

20 July 2010

The Manager
Company Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
Sydney NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

**Pelorus Property Group Limited
Letter to Shareholders**

In accordance with the ASX Listing Rules, attached is a copy of a letter to shareholders for release to the market.

Yours sincerely



David Sellin
Company Secretary

20 July 2010

Dear Shareholder

GROUP SPLIT & RESTRUCTURE

Four years ago this month Pelorus Property Group was listed on the ASX with net tangible assets of \$22.5 million and a market capitalisation of \$46 million. Since then our net tangible assets have grown 5 fold to around \$115 million yet our market capitalisation sits at less than \$50 million.

Our funds under management have grown from \$150 million to over \$500 million and Pelorus now has real estate holdings worth more than \$220 million. In addition we have acquired interests in a number of assets and businesses that have little or no value ascribed to them but have the potential to create significant value over time.

Pelorus exceeded its prospectus forecast by 58% in its first year as a public company and has remained profitable throughout. For the 2010 year we expect our operating profit to be around \$5.5 million. Asset revaluations currently being undertaken will impact on the final reported numbers but we expect the net impact to be positive, as most assets have already had GFC write-downs.

Although Pelorus is still relatively small it is complex and a number of our assets are not well suited to the reporting regime of a listed public company. It also must be conceded that the opportunistic, risk taking, parts of our business do not sit comfortably with our more conservative, process driven, funds management and property consultancy activities. For this reason we have decided to put a proposition to shareholders that Pelorus be split into its functional parts.

In effect Pelorus has three distinct components:

1. **Funds Management and Property Services** - This business now has \$500 million of property and debt funds under management and manages more than \$550 million of real estate with a rent role exceeding \$50 million per annum.

In addition to our 9 unlisted funds we are structuring a new listed REIT. Our plan is to vend a number of Pelorus assets in to the REIT in return for units in the REIT.

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- 2. The Bakehouse Quarter** – Over the past four years gross revenue at the Bakehouse Quarter has doubled from \$6 million pa to \$12 million pa and we expect further growth in the years ahead. The Bakehouse Quarter is surrounded by large-scale commercial development projects and we believe it will benefit from the increased intensity of commercial activity in the area. In addition discussions with the NSW Department of Planning and Canada Bay Council lead us to believe that there will be a substantial uplift in the permitted development scale at the Bakehouse Quarter but we also expect the introduction of some form of heritage control. These processes take time and, in the current market, suburban commercial office development is economically marginal at best. A level of patience will be required if we are to get the best out of this opportunity.

The Bakehouse Quarter currently dominates the Pelorus balance sheet and tends to overshadow the group's other businesses and assets. Being a development site it also generates a low return on capital before asset appreciation and all earnings surpluses are required for further capital expenditure.

The Bakehouse Quarter Fund was originally listed on the ASX and traded at a substantial discount to NTA and that pattern has continued in the merged Pelorus structure. We have now resolved that this is an asset that is best managed in a private structure and we will put such a proposal to shareholders.

- 3. Pelorus Private Equity** – There is a side to our business culture that is counter-cyclical, opportunistic and, some would say, aggressive. This has resulted in Pelorus accumulating a mixed bag of businesses and property remnants that are difficult to value and are not well suited to the public reporting regime. Our plan is to convert these assets into a counter-cyclical private equity risk fund.

We are currently in the process of having all Pelorus Group assets valued and our plan is to put a proposal to shareholders at our next AGM to split off the funds management business into a separate listed vehicle, sell certain property assets in to the new REIT, privatise the Bakehouse Quarter and form a new Pelorus Private Equity Fund. Our plan is to offer all shareholders the opportunity to choose the mix of these assets best suited to individual risk appetites and investment horizons.

As always, my colleagues and I invite all shareholders to email or call us with any queries or concerns.

Seph Glew
Executive Chairman