GRANT SAMUEL

Radius Properties Limited

Independent Adviser's Report on the Partial Takeover Offer by Montagu Investment Holdings Limited

January 2013

Grant Samuel confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the Montagu Offer considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Grant Samuel 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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1. Terms of the Montagu Offer

1.1 Background

On 24 December 2012 Montagu Investment Holdings Limited (**Montagu**) announced that it intended to make a partial offer under the Takeovers Code of the equity securities in Radius Properties Limited (**Radius Properties**) at a price of $0.42 per share (**the Montagu Offer or the Offer**). Montagu already owns 19.99% of the shares in Radius Properties as a result of an offer made to shareholders in November 2012 and is seeking to secure a shareholding of 50.001%. The Montagu Offer is therefore for 30.01% of the issued shares in Radius Properties, representing 37.51% of the shares that it does not already hold or control.

The Montagu Offer was made to Radius Properties shareholders on 5 January 2013, and remains open for acceptance until 12 February 2013, unless extended.

Radius Properties owns a portfolio of aged care properties in New Zealand. Radius Properties owns five of the facilities outright and has substantial holding in a further two properties through Proportionate Ownership Schemes (**POS**). All of the properties are leased to hospital and rest home operator Radius Residential Care Limited (**Radius Care**). Despite having a commonality of name, Radius Care is an unrelated company to Radius Properties.

Ascot Capital Management Limited (**ACML** or the **Manager**), an entity owned by Radius Properties' director and Montagu shareholder David Glenn and Montagu shareholder Craig Priscott, was appointed as the new Manager of Radius Properties on 10 November 2009. Related companies of ACML also manage the two POS under separate contracts.

On 16 January 2013, Radius Properties received an offer for the five wholly owned properties and Radius Properties' interest in the two POS for $23,759,398 from Radius Care (the **Radius Care Offer**). The Radius Care Offer is broken down as follows:

Comparison of the Radius Care Offer with the Book Values of Radius Properties ($ millions)

	Radius Care Offer	Book Value
Arran Court	6.32	7.10
Baycare	1.92	2.63
Maeroa Lodge	6.62	7.10
Peppertree	3.15	3.80
Thornleigh	2.49	2.75
Wholly owned properties	**20.50**	**23.38**
Fulton Home	1.51	3.20
St Joans Hospital	1.75	3.88
Less Radius Properties share of POS liabilities	-	(2.53)
POS	**3.26**	**4.55**
Total	**23.76**	**27.93**

Being an offer for the assets only will mean that for shareholders to receive the proceeds of the sale, Radius Properties will have to be wound up and the Management Agreement terminated. Based on the 30 November 2012 balance sheet for Radius Properties the estimated proceeds per share to be received by shareholders in the event this transaction was approved and completed would be:

Estimation of the distribution to shareholders from the Radius Care Offer ($ millions)	
Sale proceeds	23.76
Debt	(9.37)
Net working capital	(0.06)
Management contract termination payment	(0.30)
Wind up costs	(0.03)
Estimated distribution	**14.00**
Estimated distribution per share ($)	**$0.59**

The sale of the assets will require the approval of 75% of shareholders voting on a special resolution to approve the sale to Radius Care. Montagu has notified the directors of Radius that it will vote against the proposed transaction should it be put to shareholders for approval. Montagu holds 19.99% of Radius Properties and this makes it difficult to pass a special resolution, but not impossible, especially when considering the difference in the value offered by Montagu and Radius Care. If the Montagu Offer is successful it will control 50.001% of the voting rights and the Board. In this situation Montagu will have absolute control over the decision to sell the assets of Radius Properties. Further commentary on the Radius Care Offer is provided in section 6.3.

1.2 Details of the Montagu Offer

The Montagu Offer is conditional upon:

- acceptances being received for the Montagu Offer, when taken together with the shares already held or controlled by Montagu (19.99%), that would (once the Offer is declared unconditional and the shares transferred) confer on Montagu 50.001% of the voting rights in Radius Properties;
- no assets of Radius Properties being destroyed, damaged or impaired to an extent that materially affects the carrying on of the business;
- no material adverse change in the financial or trading position, assets or liabilities, profits or prospects of Radius Properties taken as a whole, as compared to the position immediately prior to the date of notice of intention to make an offer;
- no independent valuation commissioned by Radius Properties that results in the value of one of the properties owned by the company being 10% below the value of that property as assessed by CBRE in its valuation of those properties as at 31 March 2012;
- no independent valuations commissioned by Radius Properties that results in the value for two or more of the properties owned by the company being in aggregate more than 5% below the aggregate value of those properties as assessed by CBRE in its valuation of those properties as at 31 March 2012;
- no advice being received by Radius Properties which indicates that the costs likely to be incurred to meet any requirements arising out of or in connection with the recommendations of the Canterbury Earthquakes Royal Commission will exceed NZ$1 million;
- no liquidator, receiver, statutory manager or similar officer is appointed in relation to any lessee (specifically RRCL) of any property owned or controlled by Radius Properties;
- no action, claim, litigation or other form of proceedings that are or could be material to Radius Properties are notified or commenced against Radius Properties;
- no person exercises any rights under any agreement to which Radius Properties is part that causes to an extent which is material any debt to be repaid, any such agreement to be terminated, or the rights to any assets owned or enjoyed by Radius Properties to be affected; and
- there being no decline in either the NZSX 50 or the NZX Property Indices equivalent to 10% or more, measured by reference to the level of the relevant index at 5.00pm on 24 December 2012, being the date of Montagu's notice of intention to make an offer.

Other than the condition relating to minimum acceptances, the conditions of the Montagu Offer may be waived in whole or in part by Montagu, at its discretion. As would be expected, most of the conditions are included to protect Montagu as to any change in the substantial form and operations of Radius Properties or the markets it operates in while the offer is open for acceptance. Some of the reference points or thresholds in these conditions are defined and measurable (such as the NZX 50 or NZX Property Index declining more than 10% since the notice date), while others are more subjective, such as the condition that states that there has been "no material adverse change in the financial or trading position, assets or liabilities, profits or prospects of Radius Properties taken as a whole, as compared to the position immediately prior to the date of notice of intention to make an offer". Conditions such as these are usual in such offers.

1.3 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange Listing Rules and the Companies Amendment Act 1963 requirements governing the conduct of company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure are able to make informed decisions on shareholding transactions that may impact on their own holdings.

Radius Properties is a code company for the purposes of the Takeovers Code. Rule 6 of the Takeovers Code, the fundamental rule, states that a person (along with its associates) who holds or controls:

(a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;

(b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

Rule 7 of the Takeovers Code sets out the exceptions to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a code company under the following circumstances:

(a) by an acquisition under a full offer;

(b) ***by an acquisition under a partial offer;***

(c) by an acquisition by the person of voting securities in the code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the code company in accordance with the code;

(d) by an allotment to the person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with the code;

(e) if: (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the code company; and

(ii) the resulting percentage held by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the code company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase;

(f) if the person already holds or controls 90% or more of the voting rights in the code company.

The Takeovers Code specifies the responsibilities and obligations for both Montagu and Radius Properties as bidder and target respectively. Radius Properties' response to the Montagu Offer, known as a target company statement, must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof).

1.4 Profile Of Montagu

Montagu is a private company owned 63.7% by Mr Harry McPike and 36.3% by Hosel Holdings Limited (**Hosel Holdings**). Harry McPike is a professional investor based in the Bahamas. Hosel Holdings is owned 47.3% by David Glenn, 47.3% by Craig Priscott, and 5.4% by the Maier Family Trustees Limited. The shares in Hosel Holdings held by David Glenn and the Maier Family Trustees Limited are non-voting.

Hosel Holdings also has a call option over the 63.7% shareholding in Montagu held by Mr McPike, under which it may require Mr McPike to sell those shares to Hosel Holdings. Hosel Holdings also has a put option under which it may require Mr McPike to purchase the Montagu shares held by Hosel Holdings. Mr McPike also has a call option over 36.3% shareholding in Montagu held by Hosel Holdings, under which, it may require Hosel Holdings to sell those shares to Mr McPike. The options are exercisable from 31 May 2015.

In the event Hosel Holdings calls or Mr McPike puts the Montagu shares, Hosel Holdings' shareholding in Montagu will increase to 100% and it will be owned 47.3% by David Glenn, 47.3% by Craig Priscott, and 5.4% by the Maier Family Trustees Limited.

1.5 Arrangements between Montagu, ACML, Radius Properties and Hosel Holdings

There are various ownership and business arrangements between Montagu, ACML, Hosel Holdings and Radius Properties that shareholders in Radius Properties need to be aware of. These relationships are summarised in the table below:

Radius Properties – Related Parties

Entity/Person	Role
David Glenn	▪ Owner and Director of ACML ▪ Non voting shareholder in Hosel Holdings, a shareholder in Montagu ▪ Director of Radius Properties
Craig Priscott	▪ Owner of ACML ▪ Shareholder in Hosel Holdings, a shareholder in Montagu ▪ Director of Hosel Holdings and Montagu
Sandy Maier	▪ Non voting beneficial interest in Hosel Holdings, a shareholder in Montagu ▪ Chairman of Radius Properties
Sherry Maier	▪ Non voting beneficial interest in Hosel Holdings, a shareholder in Montagu ▪ Director of Radius Properties
ACML	▪ Manager of Radius Properties
Montagu	▪ Offeror

The table shows the relationship between Montagu and Radius Properties by virtue of each of Craig Priscott, David Glenn, Sandy Maier and Sherry Maier being owners of Montagu and the latter three being Directors of Radius Properties. David Glenn and Craig Priscott, through ACML, are also the managers of the Radius Properties assets.

2. Scope of the Report

2.1 Purpose of the Report

The Directors of Radius Properties have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the Montagu Offer. Grant Samuel is independent of Radius Properties and Montagu and has no involvement with, or interest in, the outcome of the Montagu Offer.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on the merits of an offer. 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 a transaction.

