Pyne Gould Corporation Limited

Independent Adviser's Report

On the full Takeover Offer from Australasian Equity Partners

Pyne Gould Corporation

GRANT SAMUEL

November 2011

Table of Contents

1. Terms of the AEP Offer

1.1 Background

On 10 October 2011 Pyne Gould Corporation Limited (**PGC**) announced that it had received a notice of intention from Australasian Equity Partners No.1 LP (**AEP**) to make a full takeover offer for PGC (**the AEP Offer**). At the time of giving notice of its intention to make a takeover offer AEP advised that PGC shareholders holding 37.51% of the PGC shares on issue had agreed to accept the AEP Offer pursuant to Lock-up Agreements.

The two largest shareholders that have entered into Lock-up Agreements are Baker Street Capital, L.P (**Baker Street Capital**) which owns 19.78% of the shares on issue and Pyne Holdings Limited (**Pyne Holdings**) which owns 13.2% of the PGC shares on issue. Pyne Holdings is controlled by George Kerr, a director of PGC.

AEP is a New Zealand limited partnership. A limited partnership has the same fundamental legal features as an ordinary limited liability company. A limited partnership has no directors but must have at least one general partner who is responsible for management of the partnership. The general partner of AEP is Australasian Equity Partners (GP) No.1 Limited, a New Zealand company with George Kerr being its only director and through Pyne Holdings, its sole shareholder. Pyne Holdings and Baker Street Capital are the initial limited partners and have agreed to provide 80% and 20% of the initial committed capital of AEP respectively.

Looking through the limited partnership structure the AEP offer is effectively a takeover offer from George Kerr and Baker Street Capital.

1.2 Details of the AEP Offer

AEP is offering to acquire 100% of PGC at a price of 33 cents per share. The Offer is conditional upon AEP achieving at least 90% of the voting rights of PGC. AEP has reserved the right to waive this condition provided it reaches acceptances for more than 50% of the voting rights. The Offer is open for acceptance until 2 December 2011 (unless extended by AEP).

The AEP Offer is subject to an extensive range of conditions as set out in the Offer documentation. Some of the more unusual conditions include:

- there being no decline in the NZSX 50, the S&P/ASX 50 or the S&P 500 indices of 10% or more which is maintained for two or more consecutive trading days measured from 7 October 2011 (the trading date prior to the date on which AEP gave notice of its intention to make an offer) until the date on which the Offer closes;
- no central government or sovereign body or entity of any country that is a member of either the European Union or the Organisation for Economic Co-operation and Development defaults on any debt it owes to any lenders, or undertakes or agrees to undertake a reconstruction of its debt;
- there being no downgrade of any rating assigned by Standard & Poor's, Moody's or Fitch to either:

  (a) the debt owed by the central governments (or government owned bodies/entities) of either New Zealand or Australia; or

  (b) any of those central governments or government sovereign owned bodies/entities themselves; or

  either:

(a) any of Westpac Banking Corporation, Australia and New Zealand Banking Group Limited, National Australia Bank Limited, Commonwealth Bank of Australia or Heartland New Zealand Limited; or

(b) the debt issued by any of the entities referred to above.

AEP may only make the following variations to the Offer:

- increase the price. Any price increase would be available to all accepting shareholders regardless of when they accepted the Offer;
- reduce the minimum acceptance condition from 90% (but only to a percentage greater than 50%);
- waive any conditions of the Offer (other than a minimum acceptance condition of more than 50%) which are for the sole benefit of AEP only and AEP has indicated that it may, to the extent they are capable of being waived and to the extent permitted under the Takeovers Code, be waived in whole or part by AEP at its absolute discretion; and
- extend the Offer period beyond the 2 December 2011 (the current closing date for the offer) but for no longer than a further 60 days. If the offer is declared unconditional as a result of achieving a minimum level of acceptances the offer can be extended beyond the maximum period (90 days) by a period of up to 60 days from the date the offer was declared unconditional.

There is a strong possibility that Greece and/or Italy could default or undertake a reconstruction of their debt, which would give AEP the option of terminating the AEP Offer.

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.

PGC 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; and

(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 AEP and PGC as ***bidder*** and ***target*** respectively. PGC's response to the AEP 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).

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of PGC 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 AEP Offer. Grant Samuel is independent of PGC and AEP and has no involvement with, or interest in, the outcome of the AEP 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 PGC shareholders. This report is for the benefit of the shareholders of PGC other than AEP. 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 AEP Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix A.

2.2 Basis of Evaluation

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

- the estimated value range of PGC and the price of the AEP 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 PGC shares in the absence of the AEP Offer;
- any advantages or disadvantages for PGC shareholders of accepting or rejecting the AEP Offer;
- the current trading conditions for PGC;
- the timing and circumstances surrounding the AEP Offer;
- the attractions of PGC's business; and
- the risks of PGC's business.

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.

3. Profile of PGC

3.1 History

PGC's origins and name stem from the merging of three stock and station businesses in 1919 to form Pyne Gould Guinness (**PGG**). As a result of the merger PGG became a substantial farm financier, wool broker and agent and attorney for farm investors. Acting as a financial agent for farm investors eventually led to the administration of estates and the establishment of a Trust Department in 1934 under a special Act of Parliament. The more recent history of PGC is summarised in the table below:

Key Events in PGC's History	
Year	**Description**
1987	Formation of PGC with PGG becoming a wholly owned subsidiary
1988	Acquisition of 40% share in Reid Farmers, a Dunedin based rural services company
1992	Acquisition of Allied Finance
1996	Acquisition of AMP Perpetual Trustees
1998	PGG Trust amalgamated with AMP Perpetual Trustees to form Perpetual Trust Limited (**Perpetual Trust**)
2001	PGG merged with Reid Farmers. Merged entity takes PGG name
	Acquisition of MARAC Finance (**MARAC**) and Frontline Finance
2003	MARAC, Allied and Frontline merged under the MARAC brand
2005	Facilitated merger of PGG with Wrightson Limited to form PGG Wrightson
2009	Acquired Equity Partners Asset Management Limited
	Raised $272.5 million through rights issue and private placement
	Established the Torchlight Credit Fund
2010	Facilitated merger of MARAC business with Canterbury Building Society and Southern Cross Building Society to form Building Society Holdings Limited (now known as Heartland New Zealand Liimited)
2011	Transferred its investment in Heartland New Zealand to its shareholders via an in-specie distribution

Over the past 18 months PGC has transformed itself and now has a strategic focus on *"the provision of financial and asset management services to middle New Zealanders".* The business' core operations are:

- ***Perpetual Group***

  Perpetual Group includes the operations of Perpetual Portfolio Management, Perpetual Asset Management and Perpetual Trust. In combination these businesses offer financial advisory, investment management, personal trust and estate services and corporate/institutional trust services to clients across New Zealand;

- ***Torchlight Investment Group***

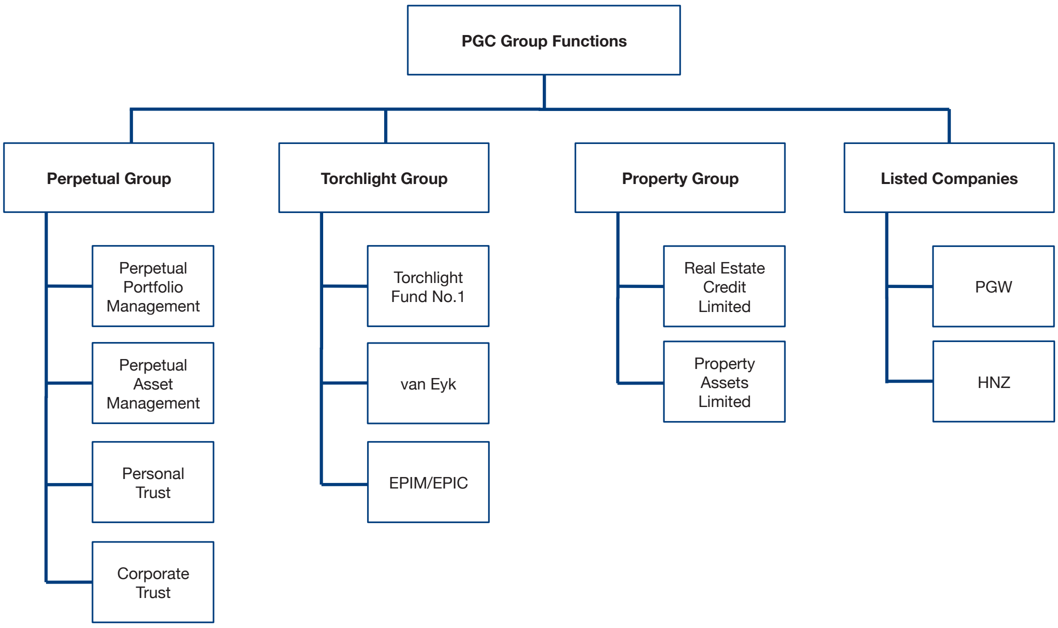
  Torchlight Investment Group (**TIG**) manages and co-invests in private equity funds aimed at high net worth individuals and institutions across Australasia. Two funds currently fall under the TIG umbrella – Equity Partners Infrastructure Company No.1 Limited (**EPIC**) (managed by Epic Investment Management Limited (**EPIM**)) and Torchlight Fund No.1 LP (**Torchlight Fund**); and

