Kermadec Property Fund Limited

Independent Appraisal Report Regarding Proposed Internalisation of Management Agreement and Acquisition of Augusta Funds Management Business

16 February 2012

Contents

Glossary

AFMH	:	AFM Holdings Limited
ASIC	:	Australian Securities and Investment Commission
Augusta or the Manager	:	Augusta Funds Management Limited
Augusta Group	:	Augusta Funds Management Limited, AFM Holdings Limited and associated companies / persons
AUM	:	Assets under management
Board or the Directors	:	The Board of Directors of Kermadec Property Fund Limited
CPI	:	Consumer price index
Distributable profit	:	Net profit after tax before revaluations on investment properties, revaluations of derivative financial instruments, deferred tax and other non cash NZ IFRS adjustments essentially comprising cash that is available for distribution to Shareholders calculated as EPS less any earn-out or capital payments
EBIT	:	Earnings before interest and tax
EBITDA	:	Earnings before interest, tax, depreciation and amortisation
EPS	:	Earnings per share
EV	:	Enterprise value
Farmers King Street Syndication	:	A new syndicate being formed to acquire a retail property in King Street, Hastings which is nearing completion. The purchase of the property is expected to be completed in August 2012
Fund Management Business	:	Augusta Funds Management Limited's ongoing funds management business
FYXX	:	The financial year ended 31 March 20XX
FX	:	Foreign exchange
GAV	:	Gross asset value
GFC	:	Global financial crisis
GST	:	Goods and services tax
IPO	:	Initial public offering
IRR	:	Internal rate of return
Kermadec or the Company	:	Kermadec Property Fund Limited
LPVs	:	Listed property vehicles
Management	:	Kermadec management
Management Agreement	:	The management contract dated 6 November 2006
MetroClean	:	MetroClean Limited
Non-Associated Shareholders	:	Shareholders of Kermadec Property Fund Limited not associated with Augusta Funds Management Limited and AFM Holdings Limited
NPAT	:	Net profit after tax
NTA	:	Net tangible assets
NZD	:	New Zealand dollar
NZ IRFS	:	New Zealand International Financial Reporting Standards

NZX	:	New Zealand stock exchange
NZSX Listing Rules	:	The NZSX Listing Rules of the New Zealand Stock Market
PwC	:	PricewaterhouseCoopers
Report	:	The independent appraisal report in relation to the Proposed Transaction
Shareholders	:	The shareholders of Kermadec
The Proposed Transaction	:	The proposed internalisation of the Management Agreement and acquisition of Augusta Funds Management business
TSR	:	Total shareholder return, being change in share price plus any dividends paid
VWAP	:	Volume weighted average price
WALT	:	Weighted average lease term

pwc

Messrs Peter Wilson and John Loughlin
Independent Directors
Kermadec Property Fund Limited
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AUCKLAND

16 February 2012

Independent Appraisal Report regarding proposed internalisation of management agreement and acquisition of Augusta funds management business

Background

1. On 24 November 2011 Kermadec Property Fund Limited (Kermadec or the Company) announced that agreement in principle had been reached with the Company's manager, Augusta Funds Management Limited (Augusta or the Manager) to terminate the Kermadec Management Agreement (the Management Agreement) and to acquire Augusta's ongoing funds management business (the Funds Management Business) (collectively the Proposed Transaction).

2. The consideration payable under the Proposed Transaction comprises a $2m payment for the termination of the Management Agreement; and a $3m base payment for Augusta's Funds Management Business plus an earn-out of up to $2m calculated as 50% of the offeror's fees earned on any new managed funds (including new property syndicates) offered by Kermadec following acquisition of the Funds Management Business.

3. Under the Proposed Transaction Augusta will retain its 17.8% shareholding in Kermadec, and Mark and Chris Francis, directors of Augusta, will become full time employees of Kermadec and be restricted from carrying on any business in competition with Kermadec for the longer of three years from completion and 12 months after they cease employment with Kermadec.

4. Pursuant to the Listing Rules of the NZX Main Board (the NZSX Listing Rules), the Proposed Transaction requires approval by Kermadec's shareholders (Shareholders).

5. The Directors of Kermadec have requested that PricewaterhouseCoopers (PwC) prepare an independent appraisal report (the Report) assessing the merits of the Proposed Transaction to assist Shareholders form their views regarding the Proposed Transaction.

Requirements Under the NZSX Listing Rules

6. The Proposed Transaction constitutes a Material Transaction with a Related Party, as defined by the NZSX Listing Rules, because the consideration of between $5m and $7m exceeds 10% of Kermadec's Average Market Capitalisation calculated over the 20 trading day period prior to the announcement of the Proposed Transaction, and because the transaction counterparty, Augusta, is a "related party" due to one of its directors, Mark Francis, also being a director of Kermadec and because it holds more than 10% of the Company's voting securities.

7. The Proposed Transaction therefore requires approval by way of an Ordinary Resolution of Kermadec's Shareholders not associated with the Related Party. To be approved pursuant to an Ordinary Resolution more than 50% of Shareholders voting and entitled to vote must vote in favour of the Transaction. No Shareholder associated with the Related Party (i.e. Augusta) may vote in favour of the Ordinary Resolution.

8. Under NZSX Listing Rule 9.2.5 the Notice of Meeting to approve the Proposed Transactions must be accompanied by an Independent Appraisal Report confirming whether or not the terms and conditions of the Proposed Transaction are fair to the Shareholders not associated with Augusta (the Non-Associated Shareholders).

9. NZSX Listing Rule 1.7 contains general provisions relating to the preparation of appraisal reports and the NZX's approval of the appraiser. The following matters are relevant:

   - Our Report must be addressed to the Independent Directors of the Issuer, being those directors of Kermadec not associated with Augusta;
   - Our Report is to be expressed as being for the benefit of the Shareholders in Kermadec, other than those associated with Augusta;
   - We are required to state whether or not, in our opinion, the consideration and terms and conditions of the Proposed Transaction are "fair" to Kermadec's Shareholders (other than the Related Parties);
   - We are required to state whether, in our opinion, the information to be provided by Kermadec to its Shareholders is sufficient to enable them to understand all relevant factors and make an informed decision in respect of the Proposed Transaction;
   - We are required to state whether we have obtained all information which we believe is desirable for the purposes of preparing our Report, including all relevant information which is or should have been known to any director and made available to directors; and
   - We are required to state any material assumptions on which our opinion is based and any terms of reference which have materially restricted the scope of our Report.

10. The appointment of PricewaterhouseCoopers as independent appraiser to assess the fairness of the Proposed Transaction was approved by NZX Market Supervision on 9 January 2012.

Purpose of Report

11. The purpose of the Report is to present our assessment of whether the Proposed Transaction is fair to Kermadec's Non-Associated Shareholders and in doing so, assist them in forming their own opinion as to whether or not they should approve the resolution required to give effect to the Proposed Transaction.

12. We note that each Shareholder's circumstances and investment objectives will be unique. It is therefore not possible to prescribe or advise what action an individual Shareholder should take in response to the Proposed Transaction. Our advice will be necessarily general in nature and is intended to assist each Shareholder to form their own opinion as to what action they should take given their specific circumstances.

Approach to Assessing the Fairness of the Proposed Transaction

13. There is no statutory definition of "fair" under New Zealand law or in the NZSX Listing Rules. Guidance Note Number 10, issued by the New Zealand Institute of Chartered Accountants states:

    "the expression of an opinion as to fairness will generally involve an assessment as to whether a transaction or proposal is just, impartial and equitable."