A copy of this report will accompany the Target Company Statement to be sent to all Radius Properties shareholders. This report is for the benefit of the shareholders of Radius Properties, other than Montagu and the related parties of Montagu. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Montagu Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix C.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Montagu Offer by reviewing the following factors:

- the estimated value range of Radius Properties and the price of the Montagu Offer when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Radius Properties shares in the absence of the Montagu Offer;
- any advantages or disadvantages for Radius Properties shareholders of accepting or rejecting the Montagu Offer;
- the current trading conditions for Radius Properties;
- the timing and circumstances surrounding the Montagu Offer;
- the attractions of Radius Properties' business; and
- the risks of Radius Properties' business.

2.3 Approach to Valuation

Grant Samuel has estimated the value range of Radius Properties with reference to its full underlying value. In Grant Samuel's opinion the price to be paid under a full or partial takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate value to be paid under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the Takeovers Code the acquisition of more than 20% of voting rights in a code company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One

of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any control premium is now available to all shareholders under a takeover offer (in a scenario where an offeror will gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

Radius Properties has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary. For the avoidance of doubt, appendices A to C form part of this report.

3. Profile of the Aged Residential Care Sector

3.1 Overview

The aged residential care sector covers the supply of services and accommodation to older persons who are residents of a service provider in the sector, and who may require additional medical or supportive assistance. Aged residential care facilities tend to be grouped into retirement villages, rest homes and private hospitals. The aged residential care market includes a range of government and privately funded options.

Retirement village operators target the private market where residents acquire a right to occupy an apartment or villa, supplemented by a range of support or health services. Prominent companies in that sector include Ryman, Metlifecare and Summerset. These companies also provide government funded alternatives.

Rest home and private hospital operators focus on the government funded aged care sector, where the government pays specific contributions directly to the aged care facility operator in return for the care of the resident. Prominent companies operating in this sector include Radius Care, Ultimate Care Group, Bupa and Oceania.

Private hospitals are facilities that provide dedicated full time hospital care and sometimes include dementia care facilities. Many rest homes also provide high dependency and dementia patient beds.

The vast majority (approximately 90%) of rest homes and hospitals are owned by the operator. However a small number of property owners, such as Radius Properties, contract out the actual operation of the rest home or hospital facility. These entities and investment vehicles are dedicated asset owners as opposed to hospital or rest home operators. Similarly, other companies, such as Radius Care, own no facilities but lease these assets from property owners.

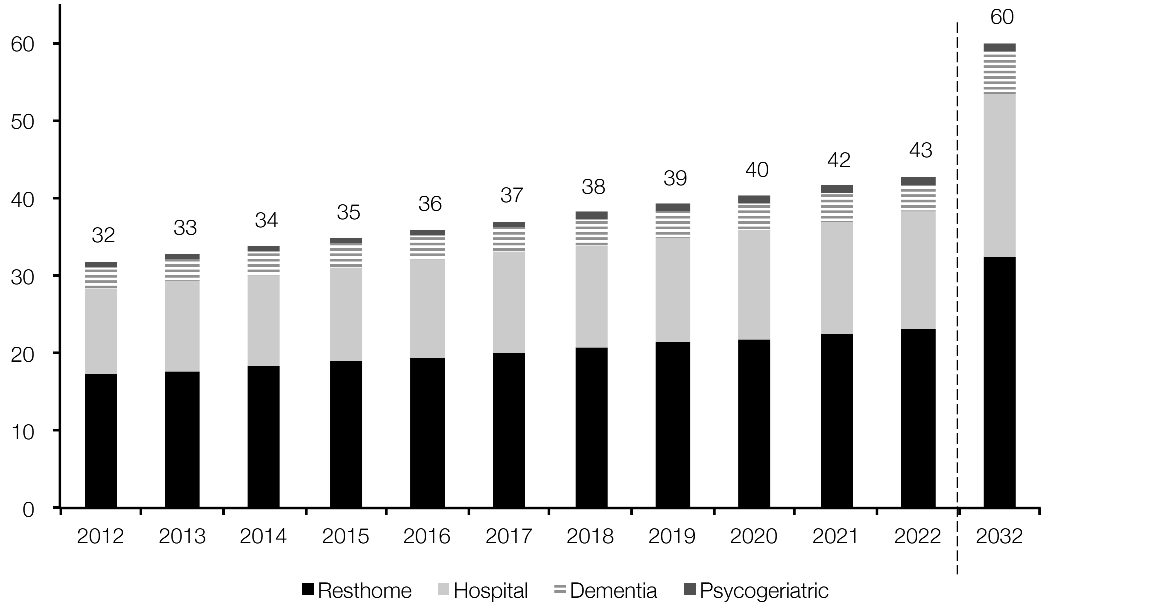
3.2 Demographics

The aging population in New Zealand is driving a continued demand for both rest home and hospital beds. In the 20 years between 2011 and 2031, the New Zealand population is expected to grow by 18% to approximately 5.2 million. Over the same period however, the population aged over 65 is estimated to increase by approximately 89% to 1.1 million[1]. Continuing advances in medical technology are also contributing to greater life expectancy. The increase in the population over 65 years will place considerable pressure on the aged care sector, particularly as existing facilities are operating at around 92% occupancy levels. The following graph shows the forecast demand for aged residential care[2]:

[1] Statistics New Zealand – National Population Projection 2011 (base) - 2061

[2] Health Partners – Introducing the ARC Demand Model – New Zealand Aged Care Association (September 2012)

Average New Zealand funded residents by care type (000)



As life expectancy increases the number of years of care stays broadly the same, the age of entry into care increases:

"The weight of international evidence is that the disability-free years of older people increase along with life expectancy. On the other hand, severe disability tends to be concentrated in the last two to four years of life; regardless of how long a person lives. This suggests that a healthier old age and increasing longevity will not necessarily diminish demand for services, as demand for residential care tends to be concentrated in the final two years of life. Based on this view, a healthier old age and increasing longevity only delays rather than reduces demand". [3]

In its valuations of the Radius Properties assets in March 2012, CBRE noted that approximately 12.6% of the population in New Zealand aged 75+ requires aged residential care facilities.

3.3 Funding Model

Each aged care or rest home facility has rest home or hospital contracts with the local District Health Board/Government that provide for the payment for services. A separate contract and operating license for each property is critical as individuals who qualify for a care subsidy from the Government are required to reside in a rest home or hospital with an existing contract in order to receive the subsidy.

The Ministry of Health provides a residential care subsidy for elderly who have been assessed as needing long-term residential care in a rest home or hospital, and who qualify for the subsidy. The subsidy is means-tested and is paid directly to the rest home or hospital. The amount of the subsidy varies between the status of the care (e.g. rest home or hospital) and the geographic locality of the facility. Current maximum prices per week at the top end range from $706 -$776 per resident). The variable pricing structure nationally reflects the fact that the costs to build and operate a facility will depend on factors including size, occupancy composition and location. The Ministry of Health has a vested interest in encouraging a strong market for aged care residential services, such that older people have a reasonable choice of provider.

The pricing structure is reviewed on a regular basis, typically by reference to the CPI. Operators that can sustain high occupancy rates should therefore enjoy better facility efficiency and profitability. Occupancy rates in excess of 90% are not uncommon. In its 2010 report, Grant Thornton noted that the average bed occupancy across New Zealand was 91% for rest homes, 93% for hospital beds and 96% for dementia beds[4].

[3] WP Hogan Review of Pricing Arrangements in Residential Aged Care – Commonwealth of Australia

[4] Grant Thornton – Aged Residential Care Service Review – September 2010

3.4 Sector Trends

There has been a significant degree of consolidation in the aged residential care sector in the past decade as groups of facilities provide a number of advantages including operational efficiencies (cost reductions through economies of scale, better management utilisation), risk reduction (by having exposure to a range of facilities and often a range geographic catchment areas) and greater investor attraction.

4. Profile of Radius Properties

4.1 Background

Radius Properties is an unlisted code company that specialises in aged care property investment in New Zealand. The aged care facilities owned by Radius Properties are leased to specialised facility operator Radius Care. Radius Care leases more than 20 aged care facilities nationwide, including the five owned directly by Radius Properties and two owned by the POS.

In 2009, Radius Properties' directors resigned and Samford (Sandy) Maier, Sherry Maier and David Glenn were appointed as the new directors. Upon the appointment of the new directors a financial and operational review was undertaken which identified a number of areas of concern and led to the Board reducing the net tangible asset (**NTA**) value per Radius Properties share from $0.93[5] to $0.36 per share[6].

Since 2009, the Directors have taken a number of actions, which included ceasing speculative property developments and terminating the previous management agreement. Since the revaluation in 2009, the NTA per Radius Properties share has progressively increased to $0.79 as at 30 November 2012[7].

