Independent Adviser's Report

in relation to a full takeover offer for St John Balanced Property Fund Limited

September 2013

KordaMentha confirms that it:

(a) has no conflict of interest that could affect its ability to provide an unbiased report; and

(b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

KordaMentha has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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Glossary of key terms

450 Queen Street	A commercial property located at 450 Queen Street, Auckland City
Budget	St John's budget for the year ending 31 March 2014
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
FY	Financial year
JLL	Jones Lang LaSalle
LPVs	Listed property vehicles
NTA	Net tangible assets
NZX Main Board	The market on which most New Zealand based LPVs are traded
the Offer	Full takeover offer by Rockport LP for 100% of St John at an offer price of $2.50 per share in cash
P/NTA	Price as a multiple of net tangible assets
R&M	Repairs and maintenance
the Report	This independent adviser's report
Rockport LP	Rockport Holdings Limited Partnership
St John or the Company	St John Balanced Property Fund Limited (or its wholly owned subsidiary St John Whangarei Limited)
Cambridge or the Manager	Cambridge Asset Management Limited (the manager of St John Whangarei Limited)
Unlisted	The market on which St John's shares are traded
VWAP	Volume weighted average price
WALT	Weighted average lease term
YTD14	Financial year-to-date for the four months ended 31 July 2013

1 Introduction

St John Balanced Property Fund Limited, via its subsidiary St John Whangarei Limited (both referred to as 'St John' or 'the Company'), owns a single commercial property located at 450 Queen Street, Auckland City ('450 Queen Street'). St John is a property investment company listed on the online trading facility 'Unlisted.co.nz'.

On 12 September 2013, Rockport Holdings Limited Partnership ('Rockport LP') announced its intention to make a full takeover offer for 100% of St John at an offer price of $2.50 per share in cash ('the Offer').

St John has appointed KordaMentha to prepare an independent adviser's report on the Offer in accordance with Rule 21 of the Takeovers Code ('the Report'). Our appointment, as being independent for the purpose of the Takeovers Code, was subsequently approved by the Takeovers Panel.

The Report has been prepared to assist St John shareholders to consider the merits of the Offer.

1.1 Background to the Offer

On 12 September 2013, Rockport LP announced its intention to make a cash offer for 100% of St John, including all of the ordinary shares in St John ('St John Shares'). The consideration offered for each St John Share is $2.50 in cash.

Rockport LP is a limited partnership registered under the Limited Partnerships Act 2008. The General Partner is Rockport GP Limited, which is responsible for the management and controls of the affairs of Rockport LP. The board of directors of the General Partner currently comprise four directors, John Gosney; Terence Gould; Ken Healy; and Ross Healy. Immediately prior to the Offer, Rockport LP directly or indirectly owned approximately 78.3% of the St John Shares. Messrs John Gosney and Ross Healy are also directors of St John.

1.2 Offer terms and conditions

The Offer is conditional on Rockport LP receiving sufficient acceptances that would result in it holding or controlling more than 90% of the voting rights in St John. At paragraph 5.1 of the Offer, it says this condition cannot be waived by Rockport LP.

1.3 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this Report.

This Report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of the Report.

References to '$' are to New Zealand dollars, unless specified otherwise. References to years, financial years or 'FY' mean St John's financial year end 31 March unless specified otherwise. Please note tables may not add due to rounding.

2 Merits of the Offer

The Takeovers Code requires the independent adviser to form an opinion as to the merits of the Offer and in doing so to take into consideration issues wider than just our valuation. In this section we consider the fundamentals of St John; pricing and valuation; potential outcomes of the Offer; and the likelihood of alternative offers.

The term ‘merits’ has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term ‘merit’, it suggests that merits include both positives and negatives in respect of an offer.

2.1 St John fundamentals

St John is primarily involved in commercial property investment and leasing. St John's current portfolio comprises a single property consisting of two interlinked buildings located at 450 Queen Street, Auckland. The property occupies 4,234sqm of land, with frontages onto Queen Street, Waverly Street and Turner Street. Cambridge Asset Management Limited ('Cambridge' or ‘the Manager’) is the manager of St John's property portfolio.

450 Queen Street was constructed in two stages. The original building, which fronts Queen Street, was constructed in the 1970s. An addition, which fronts Waverly Street, was constructed in 1988. The property includes approximately 9,631 square metres of office and retail space. There is also car parking of 175 spaces in the lower levels.

The majority of St John’s lease income is generated by education and government entities. These represent relatively low risk tenants and provide surety of income for St John, at least over the term of their leases.

450 Queen Street has 98.6% occupancy and a weighted average lease term (‘WALT’) of 6.9 years (weighted by income), which compares favourably to other listed property vehicles (‘LPVs’).

St John’s current policy is to not pay any dividends and the current intention is to continue to pay no dividends in the future.

St John’s net tangible assets (‘NTA’) have increased from $1.84 per share as at 31 March 2010 to $2.72 per share as at 31 July 2013. A large portion of this increase has resulted from the Company purchasing and cancelling approximately 9.1 million of its own shares for a total cost of approximately $15.9 million.

2.2 Pricing and valuation

St John Shares have been able to be traded on the Unlisted platform since October 2009. St John's share price as a multiple of NTA ('P/NTA') has been between 0.49 and 0.68 since it began trading up to the date immediately prior to the Offer, which implies a discount to NTA of between 32% and 51%.

Prior to the Offer, the last traded price for St John Shares (on Unlisted) was $1.65 per share. Based on that share price and St John's NTA as at 31 July 2013 ($2.72 per share), St John had a P/NTA multiple of 0.61, which implies a discount to NTA of 39%.

The Offer price for St John Shares is $2.50 per share, which implies a P/NTA multiple of 0.92 and a discount to NTA of 8%.

St John's primary asset is 450 Queen Street. It also has a range of liabilities which need to be met. Table 2.1 summarises our valuation of St John.

Table 2.1: Valuation summary ($ thousand)

	Low	High
Market value of 450 Queen Street[1]	22,500	23,800
Less: net debt	(4,958)	(4,958)
Less: working capital and other liabilities	(254)	(254)
Less: disposal costs	(900)	–
Equity value	16,388	18,588
Shares on issue (thousand)	6,633	6,633
Value per share	**2.47**	**2.80**

We have assessed the value of St John in a range between $2.47 and $2.80 per share, as follows:

- **High end:** the high end is based on a high estimate of the market value for 450 Queen Street, which relies on a property valuation prepared by JLL and considers the value to a purchaser of St John (there is no allowance for disposal costs).

  The high end is equivalent to a P/NTA multiple of 1.03 (3% premium).

- **Low end:** the low end is based on a low estimate of the market value for 450 Queen Street, which relies on a property valuation prepared by JLL and considers the value to St John if it sold the property (there is an allowance for disposal costs).

  The low end is equivalent to a P/NTA multiple of 0.91 (9% discount).

We note that our estimate of St John's value is for 100% of the shares of the Company. We would not expect minority parcels of shares to necessarily trade at this level (in the absence of a takeover offer).

The Offer price of $2.50 per share is broadly equal to the low end of our valuation range.

[1] Based on a valuation prepared by Jones Lang LaSalle ('JLL') and dated 31 March 2013.

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2.3 Rockport LP's intentions

KordaMentha has had some correspondence with Rockport LP concerning its intentions for St John, which are summarised in Table 2.2.