- ***Property Group***

  The Property Group comprises Real Estate Credit Limited (**RECL**) and Property Assets Limited (**PAL**) and is responsible for managing the non-core property assets of PGC and the MARAC property portfolio that is now part of Heartland New Zealand Limited (**HNZ**).

PGC also owns investments in two NZSX listed companies – HNZ and PGG Wrightson Limited (**PGW**).

The diagram below sets out the operational structure of PGC:



The activities of PGC are discussed in further detail in the sections below.

3.2 Perpetual Group

Perpetual specialises in financial planning, managing investments, and providing professional trustee services to personal and corporate clients. Perpetual's business is split into three divisions:

- Perpetual Portfolio Management;
- Perpetual Asset Management; and
- Perpetual Trust.

As at 30 September 2011 Perpetual had $609 million of funds under advice or management.

Perpetual Portfolio Management

The services provided by Perpetual Portfolio Management (**PPM**) include financial planning, portfolio management and administration, as well as trust, will and estate planning services for individuals and families. Perpetual also administers the transfer of UK pensions for immigrants to New Zealand. Advisory services are provided by a network of financial advisers contracted by PPM located across Auckland, Taranaki, Wellington, Canterbury and Otago.

Financial advisers receive support services from PPM in the areas of regulatory compliance, brand development, investment research, client administration and reporting and lead generation.

PPM's core client base originated from Perpetual's trust business. PGC intends to grow the PPM business through the acquisition of complementary financial advisory businesses in New Zealand.

Management Fees are earned based on a percentage of individual portfolio size.

Perpetual Asset Management

The principal business of Perpetual Asset Management (**PAM**) is the creation and management of investment funds focused on the cash, bond and equity sectors. PAM currently manages 10 funds, which in aggregate have funds under management of approximately $251 million. PAM took over the operation of Perpetual Trust's mortgage and cash funds in 2009 and has since launched a further nine funds:

Perpetual Asset Management Funds Under Management as at 30 September 2011	
	$ million
CashPlus Fund	16.3
NZ Bond Fund	2.9
Global Bond Fund	75.7
World Property & Infrastructure	5.8
Australasian Share	9.6
World Shares	9.8
Emerging Markets	4.3
Alternative	7.9
Cash Management	48.9
Mortgage	69.8
Total	**$251.0**

PAM receives expert investment advice on matters such as asset allocation, trends and manager performance from van Eyk Research Pty Limited (**van Eyk**), an Australian based company that specialises in the provision of investment research to financial advisers. van Eyk has consulting arrangements to institutions with over A$50 billion under advice including AMP and Macquarie Bank. PGC has a 38% interest in van Eyk, which it acquired in 2010.

Perpetual Trust

Perpetual Trust provides personal client services and corporate trust services and employs over 100 people across seven branches and has approximately 10,000 active customers.

Its personal client services include trust establishment and management, asset and estate planning, management and administration, conveyancing and a range of accounting and taxation services. Fees are charged based on both assets under administration and income received from funds under administration. Additional fees are generated based on time in attendance for services such as accountancy and tax advice.

Corporate Trust services are provided for investment products, including unit trusts, securitisation structures, group investment funds, superannuation schemes, debt securities and local authority funding. It also acts as a statutory supervisor for retirement villages, forestry partnerships and olive groves. Perpetual Trust has 330 corporate clients.

The Corporate Trust business generates the majority of its revenues from renewal fees (75%), which are relatively stable given the long-term nature of most corporate trust arrangements.

The Corporate Trust business is facing an increased workload as a consequence of new securities legislation. It is intending to increase fees to cover the increased workload. In the year ended 30 June 2011 approximately 20% of revenue was from one-off fees relating to the collapse of a number of finance company clients. Replacing these clients and the proposed increased one-off fees will both likely prove a challenge in a very competitive market.

Effective 1 October 2011, the Government introduced a new regulatory framework for Corporate Trustees. Corporate Trust providers are now required to gain a license from the FMA in order to practice in the industry. The granting of this license does not require pre-existing statutory rights, which Perpetual currently enjoys.

Perpetual will continue to retain privileges from the Statutory Right particularly in the Personal Client business where it has the ability to act as an executor and enjoys privileges around how it operates as a trustee, as set out below:

- simplification of the estate administration process for smaller estates which translates to a shorter time for appointment and reduced cost. In addition Perpetual can act in advance of a grant of administration;
- ability to act as sole trustee, where otherwise two individual trustees would be required;
- ability to issue Certificates of Administration;
- ability to apply to the High Court for Grants without having to provide a reason, and by virtue of the status provided by the Act;
- Statutory Trustee Companies are the only corporations that may obtain a grant of administration;
- the capacity to provide certain investment facilities such as group investment funds, and maintain common funds;
- ability to act as receiver; and
- ability to be remunerated when acting, which does not extend to private trustees.

Following the collapse of a large number of finance companies in New Zealand, some of which Perpetual was the Trustee, there has been the threat of litigation against Trustees. To date only one claim has been made against Perpetual which its insurers believe has no foundation. There remains the possibility that a claim action could be launched against Perpetual. The outcome of any litigation is always very uncertain.

3.3 Torchlight Investment Group

TIG manages and co-invests in specialist private equity funds. It currently manages and has investments in three funds.

Torchlight Fund No.1

TIG raised $150m of committed capital through the Torchlight Fund No.1 in July 2010 from domestic and international investors and investment companies. The Torchlight Fund was established to make “counter cyclical investments at a time of low liquidity in the banking and investment sectors”. TIG is the manager of the Torchlight Fund No.1 and also holds a 10% stake in the fund. Under the management arrangement TIG receives monthly management fees, transaction fees and is entitled to performance fees.

Torchlight Fund No.1 has invested in a range of assets with a book value of approximately $127 million at 30 September 2011.

Torchlight Fund No.1 – Book Values	
Asset	**$ million**
Mortgages and investments in land	88.5
Shares in EPIC	4.9
Convertible Notes in EPIC	13.4
Shares in Australian listed companies	25.4
Sundry creditors and debtors	0.9
Borrowings	(5.6)
Total Torchlight Fund No.1 Investments	**127.5**

PGC acquired EPIM in 2009, which manages and owns a cornerstone investment (11.06%) in EPIC. The investment in EPIC was written down by $4.8 million to $9.7 million in the current year. In addition, Torchlight Fund No. 1 holds 5.3% of EPIC with a book value at 30 September 2011 of $ 4.9 million. EPIC was established in 2007 and has indirect investments in Thames Water Limited (1.24%) and Moto International Holdings Limited (17.50%), companies operating in the infrastructure sector in the UK. EPIC is looking to realise its investment in Thames Water, which has a book value of $72.2 million. In July 2011 PGC acquired a $14 million participation in a $48 million loan facility provided by National Australia Bank to EPIC. The participation allowed EPIC to proceed with an orderly realisation of assets with proceeds to be applied in full repayment of the loan facility. EPIM generates monthly management fees and is entitled to transaction and performance fees.

The consent of EPIC is required if there is a change in control of EPIM. EPIM has sought the consent of EPIC to a change in control. EPIC has declined to give consent and has advised that the Management Agreement with EPIM will be terminated if there is a change in control of PGC, which EPIC considers would occur if AEP secured a holding of greater than 50% of the voting rights in PGC and declared the AEP Offer unconditional.