4.2 Property Portfolio

Radius Properties' current property portfolio comprises five wholly owned properties and substantial interests in a further two POS assets. The following table provides a summary of each property based on CBRE independent valuations as at 31 March 2012:

Radius Properties

Baycare Home and Hospital

Location	Haruru Falls, Paihia
Registered Owner	Radius Properties Limited
Description	Baycare Home and Hospital comprises a medium scale, purpose built facility constructed in 1997 with subsequent extensions situated on a large site with future development potential. The facility is certified to provide both hospital care (medical and geriatric services) and rest home care. The facility provides for: ▪ 17 Rest Home Beds ▪ 29 Hospital Beds
Land Area	1.1670 hectares
Gross Floor Area	1,415 square metres
Tenancy Profile	The property is leased to Radius Care until 8 September 2026 with one subsequent renewal right for a further 10 years.
Government Rating	$2,300,000 as at 1 September 2010

Thornleigh Park

Location	Highlands Park, New Plymouth
Registered Owner	Radius Properties Limited
Description	Thornleigh Park comprises a purpose built, well-established care facility located towards the southern fringe of New Plymouth City. The facility comprises a single level building originally constructed in 1986 together with subsequent extensions and additions in 1989 and 1996. The facility is certified to provide both hospital care (medical and geriatric services) and rest home care. The facility currently provides: ▪ 48 Rest Home Beds ▪ 16 Hospital Beds
Land Area	6,654 square metres

[5] As at 31 March 2009

[6] An estimate as at 10 November 2009

[7] Unaudited management accounts

Gross Floor Area	2,006 square metres
Tenancy Profile	The property is leased to Radius Care until 20 August 2024 with one subsequent renewal right for a further 10 years.
Government Rating	$3,100,000 as at 1 September 2010

Maeroa Lodge

Location	Maeroa, Hamilton
Registered Owner	Radius Properties Limited
Description	Maeroa Lodge comprises a medium to large scale, purpose built facility constructed in 1999. The facility is certified to provide both hospital care (medical and geriatric services) and rest home care. The facility provides for: ▪ 20 Rest Home Beds ▪ 77 Hospital Beds
Land Area	5,536 square metres
Gross Floor Area	Approximately 2,725 square metres.
Tenancy Profile	The property is leased to Radius Care until 22 May 2024 with one subsequent renewal right for a further 10 years.
Government Rating	$7,000,000 as at 1 September 2009

Arran Court Rest Home and Hospital[8]

Location	Te Atatu South, Waitakere City
Registered Owner	Radius Nominees (Arran Court) Limited
Description	Arran Court Rest Home and Hospital comprises a medium scale, purpose built facility providing hospital and rest home level care for the elderly. The facility was originally constructed in the 1980's with subsequent expansion to the northern and southern ends of the facility, including the addition of a basement, completed in circa 2001. The facility is certified to provide both hospital care (medical and geriatric services) and rest home care. The complex provides for: ▪ 40 Rest Home Beds ▪ 62 Hospital Beds
Land Area	7,153 square metres
Gross Floor Area	2,705 square metres
Tenancy Profile	The property is leased to Radius Arran Court Limited (Radius Care) until 8 June 2029 with one subsequent renewal right for a further 10 years.
Government Rating	$6,650,000 as at 1 July 2011

Peppertree Home and Hospital

Location	Kelvin Grove, Palmerston North
Registered Owner	Radius Properties Limited
Description	Peppertree Home & Hospital comprises a purpose built, well established care facility located towards the north of Palmerston North City. The facility comprises an irregular shaped, single level building dating from the 1990's. The facility is certified to provide both hospital care (medical and geriatric services) and rest home care with capacity of 60 beds. The facility currently provides: ▪ 40 Rest home Beds ▪ 20 Hospital Beds
Land Area	6,531 square metres
Gross Floor Area	Approximately 2,049 square metres
Tenancy Profile	The property is leased to Radius Care until 16 December 2024 with one subsequent renewal right for a further 10 years.
Government Rating	$4,275,000 as at 1 September 2009

[8] Radius Properties formerly owned 88.75% of the Radius Nominees (Arran Court) Limited. Radius acquired the remaining 11.25% on 27 October 2011 to move to 100% ownership.

Radius Properties in Proportionate Ownership Schemes

POS are an investment structure whereby individual investors are entitled to a pro-rata share of the assets and liabilities of the ownership vehicle and a pro-rata share of profits and distributions. In the case of the POS that Radius Properties has a holding in, a nominee company holds the title to the underlying property asset. Each investor is liable to pay their share of all outgoings and costs associated with the property, to the extent they are not recovered from the tenant. The POS assets that Radius Properties has an investment in were established in accordance with the Securities Act (Real Property Proportionate Ownership Schemes) Exemption Notice 2002, and are summarised below:

St Joans Hamilton	
Location	Fairfield, Hamilton
Registered Owner	Radius Nominees Limited
Interest %	61%
Description	St Joans hospital is a medium scale facility of mixed age and construction comprising a converted cottage constructed circa 1953, additions and extensions dating from the 1960's together with a more modern extension completed circa 1998. The facility has 99 beds providing hospital and rest home level care for the elderly. The bed mix is as follows: ▪ 30 Rest Home Beds ▪ 69 Hospital Beds
Land Area	1.6144 hectares (including residential properties)
Gross Floor Area	3,390 square meters
Tenancy Profile	The property is leased to Radius Care until 6 May 2025 with one subsequent renewal right for a further 10 years.
Government Rating	$6,120,000 as at 1 September 2009

Fulton Home	
Location	Caversham, Dunedin
Registered Owner	Radius Nominees (Fulton) Limited
Interest %	48%
Description	Radius Fulton Care Centre comprises an established care facility located in the residential suburb of Caversham, approximately 3.5 kilometres south west of the Dunedin CBD. The facility comprises mainly a single level building opened in 1964, however has been extensively extended and redeveloped over time, most recently in 2004. The configuration comprises 89 single rooms and 2 twin rooms providing a total of 93 beds. The facility is certified to provide both hospital care (medical and geriatric services) and rest home care and adopts a swing bed policy. The current operational bed mix is: ▪ 35 Rest Home Beds ▪ 39 Hospital Beds ▪ 19 Dementia Beds
Land Area	6,085 square metres
Gross Floor Area	2,815 square metres
Tenancy Profile	The property is leased to Radius Care Limited until 31 October 2025 with one subsequent renewal right for a further 10 years.
Government Rating	$6,500,000 as at 1 July 2010

4.3 Management Contract

ACML has been the manager of Radius Properties since it was appointed as interim manager in November 2009. ACML was formally appointed as the Manager in August 2010 and its role is governed by an Agreement dated 6 August 2010 (the **Management Agreement**). The key terms of the Management Agreement include:

- 7 year term expiring 5 August 2017;
- the Manager has the right to extend the contract for a further 5 years, unless Radius Properties terminates the Manager for non-performance of its obligations under the Agreement to the standard required by the Agreement;
- early termination rights are limited to events of default and/or key person termination;
- a management fee (base fee) of 0.95% of total assets is payable, less the share of the fees that Radius Properties already bears in the underlying POS assets, with the percentage progressively reducing to 0.75% beyond certain asset level thresholds;
- a performance fee based on a three year rolling arrangement whereby the Manager receives 15% of the annualised increase in value over a 10% hurdle rate. The hurdle rate is calculated on a pre- tax basis and must be exceeded over the previous three year period before a performance fee is payable;
- a termination fee/major transaction fee equivalent to one year's management fee or $300,000 is payable depending on the circumstances; and
- there is no ability for shareholders in Radius Properties to directly vote to remove the Manager.

Under the Management Agreement, the Manager has the right to terminate the Management Agreement if there is a change of control. The Manager has formally informed Radius Properties that it irrevocably waives its right to terminate the Management Agreement if the Montagu Offer is successful.

The management fees charged by ACML seem relatively high when compared to the fees paid by the externally managed listed property entities (**LPEs**). This is most likely explained by the difference in scale when compared to the larger entities listed below and the additional fees charged by other managers over and above the base and performance components. In all cases fee structures comprise both a base and performance fee component. However, the comparison of fees between LPEs is complicated by the often significant additional fees charged by managers over and above the base and performance components, which are typically levied on a transactional or time in attendance basis and not always appropriately disclosed. The table below summarises the management fees paid by the externally managed listed property entities:

Externally Managed New Zealand LPEs – Fee Structures

	Base fee		Performance fee			
Entity	**Rate**	**Based on**	**Fee basis**	**Threshold/cap**	**Carried fwd**	**Paid in**
Kiwi Income Property Trust	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.	2 years	Units
Goodman Property Trust	0.5% up to $0.5bn 0.4% there after	Total assets less cash and trade debtors	10% of unit holder return above threshold	NZ LPE Index (ex. GMT), capped at 5% above index	Yes	Units
Precinct Properties New Zealand	0.55% up to $1bn, 0.45% up to $1.5 bn, 0.35% thereafter	Investment properties	10% of shareholder return above threshold	0.125% of PCT's market capitalisation	2 years	Cash
Argosy Property Trust[9]	0.60%	Average gross assets	10% of unit holder return above threshold	Total unit holder return of 10% but under 15%. Excess greater than 15% carried forward.	2 years	Cash

[9] The Argosy Management Contract was internalised in August 2011

Vital Healthcare Property Trust	0.75%	Average gross assets	10% of average annual increase in gross assets over prior 3 years	Capped at 1.75 % of gross assets	Yes	Units
Property for Industry	0.70% up to $175m 0.35% thereafter	Average gross assets	10% of shareholder return above threshold	Total shareholder return of 10% but under 15%	2 years	Cash

Source: Company Annual reports 2012

4.4 Financial Position

The financial position of Radius Properties as at 31 March 2009, 2010, 2011 and 2012 and as at 30 November 2012 is outlined in the table below:

Radius Properties – Financial Position (NZ$ 000s)

As at 31 March	**2009**	**2010**	**2011**	**2012**	**30 Nov 2012**[10]
Cash and cash equivalents	368	728	1,667	1,335	308
Receivables	415	-	3	65	9
Business sale receivable	3,833	-	-	-	-
Investment properties	37,241	18,056	18,075	24,559	23,378
Investment in POS	4,206	7,386	7,566	4,475	4,604
Other	273	-	-	14	-
Total assets	**46,336**	**26,170**	**27,311**	**30,448**	**28,298**
Trade creditors and accruals	(1,434)	(788)	(747)	(602)	(274)
Borrowings	(23,135)	(9,146)	(9,000)	(11,975)	(9,374)
Other	(1,128)	(536)	(113)	(110)	(122)
Total liabilities	**(25,697)**	**(10,470)**	**(9,860)**	**(12,687)**	**(9,770)**
Net assets	**20,639**	**15,700**	**17,451**	**17,761**	**18,528**

Source: Radius Properties Financial Accounts and Management Accounts

The following points are relevant when considering the above table:

- since the devaluation of investment properties in 31 March 2010, the value of investment properties has remained relatively constant. The increase in investment property values and decline in POS values in FY12 is largely explained by the acquisition of the balance of the Arran Court POS scheme (to make it fully owned by Radius Properties with no further need for a POS);
- in FY12 the Directors introduced a dividend policy targeting an annualised gross non-imputed dividend yield of approximately 5% relative to NTA per share (equivalent to 9% per share based on the $0.42 Montagu Offer price). A dividend of three cents per share ($708,000 inclusive of resident withholding tax) was paid in FY12. Prior to this dividend payment there had been no material dividends since 2008. The dividend payout partially offset positive movements in NTA per share (i.e. NTA per share would have increased by an additional three cents if dividends were not paid to investors);
- the share of borrowings associated with the POS investments have been netted off against the investment in POS; and
- since 31 March 2012 borrowings have declined due to the sale of the Seaview property, the utilisation of spare cash and positive movements in working capital. The Seaview property in Whangarei was sold in September 2012 for $1.3 million.