Table 2.2: Rockport LP's intentions

Request for comment	Rockport LP's comments
Why is Rockport LP making the Offer to acquire St John?	• As the dominant shareholder Rockport LP wishes to take a more aggressive approach to investment. • Rockport LP believes St John should take advantage of low interest rates and invest in other property. We do not wish to pay dividends as we believe retained earnings can be better utilized to support additional borrowing. • Feedback from shareholders suggests they would prefer to liquidate their investment in St John rather than participate in an investment that is higher risk in that the company would have higher gearing and little or no dividends. We had previously had a good uptake of the share buyback which was instigated after shareholder feedback at the 2012 AGM. • There will be savings in not being a code company trading on the Unlisted platform (i.e. audit fees, Unlisted fees, and shareholder communication). • 100% ownership of St John will enable Rockport LP to consolidate its property investments and banking facilities.
What are Rockport LP's intentions if it does not achieve a 90% shareholding in St John?	• Rockport LP will look to invest in other property and take a more aggressive view on leverage (i.e. up to 65% LVR). • The payment of dividends would not be a priority as Rockport LP believes St John could achieve a better return on shareholder funds.
In the event there was a competing higher offer, would you consider increasing the Offer price or are you a potential seller?	• Rockport LP would not consider increasing the Offer price if there was a higher competing offer. • Rockport LP would consider a higher offer, but would not necessarily sell.
Are there any material opportunities for St John?	• For 450 Queen Street, apart from the small vacant space on level 5, the building is fully leased. • Whitirieia would like more space, however, there is unlikely to be any available space until 2015 at the earliest and it is subject to a right of renewal. • Whitirieia could lease the vacant space. However, the vacant space is only 139 square metres, so the additional income is negligible and will require new capital expenditure to get it fit for purpose.

2.4 Potential outcomes of the Offer

Rockport LP secures 90% of the St John Shares

The Offer is conditional on Rockport LP receiving sufficient acceptances that would result in it holding or controlling more than 90% of the voting rights in St John. At paragraph 5.1 of the Offer, it says this condition cannot be waived by Rockport LP.

Rockport LP already controls 78.27% of St John Shares via its existing shareholding and other St John Shares controlled by it. Therefore, for the Offer to be successful, Rockport LP requires acceptances from a further 11.73% of St John Shares out of an available 21.73%.

In the event that Rockport LP receives acceptances for 90% of the St John Shares, the Offer will be successful (unless the Offer is withdrawn with the consent of the Takeover Panel) and as a result Rockport LP will be able to control the future direction of St John.

Rockport LP says its intention is to enact the compulsory acquisition provisions under the Takeovers Code in the event it secures 90% of the St John Shares.

The Offer fails

If the Offer fails, Rockport LP will continue to be the majority shareholder in St John and have effective control of its business direction. Rockport LP has stated it does not intend St John to reinstate paying dividends. Instead, Rockport LP's intentions are to increase debt against 450 Queen Street and use that to acquire other properties.

As at 20 September 2013, 657 St John Shares have traded since the Offer was announced at a share price of $2.11 each. In the absence of actual and potential takeover speculation, the St John share price is likely to be lower than the current share price. This is broadly to be expected given share prices reflect prices for small parcels of minority shares whereas takeover offers typically include a premium for control.

In the absence of any other factors, we consider there is a real prospect that St John's share price may recede from current levels, following the Offer, in the event it fails.

2.5 Liquidity

Trading of St John Shares has historically been extremely limited. Trading in the three months prior to the announcement of the Offer is summarised in Table 2.3 and shows that approximately 0.3% of St John Shares were traded over this period.

Table 2.3: Share trading prior to 12 September 2013

	Share Price				
Period	Low	High	VWAP[2]	Cumulative volume	Percentage of issued capital
1 Week	n/a	n/a	n/a	nil	nil
1 Month	n/a	n/a	n/a	nil	nil
3 Months	1.65	1.65	1.65	23,002	0.3%

Source: unlisted.co.nz and management information

Prior to the Offer, the only material liquidity in St John Shares has been as a result of a takeover offer made by Rockport LP in 2011 at $1.20 per share and an on-market share buyback by the Company in early 2013 at $1.50 per share.

St John has historically traded at a large discount to its underlying NTA of between 32% and 51%. This appears to be due to a range of factors, including an extreme lack of liquidity for St John Shares.

In the event the Offer fails, St John Shares will continue to be illiquid.

2.6 Likelihood of Rockport LP increasing its Offer price

Rockport LP is unlikely to increase the Offer price.

We consider it possible Rockport LP will increase its Offer price if there are very few acceptances or it gets close to 90% shareholding and an increased Offer price is required to reach the 90% threshold. However, given Rockport LP already has effective control of St John and is able to increase its shareholding using the 'creep' provisions in the Takeovers Code, Rockport LP may decline to increase the Offer price even if it is close to achieving 90% acceptances.

2.7 Prospect of alternative takeover offers

Due to Rockport LP's existing shareholding in St John, any future takeover offer needs the support of Rockport LP to succeed.

We would consider it unlikely that an alternative offer would be made for St John, as any party wishing to acquire more than 20% would either require Rockport LP to sell its existing shareholding or need approval from shareholders, which could be blocked by St John.

There is no need for shareholders to accept the Rockport LP's Offer early and shareholders do not need to do anything in relation to the Rockport LP Offer until close to its closing date of 22 November 2013.

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[2] 'Volume weighted average price'

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2.8 Prospect of an investor acquiring a strategic shareholding less than 20%

It is possible, but unlikely, that an investor could acquire a strategic shareholding of less than 20% of St John. A shareholding of greater than 10% could be considered a blocking stake because it would prevent Rockport LP from achieving the 90% shareholding necessary to compulsorily acquire the Company under the Takeovers Code.

It is possible that any acquisition of a strategic shareholding could be made at a premium to the Offer price of $2.50.

2.9 Summary

Key issues to be considered when assessing the merits of the Offer include:

- St John's current policy is to pay no dividends;
- St John has historically traded at a discount to its NTA of between 32% and 51%. If the Offer fails, it is likely St John's share price will continue to trade at a discount to its NTA;
- Rockport LP's Offer price of $2.50 per share is within our valuation range. We note that this range represents our estimate of value for 100% of the Company and we would not expect minority parcels to trade at this level (in the absence of a takeover offer);
- the Offer is above St John's closing share price of $1.65 per share on 30 July 2013 (being the last day on which shares were traded prior to the Offer); and
- the key benefit of the Offer is that it offers liquidity for St John's minority shareholders, at a price approximately 52% above the price last traded in advance of the Offer, without having to incur transaction costs or open a brokerage account.

The closing date for the Offer is Friday, 22 November 2013.

Acceptance or rejection of the Offer

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

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3 Industry analysis

3.1 New Zealand listed property sector overview

New Zealand's LPVs enable investors to gain an exposure to a selection of professionally managed investment grade properties. LPVs allow investors, who may otherwise be unable to participate in investment grade properties, to gain the diversification benefits from these investment portfolios.

LPVs have traditionally been viewed as a defensive investment, combining a yield from regular distributions with the liquidity achieved from being listed.

Table 3.1 summarises the metrics for the nine LPVs which are listed on the 'NZX Main Board' and St John as at 13 September 2013.

Table 3.1: Key metrics for New Zealand based LPVs as at 13 September 2013

Entity	Market	Type	Sector	Management	P/NTA	WALT	Market Cap ($ million)
St John	Unlisted	Company	Commercial	External	0.63	6.9	11
Goodman Property	NZX	Trust	Industrial, Commercial	External	1.05	5.3	1,237
Kiwi Income Property	NZX	Trust	Retail, Commercial	External	0.98	4.3	1,112
Precinct Properties	NZX	Company	Commercial	External	1.01	5.7	1,037
Argosy Property	NZX	Company	Retail, Industrial, Commercial	Internal	1.07	5.2	738
Property for Industry	NZX	Company	Industrial	External	1.18	5.5	551
DNZ Property Fund	NZX	Company	Retail, Industrial, Commercial	Internal	1.01	5.6	477
Vital Healthcare Property	NZX	Trust	Health	External	1.36	11.8	461
NPT	NZX	Company	Retail, Industrial, Commercial	Internal	0.88	5.7	100
Augusta Capital	NZX	Company	Retail, Industrial, Commercial	Internal	1.13	4.6	65

Source: Capital IQ, NZX i-Seach, the entities' websites, financial statements and KordaMentha analysis

During the global financial crisis, LPVs listed on the NZX Main Board tended to trade at a significant discount to their NTA. However, P/NTA multiples have improved, so that the median for the LPVs listed above is 1.05 times.