14. The above definition provides only limited guidance, and therefore we also consider Policy Statement 75 and Practice Note 43 issued by the Australian Securities and Investment Commission (ASIC) relating to independent expert reports. The Policy Statement and Practice Note prescribe standards of best practice for the preparation of expert reports. Furthermore, ASIC Policy Statement 75 contains a definition of "fair" in the context of a takeover. It defines an offer as "fair" if the value of the offer consideration is equal to, or greater than, the value of the securities that are the subject of the offer.

15. In assessing the fairness of the Proposed Transaction we have considered the impact of the Proposed Transaction on Kermadec in terms of its future earnings and any other benefits that might accrue to Kermadec and risks that Kermadec may be exposed to as a result of the Proposed Transaction. We have also assessed whether the proposed consideration for the Management Agreement and the Funds Management Business is fair by comparing the basis and level of consideration payable under the Proposed Transaction to other comparable transactions.

16. Our principal findings and our opinion on the fairness of the Proposed Transaction are summarised in Section 2. This summary should be read in conjunction with the balance of the Report.

Declarations, Qualifications, Disclaimer and Restrictions

17. This Report should be read in conjunction with the statements and declarations set out in Appendix A regarding our independence, qualifications, restrictions on the use of this Report, reliance on information, general disclaimer, limitation of liability and our indemnity.

Independence

18. We confirm that PwC possesses the necessary independence to carry out this role for the independent directors of Kermadec. We are not aware of any conflicts of interest that would prejudice our ability to provide an unbiased objective and independent opinion on the Proposed Transaction.

19. Our firm has not undertaken any work for Kermadec or the Manager within the last three years. PwC's only prior involvement with Kermadec was the preparation of an Independent Appraisal Report dated 25 March 2008 in connection with Kermadec's acquisition of properties from the Manager. PwC has not had any role in the formulation of the Proposed Transaction.

Note

20. All monetary amounts herein are expressed in New Zealand currency (NZD) and are stated exclusive of Goods and Services Tax (GST), unless indicated to the contrary. Certain numbers included in the tables have been rounded and therefore do not add precisely. Generally references to "year" should be taken as referring to Kermadec's financial years ending on 31 March. For example, references to the "2011 year" refer to the financial year ended 31 March 2011.

21. Information sources used in preparing this report are listed at Appendix B.

Yours faithfully
PricewaterhouseCoopers

David Bridgman	Eric Lucas
Partner	Partner

1. Executive Summary

22. This Executive Summary is a summary only. It should be read in conjunction with the balance of our Report, as contained in Sections 2 - 5.

23. The table below summarises the key metrics resulting from the Proposed Transaction including the impact on Kermadec's forecast FY13 earnings, the Farmers King Street Syndication offeror's fees and the related earn-out payment to Augusta:

Comparison(1)	Status Quo	Proposed Transaction	Difference	With 3 new syndications	Difference
FY11 NTA (cents per share)	78.0	77.9	(0.1)		
FY11 Debt / Total Assets %	33.2%	38.3%	5.1%		
FY11 Debt / Equity %	53.2%	61.5%	8.2%		
Impact on earnings excluding performance fee saving - FY13 (2)					
EPS (cents per share)	4.40	4.60	0.20	5.47	1.07
Distributable profit per share (3) (cents per share)	4.40	4.47	0.07	4.79	0.39
Impact on earnings including performance fee saving - FY13 (2)					
EPS (cents per share)	4.40	4.71	0.31	5.59	1.19
Distributable profit per share (3) (cents per share)	4.40	4.58	0.19	4.91	0.51

Source: Kermadec, PwC Analysis

Note (1): All metrics based on hypothetical impact on FY11 figures, except for EPS and distributable profit per share which are based on forecast FY13 figures.

(2): The performance fee saving is only applicable to the Proposed Transaction and therefore does not impact the Status Quo.

(3): Net profit after tax before revaluations on investment properties, revaluations of derivative financial instruments, deferred tax and other non-cash NZ IFRS adjustments, essentially comprising cash that is available for distribution to Shareholders calculated as EPS less any earn-out / capital payments.

24. The earnings impact analysis shows that the Proposed Transaction should have marginally positive impact on the Company's near term (FY13) earnings per share (EPS) even if no new syndications are completed, although this outcome depends on the interest rate payable on the additional $5.25m of net debt that is funding the transaction. If funding costs were to increase from 5.5% to to 6.0%, then the net earnings impact would be marginally negative (excluding the impact of any performance fee savings, offeror's fees and new syndications). Given current interest rates are near all time lows, there is a prospect that rates will increase, especially in the medium to long term, meaning that absent any performance fee savings or offeror's fees, the medium term earnings impact could be marginally negative if no new syndications are completed. The Company is able to mitigate this risk in the short to medium term through fixing the interest rate on the new borrowings.

25. There is potential earnings upside for Kermadec related to the acquisition of Augusta's Funds Management Business as shown in the above table. Offeror's fees from the Farmers King Street Syndication as well as anticipated completion of new syndications will have a positive impact on Kermadec's future earnings, although the earn-out component of the consideration of the Proposed Transaction will partially offset the positive impact of this income on distributable profit per share. Avoiding any future performance fee obligations could also enhance the Company's EPS in future. For example, the completion of three new syndications in FY13 would increase EPS by approximately 1.07 cents to 5.47 cents (excluding the performance fee saving). We believe it is reasonable to assume that at least some new syndications will be completed over the coming years. The forecasts referred to throughout the Report have been based on various assumptions, and in PwC's view, the assumption of no new syndications is "conservative", whereas the assumption of three new syndications each year is towards the "upper limit" of what could reasonably be expected.

26. One of the main reasons for the Directors recommending the Proposed Transaction is the additional revenue generation that the Funds Management Business is able to provide without requiring the level of additional capital investment that would be needed to generate a similar level of incremental earnings from directly owned property assets. The acquisition of the Funds Management Business also represents a change in strategy for the Company which has operated solely as a property investment vehicle historically.

27. The proposed purchase price for the internalisation of the Management Agreement of $2m represents 2.0% of Kermadec's assets under management (AUM) (including investment properties held for sale) as at 30 September 2011. This consideration implies a revenue multiple of 3.5x based on management fees for FY11 or 3.7x forecast base management fees for FY13. These implied metrics are broadly consistent with similar, although not directly comparable, transactions completed in the Australasian property sector in recent years which had an average revenue multiple of 3.4x and average price as a percentage of AUM of 3.2%, although at the high end when taking into account the size of Kermadec (and therefore the absolute level of its management fee and associated profits) and its limited growth prospects. If the purchase price is deductible for tax purposes, as has been the case with other recent management internalisation transactions in New Zealand, then the implied revenue multiple reduces to 2.5x and the price as a percentage of AUM reduces to 1.4%.

28. The proposed base consideration of $5m (being the base purchase price for the Funds Management Business of $3m plus $2m Management Agreement termination fee) represents an EV/EBIT multiple on incremental earnings (excluding performance fee savings) of approximately 10x. Based on our knowledge of EV/EBIT multiples implied by other similar transactions involving LPVs, this implied multiple suggests a price that is at the higher end of the range evidenced by comparable transactions is being paid for the internalisation and acquisition of the Funds Management Business, especially given Kermadec's size and growth prospects. If the purchase price for the internalisation of the Management Agreement is tax deductible, the implied EV/EBIT multiple reduces to approximately 9x.

29. The internalisation of the Management Agreement should however provide a number of benefits for Kermadec including lower future management costs, retention of key Augusta personnel, removal of the potential conflict of interest and elimination of any impediment to any prospect of a takeover of the Company. The acquisition of the Funds Management Business should also provide benefits to the Company, through broadening Kermadec's business base and increased revenue generation potential.