3.4 van Eyk

PGC acquired its 38% shareholding in van Eyk in 2010 for A$5.05 million. van Eyk is an independent investment research business that provides the following services:

- qualitative investment research;
- consulting services to institutions ($50 billion under van Eyk advice);
- advice to financial planners in selecting fund managers, constructing portfolios and asset allocation for their clients; and
- direct share research and model portfolios.

van Eyk is the Investment Manager advising the construction of the van Eyk Blueprint funds and the selection of the underlying managers. The van Eyk Blueprint funds have funds under management of approximately A$1.4 billion.

Since the acquisition of the shareholding van Eyk has performed poorly trading at a loss in the year ending 30 June 2011 and for the three months ending 30 September 2011. Post 30 September a loan of A$1.5 million has been advanced to van Eyk.

3.5 Property Group

The Property Group comprises Real Estate Credit Limited and Property Assets Limited.

Real Estate Credit Limited

RECL was put in place at the time of the September 2009 recapitalisation to acquire $175 million of property loans from MARAC. Prior to the acquisition PGC took an impairment charge of $85 million against their property loans in the year ended 30 June 2009. The impairment charge was transferred to RECL in the year to June 2010 thereby transferring net loans of $90 million.

A management agreement was put in place on 5 January 2011 between MARAC and RECL whereby RECL assumed responsibility for managing the non-core property loans of MARAC for 5 years:

- RECL assumes the risk of loss on the loans with payment for loss at the end of that 5 years (with limited rights on the part of MARAC to earlier repayment);
- RECL's payment obligations are "limited in recourse" to security provided which includes an $11 million 5 year zero coupon bond, and $22 million in security value of other assets (initially real estate or real estate loans);
- PGC is obliged to top up the security pool if there is shortfall in the $22 million of security value of other assets;
- an upfront fee was paid by MARAC to RECL of $11 million (to be amortised over 5 years);
- the annual management fee under the management agreement in$0.2 million; and
- $9.3 million of impairments were recognised by RECL under the RECL management agreement in the June 2011 financial statements.

RECL holds assets (property and the Westpac Zero Coupon Bond with a value of slightly in excess of $30 million), which are to be applied against any claim by MARAC under the Management Agreement. PGC has advised that a worse case scenario would see the guarantee being called in full, and given the future nature of the obligations under the agreement, we have assigned a nil value to these assets in the valuation.

Property Assets Limited

PAL contains the remaining property-related assets of the PGC group. Of the $32.3 million portfolio, $2.4 million are loans, with the remainder being investments in development and investment properties. All loans and properties are being actively managed by PGC. PAL has approximately $8.8 million in debt secured against the development and investment properties.

3.6 PGC's Investments in Heartland New Zealand and PGG Wrightson

To maximise the benefits of the merger with Southern Cross and Canterbury Building Societies to the shareholders of PGC, PGC undertook two transactions:

- it entered into the management agreement with MARAC whereby RECL manages a portion of the MARAC book for an initial payment of $11 million and an ongoing annual fee of $0.2 million. In return RECL assumed an obligation to meet up to $30 million of losses incurred by MARAC on the loan book the subject of the management agreement. By providing up to $30 million of "insurance" (by way of $22 million of properties and the $11 million Westpac bond) PGC advised that it was able to negotiate a higher percentage ownership of HNZ for PGC shareholders; and
- to facilitate the purchase by HNZ of PGW Finance, PGC agreed to accept a placement of 10 million HNZ shares at a price of 75 cents per share and to underwrite an issue of HNZ shares at 65 cents per share. As a result, PGC acquired approximately 23.4 million new shares in HNZ, representing an

approximate 6% shareholding. PGC believed that the acquisition of PGW Finance was essential for HNZ to give it increased critical mass and to acquire a profitable business stream to support its application to gain a banking licence. Further, the sale by PGW strengthened that company in which PGC also has a 9.5% shareholding.

Heartland New Zealand

With effect from January 2011 the businesses of MARAC Finance Limited (which was a wholly owned subsidiary of PGC), Canterbury Building Society and Southern Cross Building Society merged to form Heartland Building Society (initially known as Combined Building Society). The assets of Heartland Building Society are owned by HNZ, a company that was listed on the New Zealand Stock Exchange shortly after the merger took place.

HNZ provides finance, investment and banking solutions to business and individuals through a nationwide network of branches throughout New Zealand. Heartland is not a registered bank under the Reserve Bank of New Zealand Act 1989 but it is in the process of seeking registration.

As part of PGC's plan to restructure its business into two listed companies: one focused on banking services (HNZ) and the other on wealth capital management (Perpetual, Torchlight and the Property Group), PGC announced that it would distribute its ownership of HNZ shares to PGC shareholders by way of a scheme of arrangement in April 2011. This transaction effectively involved PGC shareholders exchanging some of their shares in PGC for shares in HNZ.

The scheme of arrangement involved:

- distributing 216,630,283 shares in HNZ to PGC shareholders; and
- in consideration for the distribution, cancelling 73.2% of the PGC shares held by each shareholder, being approximately 591,689,926 PGC shares.

Prior to the distribution there were 216,630,283 HNZ shares to be distributed and 808,319,571 PGC shares on issue. Following the distribution and cancellation, a PGC shareholder would hold 268 HNZ shares and 268 PGC shares for every 1,000 PGC shares they originally held.

As a result of the placement and underwrite of a share issue by HNZ raising funds to purchase the finance arm of PGW, PGC acquired 23.4 million shares in HNZ.

PGG Wrightson

PGW is an NZSX listed farming services company. Until recently PGC was a cornerstone shareholder in PGG Wrightson with an 18.3% shareholding. In December 2010 PGG Wrightson was subject to a partial takeover offer from Agria (Singapore) Pte Limited (**Agria**). PGC entered into a pre-bid agreement with Agria and undertook to accept its entire shareholding into the offer. The Agria offer became unconditional on 26 April 2011 and due to the scaling provisions of the Takeovers Code (which apply when acceptances exceed the number of shares sought by the offoror) only 8.8% (or $39.9 million) of PGC's shareholding in PGG Wrightson was sold to Agria leaving PGC with a residual shareholding of 9.5%. Following the sale and the reclassification of the PGW investment as an asset held for sale the investment was written down by $37.3 million to a book value at 30 June 2011 of $33.9 million.

3.7 Financial Performance

The financial performance of PGC for the years ended 30 June 2010 and 2011 are shown in the table below:

PGC Financial Performance (NZ$ millions)		
Year end 30 June	**2010**	**2011**
Net interest income	3.1	(1.8)
Dividend income	1.4	-
Fee and other income	30.9	23.5
Total income	35.4	21.7
Selling and administrative expenses	(25.0)	(33.6)
Profit from continuing operations	10.4	(11.9)
Asset impairment from continuing operations	(8.1)	(83.4)
Share of equity accounted investees profit	4.4	(1.3)
Taxation	0.4	-
(Loss)/Profit from continuing operations	7.1	(96.5)
Profit from discontinued operations	20.9	12.5
Asset impairment from discontinued operations	-	(57.0)
Taxation	(6.0)	-
(Loss)/Profit from discontinued operations	14.9	(44.5)
Total (Loss)/Profit for the year	**22.0**	**(141.1)**

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

- continuing operations include:
  - Perpetual;
  - Torchlight;
  - Property;
  - PGW/HNZ share investments;
- discontinued operations are MARAC which is now part of HNZ; and
- in the first three months to 30 September 2011 PGC made an operating profit of $75,000. In addition, the value of the shares in PGW and HNZ were written down by $10.1 million to the market values prevailing at 30 September 2011.