LPVs traded using the Unlisted platform tend to be smaller, less diversified, their shares/units are less liquid than those listed on the NZX Main Board and tend to trade at a discount to their NTA. Several companies currently listed on the NZX Main Board were previously traded using the Unlisted platform.

The property sector and asset values within the sector are affected by a number of factors, including:

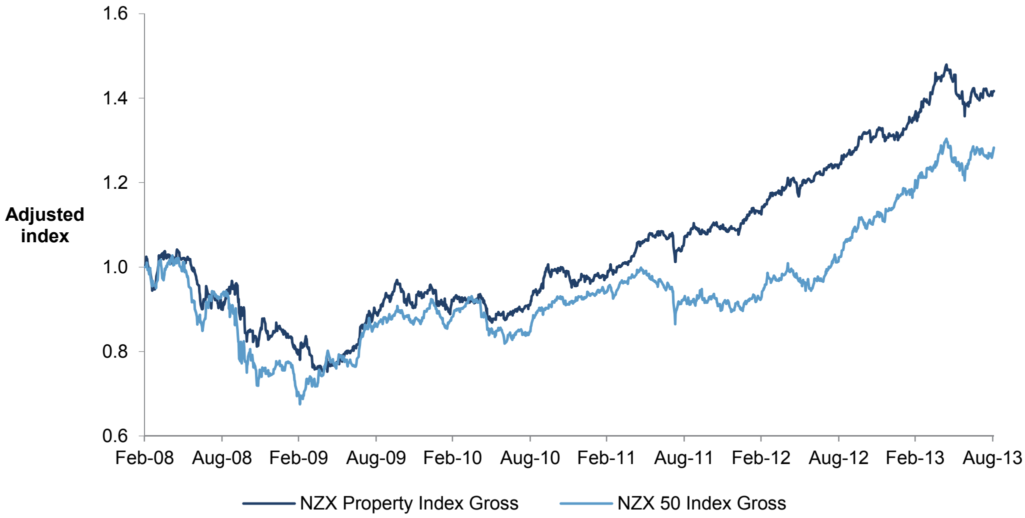
- general economic conditions;
- interest rates;
- growth in various sectors of the economy, which affect relative demand for various types of property (e.g. retail, commercial and industrial);
- the supply of new property available for lease and cost of creating new properties; and
- government and legislature.

The defensive characteristics of property, combined with vacancy levels declining to levels last seen around 2004 and a modest supply outlook have resulted in a significant increase in listed prices of LPVs. To the year-end August 2013, LPVs' gross share prices have increased by 16.5% on average.

3.2 LPVs performance

Figure 3.1 shows the performance of the LPV sector as a whole relative to the NZX 50 Index on a gross basis (i.e. assuming dividends are reinvested). Figure 3.1 uses the NZX Property Index to show the performance of the wider LPV sector (this index excludes properties traded on the Unlisted platform).

Figure 3.1: Relative gross performance of NZX Property Index and NZX 50 Index



Source: Capital IQ and KordaMentha analysis

With the exception of the six months ended 30 September 2011, the NZX Property Index and NZX 50 Index have largely tracked in line with each other since 29 February 2008.

Table 3.2 compares the performance of St John to the NZX Property Index, NZX 50 Index and Australian listed property sector over the past five years. St John has outperformed these indices over the past three years.

Table 3.2: Compound annual return up to 31 August 2013 in advance of the Offer (pre-tax)

	1 year	2 year	3 year	4 year	5 year
St John[1]	26.9%	18.5%	18.9%	9.4%	n/a
NZX Property Index	13.8%	14.9%	15.7%	12.2%	9.5%
NZX 50 Index Gross	23.8%	16.9%	14.4%	10.0%	6.3%
S&P/ASX 200 A-REIT	10.3%	12.3%	4.9%	3.6%	-7.1%

Source: Capital IQ and KordaMentha analysis

3.3 Management structures

The management of LPVs can be broken into two broad categories, externally managed and internally managed LPVs. Externally managed entities generally have no staff of their own and appoint a third party to undertake the management of the portfolio in return for management fees. Internally managed entities have staff, who manage the property portfolio and who perform the management functions.

[1] St John's compound annual return is based on reinvesting all dividends and not participating in share buybacks. St John's '4-year compound annual return' is for a period slightly less than four years and is calculated from 6 November 2009.

In the period from 2010 to early 2012, there was a strong push in the New Zealand LPV sector for the internalisation of management contracts. In this period management contracts were internalised for:

- DNZ Property Fund;
- NPT Limited;
- Argosy Property Limited; and
- Augusta Capital Limited.

Table 3.3 summarises the fee structures of the externally managed New Zealand LPVs. The table shows that the base fee charged by St John is broadly standard when compared to its listed peers. St John is the only externally managed New Zealand LPV in the group which does not pay a performance fee to the Manager.

Table 3.3: Externally managed LPVs fee structure

	Base fee		Performance fee		
Entity	**Rate**	**Based on**	**Fee basis**	**Threshold/cap**	**Paid in**
St John	0.65%	Capital value of property	Nil	n/a	n/a
Goodman Property	0.5% up to $0.5bn 0.4% thereafter	Total assets less cash and trade debtors	10% of unit holder return above threshold	NZ LPV Index (ex. GMT), capped at 5% above index	Units
Kiwi Income Property	0.55%	Average gross assets	10% of unit holder return above threshold	Total fee capped at 0.7% per annum of the gross value of the fund	Units
Precinct Properties	0.55% up to $1.0bn, 0.45% up to $1.5bn, 0.35% thereafter	Investment properties	10% of shareholder return above threshold	0.125% of market capitalisation	Cash
Property for Industry	0.7% up to $175m, 0.35% thereafter	Average gross assets	10% of shareholder return above threshold	Total shareholder return above 10%, capped at 15%	Cash
Vital	0.75%	Average gross assets	10% of average annual increase in gross assets over prior three years	Capped at 1.75% of gross assets	Units

3.4 Auckland CBD office overview

The Auckland CBD office market has tended to outperform other main centres in the past five years, this is a reflection of the positive fundamentals of business and employment for the region.

There is currently strong demand for prime Auckland CBD space, with limited supply of available space fuelling increases in prime rents. Colliers International is forecasting a net increase in prime rents of 2.5% in the next year, followed by a 5.3% in the year after.

The secondary sector for Auckland CBD property has been relatively stable over the past 12 months, with rents up approximately 1.5% from a year ago.

Table 3.4: Key metrics for Upper Queen Street area

	Contracted rents ($/m² pa)		Freehold market yields	
	Low	High	Low	High
B Grade	250	295	8.00%	10.00%
C Grade	220	250	9.25%	11.00%

Source: Colliers New Zealand CBD Office Report 2013

Despite minimal seismic activity in Auckland, seismic strength of buildings remains an important consideration in leasing office accommodation. Buildings which have a poor earthquake rating tend to lease and sell at a significant discount to otherwise comparable buildings.

4 Company profile

4.1 Overview and history

St John is primarily involved in commercial property investment and leasing. St John's current portfolio comprises a single property consisting of two interlinked buildings located at 450 Queen Street, Auckland. The property occupies 4,234sqm of land, with frontages onto Queen Street, Waverly Street and Turner Street. Cambridge is the manager of St John's property portfolio.