30. The alternative options for Kermadec include maintenance of the status quo, removal of the Manager by special resolution, or only completing part of the Proposed Transaction. Of these alternatives, the only viable option appears to be maintenance of the status quo. Although this is not an unattractive alternative for the Company, it would prevent Kermadec from obtaining the benefits of the Proposed Transaction discussed above.

31. In our opinion, the consideration and terms and conditions of the Proposed Transaction are "fair" to Kermadec's Shareholders, because although the base price of $5m being paid under the Proposed Transaction appears "full" in comparison to other similar transactions, the FY13 net earnings impact should be marginally positive, although potentially negative in the medium to long term if no new syndications are completed. This latter risk is offset by Kermadec gaining the opportunity to earn additional profits from the Augusta Funds Management Business that it will take over.

32. In our opinion, the information to be provided by Kermadec to its Shareholders is sufficient to enable them to understand all relevant factors and make an informed decision in respect of the Proposed Transaction.

2. Overview of Kermadec

Background

33. Kermadec is a diversified property fund with approximately $100m of commercial and industrial property AUM.

34. Kermadec undertook an initial public offering (IPO) and listed on the NZSX on 11 December 2006, having issued 61.25m shares at $1.00 per share.

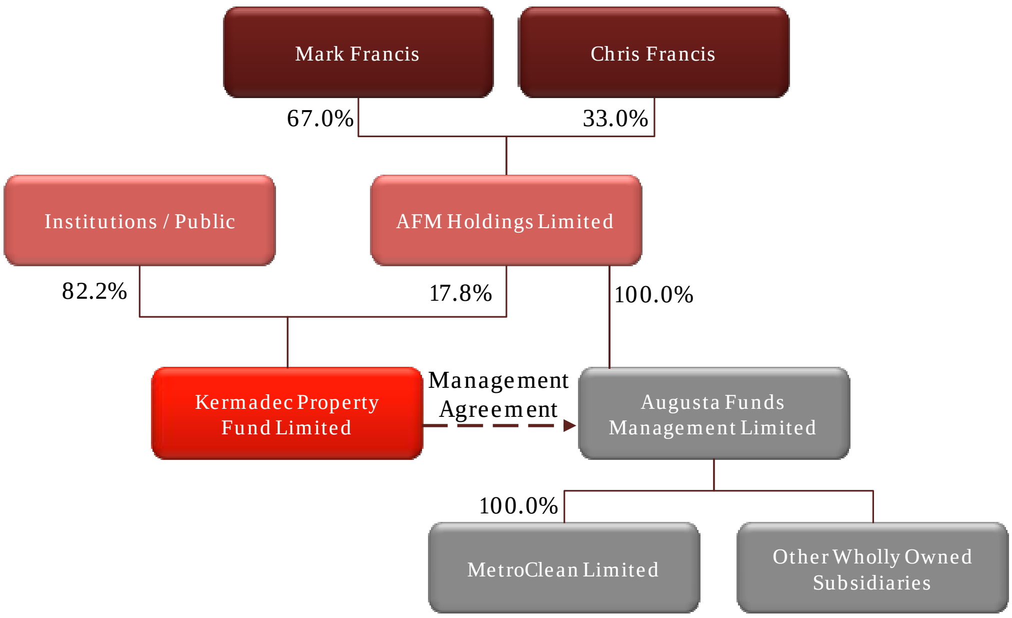
35. The proceeds of the IPO were primarily used to acquire a portfolio of six properties from parties associated with the Manager for a total purchase price of $96.39m, which compared to a registered valuation of $99.95m.

36. The portfolio of properties acquired at the time of the IPO was subject to rental guarantees for a period of three years. The Manager also agreed to offer Kermadec, on a first right of refusal basis, any New Zealand properties that the Augusta Group wished to sell. Kermadec is under no obligation to purchase these properties and under the agreement the purchase price is to be based on a valuation by a registered property valuer less a discount be negotiated in good faith between the parties.

37. In 2008 Kermadec acquired Durham House, John Scott House and The Finance Centre Plaza (adjoining properties located in the Auckland CBD) from interests associated with the Manager for a total consideration of $17.555m, a discount of approximately 9% to the valuation prepared by Colliers International NZ Limited at the time.

38. At the time of the IPO, parties associated with the Manager subscribed in aggregate for a total of 6.2m shares representing 10.1% of the shares in the IPO. Since 2006 AFM Holdings Limited (AFMH), the parent company of the Manager, has increased its shareholding and as at 31 December 2011 held 17.8% of the shares in Kermadec.

39. The chart set out below illustrates the ownership structure of Kermadec and its relationship with the Manager and associated parties:



Source: New Zealand Companies Office, Augusta

Property Portfolio

40. As at 30 September 2011, Kermadec's property portfolio had an estimated aggregate market value of $98.9m. The portfolio as at 30 September 2011 is summarised in the following table:

Property	Location	Sector	Value ($m)
Finance Centre Carpark & Podium	Auckland CBD	Commercial	45.3
Brookfields House	Auckland CBD	Commercial	23.2
7 City Road	Auckland CBD	Commercial	18.7
Kaimanawa Warehouse	Palmerston North	Industrial	2.8
Manukau Business Park	Manukau	Commercial	8.9
Total			**98.9**

Source: Kermadec Interim Report for period ended 30 September 2011

41. Auckland properties dominate Kermadec's property portfolio, accounting for approximately 97% of its total portfolio by value. The majority of Kermadec's portfolio comprises commercial property.

42. On 31 October 2011, Kermadec sold Units F and G, 17 Lambie Drive (part of the Manukau Business Park) for $4.175m and on 19 December 2011 the Company announced that it had sold the Kaimanawa Warehouse property for $2.75m (slightly less that the carrying value of $2.85m).

Governance

43. The Kermadec Board of Directors comprises two independent directors, Messers Peter Wilson (Chairman) and John Loughlin, and a representative of the Manager, Mr. Mark Francis. There is provision for the Board to comprise up to seven members but there must always be a majority of Independent Directors.

44. The responsibilities of the Board include:

- Statutory responsibility for the affairs and activities of the Company;
- Ensuring effective disclosure policies and procedures are fulfilled to maintain a fully informed market;
- Protecting and enhancing the value of assets of the Company for the benefit of Shareholders; and
- Delegating responsibility to the Manager to implement and deliver the adopted corporate strategies and maintaining oversight of the Manager's performance.

Management Agreement

45. Kermadec is managed by Augusta under the terms of the Management Agreement dated 6 November 2006. The Manager's responsibilities include:

- making recommendations to the Board and managing property acquisitions and divestments;
- managing relationships between Kermadec and lessees, agents, valuers, investors, government, professional advisors and other relevant parties;
- arranging funding for Kermadec and managing the Company's financial affairs;
- arranging for valuations of Kermadec's properties to be completed annually;

- ensuring collection of rents and compliance by lessees of Kermadec's properties;
- managing negotiations of rent reviews, variations of leases and lease renewals;
- managing any development projects and maintenance on the properties;
- ensuring compliance by Kermadec with all relevant rules and regulations; and
- general administrative and reporting duties.

46. Fees payable to the Manager are set out in the Management Agreement. The Manager's remuneration comprises a base management fee and a performance fee. The base fee is calculated as 0.55% per annum of the average gross value of Kermadec's assets and is calculated quarterly and paid in arrears.