[10] Unaudited numbers based on Radius Properties management accounts.

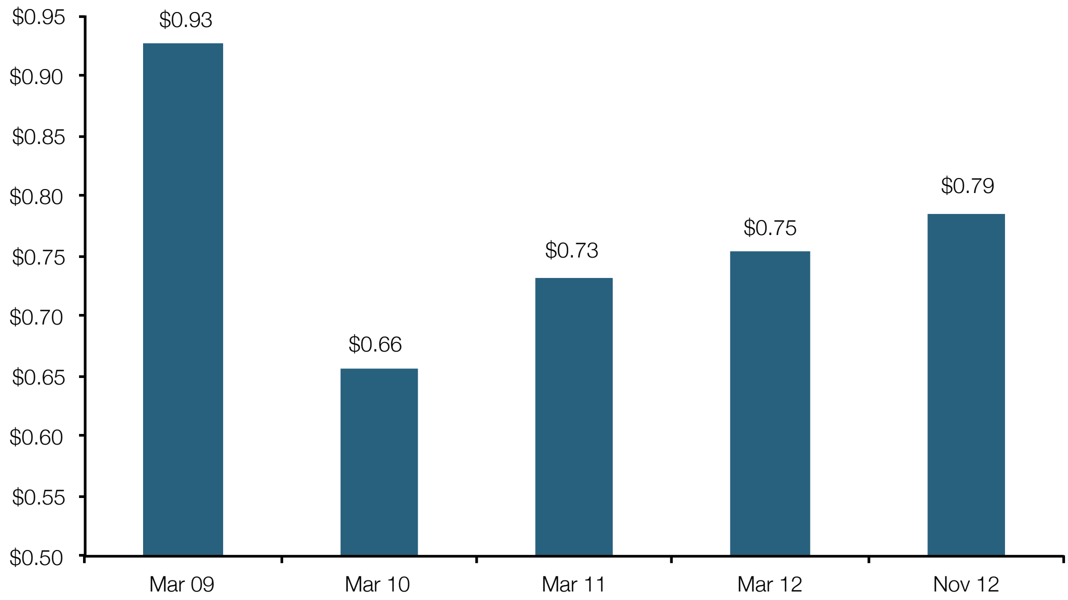
Net asset value

The net asset value has increased steadily since the significant write down in November 2009. The write down occurred as a consequence of the financial and operational review undertaken by the then newly appointed Directors, which uncovered a number of serious issues. In November 2009 the Directors estimated that the NTA per share could be as low as $0.36. The decline in NTA from 31 March 2009 to 31 March 2010 included a $5.5 million devaluation of investment properties, including a $4.6 million write down of the Peppertree Apartment land and buildings. Since that time the Directors' restructuring initiatives have included:

- a settlement with previous managers which included the sale of Radius Properties assets to the previous managers, the avoidance of potential liabilities and a cash payment to Radius Properties;
- negotiating out of a significant liability relating to a previous agreement to acquire a property in Hamilton for $3.3 million, although a loss of $0.4 million arose as a result of the transaction; and
- improvements in the lease terms with Radius Care, resulting in improved pricing mechanisms and a lease extension of a further ten years.

The Board estimated that these restructuring initiatives added an additional $0.30 to the NTA per share from November 2009 to 31 March 2010. A chart showing the progression of the NTA per share from 31 March 2009 to 30 November 2012 is summarised below:

Radius Properties NTA per share ($ per share)



Tax losses

As at 31 March 2012, Radius Properties had approximately $5.6 million in unrecognised tax losses available to offset future taxable income. The future benefit of these losses at a 28% tax rate is $1.6 million and is contingent upon meeting income tax legislation requirements for being able to carry forward the losses for offsetting against future taxable income. In September 2012, Radius Properties received tax advice that shareholder continuity of 49% would be required to carry-forward losses. Based on this advice, a successful partial takeover by Montagu will not impact the ability for shareholders to benefit from the carry-forward losses in the future. To carry-forward imputation credits, Radius Properties needs to maintain continuity of 66% the voting rights. As Radius Properties has a low level of imputation credit balances ($16,000 as at 31 March 2012), the loss of imputation credits that may occur if the Montagu Offer is successful is not material.

Contingent Liabilities

Radius Properties has recognised a contingent liability since 31 March 2010 relating to possible legal action by Radius Care in respect of the lease agreement over Radius Properties' facilities. Radius Care alleged that the lease agreement was in breach of the Property Law Act 2007. Radius Properties strongly denies this claim. Since the initial communications between Radius Care and Radius Properties two years ago there has been no further formal communication relating to this matter and Radius Care has continued to perform its obligations under the lease. It is not possible to quantify this potential contingent liability.

4.5 Financial Performance

The financial performance of Radius Properties for the years ended 31 March 2009 (**FY09**), 2010 (**FY10**), 2011 (**FY11**) and 2012 (**FY12**), together with a forecast for the year ending 31 March 2013 (**FY13**) and the year to date results as at 30 November 2012, are shown in the table below:

Radius Properties Financial Performance (NZ$ 000s)

Year ending 31 March	2009	2010	2011	2012	2013F	30 Nov 2012 YTD
Rental income	2,001	2,110	1,889	2,172	2,558	1,730
Distributions from POS	288	521	700	570	503	343
Total income	**2,289**	**2,631**	**2,589**	**2,742**	**3,061**	**2,073**
Management fees	(395)	(416)	(584)	(236)	(231)	(163)
Professional services	(46)	(54)	(278)	(199)	(224)	(125)
Directors fees	(21)	(58)	(60)	(60)	(60)	(40)
Direct operating costs	(537)	(355)	(383)	(333)	(149)	(133)
Total operating expenses	(999)	(883)	(1,305)	(828)	(664)	(460)
Normalised EBIT	**1,290**	**1,748**	**1,284**	**1,914**	**2,397**	**1,613**
Profit on sale of investment properties	(1,157)	(173)	471	-	68	68
Unrealised value of investment properties	(4,449)	(5,536)	335	(416)	-	-
Gain on interest rate swaps	15	278	304	39	-	-
Loss on fair value of financial instruments	(994)	-	-	-	-	-
One off net costs	-	(1,672)	-	-	-	-
EBIT	**(5,295)**	**(5,355)**	**2,394**	**1,537**	**2,465**	**1,681**
Net finance costs	(837)	(991)	(777)	(519)	(491)	(359)
Net profit before tax	**(6,132)**	**(6,346)**	**1,617**	**1,018**	**1,974**	**1,322**
Income tax	1,095	(94)	134	-	(120)	(80)
Net profit	**(5,037)**	**(6,440)**	**1,751**	**1,018**	**1,854**	**1,242**

Source: Radius Properties Financial Accounts and Management Accounts

The following points should be taken into consideration when reviewing the table above:

- the restructure and changes implemented by the board impacted the net profit in FY10, largely due to the $5.5 million unrealised devaluation of investment properties and $1.6 million in one off costs relating to several previous governance issues;
- normalised EBIT improved in FY10 due to an increase in rental income and distributions from the POS;
- normalised EBIT improved in FY12 due to higher rentals, the effect of the full ownership of Arran Court, and significantly lower operating costs. The acquisition of the remaining 11.25% of the Arran Court POS scheme in the period explains the majority of the decline in POS distributions. Net profit was lower when compared with 2011 due to a write-down in the value of investment properties of $0.4m (against a gain of $0.3m in 2011) and a much lower gain from the revaluation of interest rate swaps;
- FY13 includes actual results for the eight months to 30 November 2012 and a budget for the balance of the financial year, adjusted for a later sale of Thornleigh, which was originally scheduled for October 2012. The forecast is based on the following key assumptions:

- no rent reviews during the last four months of the financial year;
- no management performance fees;
- no change in property valuations;
- no asset sales in the period;
- distributions from POS continue at the same monthly rate as for the previous eight months;
- operating expenses in line with the previous eight months; and

▪ as at 30 November 2012 the company is tracking ahead of budget. The forecast increase in net profit is primarily due to the, timing of the asset sales, performance of the POS, an additional $68,000 in profit on the sale of investment properties, no change in property valuations and a reduction in repairs and maintenance ($225,000 in FY12 versus $57,000 in the FY13 budget).

4.6 Ownership

As at 13 December 2012 Radius Properties had 23,589,740 shares on issue. Many of the shareholders in Radius Properties acquired their shareholdings through the failed Vestar Group. The top five shareholders are shown in the table below:

Radius Properties – Top 5 Shareholders as at 13 December 2012

Shareholder	Shares (000s)	%
Montagu Investment Holdings Limited	4,716	19.99%
GT Nominees Limited (Spicers)	4,618	19.58%
Investment Custodial Services Limited (ASB)	2,454	10.40%
Custodial Services Limited (Craigs Investment Partners)	1,587	6.73%
Forsyth Barr Custodians Limited (Forsyth Barr)	1,180	5.00%
Top 5 Shareholders	**14,555**	**61.70%**
Other Shareholders	**9,035**	**38.30%**
Total	**23,590**	**100.00%**

Source: Radius Properties Share Register

There is no liquidity in Radius Properties shares. Despite having approximately 650 shareholders, the company is not listed and accordingly there is no formal market for trading in its shares.

The top five shareholders of Radius Properties own approximately 62% of the company. With the exception of Montagu, the top five are custodial or institutional investors that hold shares on behalf of a number of individual investors via nominee and custodial companies. The level of custodian or institutional influence on individual investor’s voting decisions will depend on the underlying investor’s relationship with the custodian or institution.