4.2 Manager role and functions

The Manager's role is set out in St John's property management agreement. It includes:

- keep and produce St John's accounting records, budgets and projections;
- arrange and supervise maintenance and repairs;
- arrange, supervise and control all service contracts for building services;
- control and approve letting, re-letting, assignment and subletting; and
- facilitating completion of any future property purchases by St John.

The management agreement will continue in force until:

- the Manager terminates the contract upon giving six months notice;
- 60 days following the sale or disposal of all properties owned by St John; or
- notice by either party in event of default.

Management fee

The Manager is paid an annual management fee by St John. The fee is calculated as 0.65% of the capital value of the Company's investment property assets as determined by a registered valuer. The fee is paid monthly in arrears.

Additional fees

The Manager is also entitled under the management contract to receive additional fees for work performed outside its normal duties. The Manager must first obtain the prior written approval of St John for such work. The approval is not to be unreasonably withheld where such work is for the reasonable benefit of St John.

St John does not pay performance fees to the Manager.

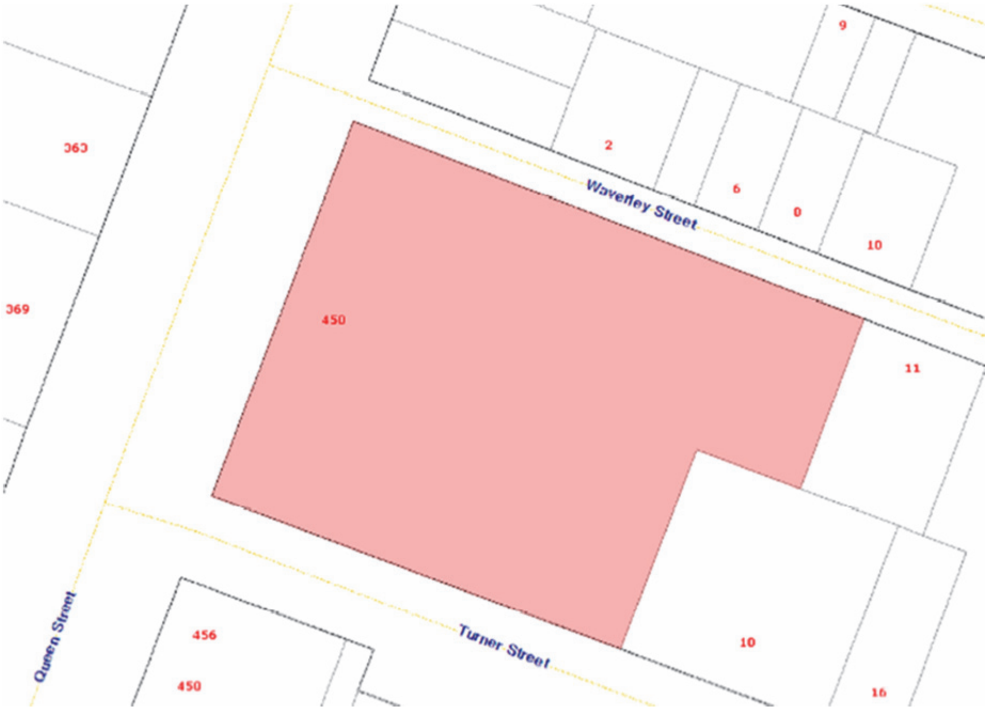
4.3 450 Queen Street

Figure 4.1 shows that 450 Queen Street occupies a prominent position towards the top of Queen Street forming the front part of a block with frontage to Waverly and Turner Streets.

450 Queen Street was constructed in two stages. The original building, which fronts Queen Street, was constructed in the 1970s. An addition, which fronts Waverly Street, was constructed in 1988. The property includes approximately 9,631 square metres of office and retail space. There is also car parking of 175 spaces in the lower levels.

The property has been recently refurbished and modernised to provide basic but tidy CBD/CBD Fringe accommodation providing for office, retail and education users. As part of the redevelopment works, the leases within the property have been renegotiated to provide for a WALT of 6.9 years[1] as at 31 August 2013.

Figure 4.1: 450 Queen Street



Source: Terraview

Table 4.1 summarises the key construction details for 450 Queen Street:

Table 4.1: Construction summary

Structure	Reinforced concrete slabs and columns construction
External walls	Combination of precast and in-situ concrete panels, alucobond cladding and glass façade
Internal walls	Predominantly plasterboard lining to lettable areas
Roof	Long run profiled metal
Ceiling	Acoustic tiles in a suspended grid system
Lighting	Predominantly recessed florescent lighting
Windows and doors	Aluminium framed single glazed windows

Source: Jones Lang LaSalle valuation report dated 31 March 2013

The Manager has advised us that there are no known significant building deficiencies.

[1] WALT can be calculated based on area or income. As at 31 August 2013, St John has a WALT of 6.9 years (by income) and 7.3 years (by area). Car parking is excluded from the 'area' based calculation of St John's WALT.

Seismic assessments have been carried out on the two interlinked buildings at 450 Queen Street. We have been advised that:

- the newer Waverley Street building has an initial evaluation procedure ('IEP') assessment demonstrating the building meets 231% of new building standard ('NBS'); and
- a detailed engineering evaluation has been carried out on the older building (fronting Queen Street) and that it meets 69% of NBS. The report estimates that it would cost $150,000 to bring the property to 80% of NBS.

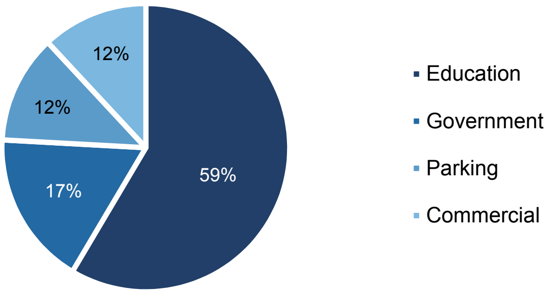
Based on the above, neither building is classified as 'earthquake-prone'.

4.4 Tenants

The building has 98.6% occupancy[1], with a small office vacancy of 139 square metres. The WALT is 6.9 years (if no rights of renewal are taken up). The occupancy and WALT of 450 Queen Street compare favourably to other New Zealand LPVs with sector average occupancy of 96.4% and WALT of 6.0 years.

Figure 4.2 shows the distribution of tenancy types at 450 Queen Street. There are two commercial tenants and one tenant for each of education, government and parking.

Figure 4.2: St John's tenant composition



Source: Management information

St John has relatively high levels of occupancy and lease terms that provide comfort around future earnings. However, because St John only has one property, it is highly dependent on a small number of tenants.

The key tenancy information is summarised in Table 4.2.

Table 4.2: Key tenancy information for 450 Queen Street as at 31 August 2013

Tenant	Tenant type	Lease expiry	Lettable area (m2)	Rights of renewal	Annual rental ($ thousand)
Whitireia Community Polytechnic	Education	31 May 2023	6,335	2x 6 years	1,436
Ministry of Social Development	Government	19 Sep 2015	2,010	3x 3 years	425
Wilson Parking NZ Limited	Parking	14 Dec 2016	n/a	2x 3 years	299
Goryeo Company Limited	Commercial	7 Jul 2017	923	2x 6 years	237
Paran IT Limited	Commercial	31 Jan 2017	223	1x 5 years	56
Vacant area	Vacant	n/a	139	n/a	n/a
Total			**9,631**		**2,453**

Source: Management information

The majority of St John's lease income is generated by education and government entities. These represent relatively low risk tenants and provide surety of income for St John, at least over the term of their leases.

[1] Occupancy rate is non-car parking areas. Car parking areas are fully leased.