47. The performance fee is calculated based on returns accruing to Kermadec's Shareholders each quarter. The Manager is entitled to be paid 10% of the amount by which the Total Shareholder Return (TSR) (TSR reflects changes in share price and any dividends paid) exceeds 10% per annum up to a maximum of 15% per annum. Where the TSR exceeds 15% per annum, the excess is carried forward to subsequent quarters for a maximum period of three years. If the TSR is less than 10% per annum for a quarter, the deficit is also carried forward (for a maximum of three years) and applied in calculating the performance fee in subsequent quarters.

Term of Management Agreement

48. The Management Agreement has an initial term of ten years to November 2016. Thereafter, unless the Manager gives six months notice that it does not wish to extend the Management Agreement, it will be extended for a further period of ten years on the same terms and conditions, provided that the Manager has performed its obligations under the Management Agreement.

Removal of the Manager

49. Kermadec may terminate the Management Agreement under the following circumstances:

    - For non-performance or unsatisfactory performance by the Manager of its management duties where this results in material breach of the Management Agreement which the Manager fails to remedy within a specified notice period;
    - In the event that there is either a change in the legal or beneficial ownership or control of the voting rights in the Manager or either of the shareholders in the Manager, without the prior written approval of the Board or approval by an ordinary resolution of Shareholders (who are not associated persons of AFMH, or any permitted transferee of AFMH); and
    - If the Shareholders pass a special resolution to remove the Manager. In the event the Manager is removed by special resolution, the Company must pay the Manager a termination fee equal to 1.00% of the total value of all assets forming part of the portfolio during the relevant quarter. A special resolution to remove the Manager does not require non-performance on the part of the Manager.

Financial Performance

50. Kermadec's financial performance for the previous three financial years is summarised below:

Statement of Financial Performance

NZ$000s	FY09	FY10	FY11
Property Revenue	11,114	10,600	8,246
Rental Underwrite Revenue	529	112	-
Operating Costs Recovered	1,666	1,641	1,631
Gross Revenue	**13,309**	**12,353**	**9,877**
Operating Costs	(2,659)	(3,002)	(2,918)
Leasing Costs	(74)	(143)	(219)
Net Revenue	**10,576**	**9,208**	**6,740**
Base Management Fee	(780)	(720)	(574)
Administration Costs	(563)	(684)	(492)
Operating Profit Before Interest, Tax & Revaluations	**9,233**	**7,804**	**5,674**
Finance Income	368	152	90
Finance Expenses	(4,465)	(4,976)	(5,227)
Operating Profit Before Tax & Revaluations	**5,136**	**2,980**	**537**
Unrealised Net Change in Value of Investment Properties	(12,926)	(4,873)	718
Capital Gain / (Loss) on Sale of Investment Property	(39)	(1,487)	19
Unrealised Gain / (Loss) on Interest Rate Swap	(5,014)	1,176	2,629
Net Profit Before Taxation	**(12,843)**	**(2,204)**	**3,903**
Current Taxation	(343)	136	399
Deferred Taxation	1,254	(551)	533
Net Profit After Tax (NPAT)	**(11,932)**	**(2,619)**	**4,835**
Earnings per share (cents)	*(15.28)*	*(3.23)*	*5.85*
Dividend per share (cents)	*8.30*	*5.07*	*4.25*

Source: Kermadec Annual Reports for FY09, FY10 and FY11

51. We note the following regarding Kermadec's financial performance:

- Kermadec's property revenue declined by 25.8% from FY09 to FY11 largely as a result of property divestments including the Berkeley Retail Centre, and units of the Kaimanawa Warehouse and Manukau Business Park (investment properties, including properties held for sale, fell by 22.7% over the same period).
- Rental underwrite revenue in FY09 and FY10 related to the rental guarantees attached to the portfolio of properties acquired at the time of Kermadec's IPO. These rental guarantees were for a finite three-year period and hence ceased in December 2009.
- Net rental income was negatively impacted by the increased cost of leasing incentives and some vacancies.
- Base management fees paid to Augusta declined from FY09 to FY11 as a result of the property divestments. Management have advised that at the completion of the December 2011 quarter the accrued performance fee payable was approximately $62,484.
- Finance expenses peaked in FY11 due to interest rate swap break fees of $3.3m. As at 31 December 2011 Kermadec's average borrowing costs were 5.5% per annum and approximately 52% of Kermadec's borrowings were hedged.

- Following two years of generating a loss at the net profit after tax (NPAT) level, Kermadec posted a NPAT of $4.8m in FY11 largely as a result of unrealised gains on interest rate swaps of $2.6m, a positive revaluation impact of $0.72m, some operational improvements and a reversal of the deferred tax liability with respect to building valuations due to a change in accounting standards.

- Cash distributions for FY12 are expected to be 4.0 cents per share, in line with previous guidance.

Financial Position

52. Kermadec's financial position as at 31 March 2009, 2010, and at 30 September 2011 is summarised below:

Statement of Financial Position

NZ$000s	31 Mar 2009	31 Mar 2010	31 Mar 2011	30 Sep 2011
Cash and Cash Equivalents	4,693	2,682	1,781	491
Other Current Assets	358	316	346	436
Total Current Assets	**5,051**	**2,998**	**2,127**	**927**
Investment Properties Held for Sale	**-**	**18,100**	**2,635**	**7,880**
Investment Properties	129,004	98,435	97,135	91,101
Capitalisation of Rental Incentives	394	519	503	564
Total Non Current Assets	**129,398**	**98,954**	**97,638**	**91,665**
Total Assets	**134,449**	**120,052**	**102,400**	**100,472**
Current Liabilities	**5,536**	**4,504**	**1,583**	**1,893**
Borrowings	57,500	48,000	34,000	32,500
Deferred Taxation	3,473	3,888	2,956	3,355
Total Non Current Liabilities	**60,973**	**51,888**	**36,956**	**35,855**
Total Liabilities	**66,509**	**56,392**	**38,539**	**37,748**
Net Assets	**67,940**	**63,660**	**63,861**	**62,724**
Debt / Total Assets %	*42.8%*	*40.0%*	*33.2%*	*32.3%*
Debt / Equity %	*84.6%*	*75.4%*	*53.2%*	*51.8%*
NTA / share (IFRS[1] adjusted) (cents)	*90*	*78*	*78*	*77*

Source: Kermadec Annual Reports for FY09, FY10 and FY11, Interim Report for period ended 30 September 2011
Note (1): International Financial Reporting Standards

53. Key points to note in relation to Kermadec's financial position are as follows:

- Investment properties (including properties held for sale) declined by 9.7% from FY09 to FY10 as a result of property sales and $4.87m of portfolio write downs, and by 14.4% from FY10 to FY11 because of further planned non-core asset sales offset by a modest revaluation gain.

- Net tangible assets (NTA) per share declined by 13 cents from the end of FY09 to 30 September 2011 mainly as a result of the aforementioned portfolio write downs.

- Borrowings refer to secured bank loan facilities provided by ASB Bank. During the six months to 30 September 2011 the Company repaid $1.5m of bank debt and also renewed its bank facilities for a further four years from 30 June 2011.

- The Company's constitution limits borrowing to a ratio of 50% of the gross asset value (GAV), and ASB requires borrowings not to exceed 45% of GAV. Kermadec's internal target debt ceiling is 35%. As at 30 September 2011 this ratio was 32.3% and this fell to 31.3% following the sale of Unit B, 17 Lambie Drive after 30 September 2011.

- In FY11 Kermadec bought back $1.4m of its own shares via on market repurchases at an average price of $0.467. A further $0.116m of shares had been repurchased during the six months to 30 September 2011.