On 9 November 2012, Montagu made an offer to acquire a minority stake in Radius Properties at $0.42 per share. This offer was successful and oversubscribed, leading to Montagu acquiring a 19.99% shareholding in Radius Properties. The level of oversubscriptions has no doubt played a significant part in Montagu launching the current partial takeover offer for further shares in the company.

5. Valuation of Radius Properties

5.1 Preferred Methodology

Overview

Grant Samuel's valuation of Radius Properties has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Radius Properties is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Radius Properties could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix A.

Preferred Approach

To value Radius Properties, Grant Samuel has estimated the aggregate proceeds from an orderly realisation of assets. Grant Samuel has relied upon the 31 March 2012 CBRE valuations of the property assets, and made adjustments to reflect specific attributes of Radius Properties.

5.2 Valuation

Grant Samuel's valuation of the equity in Radius Properties is $13.8 million - $14.7 million, equivalent to between $0.58 and $0.62 per share as summarised below:

Radius Properties – Valuation Summary

$ million except where otherwise stated	**Note**	**Low**	**High**
Market value of wholly owned properties		23.4	23.4
Proportionate share of the market value of St Joans and Fulton properties		7.1	7.1
Value of property portfolio		**30.5**	**30.5**
Less:			
Debt and net working capital		(9.4)	(9.4)
Share of St Joans and Fulton liabilities		(2.5)	(2.5)
Estimated disposal costs	1	(0.9)	(0.7)
Discount due to partial ownership of POS	2	(0.7)	(0.4)
Adjustment for excess overhead expenses	3	(3.2)	(2.8)
Equity value		**13.8**	**14.7**
Fully diluted shares on issue (million)		23.6	23.6
Value per share ($)	4	**0.58**	**0.62**

In reviewing the above table the following should be noted:

1. The valuations prepared by CBRE are not required to include an allowance for disposal costs. In this instance Grant Samuel believes it is appropriate to make an allowance for such costs, in part because it is likely that, ACML, as manager of Radius Properties, will sell further properties in the portfolio. In the event the Montagu Offer is successful an option for the controlling shareholder is to realise all the properties and potentially realise a substantial gain. Disposal costs have been estimated at 4.0% to 3.0% of the estimated market value of wholly owned properties;
2. Radius Properties owns a 61% and 48% share of the St Joans and Fulton POS respectively. The sale of a shareholding less than 100% may result in a discount to the full underlying value. Grant Samuel has applied a 10%-5% discount to the market value of the St Joans and Fulton POS;
3. Radius Properties is a relatively small property ownership vehicle, which results in it having a disproportionate level of overhead costs. Radius Properties has approximately $0.6 million in overhead costs, or 24% of gross income. This compares with Vital Healthcare at 9.8% and Property for Industry at 9.5% of gross income. Grant Samuel has discounted the excess costs of approximately $0.35 million due to Radius Properties' size at a discount rate of between 8% and 9% into perpetuity. This adjustment discounts the equity value by $3.2 million and $2.8 million at the low and high ends of the value range respectively; and
4. The valuation represents the estimated full underlying value of Radius Properties, assuming 100% of the company was available to be acquired, and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Radius Properties shares to trade, if an open market existed for these shares, in the absence of a takeover offer or proposal similar in nature to the Montagu Offer.

Comparison of valuations

Radius Properties – Property Valuation Summary

Property	CBRE Valuation 2011	CBRE Valuation 2012	Government Valuation
Radius Properties (100% owned)	23,400	23,625	23,000
POS	7,092	7,107	12,620
Total	**30,492**	**30,732**	**35,620**

Source: CBRE

Note that the POS are not 100% owned and government valuations reflect various valuation dates. There has been no material change in values since 2011 and there is no evidence to suggest there will be a material change in values at 31 March 2013. The key assumptions for the CBRE valuation are outlined in Appendix B.

Valuation per bed

A valuation metric commonly applied by participants and investors in the aged residential care sector is a value per bed. Care needs to be taken when interpreting this data as hospital beds are considered to be more valuable than rest home beds, and the relative proportion of each in any facility can distort the calculation:

Radius Properties – Valuation per bed

Property	Valuation $000	Number of Beds	Value per Bed $	Yield %
Radius Properties (100% owned)	23,625	369	64,024	9.6
POS	7,107	192	68,125	9.9
Minimum			***46,875***	***8.8***
Maximum			***73,196***	***10.9***
Average			***63,795***	***9.9***
Median			***64,444***	***9.4***
Weighted Average			***66,444***	***9.7***

Source: CBRE

The valuation of Radius Properties has been considered having regard to recent comparable property transactions. A selection of relevant transactions over the last three years is set out below:

Recent Transaction Evidence

Date	Property	Sale Price $000	Number of Beds	Value per Bed $	Yield %
Oct 12	Palmerston Manor	2,900	48	60,417	10.2
Sep 11	Golden Pond	3,450	50	69,000	8.2
Dec 10	Fraser Manor	2,100	32	65,625	7.8
Oct 10	Mt Victoria	4,210	48	87,708	9.5
Sep 10	St Winifreds	6,140	99	62,020	10.0
Aug 10	Ellerslie Gardens	4,700	82	57,317	10.5
Minimum				***57,317***	***7.8***
Maximum				***87,708***	***10.5***
Average				***67,015***	***9.4***
Median				***63,823***	***9.8***
Weighted Average				***66,830***	***9.6***

Source: CBRE

The above transaction evidence supports the CBRE valuations of Radius Properties aged care facilities.

Capital Cost of New Facilities

In its report titled Aged Residential Care Service Review – September 2010, Grant Thornton identified the costs of developing new aged care facilities:

Cost of developing new aged care facilities ($)

	$200m^2$	$350m^2$	$500m^2$
Construction and fit out costs	132,750	132,750	132,750
Land costs	25,714	45,000	64,286
Total capital costs per bed	**158,464**	**177,750**	**197,036**

Even under the lowest land cost scenario shown above the cost of developing new facilities is more than double the highest value per bed (Maeroa Lodge) as estimated by CBRE in the 31 March 2012 valuation of Radius Properties. As demand increases from the increasing aging population the value of well-maintained established facilities can be expected to rise, albeit not to the level of replacement costs.

Share Market Evidence

The valuation of Radius Properties has been considered in the context of the share market ratings of listed New Zealand property investment vehicles companies. While none of these companies is precisely comparable to Radius Properties, the share market data provides some framework within which to assess the valuation of Radius Properties.

Share Market Ratings of Selected Listed Companies

Company	Market Capitalisation (NZ$ millions)	NTA per share/unit
Argosy Property Trust	595.6	1.1
DNZ Property Fund	400.2	1.1
Goodman Property Trust	1,215.4	1.2
Kiwi Income Property Trust	1,121.0	1.0
NPT	95.9	1.0
Precinct Properties New Zealand	982.1	1.1
Property for Industry	263.8	1.1
Vital Healthcare Property Trust	375.3	1.3
Minimum		***1.0***
Maximum		***1.3***
Median		***1.1***
Average		***1.1***
Weighted Average		***1.1***

Source: Grant Samuel analysis, Capital IQ, Annual and Interim Reports

When observing the table above the following points should be noted:

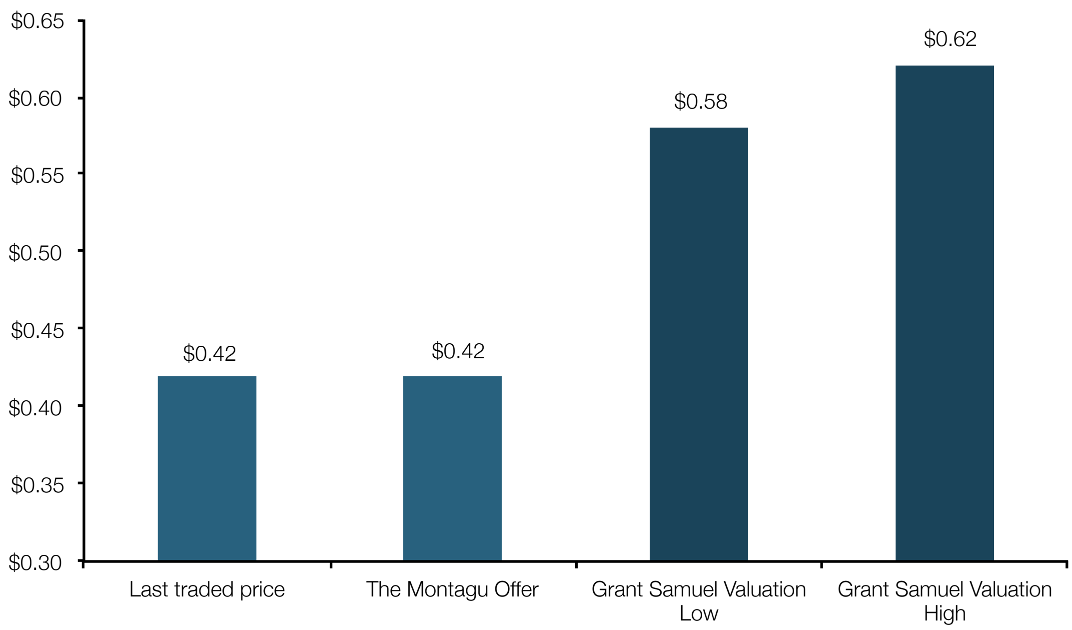
- Grant Samuel's analysis suggests that comparable property owning companies are trading at a premium to NTA;
- the valuation metrics outlined above are based on closing share prices as at 10 January 2013. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole but this is less applicable for property owning companies;
- the companies selected have varying financial reporting dates. The NTA and yield calculations are based on the latest financial information available;
- there are considerable differences between the operations and scale of the comparable companies when compared with Radius Properties.