The table below shows the detail of the asset impairments for the years ending 30 June 2010 and 2011:

PGC Asset Impairment (NZ$ millions)		
	2010	**2011**
Impairment Continued Operations		
Write-down of PGW	-	37.3
Investment property write-down	8.1	9.0
Finance receivable write-down	-	6.0
Investments write-down	-	6.7
Impairment of EPIC goodwill	-	2.4
Impairment of AA license	-	1.5
Other impairments	-	0.5
MARAC management agreement provisions	-	9.3
Write-off of previously recognised tax benefits	-	10.7
Total Impairment Continued Operations	**8.1**	**83.4**
Impairment Discontinued Operations		
In specie loss on distribution of HNZ shares	-	52.9
Write-off of previously recognised tax losses	-	4.1
Total Impairment Discontinued Operations	**-**	**57.0**
Total Asset Impairment	**8.1**	**140.4**

3.8 Financial Position

The financial position of PGC as at 30 June 2010 and 2011 is outlined in the table below:

PGC – Balance Sheet (NZ$ millions)		
As at 30 June	**2010**	**2011**
Cash and equivalents	98.6	18.8
Finance receivables	1,140.0	11.1
Operating lease vehicles	42.9	-
Investment property	41.8	39.8
Other assets	26.1	13.6
Other investments	30.3	33.7
Deferred tax asset	24.0	2.7
Investment in associate	118.5	6.0
Investment in joint venture	2.1	-
Intangible assets	37.0	13.3
Assets held for sale	-	47.5
Total assets	**1,561.3**	**186.5**
Borrowings	(983.7)	(12.9)
Other liabilities	(111.0)	(28.5)
Total liabilities	**(1,094.7)**	**(41.4)**
Net assets	**466.6**	**145.1**
Represented by:		
Share Capital	345.2	358.0
Retained earnings and reserves	121.4	(212.9)
Total equity	**466.6**	**145.1**
NTA (cents per share)	**56**	**61**

The following points are relevant when considering the above table:

- the merger of MARAC with Southern Cross and Canterbury Building Societies to form Heartland and the subsequent in specie distribution of the HNZ shares to PGC shareholders resulted in the substantial decrease in the size of the balance sheet;
- other liabilities comprise:

PGC – Summary of Other Liabilities	
	$ million
Prepayment of RECL management fee from MARAC	9.9
Unpaid fees and deferred settlement	3.1
Trade creditors and accruals	6.2
MARAC underwrite	9.3
Total	**28.5**

- in November 2009 PGC undertook a recapitalisation which, net of fees, raised $258 million of new equity, primarily to reinstate the MARAC balance sheet after it had to write off a significant number of property development loans. The shareholders funds at 30 June 2011, some months later had reduced to $186 million. Had the recapitalisation not taken place, MARAC and PGC would both likely have failed.

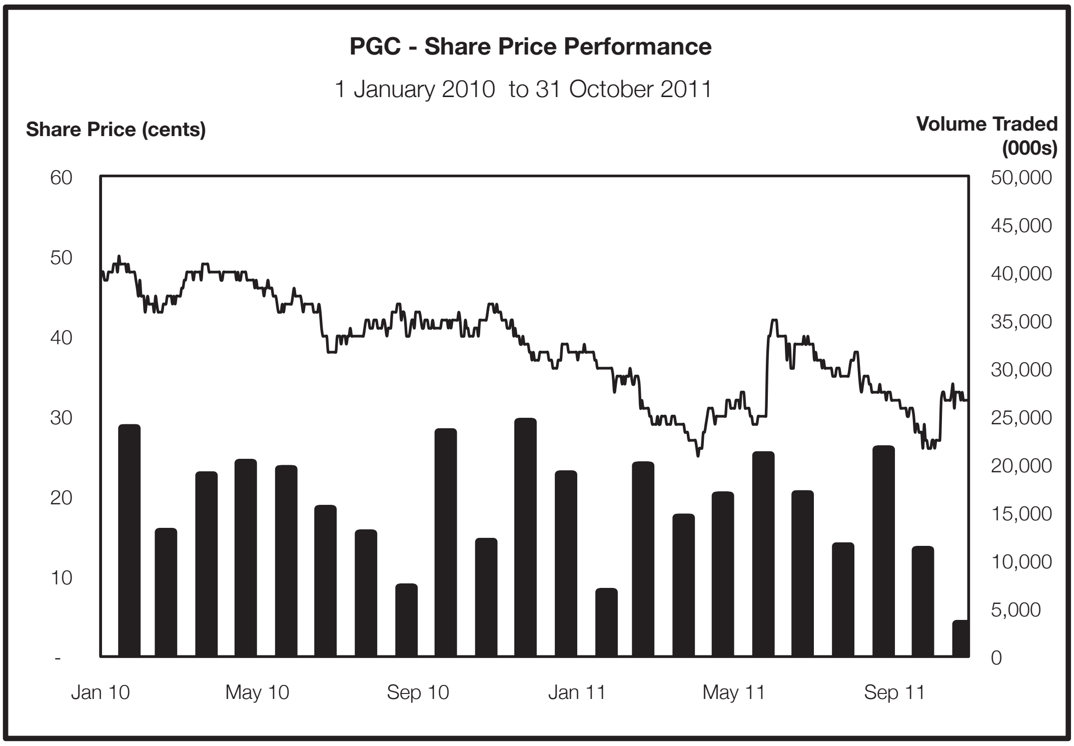
3.9 Capital Structure and Ownership

As of 31 October 2011 PGC had 216,629,610 shares on issue held by approximately 4,700 shareholders. The Company's top 20 shareholders are shown in the table below:

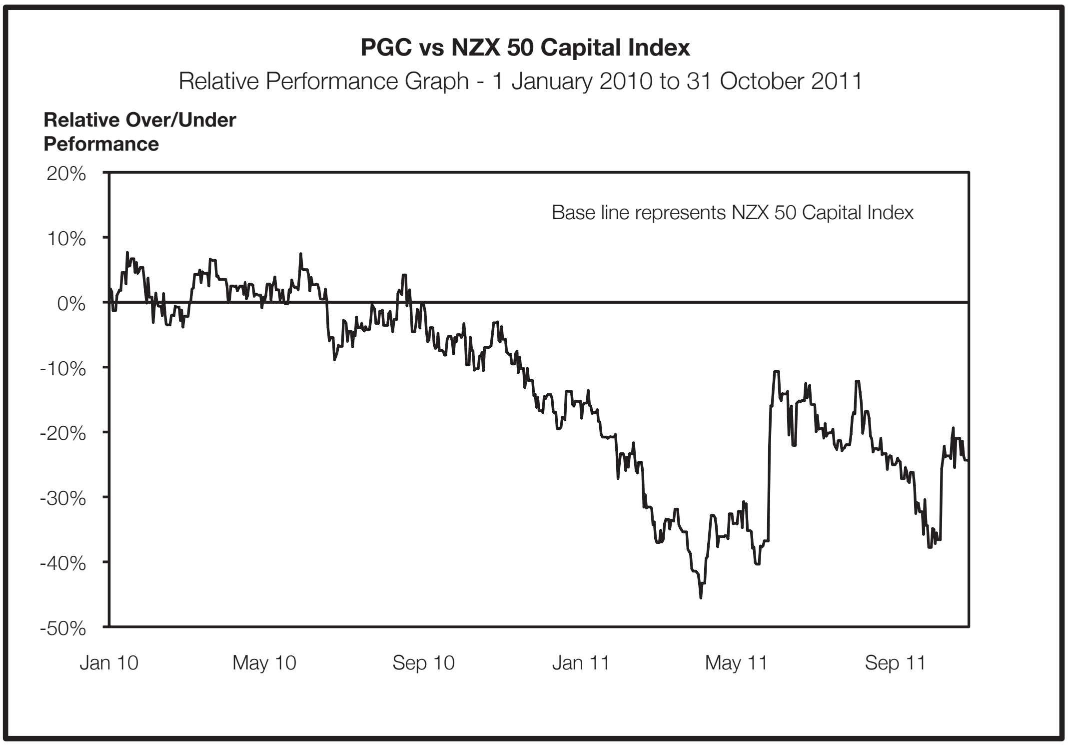
PGC – Top 20 Shareholders as at 31 October 2011		
Shareholder	**Shares (000s)**	**%**
New Zealand Central Securities Depository Limited	69,934	32.3
Pyne Holdings Limited	28,594	13.2
Philip Carter	3,839	1.8
Custodial Services limited	2,539	1.2
FNZ Custodians Limited	2,513	1.2
JBWere (NZ) Nominees Limited	2,180	1.0
Loris Equities Limited	2,101	1.0
George Kerr & Stephen Lowe	1,940	0.9
Wyuna Trustees Limited	1,876	0.9
Perpetual Trust Limited & Georgina & John Savill	1,787	0.8
Stephen Field	1,608	0.7
Investment Custodial Services Limited	1,507	0.7
Custodial Services Limited	1,495	0.7
Hugh Green Investments Limited	1,450	0.7
JBWere (NZ) Nominees Limited	1,394	0.6
Mogridge Family	1,336	0.6
Leveraged Equities Finance Limited	1,319	0.6
Hurley Nominees Limited	1,275	0.6
Bryan Hutchins & Roger Wilson	1,168	0.5
Paul & Dianne Chaney	1,018	0.5
Top 20 Shareholders	**130,874**	**60.4**
Other Shareholders	**85,756**	**39.6**
Total	**216,630**	**100.0**

3.10 Share Price Performance

The share price and trading volume history of PGC shares is depicted graphically below:



PGC's share price against the NZX50 index is shown in the graph below:



4. Valuation of PGC

4.1 Preferred Methodology

Overview

Grant Samuel's valuation of PGC 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 PGC 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 PGC could be expected to trade on the sharemarket. Shares in a listed company typically 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.