Ownership and Share Trading History

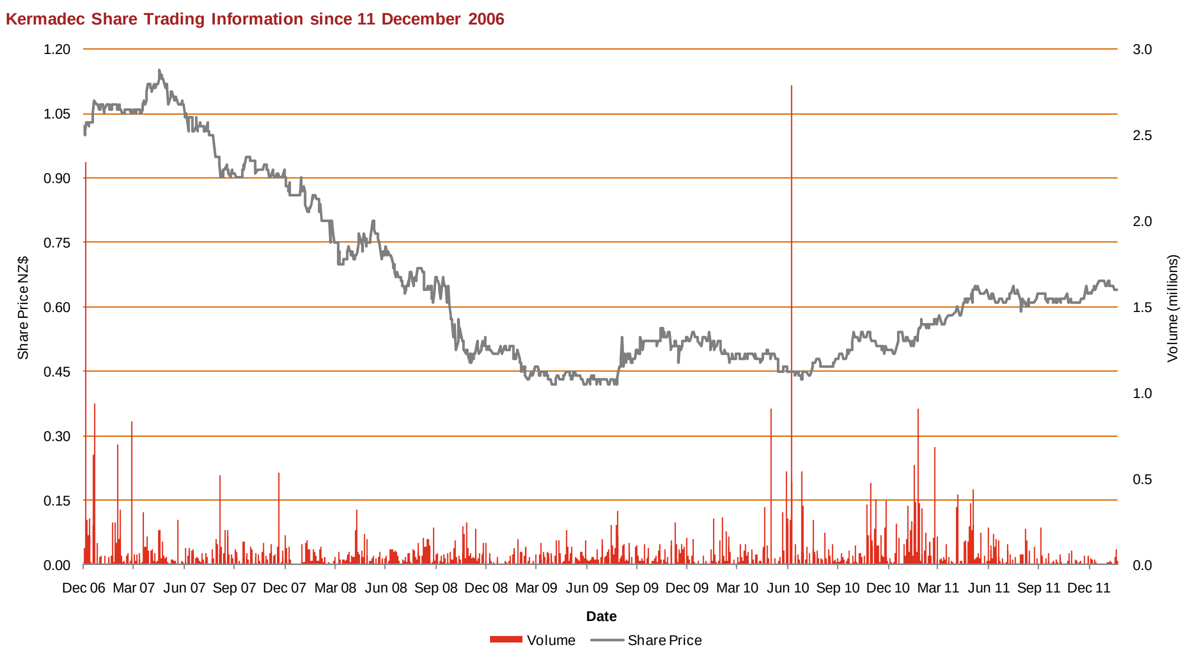
54. As at 31 January 2012 Kermadec had approximately 920 Shareholders. Kermadec's top 10 Shareholders currently hold 51.7m shares or 63.7% of the Company.

55. Kermadec's substantial security holders are listed in the table below:

Shareholder	Number of Shares	%
AFM Holdings Limited	14,470,709	17.8%
Westpac Banking Corporation and BT Private Selection	5,397,350	6.6%
Mint Asset Management	4,636,552	5.7%
SuperLife Trustee Nominees Limited, Ballynagarrick Investments Limited	4,452,038	5.5%
Accident Compensation Corporation	4,133,447	5.1%
Substantial Security Holders	**33,090,096**	**40.7%**
Other Shareholders (approx. 900)	48,188,812	59.3%
Total	**81,278,908**	**100.0%**

Source: NZX Company Research

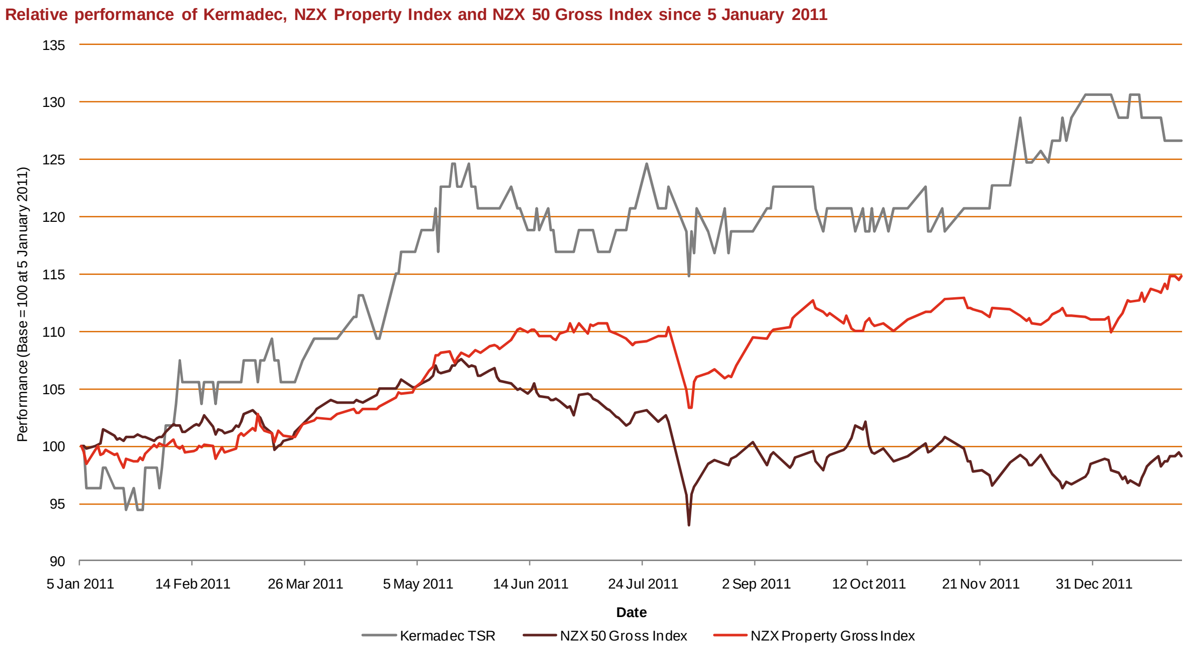
56. The following graph illustrates Kermadec's share price movements and trading volumes since its IPO in December 2006:



Source: Capital IQ

57. Over the 12 months to 31 January 2012 the Company's share price fluctuated between a high of $0.66 in December 2011 and a low of $0.52 in February 2011, with an average daily volume of approximately 60,078 shares traded. The Volume Weighted Average Price (VWAP) for the 20 trading days prior to 31 January 2012 was $0.64 per share.

58. The graph below illustrates Kermadec's TSRs compared with the NZX 50 Gross Index and the NZX Gross property index during 2011 and January 2012:



Source: Capital IQ

59. In the year to 31 December 2011 the return on the NZX 50 Gross Index was negative 3%, the return of the NZX Gross Property Index was 11% and Kermadec's TSR was 31% (TSR reflects change in share price and any dividends paid). All NZX-listed property stocks exhibited positive share or unit price movement over the same period, outperforming the overall equity market. Kermadec was the highest performing property stock, followed by Argosy Property Trust which had a TSR of 18%.

New Zealand Listed Property Sector Overview

60. The listed property sector enables investors to gain exposure to a selection of professionally managed, generally well diversified, investment-grade property portfolios. Traditionally, the sector has been viewed as a defensive investment and has been favoured by investors seeking a steady yield in the form of regular distributions, coupled with the liquidity enabled by a sharemarket listing.