4.5 Shareholders

St John currently has 6,633,210 fully paid ordinary shares on issue and approximately 135 shareholders. The 20 largest ordinary shareholders, as at 16 September 2013 are listed in Table 4.3.

Table 4.3: Top 20 Shareholders as at 16 September 2013

	Shares	Percentage
Rockport LP	5,140,348	77.5%
M Smith, K Tanner, G Tanner	343,058	5.2%
M Schofield	110,072	1.7%
Vickers Group Limited	66,746	1.0%
J Johns	64,147	1.0%
KJTR Holdings Limited	51,440	0.8%
A Schofield	33,943	0.5%
T Barr, S Barr	26,288	0.4%
J Charteris	25,164	0.4%
M Young	23,659	0.4%
J Barr, M Barr	19,716	0.3%
Investment Custodial Services Limited	18,401	0.3%
Estate of T Bourneville, P Bourneville	17,087	0.3%
C Kyle, D Elliffe	17,087	0.3%
J Stuart	17,087	0.3%
C Booth	16,430	0.2%
Forsyth Barr Custodians Limited	16,430	0.2%
J Gordon, K Gordon, M Petherick, G Curry	16,430	0.2%
M Young, J Young	15,773	0.2%
Manatu Limited	14,515	0.2%
Top 20	**6,053,821**	**91.3%**
Remaining shareholders	579,389	8.7%
Total	**6,633,210**	**100.0%**

Source: St John management

St John's substantial security holders are M Smith, K Tanner, G Tanner (together) and Rockport LP.

Table 4.3 shows St John Shares are relatively closely held. 20 shareholders control 91.3% of St John Shares and the remaining 8.7% are held by shareholders which each own less than 14,515 shares.

Trading of St John Shares over the three months prior to the announcement of the Offer is summarised in Table 4.4 and shows that approximately 0.3% of St John Shares were traded over this period. This highlights extremely low liquidity in the market for St John Shares.

Table 4.4: Share trading prior to 12 September 2013

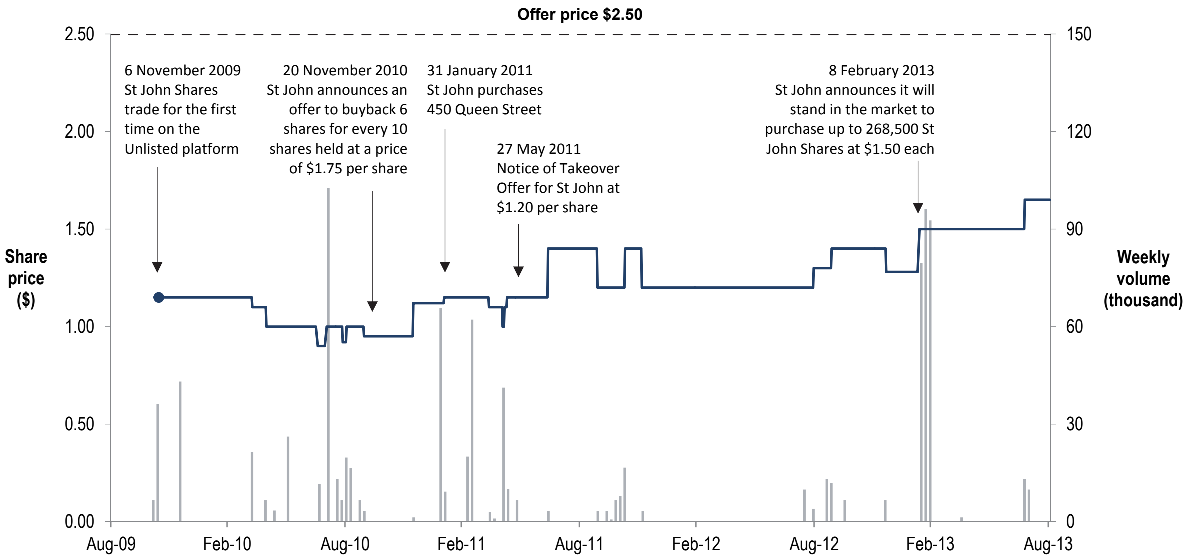
	Share Price				
Period	Low	High	VWAP	Cumulative volume	Percentage of issued capital
1 Week	n/a	n/a	n/a	nil	nil
1 Month	n/a	n/a	n/a	nil	nil
3 Months	1.65	1.65	1.65	23,002	0.3%

Source: unlisted.co.nz and management information

4.6 Share price performance

St John Shares are traded on the Unlisted platform. Figure 4.3 illustrates the share price of St John and the volumes of share trades since 31 August 2009.

Figure 4.3: St John's share price performance



Source: unlisted.co.nz. Data may exclude some transactions where a single broker is acting for the buyer and seller.

St John Shares have been able to be traded on the Unlisted platform since October 2009. The first on-market transaction was on 6 November 2009 at a price of $1.15 per share. Since then, the St John Shares have been characterised by extremely low liquidity, particularly after the first takeover offer by Rockport LP in mid-2011.

On 8 February 2013, St John announced that it would buy back up to 268,500 St John Shares at $1.50 each on the market. On 4 March 2013, following St John successfully purchasing 268,284 of its own shares, it announced it would purchase up to an additional 90,855 St John Shares at $1.50 each on the market. In total the Company purchased 355,035 St John Shares in February 2013 and March 2013. St John stated that this was to provide liquidity to shareholders.

Since Rockport LP's announcement that it intended to make a full takeover offer, 657 St John Shares traded, at a price of $2.11 per share, in the period to 20 September 2013.

Figure 4.4: Offer premium summary

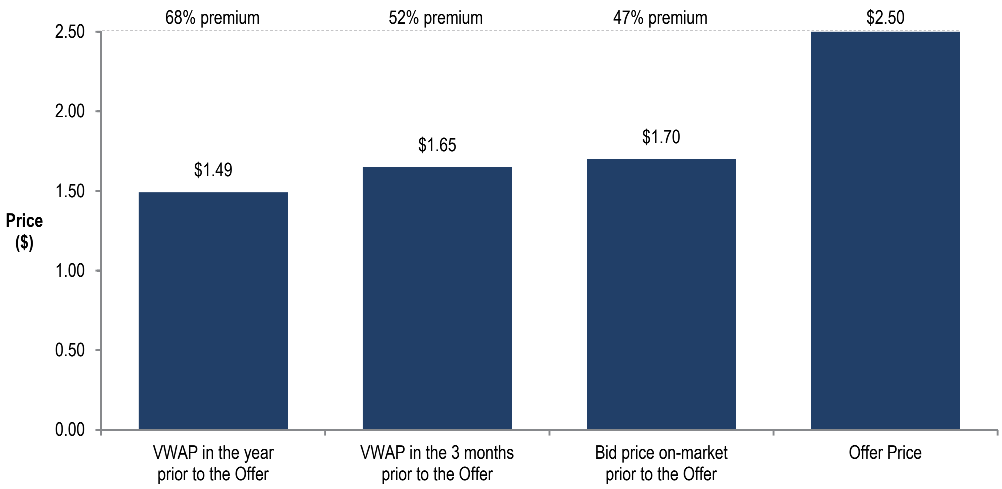


Figure 4.4 shows that the Offer Price represents a 68% premium to the volume weighted average price ('VWAP') in the one year prior to the takeover offer ($1.49). The one year VWAP is dominated by the on-market share buyback of 355,035 St John Shares at $1.50 in February 2013 and March 2013.

Table 4.4 shows that only 23,002 shares were traded in the three months prior to the Offer. The shares traded were in two transactions, both at $1.65, which is also the three month VWAP. Figure 4.4 shows that the Offer Price represents a 52% premium to the three month VWAP.