Preferred Approach

Grant Samuel has valued PGC by estimating the aggregate proceeds from an orderly realisation of assets. This approach has been adopted in preference to the more usual capitalisation of earnings or discounted cash flow as PGC has very low earnings and cash flow from its investment portfolio rendering the calculated values meaningless.

4.2 Sum of the Parts Valuation

PGC has evolved into an investment company with a range of disparate assets and only one operating business – Perpetual. The assets have been valued individually. The components of the valuation of PGC comprise:

- listed shares:
  - PGW;
  - HNZ;
- EPIC:
  - shares;
  - loan;
  - Management Contract;
- Torchlight Fund No.1:
  - shares;

- Management Contract;

- property (RECL and PAL);
- van Eyk;
- Perpetual;
- finance receivables and other investments; and
- tax losses.

Listed Shares

PGW: PGC holds 72.2 million shares in PGW, which have a market value of $28.2 million. Liquidity in PGW shares has declined since Agria took a 50.01% shareholding. PGC's shareholding represents 9.5% of the issued capital of PGW and given its relative size is considered very hard to sell at current prices unless Agria made a full takeover. In April 2010 as a result of a partial takeover offer, Agria increased its shareholding in PGW from 19.9% to 50.01% at a price of 60 cents a share. The share price has since declined to 39 cents a share. The performance of PGW is improving and if this continues the shares could be re-rated. To date Agria have not exerted significant influence over PGW but there remains an expectation that it will seek to list the PGW seeds business on the Hong Kong stock exchange. Grant Samuel has adopted the current share price for the valuation of the PGW shares.

HNZ: PGC holds 23.4 million shares in HNZ. HNZ listed on the NZSX on 1 February 2011 at a price of 88 cents per share. Since that date the share price has declined steadily to a current price of 51 cents per share. The decline in part may have been exacerbated by the in specie distribution of 72% of HNZ to PGC shareholders, a number of whom, it is understood, have subsequently sold their HNZ shares. The largest shareholder in HNZ is Pyne Holdings, one of the companies behind the current takeover of PGC. The six largest shareholders in HNZ are:

HNZ – Top Six Shareholders	
Shareholder	**%**
Harrogate Trustee	7.8
Pyne Holdings	7.2
ACC	7.1
PGC	6.0
PGW	3.4
Oceania & Eastern	3.2
Total	**34.7**

Neither PGC nor PGW could be regarded as long-term holders of HNZ shares and the overhang of these shares is likely to be having a negative impact on the current share price. Typically bank shares trade at modest premiums to NTA. HNZ is trading at a 43% discount to NTA. Any meaningful increase in the share price is unlikely until HNZ secures a banking licence and the business can demonstrate consistent earnings. For the purposes of this valuation Grant Samuel has valued the HNZ shares by applying discounts to NTA of 30% to 40% giving a range of $12.6 to $14.7 million. It would be reasonable to expect that if HNZ is granted a banking license, there will be an upwards re-rating of the share price. PGC's 6.0% shareholding has a current market value (based on HNZ's current share price) of approximately $11.9 million and the value range above implies a 6% to 24% premium to that value. The discount incorporates an allowance for the fact that it may take two or more years to realise value from the HNZ investment.

EPIC

Shares: PGC holds 15 million shares (11.06%) in EPIC. The value of the EPIC shares (in New Zealand dollars) has been adversely impacted by the depreciation of the United Kingdom pound against the New Zealand dollar. All of the assets in EPIC are in the United Kingdom and unfortunately the manager EPIM decided against putting in place some form of protection against currency movements. The current NTA of EPIC is approximately NZ$0.65 cents but varies with the movement in the NZ Dollar/UK Pound exchange rate. It is possible that EPIC will, in time, be wound up. At present the manager is seeking to sell the shareholding in Thames Water, which represents approximately 57% of gross assets. The proceeds of a sale of Thames Water will be used principally to repay debt of $61.5 million. The next largest asset is a 17.5% shareholding in Moto. For the purposes of this valuation, Grant Samuel has assumed that the Moto investment will be realised and the proceeds distributed to shareholders in five years. In the interim there will be no cash received and the costs of management and winding up are assumed to be covered by dividends. Discount rates of 10% and 12% have been used to determine a present value range of $5.5 to $6.0 million for PGC's investment in EPIC.

Loan: PGC has a loan of NZ$14 million to EPIC. PGC acquired this loan from National Australia Bank in July 2011. As at 31 March 2011 EPIC had borrowed a total of NZ$46.75 million from National Australia Bank. The loan is interest bearing on normal commercial terms and as noted above is expected to be fully repaid from the proceeds of the sale of the investment in Thames Water. The EPIC loan has been valued at its face value of NZ$14 million.

Management Contract: PGC, through a wholly owned subsidiary EPIM, manages EPIC for a fee. Grant Samuel has valued the high end of the valuation range for the management contract by discounting the after-tax forecast earnings of EPIM at 10% for five years assuming that EPIC is wound up by 30 September 2016. The lower end of the valuation range has been set at zero given the strong likelihood that the management contract will be terminated on AEP securing control of PGC. EPIM may also be entitled to receive a performance fee on the sale of the Moto investment. Grant Samuel has assumed no performance fee will be paid based on the structure of the performance fee and the current value of Moto. Grant Samuel assesses the value of the management contract at nil to $2.4 million.

Torchlight

There are three components to the value of Torchlight:

- an investment in the Limited Partner;
- the value of the management contract; and
- a short term loan from PGC to Torchlight.

The investment in the limited partner has been valued at the NTA of the fund as at 30 September 2011 of $14.1 million.

The Torchlight Fund No.1 has a fixed term of seven years until October 2016. The Management Contract held by PGC is forecast to produce strong earnings for PGC. The after tax cashflows of the Management Contract have been discounted at 10% and 12% giving a value range of $7.7 to $8.0 million.

PGC has advanced $3.5 million to Torchlight. The loan is short term and at a concessionary rate of interest. It is expected that the loan will be repaid in the near term. The face value of $3.5 million has been adopted for the purposes of this valuation.

Property

PGC's subsidiary PAL holds 18 properties with a net book value at 30 September 2011 of $23.4 million. PGC expects to spend approximately $3.4 million on a number of these properties in order to be able to maximise value from a sale. PAL has developed realisation schedule covering the period 2012 to 2016. The forecast cashflows have been discounted at 10% and 12%, inferring a value range of $17.6 million to $18.2 million. In 2011 PGC acquired a new office building in Christchurch for $1.625 million. The purchase price has been adopted for the valuation of this property.

van Eyk

van Eyk traded profitably in 2009 and 2010. In 2011 it reported a loss and is trading at a loss for the first three months of the financial year. The loss of two large research clients is the major factor in the change in earnings. van Eyk's Blueprint series of investment funds has approximately $1.4 billion under management. For the purpose of this valuation Grant Samuel has valued van Eyk by applying percentages of 0.75% - 1.0% to the funds under management to give a value range of NZ$5.2 to $7.0 million. This compares with a purchase price, based on current exchange rates of approximately NZ$6.0 million. Until there is more evidence of an improvement in performance Grant Samuel believes that a valuation at these levels is appropriate.