6. Merits of the Montagu Offer

6.1 The value of the Montagu Offer

- ***Grant Samuel's assessment of the value of Radius Properties***. In Grant Samuel's opinion the full underlying value of Radius Properties shares is in the range of $0.58 to $0.62 per share as set out in Section 5. The full underlying value is the price a person or entity would be expected to pay to acquire the company as a whole and, accordingly, includes a premium for control. In Grant Samuel's opinion the offer price under a takeover offer where the offeror will gain control should be within, or exceed, the pro-rated full underlying valuation range of the company. The Montagu Offer is $0.42 per share. As the Montagu Offer is below Grant Samuel's assessed value range for shares in Radius Properties, there is no compelling reason to accept the Montagu Offer. The diagram below compares the Montagu Offer price with Grant Samuel's assessed value range and the Radius Properties share price (based on the last trade) immediately prior to the announcement of the Montagu Offer on 24 December 2012; and

Radius Properties – Comparison between Grant Samuel's Valuation Range and the Offer ($ per share)



- ***the premium implied by the Montagu Offer***. The Montagu Offer represents no premium or discount to the last traded price of shares in Radius Properties. The last trades in Radius Properties' shares occurred between 30 November 2012 and 13 December 2012 as a result of an offer by Montagu that acquired 19.99% of Radius Properties at a price of $0.42 per share (the November 2012 Montagu Offer). All share acquisitions in that period were effected at $0.42 per share. At the completion of the November 2012 Montagu offer, Montagu owned 19.99% of the issued shares in Radius Properties. An important distinction is that the November 2012 Montagu offer was for a minority interest in Radius Properties, which would not have conferred control of Radius Properties to Montagu. The offer did not require an independent advisers' report, although the Directors of Radius Properties did commission a report on the price that was being offered. There have been no trades in Radius Properties shares since 13 December 2012.

6.2 Rationale for the Offer and timing and circumstances surrounding the Offer

Montagu does not need to state the reasons for the pricing of its offer. The timing and circumstances surrounding the Montagu Offer may have been influenced by some or all of the following factors:

- the November 2012 Montagu offer was oversubscribed by existing Radius Properties shareholders by a substantial amount. It is likely that some of the holders of shares that were unable to sell into the November 2012 Montagu Offer would still wish to sell their remaining shares and indeed may have indicated to Montagu their willingness to do. Any agreement to accept the Montagu Offer must be disclosed in the Offer document, and Grant Samuel notes that no such disclosures were made. Montagu may believe that its new offer (at the same price) will receive a level of support that will ensure it reaches the 50.001% required threshold for the partial takeover offer to be successful. 50.001% is the minimum permitted threshold shareholding above 19.99% under the Takeovers Code without shareholder approval;

- there is no liquidity in Radius Properties shares. Despite having approximately 650 shareholders, the company is not listed and accordingly there is no formal market for trading in its shares. A listing on an exchange such as Unlisted would assist liquidity. Montagu will be aware that any offer to shareholders provides a liquidity event (if successful) that shareholders may wish to take advantage of. Indeed, the last trades of shares in Radius Properties were at the time of the November 2012 Montagu offer;
- the increasing demand for aged care facilities combined with a very wide gap between the values being attributed to existing facilities and the cost of developing new facilities is likely to be a contributing factor in Montagu seeking an investment in Radius. The Montagu Offer implies a price per bed of $55,500 against an average valuation per bed by CBRE of $65,400 and an estimate of new build costs of $158,500 - $ 197,000 per bed;
- if it can achieve a shareholding of 50.001% of Radius Properties, Montagu will control the company. Among other aspects, and subject to acting within the rules and regulations of the Companies Act, Montagu will have significant influence on who manages the property assets of Radius Properties and on what terms. Grant Samuel notes that the existing manager of Radius Properties is ACML, a company owned by some of the shareholders of Montagu;
- the Montagu Offer is opportunistic. The fact that the earlier offer was made at $0.42 and received acceptances for more shares than was being sought is not a valid reason for paying the same price for a controlling stake; and
- Montagu has not set out its detailed plans for Radius Properties if the Montagu Offer is successful, and nor does it have to. It has referred to a review of the dividend policy and a desire to raise additional capital through an equity raising. Montagu is an investment company with no other assets other than its 19.99% shareholding in Radius Properties.

6.3 Factors affecting the outcome of the Offer

Likelihood of Montagu increasing its Offer price or extending the Offer close date

There are two permissible variations to the key terms of the Montagu Offer:

- Montagu may choose to extend its Offer period. The Montagu Offer is due to close on 12 February 2013. Under the rules of the Takeovers Code the latest date to which the Montagu Offer may be extended is 90 days after the date on which the Offer opens, in this case 5 April 2012. This may happen if Montagu has not received sufficient acceptances by 12 February 2013;
- Montagu may choose to increase its Offer price. If Montagu increases its Offer price while its current Offer is still open the increased price will be available to all Radius Properties shareholders even if they have already accepted the current $0.42 per share Offer. This will not apply if Montagu makes another takeover offer at a higher price after the current Offer has closed; and
- there is no need for shareholders to accept the Montagu Offer early. The closing date for the Offer is 12 February 2013. This date can be extended by Montagu by giving no less than 14 days notice of such an extension. Not accepting the Montagu Offer or holding out until near the time the Montagu Offer closes may cause the Offer price to be increased. However, there is no certainty that the Offer price will be increased.

Radius Care Offer

- Radius Care has made an offer to purchase the assets of Radius Properties for $23.76 million. These assets have a book value of $27.93 million. A sale to Radius Care will require the approval of shareholders by way of a special resolution (75% of those voting). Radius Properties would then likely be wound up and the proceeds distributed to shareholders. Based on the 30 November 2012 balance sheet, shareholders would receive approximately $0.59 per share. This compares with the Montagu Offer of $0.42 per share and Grant Samuel's valuation of $0.58 – $0.62 per share;
- For shareholders to have the option of receiving this significantly higher price for their shares it will likely require the approval of Montagu as it holds 19.99%. Montagu have notified to directors that it will vote against the Radius Care Offer should it be put to shareholders for approval, which will make it challenging to pass a special

resolution to approve the Radius Care Offer. Assuming no shareholders, other than Montagu voted against the sale to Radius Care at least 14,148,001 shares out the 18,873,740 shares (i.e. approximately 75% of the remaining shares) would be required to vote in favour of the resolution. The Offer to acquire a 50.001% shareholding in Radius Properties is open until 12 February 2013. If the Offer is successful, and Radius Care extends its offer beyond its offer close date 1 February 2013, Montagu will have control over whether to accept or not accept the Radius Care Offer;

- On 17 January 2013, Montagu sent a letter to the Radius Properties Directors regarding the Radius Care Offer. The response of Montagu is not surprising, but gives shareholders an insight into Montagu's view on value. Montagu stated that it did not believe the Radius Care Offer was in the best interests of Radius Properties' shareholders due to:

  – the offer price for the assets being at a significant discount to the market value of those assets;

  – the uncertainty of the offer;

  – its limited realistic financial benefit to shareholders; and

  – it not supporting the wholesale disposal of assets at the present time.

  As noted above, the response from Montagu provides an insight into its view on value. Montagu states that the Radius Care Offer for the assets is at a significant discount to the market value of those assets, which is a contradiction to commentary in its Offer letter to shareholders on 5 January 2013, where it states that it *"believes that 42 cents is an attractive price in the circumstances"*. From a shareholder's perspective, the Montagu Offer at $0.42 falls well short of the $0.59, being the estimated distribution to shareholders from the Radius Care Offer (i.e. a discount to NTA of 46.5% versus 24.9% respectively)

  The uncertainty of the Radius Care Offer largely relates to a satisfactory funding arrangement being agreed and shareholder approval being received. As noted below, Radius Care believes that it can finalise an appropriate funding arrangement. Although Montagu voting against a special resolution, if it was put in front of shareholders, makes it difficult to pass a special resolution it is not, in Grant Samuel's experience, impossible, especially when considering the difference in the value offered by Montagu and Radius Care.

  The negotiation of a sale and purchase agreement under the Radius Care proposal would be relatively straightforward considering Radius Care are the sole tenant of all Radius Properties' properties.

  The Radius Care Offer is subject to the following conditions:

  – entering into a sale and purchase agreement;

  – approval by the board of Radius Care to the final terms and conditions of any funding arrangement by Radius Care; and

  – the approval of Radius Properties shareholders.

  These are standard conditions for an offer of this nature. Radius Care holds rights of first refusal to acquire Radius Properties' properties and its interest in the POS. This does not prevent another party making a higher offer for the properties. Radius Care would have to match any higher offer otherwise its pre-emptive rights would lapse.

  On 17 January 2013, David Glenn, in his capacity as Director of Radius Properties, met with Brien Cree to discuss the Radius Care Offer. The key points from this meeting included:

  – the transaction will be debt funded;

  – a major trading bank has provided a conditional offer to finance the Radius Care Offer. Radius Care considers the terms of bank's offer to be standard; and

  – it is unlikely that a higher price will be offered by Radius Care.

  It is important to consider that this was the first meeting with Radius Care regarding the Radius Care Offer and no formal negotiation has taken place. Shareholders wishing to extract a higher value for their shares may choose to not accept the Montagu Offer on the expectation that the Directors will be able to negotiate a higher price from Radius Care;

- Montagu has also made the Directors aware that in its opinion to avoid a breach of Rule 38 of the Takeovers Code the following needs to be communicated to shareholders:
  - the limitations of the Radius Care Offer;
  - Montagu would vote against it if it was to be put to shareholders; and
  - that if the Radius Care Offer was to be put to shareholders, the special resolution to approve the Radius Care Offer would be virtually certain to fail due to Montagu voting against the Radius Care Offer.