Prior to the Offer, there was an on-market bid for 40,142 St John Shares at $1.70 per share. Figure 4.4 shows that the Offer Price represents a 47% premium to the on-market bid of $1.70.

5 Financial analysis

5.1 Financial position

Table 5.1 summarises the balance sheet for St John as at the end of the financial years FY10 to FY13 and as at 31 July 2013.

Table 5.1: Group balance sheet summary ($ thousand)

	March 2010	March 2011	March 2012	March 2013	July 2013
Trade and other receivables	35	75	63	83	18
Trade and other payables	(127)	(238)	(697)	(137)	(108)
Current tax receivable/(payable)	(77)	(1,369)	(95)	(123)	27
Net working capital	**(169)**	**(1,532)**	**(729)**	**(178)**	**(63)**
450 Queen Street	–	19,500	23,000	23,250	23,255
Other investment properties	28,100	–	–	–	–
Investment properties	**28,100**	**19,500**	**23,000**	**23,250**	**23,255**
Tenant bonds	–	–	(11)	(12)	(12)
Deferred tax liabilities	(1,974)	–	(76)	(179)	(179)
Non-current liabilities	**(1,974)**	**–**	**(87)**	**(191)**	**(191)**
Net operating assets	**25,957**	**17,968**	**22,184**	**22,881**	**23,001**
Cash and cash equivalent	2,694	3,908	975	417	392
Funds held in Trust Account	–	–	–	104	–
Loans and advances	362	325	–	–	–
Term borrowings	–	(5,000)	(5,750)	(5,750)	(5,350)
Net cash/(debt)	**3,056**	**(767)**	**(4,775)**	**(5,229)**	**(4,958)**
Net tangible assets (NTA)	**29,012**	**17,201**	**17,409**	**17,652**	**18,043**
Shares on issue (thousand)	15,773	7,183	7,183	6,702	6,633
NTA/share	**1.84**	**2.39**	**2.42**	**2.63**	**2.72**

Source: Annual reports and management accounts

St John's balance sheet is a key driver of its financial performance, with investment properties determining income and management fees and debt levels determining interest costs.

Key points to note on St John's balance sheet include:

- St John has relatively low levels of net working capital requirements. Albeit, in FY11, due to St John realising financial gains which resulted from the sale of investment properties, St John had a large tax payable liability;
- St John currently owns one investment property (450 Queen Street), which it purchased in FY11;
- St John re-values its investment properties annually. Within a financial year (e.g. July 2013), investment properties value are adjusted for capitalised costs, additions and amortisation of lease incentives;
- For management reporting purposes, 450 Queen Street was valued at $23.3 million as at 31 July 2013;
- St John decreased in scale in FY11. In November 2010, St John undertook a pro rata buy back of its shares at a price of $1.75 per share at a rate of 6 shares for every 10 shares held. The buyback was funded primarily using the excess proceeds which resulted from the sale of investment properties;
- St John has subsequently repurchased shares in smaller amounts in FY13 and the four months ended 31 July 2013 ('YTD14');
- St John had bank debt of $5.4 million, offset by cash of $0.4 million, to give net debt of $5.0 million as at 31 July 2013. This represents 21% of St John's investment property and shows St John has relatively low debt levels; and
- St John had NTA of $18.0 million or $2.72 per share on issue as at 31 July 2013.

Capital expenditure

Table 5.2 below shows St John's net capital expenditure, including additions and property purchases.

Table 5.2: Capital expenditure summary ($ thousand)

	FY10	FY11	FY12	FY13
Capitalised costs on properties	–	383	2,808	31
Purchase of properties	–	14,500	–	–
Lease incentives paid to tenants	–	–	–	596
Less: Proceeds from sale of properties	(15,353)	(27,151)	–	–
Net capital expenditure	**(15,353)**	**(12,269)**	**2,808**	**627**

Source: Annual reports

St John sold down three properties throughout FY10 and FY11 for total proceeds of $42.5 million. The proceeds of these sales were used to purchase 450 Queen Street with the remainder distributed to shareholders, primarily in the form of a share buyback.

St John initially paid $14.5 million for 450 Queen Street and has subsequently capitalised $3.2 million in costs which have been incurred to improve the building.

St John also paid $0.6 million in lease incentives to Whitireia Community Polytechnic in FY13 as a result of it renewing its lease agreement in a prior period. This payment was capitalised and is being amortised over the lease term, on a straight line basis, as a reduction of rental income.

St John is currently discussing with Whitireia Community Polytechnic the possibility of it leasing the 139m^2 of vacant space. We understand that in the event that this space is leased, some capital expenditure would need to be incurred to upgrade the area.

The Manager considers that, in order to maintain 450 Queen Street, the roof needs replacing. It has received quotes for this work in the region of $350,000. Other than the roof, repairs and maintenance ('R&M') (which are expensed) would be enough to maintain the building in the medium term.

St John has previously investigated the viability of adding another floor to 450 Queen Street. Based on that investigation, it was determined that the project was uneconomic.

5.2 Financial performance

Table 5.3 shows the financial performance of St John for the four financial years ended 31 March 2013 and budgeted for the year ending 31 March 2014.

Table 5.3: Group financial performance summary ($ thousand)

	FY10	FY11	FY12	FY13	FY14
	Actual	Actual	Actual	Actual	Budget
Rental income	3,906	1,965	2,099	2,402	2,407
Property operating expenses recovered	329	77	–	–	–
Operating income	**4,235**	**2,041**	**2,099**	**2,402**	**2,407**
Management fees	(252)	(141)	(127)	(131)	(115)
Directors fees	–	–	(16)	(30)	(30)
Other operating expenses	(694)	(649)	(651)	(608)	(669)
Operating expenses	**(946)**	**(789)**	**(793)**	**(769)**	**(814)**
EBIT	**3,289**	**1,252**	**1,306**	**1,633**	**1,593**

Source: Statutory accounts and Budget

St John purchased 450 Queen Street in January 2011 and refurbished the property in late FY11 and early FY12. FY13 is the first full financial year which captures the financial performance of 450 Queen Street in its current refurbished state.

St John experienced a 14% increase in rental income in FY13. This uplift in income had a direct impact on Earnings Before Interest and Tax ('EBIT'), which increased to $1.6 million.

JLL has assessed the net market rental for 450 Queen Street to be approximately $2.56 million in FY13.

St John has prepared a budget for FY14 ('Budget'), which we have been instructed is the latest set of financial projections available and is appropriate to rely upon. FY14 financial performance is projected to be broadly similar to FY13.

The financial performance set out at Table 5.3 excludes losses on disposal of investment properties and fair value adjustments.

Funds distributed (dividends and share buybacks)

St John's current policy is to not pay any dividends. Its last dividend was 6.25 cents per share (including imputation credits) and was paid on 28 May 2012.

Table 5.4 shows that St John's primary way of distributing funds has been through the use of share capital buybacks.

St John's most recent share buyback was between November 2012 and February 2013. Some of the transactions were not completed until YTD14. This buyback consisted of:

- an offer to purchase exactly 2,629 shares from each shareholder at $1.50 per share, which led to the Company acquiring 194,536 shares; and
- an on-market share buyback of approximately 355,035 shares at $1.50 per share.