Perpetual

Perpetual has been valued in two parts – the Corporate and Personal Trust businesses and PAM. The trust has been valued using a capitalisation of earnings applying a multiple of 4.5 to 5.0 times forecast EBIT for the year ending 30 June 2012. These businesses have had consistent earnings over a number of years albeit the Company Trust business forecast revenues will be a challenge to achieve in the current year. The funds management business PAM has been valued by applying a multiple of 2.5 to 3.0 times to the forecast revenue from the funds under management. No value has been attributed to the PPM business, which is currently operating at a loss.

Valuation of Perpetual

	Low	High
Trust Businesses	10.8	12.2
PAM	6.7	8.0
Total Value of Perpetual	**17.5**	**20.2**

Finance Receivables and Other Assets

These comprise a loan of approximately $1.2 million to a related party employee, net working capital of $4.75 million and sundry investments of $1.1 million. The unamortised portion of the MARAC property management fee payment has been ignored, as it is not repayable.

Tax Losses

PGC expects to be able to sell some of its existing tax losses to a third party. There is some uncertainty surrounding the transaction and when it will occur, which in any event would not be before the second quarter of 2012. The estimated receipt is $6.5 million. Grant Samuel has valued the tax loss sale at nil to $6.2 million. The high value assumes the proceeds from any sale of tax losses are received on or before 31 March 2012. If the AEP Offer is successful, any remaining tax losses will be lost.

Head Office Costs

Grant Samuel has capitalised head office costs of $2.5 million ($1.8 million after tax).

Net Debt

Net debt as at 30 September 2011 comprises:

PGC – Net Debt as at 30 September 2011	
	$ million
Debt raised to fund Heartland cash issue	16.5
Perpetual Trust Bank facility	2.2
Cash	(5.0)
Total	**13.7**

The net debt excludes mortgages of $8.8 million over the properties owned by PAL.

4.3 Summary

PGC – Valuation Summary ($ million)		
	Low	**High**
Listed Shares	40.8	42.9
EPIC	19.5	22.4
Torchlight Fund No.1	25.3	25.6
Property	19.2	19.8
van Eyk	5.2	7.0
Perpetual	17.5	20.2
Finance receivables and other assets	6.9	7.0
Tax Losses	-	6.2
Head Office costs capitalised	(12.6)	(11.7)
Enterprise value	**121.8**	**139.4**
Less net debt	(13.7)	(13.7)
Equity value	**108.1**	**125.7**
Shares on issue (millions)	**220.1**[1]	**220.1**
Value per share (cents)	**0.49**	**0.57**

A value range of $108.1 million to $125.7 million has been attributed to PGC's net assets. This valuation range is an overall judgement having regard to the attributes and earnings outlook of PGC and its specific businesses and assets.

The valuation represents the estimated full underlying value of PGC 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 PGC shares to trade on the NZSX in the absence of a takeover offer or proposal similar in nature to the AEP Offer.

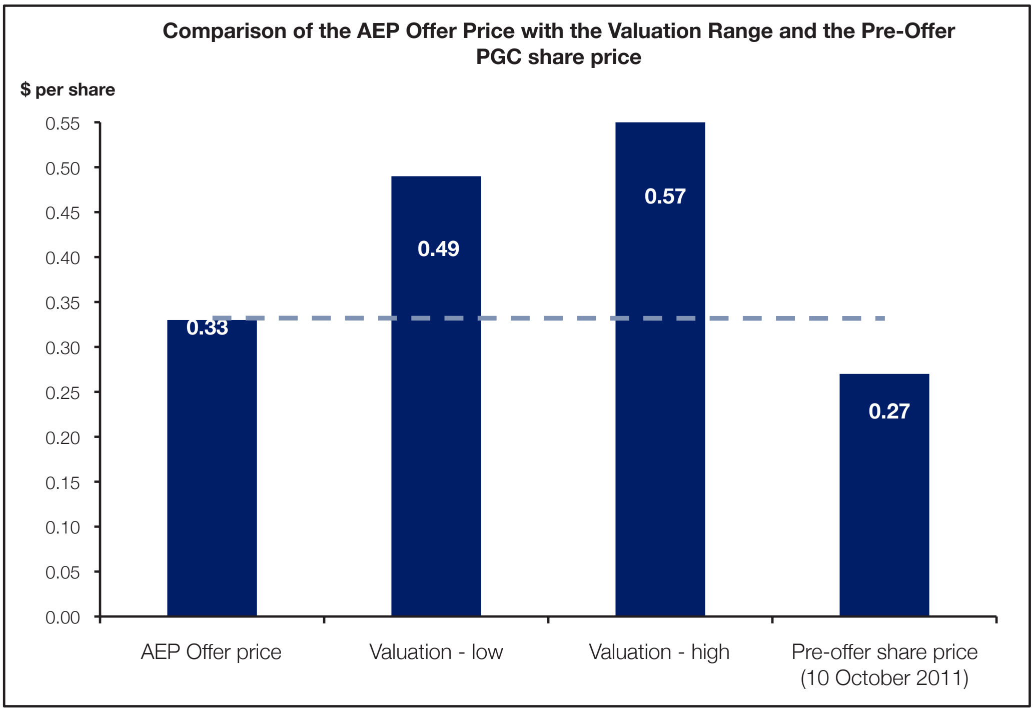
1 Shares on issue includes 3.5 million shares to be issued pursuant to a Staff Share Scheme.

5. The Merits of the AEP Offer

5.1 The Value of AEP Offer

The value of the AEP Offer can be assessed with reference to a number of factors:

- ***Grant Samuel's assessment of the value of PGC.*** In Grant Samuel's opinion the full underlying value of PGC shares is in the range of $0.49 to $0.57 per share as set out in Section 4 of this report. This full underlying value represents the value of acquiring 100% of the ordinary shares in PGC, which would provide any acquirer with control over the company, and therefore includes a premium for control. **The AEP Offer price of $0.33 per share is well below Grant Samuel's assessed *full underlying value range of PGC shares. The diagram below compares the AEP Offer price*** with our value range and the PGC share price immediately prior to the announcement of the AEP Offer:

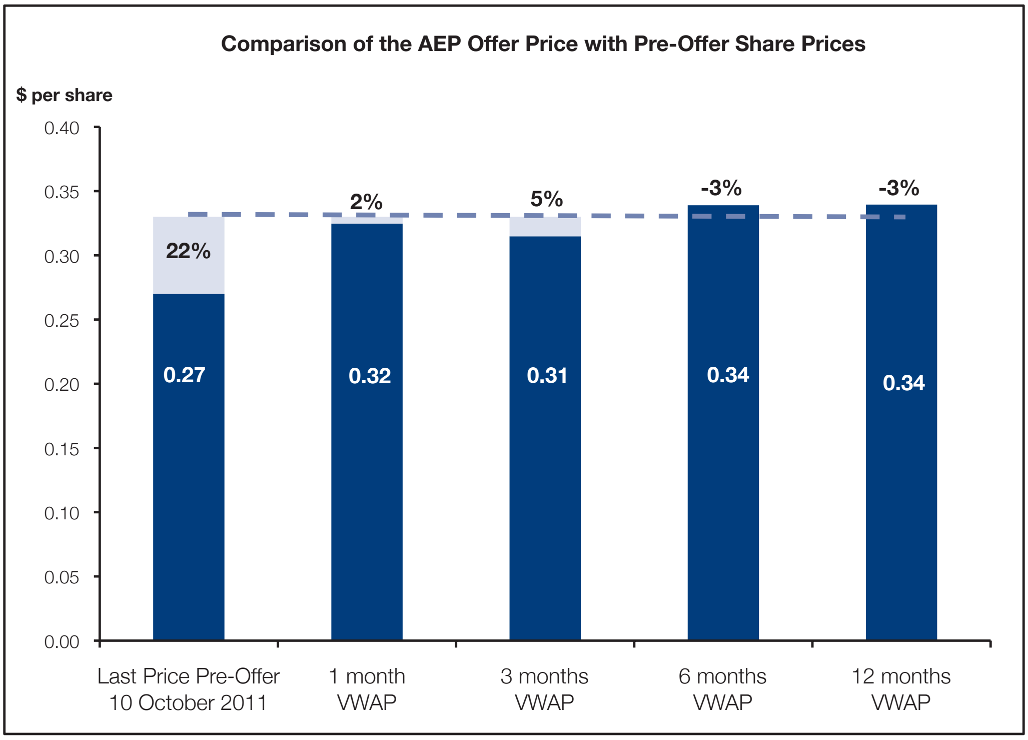


The AEP Offer is a full takeover offer for all of the shares in PGC. In Grant Samuel's opinion the price to be paid under a full takeover offer should reflect the full underlying value of the company (and therefore fall within Grant Samuel's valuation range). The support for this opinion is twofold:

- the only rules under the Takeovers Code that refer to value are the compulsory acquisition provisions. These provisions apply in certain circumstances when the threshold of 90% of voting rights has been reached. The Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that, in the event that there is an objection to the price to be paid for shares acquired under a compulsory acquisition, a class of shares is to be valued as a whole by an independent adviser, 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 test for fairness under a full takeover where the offeror will gain control (as is the case with the AEP Offer) is the full underlying value, prorated across all shares. The underlying rationale 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; and

- under the Takeovers Code the acquisition of more than 20% of the 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 cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless the shareholders consent). One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any available control premium is now available to all shareholders under a takeover offer regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

- ***the premium implied by the AEP Offer.*** The AEP Offer price of $0.33 represents a premium of approximately 22% relative to the closing price of $0.27 per share on 10 October 2011, being the day of the announcement of the AEP Offer. The AEP Offer price also represents a premium of 2% over the 1 month volume weighted average share price (**VWAP**) and 5% over the 3 month VWAP. Of note is that the AEP Offer represents a discount of 3% to the 6 and 12 month VWAPs. The premium over the most recent share price (close to the lowest price PGC shares have traded in the past 12 months) is consistent with the premiums for control generally observed in successful takeovers of other listed companies of between 20% and 35%. However the premium over near term and longer term VWAPs is very low or non-existent. The chart below depicts the premia/discounts implied by the various VWAPs for PGC over the past 12 months:



The AEP Offer could be considered opportunistic with the price being a premium to a share price, which was the lowest in the company's history.

- ***The Net Tangible Assets of PGC.*** PGC's Net Tangible Assets (**NTA**) as at 30 September 2011 are 56.2 cents. The AEP Offer is well below the NTA of PGC. The low share price relative to NTA at is likely to be due to a combination of factors including:
  - the fundamental change in the nature of the business;
  - the very poor result for the year ended 30 June 2011;

- the lack of clarity as to what the business model is and what the company will look like in three to five years;
- a recognition that PGC is to a large extent an investment vehicle for George Kerr;
- few brokers researching the business and an absence of institutional investors;
- a very low level of operational cash flow generation; and
- a very low probability of takeover activity except from George Kerr (which has happened).

At 30 June 2011 the directors of PGC, in conjunction with the auditors, undertook an extensive review of the value of all assets, which resulted in a write down of asset values by $87.5 million resulting in an NTA per share of 59.6 cents. George Kerr is a director of PGC and would have participated in the re-appraisal of these asset values.

▪ ***Other factors.*** In some takeovers there are factors that suggest that even if an offer price is below the underlying value of the company, shareholders should consider accepting the offer. For example, there may be reasons to accept an offer below the full underlying value of $0.49 to $0.57 per share, as the share price is unlikely to trade at these levels for some time. However in this instance there does not appear to be any compelling reason for shareholders to accept. The Offer is at an almost 40% discount to the midpoint of our valuation range which is too great a discount, in Grant Samuel's opinion, to warrant serious consideration. Grant Samuel's valuation is based on an orderly realisation of assets, which, in the case of a number of the assets, is already underway. Although PGC does not have consistent earnings or cashflows and shareholders cannot expect to receive dividends, it could reasonably be expected that the net assets will increase under the direction of George Kerr.

5.2 Likelihood of AEP increasing its Offer price

If AEP increases its Offer price while its current Offer is still open, the increased price will be available to all PGC shareholders even if they have already accepted the $0.33 per share Offer (including the locked in shareholders). This will not apply if AEP makes a further takeover offer at a higher price after the current Offer has closed, in which case the higher price would only be available to shareholders that did not accept the current AEP Offer. In our opinion it is possible that, depending on the reaction of PGC shareholders to the current AEP Offer price, AEP may consider increasing its Offer price in order to secure at least 50.01% of the PGC shares on issue, however, this is by no means certain and shareholders should have regard to George Kerr's track record of acquiring assets at low values.

5.3 Likelihood of alternative offers

In Grant Samuel's opinion there is a very low likelihood of a party not associated with George Kerr making an alternative and higher offer to the AEP Offer for the following reasons:

- the existence of the lock up arrangements over 37.51% of the shares in PGC creates a significant impediment to an alternative offer;
- in the event the AEP Offer lapses, the existing Baker Street Capital and Pyne Holdings shareholding of a combined 33% also creates an impediment to an alternative offer while those shareholders are acting in concert; and
- if AEP does not reach its 90% minimum acceptance condition, and declares the Offer unconditional at a lesser percentage shareholding, any alternative partial offer for over 20% of PGC (should one be forthcoming) would require the approval of PGC shareholders by way of an ordinary resolution which would require the support of AEP. Any subsequent takeover offer for 100% of PGC would require AEP to sell its shareholding in PGC to the new offeror for full takeover offer to be successful.

5.4 Implications if AEP acquires 100% of PGC

AEP is seeking to acquire 100% of the shares in PGC. It has already secured acceptances of 37.51% by virtue of the lock up arrangements with various PGC shareholders. The AEP Offer is conditional on receiving acceptances sufficient to take its shareholding in PGC to 90% or more of the shares on issue. If AEP receives acceptances to take its shareholding in PGC to 90% or more the AEP Offer will be unconditional and:

- AEP has stated that it intends to invoke the compulsory acquisition provisions of the Takeovers Code to acquire the remaining PGC shares on issue upon the 90% acceptance threshold being reached; and
- PGC will be de-listed from the NZSX and become a wholly owned subsidiary of AEP.

5.5 Implications if AEP does not acquire 100% of PGC

AEP is seeking to acquire all of the remaining PGC shares on issue. Baker Street Capital LP (19.78%), Pyne Holdings (13.2%), Accident Compensation Corporation (2.8%), Wyuna Trustees (0.87%) and George Kerr (0.9%) have entered into lock up agreements to irrevocably accept the AEP Offer when it is made. This means the AEP Offer is open to shareholders holding 62.49% of the shares in PGC. The implications of AEP not receiving sufficient acceptances to take its shareholding in PGC to 90% by the date on which the AEP Offer closes (as extended) are as follows:

- if AEP chooses not to waive its 90% minimum acceptance condition, AEP will not acquire any shares in PGC and PGC will remain a public company listed on the NZSX with substantially the same shareholding as existed prior to the AEP Offer;
- AEP has stated that it can waive the 90% acceptance threshold at its discretion and accept a lower percentage, provided that percentage exceeds 50% as required by the Takeovers Code. In the event AEP reduces its minimum acceptance condition to 50.01%, but receives acceptances of less than 50.01%, its offer will lapse and AEP will acquire no shares in PGC (despite the existence of the lock up agreements in respect of 37.51% of the shares in PGC). In the event that AEP receives acceptances for greater than 50% and the Offer is declared unconditional, all shares accepted into the Offer will be acquired. AEP has not provided any indication, and nor does it have to, as to whether or not it is likely to waive its 90% threshold to declare the Offer unconditional. It has however indicated that it would be content to move to a position where it has control of PGC;
- excluding the 37.51% owned by Baker Street Capital, Pyne Holdings and other PGC shareholders who have committed to the AEP Offer through lock up arrangements, approximately 23% of the issued shares in PGC are owned by the top 20 shareholders or custodians. The support or otherwise of the larger shareholders in relation to the AEP Offer may be instrumental in determining whether AEP achieves the 90% acceptance threshold or any lower threshold (provided a minimum of 50.01% is reached);
- to achieve the 50.01% minimum AEP requires holders of 20% of the shares not associated with the lock up arrangements to accept the AEP Offer. This is a relatively low threshold. To achieve acceptances of 90% AEP needs holders of 84% of the shares not associated with the lock up arrangements to accept its Offer. This is a high threshold;
- if AEP achieves a shareholding of more than 50.01% but less than 90% and declares its Offer unconditional, PGC will remain a listed company controlled by AEP. In these circumstances:
  - AEP will have effective control over the day-to-day operations of PGC. The Companies Act and NZSX Listing Rules do provide some level of regulatory protection over related party transactions and changes to the Constitution, which are designed to afford protection to minority shareholders;
  - AEP will be entitled to appoint new directors to the board of PGC, and by virtue of its majority shareholding, would control the outcome of any ordinary resolution put to shareholders;

- the liquidity of PGC shares is likely to be adversely affected;
- if AEP declares the Offer unconditional at a level between 50.01% and 90% it will be permitted to "creep" towards the 90% threshold over time by buying a further 5% per annum commencing 12 months after the current offer closes. It does not however have to wait 12 months to make another partial or full offer after the current offer closes; and
- AEP has stated under its control PGC would be "unlikely to pay dividends to shareholders in the foreseeable future". AEP has also stated that if the Offer becomes unconditional it intends to review PGC's capital structure which "may result in PGC raising new equity" in which case minority shareholders would need to invest further sums to not be diluted, particularly if the cash issue was undertaken at a deep discount to the prevailing market price.