  Rule 38 of the Takeovers Code prohibits the Radius Properties' board from taking or permitting any action in relation to Radius Properties' affairs that could effectively result in Montagu's current offer being frustrated;
- Montagu is acting, quite understandably, in its own best interests. An issue for shareholders is that in this instance there are no independent directors of Radius Properties. It should also be noted that Radius Care is the tenant of all Radius Properties and has pre-emptive rights over the Radius Properties' properties and its interest in the POS. Treating with Radius Care appropriately at this time is important for the future of Radius Properties regardless of the outcome of either of the offers before shareholders;
- Montagu is unlikely to withdraw its Offer (which would require the consent of the Takeovers Panel) and agree to let the Radius Care Offer be put to shareholders. Grant Samuel understands that it has already received acceptances into the Montagu Offer. These acceptances cannot be withdrawn. However, it is important to note that all shareholders, including those who have already accepted into the Montagu Offer, will be able to vote on the Radius Care Offer in the event that it is put to shareholders, provided that the Montagu Offer has not been declared unconditional;
- The Montagu Offer is due to close on 12 February 2013. There is insufficient time before this date to call a special meeting of shareholders to vote of the Radius Care Offer as the Companies Act requires that shareholders be provided with not less than 10 working days notice of the meeting. If Montagu receives acceptances to take its shareholding to at least 50.001% by 12 February 2013, Montagu could declare its Offer unconditional and shares that have been accepted into the Offer will be acquired by Montagu;
- Even if the Montagu Offer is extended to a date that provides sufficient time for the Radius Care Offer to be put to a shareholder vote, if the Montagu Offer is declared unconditional prior to such a vote, all shares accepted into the Offer will be acquired and the Radius Care Offer will not pass a shareholder vote as Montagu will hold 50.001% of the Radius Properties shares and has stated it will vote against the Radius Care Offer;
- Montagu has made statement in relation to its voting intentions with regard to the Radius Care Offer. As a result it may not vote in favour of the Radius Care Offer without being at risk of breaching the Takeovers Code rules in relation to misleading and deceptive conduct;
- In Grant Samuel's opinion, it would be in the best interests of the shareholders for the Directors of Radius Properties to put the Radius Care Offer to shareholders;
- Montagu is likely to wait until Monday 28 January 2013, being the last date it may vary the closing date and/or the price, before increasing its Offer price. If acceptances are at or close to 50.001% it will be unlikely to make a change to either the Offer price or the closing date. If acceptances are well below the required level it can choose to extend the Offer period, alter the Offer price or let the Offer lapse;
- In Grant Samuel's opinion shareholders who have accepted the Montagu Offer, from 17 January 2013 to the time that the Radius Care Offer has been communicated to shareholders, should be provided the opportunity to withdraw their acceptance of the Montagu Offer. Shareholders should not be penalised for not having access to all the information they are entitled to. The only way to release shareholders that have accepted the Montagu Offer is for Montagu to seek the Takeover Panel's consent to withdraw the offer under Rule 26 of the Takeovers Code.

Likelihood of alternative offers

The Montagu Offer was announced on 24 December 2012. To date only the Radius Care Offer has been made, which is not surprising given the overlap of the timing of the Montagu Offer with the New Zealand summer holiday break and the level of media coverage of the Montagu Offer, which was non-existent. Grant Samuel notes that:

- other than the existing Montagu shareholding of 19.99%, there are no substantial shareholders that would create an impediment to an alternate offer being made by another party. There are four custodial shareholders with interests in excess of 5%, but these each represent a holding entity for groups of other shareholders; and
- any competing offer for 100% of Radius Properties would require Montagu to agree to sell into the offer in respect of its existing 19.99% shareholding.

Other factors

- The Montagu Offer is subject to a package of relatively standard conditions, as set out in the Offer documentation. Two of the conditions state that if new independent valuations for the properties in the group are received that show values 10% less than the CBRE values (for a single property) or 5% less than the CBRE values (for two or more properties), then Montagu will have the right to withdraw the Offer. This outcome is possible if the Offer is extended as the valuations will be completed by CBRE for the FY13 financial statements by 31 March 2013;
- The Board of Radius Properties is unlikely to make a recommendation on the Montagu Offer because it has a direct conflict as each member of the Board has a beneficial interest in Hosel Holdings, a shareholder in Montagu; and
- Although no shareholders have entered into lock-up agreements in respect of the Montagu Offer, four custodial shareholders (GT Nominees Limited, Investment Custodial Services Limited, Custodial Services Limited and Forsyth Barr Custodians Limited) are the registered holders of 41.71% of the shares in Radius Properties, representing approximately 52.13% of the shares in Radius Properties not owned by Montagu. While the custodial holders of the shares will not accept or reject a takeover offer unilaterally for the owners of the shares that it holds the shares on behalf of, they may recommend acceptance or rejection to the respective shareholders that they represent. Accordingly, the willingness or otherwise of the Custodian shareholdings to recommend acceptance or rejection of the Montagu Offer could have a significant influence on whether Montagu achieves the minimum 50.001% acceptance threshold. As an example, if the four custodial holders recommended acceptance to all the shareholders they represent, and the shareholders followed that recommendation, the level of acceptances would exceed the minimum requirement and the Montagu Offer would be successful.

6.4 Potential Outcomes of the Montagu Offer

Overview

The Montagu Offer is a partial takeover offer to take the total Radius Properties shareholding controlled by Montagu to 50.001%. There are only two possible outcomes of the Montagu Offer:

- the Montagu Offer is successful – Montagu receives sufficient acceptances to take its shareholding in Radius Properties to 50.001%; or
- the Offer is unsuccessful – Montagu does not receive sufficient acceptances to take its shareholding in Radius Properties to 50.001%, in which case the Offer will lapse, Montagu will not acquire any shares under the Offer.

Montagu receives sufficient acceptances to take its shareholding in Radius Properties to 50.001%

If Montagu receives sufficient acceptances to take its shareholding in Radius Properties to 50.001% then:

- Montagu will become the cornerstone shareholder of Radius Properties;
- existing Radius Properties shareholders will almost certainly retain a shareholding in Radius Properties, even if they have accepted all of their shares into the Offer, due to the scaling provisions of the Takeovers Code (described below). The risks and benefits associated with an investment in Radius Properties are outlined at Section 6.5 below;
  - Montagu has not stated its intentions in respect of how it will run Radius Properties if the Montagu Offer is successful. As is often the case with partial offers there has been a suggestion of reduced or no dividends and a substantial capital raising both of which may be unattractive to minority shareholders who will in any event continue to hold 49.99% of Radius Properties but have even less influence than at present;

- the increase in Montagu's shareholding to over 50% will mean that it will have absolute control on matters that require the passing of ordinary resolutions which are commonly matters that shareholders are asked to vote on at annual general meetings, such as the appointment of directors and auditors. Montagu will be prohibited from voting on any ordinary resolution that, if accepted, would result in an increase in its shareholding in Radius Properties. Remaining shareholders will still be able to exert influence on substantive matters, which would require approval by special resolutions that need the support of 75% of votes cast. Such matters would include a major transaction; and
- once Montagu has control of Radius Properties it can determine such matters as dividend policy, capital expenditure and acquisitions and divestments (other than major transactions such as the sale of all of the assets of the business).

- if the Offer is successful, Montagu, having passed the 50% voting control threshold will be able to acquire an additional 5% of Radius Properties in any twelve month period (commencing twelve months after the completion of the Montagu Offer) under the "creep" provisions of the Takeovers Code. However, Montagu cannot acquire any further shares in Radius Properties for a period of twelve months from the close of the Montagu Offer without making another formal takeover offer for all or some of the remaining shares in the company, or without shareholder approval. Montagu could cause Radius Properties to issue non-voting shares, which would potentially enable Montagu to increase its economic interest in Radius Properties without breaching the Takeovers Code. It could also lend money to Radius Properties;
- if the Montagu Offer is successful Radius Properties will be significantly less appealing as a takeover target. Any subsequent takeover offer for 100% of Radius Properties would require Montagu to sell its 50.001% shareholding in Radius Properties to the new offeror for the full takeover offer to be successful. Importantly, in the event Montagu subsequently chose to sell its shareholding in Radius Properties to a third party as a single transaction (i.e. without the same offer being extended to other shareholders) it could only do so with the approval, by way of ordinary resolution, of Radius Properties shareholders not associated with Montagu;
- Montagu will be unable to increase its shareholding for 12 months (and then by only 5% per annum) without making a new offer or gaining the prior approval of minority shareholders. Any capital raising which resulted in Montagu increasing its shareholding would require the approval of the majority of the remaining 49.999% minority shareholders; and
- Radius Properties does not trade in an open market. It is difficult to opine on where Radius Properties shares will trade once the Offer is complete (if it is successful). Radius Properties shares are only rarely traded. This is likely to suppress the Radius Properties share price. If the Offer is successful the liquidity of Radius Properties will reduce further. Alternatively the presence of a cornerstone shareholder may be seen by some investors as a positive factor and increase interest amongst shareholders and investors.

The scaling provisions of the Takeovers Code

For the Offer to succeed, Montagu must acquire 37.508% of Radius Properties shares it does not already own, to take its shareholding to 50.001%. If the Montagu Offer is successful, shareholder acceptances will be subject to the scaling provisions of the Takeovers Code. Accordingly, **there is no certainty as to what proportion of each accepting shareholder's shares will be acquired if the Offer is successful.** If Montagu receives acceptances in respect of more than 37.508% of Radius Properties not already controlled by it, then it will first take up the lesser of:

- 37.508% of all the shares held by each accepting shareholder; or
- the number of shares the accepting shareholder has accepted into the Offer (where this amount is less than 37.508% of the shareholder's shareholding).

Grant Samuel has referred to this throughout this report as the Initial Take-up.

If the number of shares acquired under the Initial Take-up is less than the number of shares sought by Montagu to reach its 50.001% minimum acceptance condition (which it will be unless in the unlikely event 100% of Radius Properties shareholders accept 37.508% of their shares into the Offer), Montagu must then take up surplus additional shares to make up the shortfall (the **Remaining Required Shares**) from shareholders that have accepted the offer for more than 37.508% of the shares that they own. For the purposes of the surplus take-up Montagu will acquire the same proportion of surplus acceptances from each shareholder who has accepted more than 37.508% of their shareholding into the Offer (the **Surplus Acceptances**), calculated as ratio of the Remaining Required Shares over the total number of Surplus Acceptances.