Table 5.4: Funds distributed summary ($ thousand)

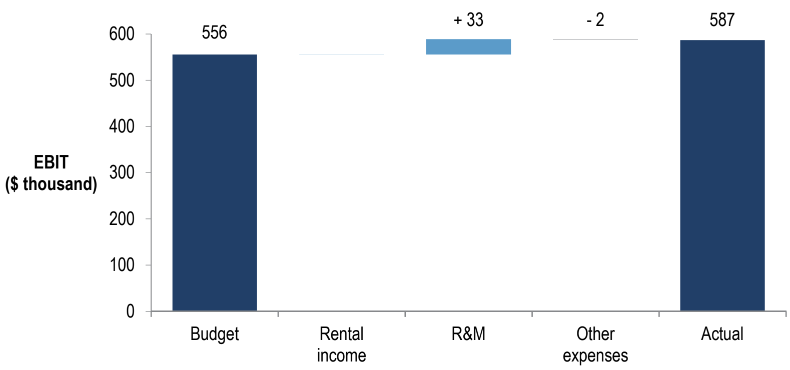
	FY11	FY12	FY13	YTD14
Dividend paid	2,129	625	314	–
Share capital buy back	15,033	–	721	104
Funds distributed	**17,162**	**625**	**1,035**	**104**

Source: Statutory accounts and management information

Year-to-date July 2013

Financial performance in YTD14 is broadly in line with budget. EBIT is approximately $31,000 higher than YTD14 Budget. Figure 5.1 shows that this change is primarily due to R&M being lower than expected.

Figure 5.1 Forecast and Budget EBIT reconciliation



Source: Management accounts and Budget

Financial projections

St John does not prepare medium to long term financial projections.

6 Valuation analysis

6.1 Valuation methodologies

There are four methodologies commonly used for valuing businesses:

- discounted cash flow ('DCF') analysis;
- capitalisation of earnings;
- estimate of proceeds from an orderly realisation of assets; and
- industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

Discounted cash flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions. Notwithstanding these limitations, DCF valuations are appropriate where current earnings are not representative of reasonable expectations of future earnings.

Capitalisation of earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

Realisation of assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. For LPVs the realisation of assets is often assessed by reference to the NTA of the entity (the 'NTA method').

Industry rules of thumb

In some industries, businesses are valued using well established 'rules of thumb'. Generally these rules of thumb are used as a cross-check for other valuation methodologies.

Our valuation approach

KordaMentha has valued St John using the NTA method. When assessing the value of a LPV, we typically also undertake a DCF analysis. However, St John does not prepare medium or long term financial projections on which a DCF analysis can be based. In any event, for a property portfolio with only one property asset and minimal head office costs, we consider the NTA method to be the key determinant of value.

6.2 NTA method

We have assessed the value of St John in a range between $2.47 and $2.80 per share, as follows:

- **High end:** the high end is based on a high estimate of the market value for 450 Queen Street, which relies on a property valuation prepared by JLL and considers the value to a purchaser of St John (there is no allowance for disposal costs).

  The high end is equivalent to a P/NTA multiple of 1.03 (3% premium).

- **Low end:** the low end is based on a low estimate of the market value for 450 Queen Street, which relies on a property valuation prepared by JLL and considers the value to St John if it sold the property (there is an allowance for disposal costs).

  The low end is equivalent to a P/NTA multiple of 0.91 (9% discount).

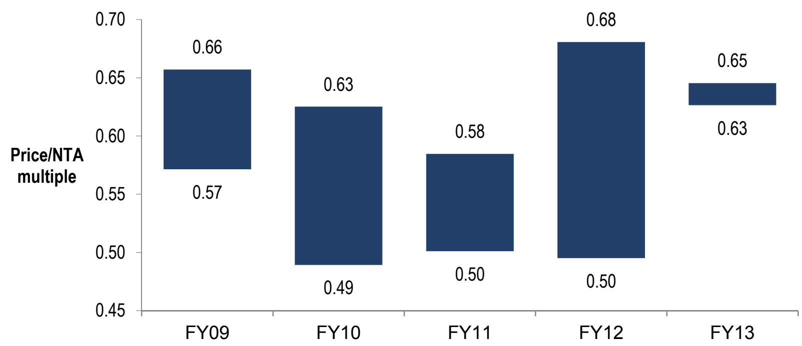
Discounts and premium to NTA

As shown by the companies set out at Appendix 3, LPVs can trade at a discount or premium to their NTA. The discounts and premia are based on a range of factors, including:

- type of property asset
- size of the LPV
- diversification offered by the LPV
- management contract conditions
- dividend yield offered by the LPV
- liquidity of the LPV's securities

St John has historically traded at a significant discount to its NTA, as shown in Figure 6.1. This is primarily due to the low market liquidity, small size and low level of diversification offered.

Figure 6.1: St John price to NTA[1]



Source: Annual accounts and KordaMentha analysis

Figure 6.1 shows the P/NTA multiples for the trades undertaken in the year (circa) following an announcement of NTA when St John's annual accounts are made publicly available. These multiples show that St John's shares have historically traded at a discount to NTA of between 32% and 51%.

[1] Prior to FY13, 'price' is the first price at which St John Shares were traded after the Company's accounts are made publicly available. For FY13, due no transactions follow the release of accounts, the price is instead set to the on-market bid prices ($1.65 to $1.70).

If the Offer is successful, Rockport LP will own 100% of St John, which will in turn give it 100% ownership of 450 Queen Street. On that basis, discounts or premia would not apply for issues associated with LPVs, such as dividend yield, diversification and liquidity. We would expect the only potential impact as to where price would vary from NTA would be:

- any onerous or favourable terms in the management contract;
- disposal costs;
- surplus or contingent assets or liabilities not captured in the NTA; or
- if the actual market value of 450 Queen Street is different from the carrying value (e.g. due to events which may have occurred after the valuation date).

Valuation of 450 Queen Street

JLL valued 450 Queen Street as at 31 March 2013. The valuation was prepared for Cambridge on behalf of St John for financial reporting and mortgage security purposes. KordaMentha has reviewed the valuation and it is summarised at Table 6.1.

Table 6.1: JLL valuation of 450 Queen Street

Valuation approaches	• Capitalisation of market income (valued at $23.22 million) • Capitalisation of contract income (valued at $23.23 million) • Discounted cash flow (valued at $23.28 million)
Interest valued	• Market value of 100% freehold interest
Key assumptions used in the capitalisation of net income method	• Capitalisation rate adopted is 9.0% • Discount rate used for adjustments is 9.0% • Discount rate used for other income is 10.0% • Allowance for leases which expire and capital expenditure to be incurred within the next 24 months • Includes an adjustment for capital expenditure needed to be incurred within next two years (e.g. roof)
Key assumptions used in the DCF method	• Discount rate adopted is 10.0% • Terminal yield is 9.5% • Weighted average rental growth rate of 2.49% • Assumed inflation of 2.25% • Forecast capital expenditure includes $180,000 for the replacement of the roof and $150,000 for earthquake strengthening
Adopted value	• $23.25 million

Source: Jones Lang LaSalle valuation

JLL performed a sensitivity analysis in its DCF valuation. Table 6.2 shows the impact on the value of 450 Queen Street's from changes in discount rate and terminal yield.

Table 6.2: DCF valuation sensitivity for 450 Queen Street ($ thousand)

		Terminal yield		
		9.25%	**9.50%**	**9.75%**
Discount rate	**9.75%**	23,950	23,650	23,360
	10.00%	23,580	23,280	23,000
	10.25%	23,210	22,920	22,650

Source: Jones Lang LaSalle valuation

As discussed above, the Manager has received quotes which indicate the roof will cost $350,000 to replace. Other than this, the Manager has advised us that it is not aware of any circumstances or events since the JLL valuation which would affect the value of 450 Queen Street.

In JLL's property valuation, it included $180,000 in capital expenditure to replace the roof of 450 Queen Street. Based on the Manager's current expectation that the roof will cost $350,000 to replace, we have adjusted the JLL valuation for the additional $170,000 in capital expenditure. The impact of our adjustment is to reduce the values arrived at by JLL by the present value of $170,000 (the present value is approximately $150,000).