61. At present there are 9 listed property investment vehicles (LPVs)on the NZX, summarised below:

Listed Property Fund	Price as at 31 January 2012 ($)	Market Capitalisation ($m)	Total Assets ($m)	NTA per share / unit ($)	Price / NTA	WALT (years)	Internalised Management
Kiwi Income Property Trust	1.05	1,025.5	2,113	1.04	1.00	4.0	×
Goodman Property Trust	1.02	1,003.4	1,618	0.96	1.06	5.6	×
AMP NZ Office Limited	0.86	857.5	1,284	0.88	0.98	5.8	×
Argosy Property Trust	0.83	459.2	975	0.86	0.96	4.9	✓
DNZ Property Fund Limited	1.31	324.1	654	1.52	0.86	4.3	✓
Property for Industry Limited	1.16	254.1	360	1.07	1.08	4.1	×
Vital Healthcare Property Trust	1.15	335.9	300	1.04	1.11	11.4	×
NPT Limited	0.50	81.2	175	0.51	0.98	3.9	✓
Kermadec Property Fund Limited	0.64	52.0	102	0.77	0.83	5.2	×
Mean					**0.99**	**5.5**	
Median					**0.98**	**4.9**	

Source: PwC Analysis, LPV Annual Reports, Company Websites, NZX Company Research, Capital IQ

62. On average, these LPVs are trading at close to NTA. This represents an improved position from recent years when most LPVs have traded at significant discounts to their NTA value because of investor concerns about volatile global credit markets, the general decline in equity markets since late 2007 and weak performance of property in some international markets.

63. At its current share price of around 67 cents Kermadec is trading at a 13% discount to its last reported NTA, compared to a current sector average discount of 4%.

Key Value Drivers

64. The property sector and asset values within the sector are affected by a variety of factors. The quantum and security of revenue streams from property assets are a function of:

- General economic conditions and growth prospects;
- Interest rates;
- Growth in specific sectors of the economy, which in turn will affect the relative demand for various classes of property (e.g. retail, industrial, office etc);
- The supply of new property available for lease. Land available for development and construction costs also impact the supply of new property; and
- Government and legislative initiatives.

65. The key Auckland property market experienced marginal growth through 2011, though off a low base. Demand for high quality property assets with sound tenant covenants, quality improvements and longer weighted average lease terms (WALTs) is relatively strong in contrast with demand for lower quality assets for which there has been limited demand. Overall, sales volumes remain relatively low and buying interest has been mostly dominated by private local investors.

66. The gradual recovery that the New Zealand economy appeared to be experiencing in 2010 continued to some degree in 2011 supported by elevated commodity prices, and repairs and reconstruction in Canterbury, which were offset to some degree by high domestic household debt resulting in constrained consumer spending and persistent unemployment indicators. As a result of these factors, New Zealand economic activity continues to expand, though at a modest pace. Uncertainties that continue to plague major overseas economies, notably the current "Eurozone crisis", also continue to hamper domestic recovery prospects. Nonetheless, the expectation for the property market is for a gradual recovery in property prices over the medium term (5 years).

3. Overview of Augusta

Background

67. Augusta was established in 2003 and is a wholly owned subsidiary of AFMH which in turn is owned by Mark Francis (67%) and Chris Francis (33%) (as depicted in the ownership structure diagram in Section 2). Augusta's two directors are Chris and Mark Francis.

68. Augusta's business comprises property management, promotion and management of property syndicates and ownership of a commercial cleaning company.

Property Management

69. Augusta currently manages approximately $270m of commercial property in New Zealand including all of Kermadec's property portfolio (approximately $100m).

70. The fees and terms of the Management Agreement between Augusta and Kermadec are discussed in Section 2. Augusta also earns property management fees from some property syndicates that it has established where it continues to manage tenancies belonging to these syndicates.

Property Syndicates / Funds Management Business

71. Augusta's property syndication business was established in early 2003. Augusta property syndicates provide individual investors with the opportunity to gain direct exposure to significant New Zealand property investments without having to outlay the entire cost of the property acquisition themselves. Investors acquire a proportionate share of a larger property investment, relative to what they could otherwise acquire on their own, alongside other investors, with the property being professionally managed (by Augusta) and with the ownership structure also utilising non-recourse debt funding (i.e. investors have the benefit of partial debt funding of their asset without being required to personally guarantee the borrowings).

72. Augusta currently manages 11 property syndicates that own properties located throughout the North Island. An offer for a new syndicate (Farmers King Street) has recently been completed. The property is currently under development and the purchase of the property is expected to be completed in August 2012 at which point the management agreement with Augusta will also be signed.

73. From each syndicate Augusta earns a one-off offeror's fee when the syndicate has been established, and the required money has been raised and successfully invested in the property.

74. Augusta then earns an annual "scheme management" fee from each syndicate that varies in terms between the different syndicates. Some of the syndication management fees are fixed for the term of the investment, while others increase annually by a fixed amount or are indexed to the consumer price index (CPI). These syndication management fees are in addition to the property management fees that Augusta earns from some of its syndicates.

75. Augusta's role as manager of the property syndicates involves management of all tenancy-related matters, on-site facilities management, preparation of annual financial statements, payment of monthly distributions and arrangement of non-recourse interest-only funding (including interest rate hedging).

76. There is a limited secondary market for Augusta's syndications that is operated in conjunction with Bayleys Real Estate Limited and other real estate agencies, enabling investors to buy and sell units in these syndicates on an ongoing basis, providing a degree of liquidity for investors. The value of the syndicates' secondary market trade volume between third parties for the 9 months ended 31 December 2011 was $6.7m (FY11: $5.7m; FY10: $5.4m).

77. The table below sets out the property syndicates currently managed by Augusta:

Property Syndicate	Location	Sector	Date	Proportionate Ownership Scheme Details
Bendon HQ	Manukau	Commercial	2009	Airpark Nominees 202 individual interests at $50,000 each
Hawkes Bay District Health Board Building	Hastings	Commercial	2005	McLeod Nominees 84 individual interests at $54,375 each
Contact Energy Building	Lower Hutt	Commercial	2005	531 High Street Nominees 110 individual interests at $50,000 each
APN News and Media Building	Manukau	Industrial	2008	587 Nominees 169 individual interests at $50,000 each
510 Mt Wellington Highway	Auckland	Commercial & Industrial	2009	Mt Wellington Nominees 310 individual interests at $50,000 each
Downer EDI	Manukau	Commercial	2010	Amelia Earhart Nominees 45 individual interests at $50,000 each
Countdown Fraser Cove	Tauranga	Retail	2010	Fraser Cove Nominees 183 individual interests at $50,000 each
ENZA Foods	Hastings	Industrial	2011	Williams Street Nominees 220 individual interests at $50,000 each
Countdown Westgate	Auckland	Retail	2010	Fernhill Nominees 192 individual interests at $50,000 each
9 City Road	Auckland	Commercial	2007	City Road Nominees 100 individual interests at $58,000 each[1]
Countdown Huntly	Huntly	Retail	2011	Huntly Nominees 109 individual interests at $50,000 each
Farmers King Street (new)	Hastings	Retail	2012	King Street Nominees 11 individual interests at $1m each

Source: Augusta

Note: (1) Joint Venture established by another party

MetroClean

78. MetroClean Limited (MetroClean) is a wholly-owned subsidiary of Augusta and provides commercial cleaning services to Augusta's clients.

79. MetroClean's current cleaning contracts all relate to commercial properties located in the Auckland CBD and most of MetroClean's customers are tenants in properties either owned by Kermadec or Augusta syndicates. Approximately 13% of MetroClean's contracted annual revenue is derived from contracts that relate to properties not owned by Kermadec or Augusta syndicates, and approximately 35% relates to contracts with tenants of Kermadec or Augusta syndicates' properties which MetroClean has secured on competitive terms.

80. Services offered by MetroClean include commercial / corporate cleaning, carpet / flooring services, car park cleaning, exterior maintenance cleaning, high rise window cleaning, water blasting, wash room and hygiene services, pest control and waste disposal.

