the increase in the value of the property portfolio has been driven by an increase in market and contract rents and a reduction in capitalisation rates. It also identifies the potential for income growth.
6. Many factors cause share prices to fluctuate. We do not see much point in debating likely short term movements in the Capital Properties share price.
7. Deloitte are independent advisers, appointed by the Independent Directors in accordance with the Takeovers Code, and approved by the Takeovers Panel. They had access to material information concerning Capital Properties and its prospects and were well placed to independently assess the fair value of the company's shares for the benefit of shareholders considering the AMP Property Portfolio takeover offer. In their role as independent advisers under the Takeovers Code Deloitte acted independently in their professional capacity.
8. Capital Properties is not highly geared and no further equity capital is presently required. Should certain new developments be undertaken then this will give rise to funding requirements, which may include equity capital raising. This is identified in the Deloitte report.
9. Deloitte also correctly identified that the Defence House refurbishment proposal and the Vogel and Bowen integrated campus proposals are not committed developments. Board approval will be required before they proceed, which will involve consideration of material factors such as investment returns, strategic objectives and funding requirements.
10. The property valuations prepared by independent valuers and referred to in the Target Company Statement provide appropriate disclosure of the valuation assumptions and methodologies used and are available for review as required under the Takeovers Code. Capital Properties has obtained an exemption from the Takeovers Panel to allow certain commercially sensitive tenancy information to be withheld. This is entirely appropriate, as release of the specific tenancy information could compromise Capital Properties' commercial position.
11. The implementation of international financial reporting standards will give rise to different financial reporting and presentation bases for Capital Properties and other property investment companies. However, there will be no resultant change to the underlying economic situation of Capital Properties.
12. The Deloitte Report set out why Deloitte believed a discounted cashflow analysis was the most appropriate and robust approach in determining the fair value range for Capital Properties' shares. As such, Deloitte's valuation takes into account the medium to long term earnings growth prospects for the company. The 1-2 year gross dividend yield comparison you are promoting fails to take into account these growth prospects fully. We note the comment made by financial journalist Brian Gaynor in

the NZ Herald on 15 October 2005, that other independent adviser reports for property company takeovers have not relied on a yield analysis. Indeed, Capital Properties' shares may be accorded a low yield relative to other listed property entities by reason of Capital Properties' expected growth prospects, its government sector tenants and the fact that income and asset growth are not subject to the burden of management fees paid to external managers.

The Independent Directors believe the concerns you have expressed about the relevance and validity of Capital Properties' public information are unfounded. The Target Company Statement appropriately incorporates material information reasonably required for shareholders to consider the merits of the AMP Property Portfolio offer. The Independent Directors are well aware of their obligations to comply with the NZSX listing rules and the Takeovers Code.

Yours sincerely

A handwritten signature in black ink, appearing to read "AN Frankham", is written over a thin red horizontal line.

AN Frankham  
Chairman  
Independent Directors' Committee  
Capital Properties New Zealand Limited