5.6 An investment in PGC

- PGC has performed poorly over the last three years, recording losses in 2009 and 2011. It has sold its two main operating divisions – rural services and finance and the only remaining operating business is Perpetual. PGC currently comprises three distinct divisions:
  - Perpetual Trust;
  - Investment management; and
  - investments to be sold.

Perpetual Trust

The Perpetual Trust business operates in a competitive and increasingly regulated environment. Historically it generated good income from finance companies. Since the almost total demise of these finance companies through bad management and new legislation, which discourages new finance companies being established, this source of revenue has largely evaporated. Perpetual management are confident that the lost Corporate Trust income can be replaced in time. The Personal Trust and investment management business of Perpetual are forecast to grow on the back of significantly increased investment in people and systems under a new CEO. Perpetual should show sound growth in earnings particularly if it is able to pass on cost increases in the Corporate Trust Business.

Investment Management

Investment management is at the core of the 'new' PGC in the form of specialised investment funds. This is George Kerr's area of expertise. This is both a strength and a weakness. George Kerr has demonstrated sound investment skills over a number of years. PGC is highly dependent on one person, which is a significant risk. The investment funds generate good fee income and have the potential to generate above average returns on investment over the medium term.

The investment vehicles will in the case of Torchlight No.1 be wound up in 2016 and in all likelihood EPIC once the manager has maximised the value of the investment in Moto. These investments and any new funds will form the core business of PGC into the future. Funds realised from the sell down of the 'surplus investments' will be re-invested. The investment policy is best described as opportunistic and to a large extent dependent on the skills and networks of George Kerr to both identify and manage the investments. The Offeror has implied that all earnings will be recycled and no dividends paid. George Kerr is a successful investor and shareholders who do not need income from their investment in PGC should consider holding onto their shares, particularly given the low offer price.

Investments to be sold

The residual investments, including shareholdings in PGW and HNZ will be realised over time. The loans and properties taken over from MARAC are being worked out and are estimated to be fully realised by the end of 2016. The HNZ and PGW shares can be expected to be realised when there is an improvement in the current share prices both of which are just above all time lows. There is risk that the property and share markets deteriorate and the realisations are less than currently expected.

- following the distribution of its HNZ investment PGC is a more focussed company which expects to generate returns from primarily a focus on managing and investing in specialised funds. The process of realising "non-core" investments will take up to five years and the proceeds of these revaluations will be used to repay debt and fund new investments;
- AEP's motives are not fully apparent. In making its offer, George Kerr stated:

> *"After reviewing the asset portfolio and taking into consideration the likely future capital requirements of the component businesses, I have concluded that PGC now has little in common with the PGC many shareholders have long been associated with.*
>
> *The recent investment by the US-based Baker Street Capital LP has brought another professional investor to PGC, which is also strongly focused on value growth rather than simple income returns and dividends.*
>
> *PGC was for many years regarded as a dividend stock for its long-term shareholders. Following the distribution of shares in Heartland in May of this year (with Heartland recently indicating an intention to commence paying dividends), the remaining assets in PGC are fundamentally different in nature. PGC is now a company more likely to re-invest its earnings in its assets with a patient seven years and beyond investment horizon. In order to optimise growth in asset values over that period, PGC may also require shareholders to contribute more capital as new investment opportunities in existing or new businesses present themselves.*
>
> *Baker Street and I have therefore decided that, with the remaining PGC businesses focusing on growth rather than dividends, it is appropriate to give all shareholders the opportunity to sell their shares now for cash."*

  These comments are a clear signal that dividends will not be paid by PGC for the foreseeable future. AEP is possibly using this approach as a mechanism to discourage investors who desire an income stream, to continue holding these shares (and therefore accept them into the AEP Offer). However AEP clearly believes that PGC has significant opportunities for value creation for shareholders prepared to be patient and retain ownership of their shares; and

- the new direction of PGC into opportunistic investment funds management and investment is on balance probably better suited to private company ownership than public, particularly as the success of the investment often requires a degree of confidentiality not always available in the public company arena.

5.7 Other Merits of the AEP Offer

- the PGC share price has traded around the AEP Offer price since the Offer was announced. **In the absence of actual and potential takeover speculation, the PGC share price is likely to be lower than the current share price**;
- AEP is a newly formed limited partnership effectively controlled by George Kerr and Baker Street Capital. It does not have a track record but shareholders should have regard to the track record of George Kerr and Baker Street Capital when evaluating whether they wish to remain co-owners of PGC with AEP;
- ACC, a sophisticated and successful institution increased its shareholding by 1,484,814 shares to a holding of 8,060,158 shares in September 2011. ACC has entered into a pre-bid agreement with AEP to accept the offer for six million of its eight million PGC shares. ACC has not accepted for all

of its shares suggesting it believes that AEP may not reach the 90% compulsory threshold. It is not unusual for institutions such as ACC to accept shares into an offer and following the closure of the offer, to buy back into the company at a lower price. It should not be assumed that because ACC has accepted the offer for 75% of its shareholding that it necessarily believes the 33 cent offer price is fair; and

- there is no need for shareholders to accept the Offer early. The closing date for the Offer is 2 December. This date can be extended by AEP for a maximum of a further 60 days by giving no less than 14 days notice. Not accepting the AEP Offer or holding out until near the time the AEP Offer lapses may cause the Offer price to be increased. There is no certainty that the Offer price will be increased.

5.8 Acceptance or Rejection of the AEP Offer

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

GRANT SAMUEL & ASSOCIATES LIMITED
11 October 2011

Grant Samuel + Associates

Appendix A
Qualifications, Declarations and Consents

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), property advisory services and manages private equity and property development funds. 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, Alexa Preston, BBus, CA and Christopher Smith, BCom, PGDipFin, DipAppFin. Each has a significant number of years of experience in relevant corporate advisory matters.

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 PGC. 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 PGC. 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 PGC. 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 PGC. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of PGC. 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 cashflows of PGC prepared by the management of PGC. 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 cashflows for PGC. 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 PGC 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 PGC, 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 PGC, other than as publicly disclosed.

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 Proposed Transaction. Grant Samuel expressly disclaims any liability to any PGC 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 PGC 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).

Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with PGC or AEP that could affect its ability to provide an unbiased opinion in relation to the AEP Offer. Grant Samuel had no part in the formulation of the AEP 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 AEP 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.

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 PGC and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by PGC and contained within this report is sufficient to enable PGC security holders to understand all relevant factors and make an informed decision in respect of the AEP Offer. The following information was used and relied upon in preparing this report:

Publicly Available Information:

- Annual Reports for the years ended 30 June 2009, 2010 and 2011;
- Investment Statement and Prospectus dated 23 September 2009;
- Notice of Meeting and Information Memorandum in relation to distribution of shares in Building Society Holdings; and
- various broker reports on PGC.

Non Public Information:

- Perpetual Group Strategy 2011/2012;
- Report on the carrying values of subsidiaries, associates, investments and property assets at 30 June 2011;
- Torchlight Fund No1 LP consolidated financial statements as at 31 March 2011;
- Accounts for van Eyk Research for the year ended 30 June 2011 and three months ended 30 September 2011;
- Investment Committee submission on the acquisition of van Eyk Research dated May 2010;
- Management Accounts for the three months ended 30 September 2011 for PGC Group; and
- various confidential reports on investments, property loans and properties.

Declarations

PGC 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. PGC 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 PGC 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 PGC. 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.

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 PGC. 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.