Financial Performance and Position

81. Augusta's financial performance for the previous three financial years is summarised below:

Statement of Financial Performance

NZ$000s		FY09	FY10	FY11
Kermadec	- Base Management Fees	780	720	574
	- Property Management Fees	306	263	255
Income from Kermadec		**1,086**	**983**	**829**
Syndications	- Offeror's Fees	562	418	1,011
	- Property Management Fees	59	159	300
Income from Syndications		**622**	**576**	**1,311**
MetroClean		-	-	258
Commission Income		-	31	132
Investment, Interest, Dividends and Other Income		0	25	42
Other Income		**0**	**55**	**432**
Total Income		**1,708**	**1,614**	**2,572**
MetroClean Costs		-	-	(144)
Salaries and Wages		(618)	(347)	(609)
Marketing Expenses		-	-	(266)
Other Expenses		(245)	(258)	(336)
Total Expenses		**(863)**	**(605)**	**(1,355)**
EBITDA		**845**	**1,009**	**1,217**
Depreciation and Amortisation		(135)	(131)	(129)
EBIT		**710**	**878**	**1,088**
Interest and Finance Costs		(299)	(254)	(174)
Net Profit Before Taxation		**412**	**624**	**914**
Taxation Expenses		(179)	(228)	(326)
Net Profit After Tax (NPAT)		**233**	**396**	**588**

Source: Augusta Annual Reports for FY10 and FY11

82. We note the following regarding Augusta's financial performance:

- Augusta's total income increased 59.3% in FY11 as a result of a significant increase in offeror's fees and property management fees from three new property syndications, MetroClean revenue and commissions earned from the sale of units in a non-Augusta syndication to Augusta clients (which was considered a one-off arrangement). Investment income related to units held in the Mt Wellington Nominees syndication that were taken in lieu of fees. The investment is discussed further below.

- Fees earned by Augusta from Kermadec (comprising management fees and property management fees) as a proportion of Augusta's total income declined from 63.6% in FY09 to 32.2% in FY11.

- Salaries and wages make up a significant proportion of Augusta's total expenses, although this proportion declined from 47.7% in FY09 to 36.7% in FY11.

- Augusta's marketing expenses increased significantly in FY11. These expenses related to incentive based marketing arrangements for the Countdown Fraser Cove and Countdown Westgate syndications that were completed in FY11 and are considered non-recurring.

- Other expenses mainly comprise rent, and office and administration expenses. In FY11 other expenses also includes doubtful debts expenses of $43,000 (nil in FY09 and FY10) and impairment of intangible asset ($30,000) (nil in FY09 and FY10). This impairment charge relates to the syndication management agreement for City Road Nominees that Augusta acquired in FY10. At the time of the preparation of the FY11 accounts, there was uncertainty over whether the City Road property would be sold or its debt refinanced, hence the impairment of the full value and removal from Augusta's balance sheet in FY11. The property was not sold and the syndicate's debt was refinanced for a further three years.

- Management have advised that approximately 60% of Augusta's total expenses relate to the Kermadec Management Agreement with the remaining approximately 40% relating to Augusta's other operations.

- Amortisation of $123,208 per annum relates to the amortisation of costs incurred by Augusta at the time of Kermadec's IPO and establishment of the Management Agreement. Augusta's investment is being amortised over the 20-year Management Agreement term.

83. Augusta's financial position for the previous three financial years and last half year is summarised below:

Statement of Financial Position

NZ$000s	31 Mar 2009	31 Mar 2010	31 Mar 2011	30 Sep 2011
Cash and Cash Equivalents	229	46	11	(167)
Trade Receivables	89	102	120	61
Set Up Costs	20	0	222	-
Other Current Assets	10	26	20	-
Total Current Assets	**348**	**174**	**373**	**(106)**
Fixed Assets	26	27	35	22
Investment in Proportionate Ownership Scheme	-	400	400	25
Intangible Asset - Kermadec	2,187	2,064	1,941	1,879
Intangible Asset - Syndication Management Agreement	-	30	-	-
Deferred Tax Assets	21	5	8	8
Loan to AFM Holdings Limited	2,500	2,500	2,500	2,500
Other Non Current Assets	-	-	-	41
Total Non Current Assets	**4,733**	**5,026**	**4,883**	**4,475**
Total Assets	**5,081**	**5,200**	**5,256**	**4,369**
Bank Overdraft	-	-	230	-
Provision for Taxation	-	213	170	27
Current Portion of Bank Loan	-	40	-	-
Other Current Liabilities	99	99	140	85
Current Liabilities	**99**	**351**	**540**	**112**
Borrowings	3,370	2,543	2,500	2,500
Shareholder Advance - AFM Holdings Limited	1,668	1,966	1,661	1,278
Total Non Current Liabilities	**5,038**	**4,509**	**4,161**	**3,778**
Total Liabilities	**5,137**	**4,860**	**4,701**	**3,891**
Net Assets	**(56)**	**340**	**555**	**478**

Source: Augusta Annual Reports for FY10 and FY11, Management Reports for period ended 30 September 2011

84. With regard to Augusta's financial position we note the following:

- Augusta's negative cash balance as at 30 September 2011 relates to the timing of deposits for syndications paid. We understand that Augusta has a $500,000 overdraft facility to ensure flexibility and the ability to pay deposits on new syndications prior to fees being received.

- The investment in proportionate ownership scheme is Augusta's effective proportionate share of the assets of the Mt Wellington Nominees Joint Venture based on the separate audited financial statements prepared for this joint venture at its last balance date of 31 March 2011. The amount showing on Augusta's balance sheet at 31 March 2011 is equal to the cost of the investment which is also Augusta's share of the Joint Venture's net assets at balance date. The investment was sold for the consideration of $0.4m after the 31 March 2011 balance date.

- As previously discussed, the intangible asset relates to the investment cost borne by Augusta in establishing Kermadec.

4. The Proposed Transaction

Introduction

85. On 24 November 2011 Kermadec announced that its Independent Directors had reached agreement in principle with the Manager to terminate the Kermadec Management Agreement and to acquire Augusta's ongoing Funds Management Business.

86. The Board advised that the purpose of the Proposed Transaction is to re-position Kermadec as an integrated property funds management business focused on direct property ownership as well as the creation of new managed funds. Under the Proposed Transaction Augusta will retain its 17.8% cornerstone shareholding in Kermadec.

87. As previously discussed the Proposed Transaction requires Shareholder approval to proceed.

The Proposed Transaction

88. The Proposed Transaction comprises:

- the agreement to terminate the Management Agreement; and
- the acquisition by Kermadec of Augusta's Funds Management Business including:
  - management contracts for the 12 property syndicates (summarised in Section 3),
  - 100% of the shares in MetroClean,
  - all shares in the property syndicate nominees companies (summarised in Section 3);
  - all rights in the 'Augusta Funds' and 'Augusta' names, and all intellectual property, all computers and computer software, investor databases and other business records,
  - all Augusta's obligations under the property syndicate management contracts, and
  - any liabilities under contracts which arise from Kermadec's performance or non-performance following completion of the Proposed Transaction.

89. All cash in Augusta's bank accounts, any tax and / or GST refunds received by Augusta which relate to the period prior to completion and insurance policies (on the basis that Kermadec will take out separate insurance policies) are excluded from the Proposed Transaction. Other than any Augusta obligations under its syndicate management contracts relating to its Funds Management Business, none of Augusta's liabilities will transfer to Kermadec.

90. Following the Proposed Transaction, and assuming Shareholder approval is obtained, Kermadec will be renamed Augusta Group Limited.

91. It is envisaged that all six Augusta employees will become employees of Kermadec with the individuals' proposed salaries, roles and discretionary bonuses to be defined in new employment agreements.