Due to the purpose of the JLL report, it needed to show a point-estimate of value. However, to allow for the subjective nature of assessing key assumptions, a value range is typically used when considering the merits of a takeover offer. Therefore, based on the low and high values in Table 6.2 and our adjustment for the replacement of the roof, we have adopted a market value range of $22.5 million to $23.8 million for 450 Queen Street. Our adopted range is summarised in Table 6.3.

Table 6.3: Market value of 450 Queen Street ($ thousand)

	Low	High
Market value based on JLL sensitivity	22,650	23,950
Less: PV of additional cost to replace roof	(150)	(150)
Market value	**22,500**	**23,800**

Realisation of 450 Queen Street

If St John wished to sell 450 Queen Street, it would need to incur marketing costs. Marketing costs can vary based on the type and size of a transaction, but typically range between 2% and 4%. We have assumed that if St John wished to sell 450 Queen Street (outside the Offer), it would need to incur marketing costs of up to $900,000 (4% of the low end market value of 450 Queen Street).

NTA value

St John's primary asset is 450 Queen Street. It also has a range of liabilities which need to be met. Table 6.4 summarises the value of St John based on the NTA valuation method.

Table 6.4: NTA valuation summary ($ thousand)

	Low	High
Market value of 450 Queen Street	22,500	23,800
Less: net debt	(4,958)	(4,958)
Less: working capital and other liabilities	(254)	(254)
Less: disposal costs	(900)	–
Equity value	16,388	18,588
Shares on issue (thousand)	6,633	6,633
Value per share	**2.47**	**2.80**

We have assessed the value of St John in a range between $2.47 and $2.80 per share, as follows:

- **High end:** the high end is based on a high estimate of the market value for 450 Queen Street, which relies on a property valuation prepared by JLL and considers the value to a purchaser of St John (there is no allowance for disposal costs).

  The high end is equivalent to a P/NTA multiple of 1.03 (3% premium).

- **Low end:** the low end is based on a low estimate of the market value for 450 Queen Street, which relies on a property valuation prepared by JLL and considers the value to St John if it sold the property (there is an allowance for disposal costs).

  The low end is equivalent to a P/NTA multiple of 0.91 (9% discount).

We note that our estimate of St John's value is for 100% of the Company. We would not expect minority parcels to necessarily trade at this level (in the absence of a takeover offer).

Appendix 1: Sources of information

Documents relied upon

Documents relied upon include, but are not limited to, the following:

- St John's FY14 Budget;
- St John's Annual Report 2011, 2012 and 2013;
- St John's shareholder notices;
- St John's announcements;
- 450 Queen Street valuation as at 31 March 2013 by JLL;
- Cambridge's website: http://cambridgemanagement.co.nz;
- Capital IQ website: http://www.capitaliq.com;
- Unlisted website: http://unlisted.co.nz;
- NZX website: http://www.nzx.com;
- Financial statements of the comparable companies set out in Appendix 3; and
- Colliers New Zealand CBD Office Report 2013
- Other publicly available information.

We have also had discussion with Cambridge and St John in relation to the nature of the business operations, and St John's specific risks and opportunities for the foreseeable future.

Reliance upon information

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by St John and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of St John. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

Appendix 2: Qualifications and declarations

Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA), Shane Bongard (BCom (Hons)) and Shaun Hayward (BCom and BProp). All three have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion on the proposed transaction. KordaMentha expressly disclaims any liability to any St John shareholder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

Indemnity

St John has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. St John has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest that could affect its ability to provide an unbiased opinion in relation to the proposed transactions.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the proposed transactions or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to St John and its legal advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to St John shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

Appendix 3: New Zealand listed property vehicles

Table A3.1: Key metrics of New Zealand LPVs

Entity	Property type	Market Cap ($ million)	Price to NTA per share/unit[7]	Enterprise value to operating assets	2013 gross dividend yield	Average Occupancy	WALT (years)
St John	Commercial	11	0.63	0.71	nil	98.6%	6.9
Goodman Property	Industrial, commercial	1,237	1.05	0.97	6.5%	96.0%	5.3
Kiwi Income Property	Commercial, retail	1,112	0.98	0.91	6.9%	97.2%	4.3
Precinct Properties	Commercial	1,037	1.01	0.97	5.6%	97.0%	5.7
Argosy Property	Industrial, commercial	738	1.07	1.02	6.3%	96.2%	5.2
Property for Industry	Industrial	551	1.18	1.08	6.5%	97.3%	5.5
DNZ Property Fund	Diversified	477	1.01	0.97	7.0%	99.6%	5.6
Vital Healthcare Property	Healthcare	461	1.36	1.11	6.2%	99.5%	11.8
NPT	Diversified	100	0.88	0.84	6.7%	94.0%	5.7
Augusta Capital	Commercial	65	1.13	0.99	5.7%	91.0%	4.6
Median (excl. St John)		**551**	**1.05**	**0.97**	**6.5%**	**97.0%**	**5.5**

Source: Capital IQ, financial statements and announcements, research reports and KordaMentha analysis

Goodman Property Trust

Goodman Property Trust is New Zealand's largest LPV by market capitalisation. It was listed on the NZX Main Board in June 1999. Goodman owns industrial properties, commercial properties and development land. Goodman Property is managed by Goodman (NZ) Limited.

Kiwi Income Property Trust

Kiwi Income Property Trust is New Zealand's second largest LPV by market capitalisation. It was first listed on the NZX Main Board in December 2003 and has property investments located throughout New Zealand. Kiwi Income Property is managed by Kiwi Income Properties Limited, which is ultimately owned by Commonwealth Bank of Australia.

Precinct Properties New Zealand Limited

Precinct Properties New Zealand Limited specialises in investing, developing and managing commercial office properties in Auckland and Wellington. It was previously a Trust, but in October 2010 unit holders elected to corporatise the entity and adjust the external management terms and fee structure. Precinct is managed by AMP Haumi Management Limited.

Argosy Property Limited

Argosy Property Limited listed on the NZX Main Board in December 2002. The majority of its investments are in the greater Auckland region, with a significant number in Wellington and the remainder spread throughout New Zealand. It was previously a Trust, but in August 2011 unit holders elected to internalise the trust and subsequently corporatise the entity.

DNZ Property Fund Limited

DNZ Property Fund Limited was listed on the NZX Main Board in August 2010. It has a portfolio which includes commercial, industrial, and retail properties throughout New Zealand. It was formed through the amalgamation of four separate property funds. Its shares were previously traded on the Unlisted platform. DNZ Property Fund internalised its management at a cost of $35 million in July 2010.

[7] Price to NTA per share/unit is based on the NTA set out in the entities' most recently available balance sheets and share/unit prices as at 13 September 2013.

Vital Healthcare Property Trust

Vital Healthcare Property Trust was listed on the NZX Main Board in September 1999. It specialises in investments in health and medical related properties in New Zealand and Australia. It was formerly known as ING Medical Properties Trust and Calan Healthcare Properties Trust. Vital Healthcare Property is externally managed by an entity owned by NorthWest Value Partners Inc..

Property for Industry Limited

Property for Industry Limited was listed on the NZX Main Board in December 1994. It specialises in investing in, developing and managing industrial properties, predominantly in the greater Auckland region. Property for Industry is externally managed by PFIM Limited.

NPT Limited

NPT Limited was listed on the NZX Main Board in December 1996. It specialises in investing in, developing and managing retail, commercial, and industrial properties. The majority of its properties are located in Christchurch, with other properties located in Auckland, Wellington, Hastings and New Plymouth. NPT internalised its management agreement in October 2010. At the time NPT internalised its management agreement, the owner of its manager (St Laurence Limited) was in receivership.

Augusta Capital Limited

Augusta Capital Limited listed on the NZX Main Board in December 2006. It owns commercial properties throughout the greater Auckland region. Augusta Capital internalised its management contract in March 2012.