In the very unlikely event that acceptances equal exactly 37.508% of the shares not already held or controlled by Montagu, then shareholders will not be subject to any scaling regardless of their individual acceptance level.

If Montagu receives acceptances at any level over the 37.508% threshold, Radius Properties shareholders who accept the Offer for all of their shares are unlikely to be able to sell all of their shares into the Montagu Offer as excess acceptances will be scaled back. The level of scaling is highest when the overall acceptance level is also high. The table below shows examples of the scaling mechanism under the Takeovers Code assuming example acceptance levels of 40% and 60% of the shares not already owned by Montagu:

Example of Scaling Mechanism

Total acceptances into the Offer (% not owned by Montagu)	**40%**	**60%**
Total acceptances into the Offer (number of shares)	7,549,660	11,324,491
Total shares sought under the Offer	7,079,106	7,079,106
Initial Take-up (37.508% x acceptances)	2,831,727	4,247,590
Remaining Required Shares	4,247,379	2,831,516
Surplus Acceptances	4,717,934	7,076,901
Percentage of Surplus Acceptances to be acquired	90.0%	40.0%
# of shares a holder of 1000 shares all accepted into Offer would sell	938	625
# of shares a holder of 1000 shares half accepted into Offer would sell	469	313

6.5 An investment in Radius Properties

As with any equity investment there are risks associated with the market in which the company operates. The risks associated with an investment in Radius Properties include:

- all of the properties owned by Radius Properties are tenanted by the same lessee – Radius Care. Radius Care is a privately owned specialist rest home/private hospital operator that manages 20 facilities throughout New Zealand, caring for approximately 1,400 residents and employing approximately 1,200 staff. The major shareholder of Radius Care is Mr Brien Cree, who led a management buyout of the company in 2010. As a management buyout, it is likely that Radius Care has debt that it needs to service, coupled with substantial lease commitments to Radius Properties and the owners of other properties that it leases. The tenant concentration risk means that if Radius Care were to have financial issues, Radius Properties would likely need a replacement tenant in all its properties, not just one. However, there is no current reason to believe that Radius Care cannot continue to be a suitable long term tenant;
- the properties owned by Radius Properties are largely purpose built accommodation and hospital complexes. These properties have limited alternate use. In the event the government funding for rest homes and hospitals was restricted or cut, the viability of aged care facilities such as rest homes and hospitals would be challenged;
- Radius Properties is the subject of allegations by Radius Care that it placed Radius Care under duress during the negotiation of an agreement dealing with lease extensions and changes to the rent review formula in March 2010. Court action has not yet been initiated, although if it was and the allegations successfully proved, then this could have negative implications for Radius Properties including the potential invalidation of the lease renewals and the potential requirement for compensation. Grant Samuel is advised that while Radius Care has substantially performed its obligations under the lease agreements, the allegations have not been withdrawn;
- the investor and operator demand for aged care assets could fall, potentially impacting on the values of aged care assets such as those owned by Radius Properties;
- ACML, as manager of Radius Properties, is investigating the level of expenditure required to meet earthquake strengthening recommendations that may be the result of a public consultation process on the matter by the Ministry of Business, Innovation and Employment. The risk is predominately to buildings constructed of masonry; and

- currently listed property investment entities trade at a premium to NTA of, on average, around 10%. This is in part due to their high dividend yield, a result of distributing nearly 100% of cash earnings, and the tax advantages accruing to investors from the property investment entities being PIE investment vehicles (which reduces the incidence of tax on distributions, a feature which is not available to the majority of other listed companies).

The benefits and opportunities associated with an investment in Radius Properties include:

- since the change in the Board and manager in 2009 there has been an improvement in operating performance as a result of a number of initiatives including the sale of smaller facilities. It is possible that there will be further asset sales;
- while the Montagu Offer is priced at $0.42 per share, the net assets of Radius Properties indicates a net asset value per share of $0.79. To date, shareholders have had limited opportunities to realise their investment in the company, in part due to the lack of liquidity historically associated with shares in Radius Properties. Liquidity events such as the November 2012 Montagu offer and the current Montagu Offer (if it is successful) provide the opportunity for shareholders to sell some of their shares. Montagu not surprisingly sees value and opportunity in Radius Properties at $0.42 per share, and shareholders who elect not to sell into the Montagu Offer can reasonably be expected to be able to participate in liquidity events in the future. However, the timing of those events is uncertain;
- investor and operator demand for aged care facilities may increase. The New Zealand population base is aging and there is an increasing proportion of people in the higher age brackets. These demographic trends mean that the pressure on the aged care infrastructure will increase over time. Whether this translates into increased values for aged care assets cannot be predicted with certainty, as it depends to a great extent on the government funding model which currently only provides for CPI increases and places strict limits on the numbers of subsidised beds. The market is competitive and increasingly residents are seeking a higher standard of facilities and care. Smaller, older facilities are unlikely to remain competitive creating an opportunity for larger facilities, such as those owned by Radius Properties. There will also be an opportunity for Radius Properties to expand through greenfields development or buying existing facilities and upgrading and/or expanding them;
- Radius Properties has a relatively modest level of debt and is well positioned to acquire further aged care assets if these can be identified at appropriate prices, sizes, quality and location. The presence of a cornerstone shareholder is likely to see Radius Properties grow which may result in economies of scale and improved earnings; and
- there is the potential for minority shareholders to become locked in with very limited ability to sell their shares. This position in part explains the high level of acceptances to the earlier offer. If Montagu is successful in securing 50.001% it will have invested approximately $5 million in Radius Properties. Montagu will be anxious to make this investment work and, to the extent it can, the benefits will flow to all shareholders. Montagu is likely to want to grow the scale of its investment by way of acquisitions, takeovers or mergers;
- shareholders have the option of either accepting the Offer for all their shareholding, accepting the Offer for a portion of their shareholding or rejecting the Offer. Montagu has referred to a possible capital raising in its Offer document. There is a likelihood that any capital raising would be at a deeply discounted price, possibly for less than $0.42 per share. If remaining shareholders do not take up their entitlement under any future capital raising their shareholding will be diluted and the value per share reduced. An option available to shareholders is to accept the Montagu Offer for a portion of their shareholding, and if the Offer is successful, consider investing the proceeds if and when there is a capital raising.

6.6 Acceptance or Rejection of the Montagu Offer

Acceptance or rejection of the Montagu Offer is a matter for individual shareholders based on their own view 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(s).

GRANT SAMUEL & ASSOCIATES LIMITED

18 January 2013

Appendix A – Valuation Methodology Descriptions

1. Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

2. Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

3. Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is appropriate in Radius Properties' case.

4. Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is aware that values per bed are commonly used rules of thumb to value aged residential care assets. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix B – CBRE Valuation Assumptions

CBRE made assumptions, which collectively have a material impact upon its valuation:

- CBRE's inspection involved an external viewing of the facility and grounds together with an internal viewing of the common areas and a sample of rooms. CBRE's valuation is on the basis that the quality and finish of the rooms inspected represent the balance of the rooms in the complex. CBRE's valuation is based upon the condition of the facility as at the date of inspection;
- CBRE was not aware of any side agreements or pending memorials awaiting registration on the land Identifier as described within their reports which may be detrimental to value;
- CBRE's valuation is of the land and buildings only and does not reflect the freehold going concern or value of the lessee's business operation;
- the tenants are paying the contract rental as described in and as required in the Deed of Lease and/or subsequent variations to;
- CBRE's valuation has been completed on the basis of a standalone asset with no allowance made for head office or corporate overhead expenses; and
- that the land is free of any contaminants that may detrimentally affect the value of the property as currently developed.

The following financial assumptions were made:

- annual market rentals were capitalised at discount rates of 9.5% - 10.75%;
- cash flows from under/over rental situations were discounted at rates of 10.00%-11.30%; and
- as a cross check on the capitalisation valuation methodology, the following ranges of per bed valuations were used:

CBRE– Per bed valuation range

Type	Low	High
Rest home	$45,000	$60,000
Hospital	$50,000	$82,500

Appendix C – Qualifications, Declarations and Consents

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, F Fin, and Christopher Smith, BCom, PGDipFin, MAppFin. Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Radius Properties. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Radius Properties. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Radius Properties. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Radius Properties. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Radius Properties. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Radius Properties prepared by the management of Radius Properties. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Radius Properties. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Radius Properties is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Radius Properties, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Radius Properties, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Montagu Offer. Grant Samuel expressly disclaims any liability to any Radius Properties security holder who 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 whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel 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 Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by Radius Properties and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Radius Properties or Montagu that could affect its ability to provide an unbiased opinion in relation to the Montagu Offer. Grant Samuel had no part in the formulation of the Montagu Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Montagu Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Radius Properties and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Radius Properties and contained within this report is sufficient to enable Radius Properties security holders to understand all relevant factors and make an informed decision in respect of the Montagu Offer. The following information was used and relied upon in preparing this report:

Publicly Available Information

- Financial statements for the years ending 31 March 2010, 2011 and 2012;
- Government property valuations;
- WP Hogan Review of Pricing Arrangements in Residential Aged Care – Commonwealth of Australia;
- Statistics New Zealand – National Population Projection 2011 (base) – 2061;
- Health Partners – Introducing the ARC Demand Model – New Zealand Aged Care Association - September 2012; and
- Grant Thornton – Aged Residential Care Service Review – September 2010.

Non Public Information

- Management accounts as at 30 November 2012;
- 2013 financial budget;
- Board papers and minutes since November 2009;
- CBRE valuations as at 31 March 2012;
- CBRE general market overview – 20 October 2012;
- Shareholder register as at 3 January 2013;
- Investor communications since November 2009;
- Management agreement, and related documents, between Radius Properties and ACML; and
- Letter from PWC in regards to measuring and maintaining the continuity of losses - 18 September 2012.

6. Declarations

Radius Properties has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Radius Properties has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Radius Properties are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Radius Properties. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to security holders of Radius Properties. 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 Grant Samuel as to the form and context in which it appears.