92. Mark and Chris Francis will be restricted for the longer of three years from completion of the Proposed Transaction and 12 months after they cease employment with Kermadec from carrying on any business in New Zealand which is the same as or substantially similar to or in competition with Kermadec's operations (following the Proposed Transaction). Essentially, the Francis' will be restrained from leaving Kermadec and starting up a funds management, property syndication, property investment or property management business for at least three years. The Francis' will also be restrained from soliciting Kermadec employees or customers / clients of Kermadec for at least three years.

93. Kermadec will also be granted a lease of the business premises currently occupied by Augusta at 35 Chancery Street, Auckland on market terms.

94. The expected completion date for the Proposed Transaction is 31 March 2012.

Consideration

95. The consideration payable under the Proposed Transaction comprises two components:

- Consideration for termination of the Management Agreement of $2m; and
- A purchase price for the Funds Management Business:
  - $3m base price less any deferred syndicate management fees payable to Augusta at completion,
  - plus an earn-out amount up to $2m calculated as 50% of the offeror's / promoter's fees earned on any new managed funds (including any new property syndicates) offered by Kermadec following completion (there is no time limit on when payment of the earn-out ceases), and
  - a working capital adjustment on settlement.

96. The consideration will be funded via a new committed cash advance facility of $5m from ASB Bank that is reviewable on 30 June 2014.

97. As previously mentioned, Augusta's new Farmers King Street property syndicate is expected to settle in August 2012 at which point a management agreement will be signed and $206,251 of offeror's fees (for the settlement of the property) will be paid. It has been agreed by the parties to the Proposed Transaction that Kermadec will receive the $206,251 of fees to be paid in August 2012. We note that this fee is subject to the aforementioned earn-out, therefore 50% is payable to Augusta.

Conditions

98. The Proposed Transaction is conditional on approval by Shareholders under the NZSX Listing Rules.

5. Assessment of the Proposed Transaction

Introduction

99. Kermadec is seeking Shareholder approval to proceed with the Proposed Transaction as described in Section 4. To assess the Proposed Transaction, we have considered:

- the impact on Kermadec's earnings;
- the proposed consideration relative to comparable transactions;
- other benefits, costs and risks; and
- the alternative options available to Kermadec.

Earnings Impact of the Proposed Transaction

100. The table below sets out the forecast impact of the Proposed Transaction on Kermadec's forecast FY13 earnings assuming no new property syndications are completed in FY13:

Earnings Impact of Proposed Transaction

YE 31 March 2013 NZ$000s	Impact of Proposed Transaction	Tax Impact[2]	EPS Impact (cents)	EPS (cents)
Status Quo Operating Cash Flow	**3,575** [1]			**4.40**
Kermadec base management fee saving	540			
Property management fees retained by Kermadec	239			
Annual syndication fee income	578			
MetroClean income	100			
Increased overheads	(1,153)			
Increased funding costs	(289)			
Net impact on income and expenses	**16**	**(4)**	**0.01**	**4.41**
Offeror's fees (Farmers King Street syndicate)	207	(58)	0.18	4.60
Total impact on earnings excluding performance fee saving	**222**	**(62)**	**0.20**	**4.60**
Kermadec performance fee saving	130	(36)	0.12	4.71
Total impact on earnings including performance fee saving	**352**		**0.31**	**4.71**
Earn out payment (50% of offeror's fees earned)	(103)	-	(0.13)	4.58
Total Impact on Distributable Profit [3]	**249**		**0.19**	**4.58**

Source: Kermadec, PwC Analysis

Note (1): Kermadec Management Forecasts

(2): Tax rate of 28%

(3): Net profit after tax before revaluations on investment properties, revaluations of derivative financial instruments, deferred tax and other non-cash NZ IFRS adjustments, essentially comprising cash that is available for distribution to Shareholders calculated as EPS less any earn-out / capital payments.

101. The impact of the Proposed Transaction on Kermadec's FY13 forecast earnings before one-off offeror's fees and performance fee savings is approximately neutral, with the Company's forecast FY13 EPS expected to increase marginally by 0.01 cents from 4.40 cents to 4.41 cents.

102. Following the internalisation of its Management Agreement, Kermadec would avoid $540,000 in base management fees payable on its property portfolio and retain $239,000 of property management fees currently being paid to Augusta and which would otherwise be paid to the Manager.

103. The acquisition of the Funds Management Business represents approximately $678,000 of additional ongoing revenue to Kermadec in the form of annual syndication fee income relating to scheme management fees and property management fees that are earned on the property syndicates transferred from Augusta to Kermadec, and revenue from MetroClean.

104. Typically, the syndication fee income in the first year is lower than the ongoing annual fees paid by the syndicate. We therefore note that $578,000 of annual syndication fee income for FY13 used in the analysis above is approximately $76,000 higher than the expected syndication fee income in FY13 as the three newest syndicates (Countdown Fraser Cove, Countdown Huntly and Farmers King Street) will not commence generating full fees until FY14. For example, Augusta is expected to earn $37,500 in syndicate fees from Farmers King Street in the syndicate's first year and$50,000 per annum from year two onwards. A 'normalised' level of annual syndication fees on existing syndicates is used to illustrate the ongoing impact of the Proposed Transaction. This shortfall in FY13 will be allowed for via a downward purchase price adjustment at the completion of the Proposed Transaction.

105. Management estimate that Kermadec would incur approximately $1.2m of additional overheads in FY13 as a result of the Proposed Transaction mainly comprising salaries for the six staff it will employ, rent for the offices it takes over, administration and office expenses. We understand that if the Proposed Transaction is completed, it is likely that an additional independent director will be appointed to the Kermadec board. This cost is included in the increased overheads in the analysis presented above.

106. Kermadec will incur additional funding costs as a result of new debt being drawn down to fund the Proposed Transaction. Kermadec's current average cost of debt (including floating rate debt and interest rate swaps) is 5.5%. The above earnings analysis assumes that the additional $5.25m of net debt (comprising $5m consideration and approximately $250,000 of transaction costs) also carries an interest rate of 5.5% per annum. As discussed in Section 4, Kermadec should earn an additional $206,651 in offeror's fees in FY13 from the Farmers King Street Syndication which is expected to settle in August 2012. This one-off payment generates additional EPS of 0.18 cents. However, this one-off payment is subject to the earn-out component of the Proposed Transaction meaning that Kermadec's distributable profit per share only increases by 0.06 cents per share because the payment of the earn-out is capitalised, as required under the accounting treatment, and therefore does not affect EPS but does reduce the Company's profit available for distribution. Distributable profit per share is net profit after tax before revaluations on investment properties, revaluations of derivative financial instruments, deferred tax and other non-cash NZ IFRS adjustments, (i.e. cash that is available for distribution to Shareholders). Distributable profit will be affected by the earn-out which is a cash outflow for the Company that is also not tax deductible.

107. The above analysis assumes that no new syndications are completed in FY13. However, the acquisition of the Funds Management Business will provide Kermadec with the opportunity to generate additional income from new syndications. In the last three years Augusta has successfully completed eight new syndications. Augusta has also advised that a new syndication for a property in Tauranga is expected to be completed by 31 March 2012, which will provide Kermadec with an additional $35,000 per annum in ongoing syndication revenue which has not been included in the forecasts. Although the market for property syndications fluctuates and at times investor sentiment and economic conditions (particularly the relationship between rental yields and interest rates) are not conducive to completing new syndications, we believe it is reasonable to assume that at least some new syndications will be completed over the coming years. However, because of the earn-out arrangement, and as explained elsewhere in this section, the impact on Kermadec's distributable profit is limited until $4m of gross offeror's fees have been generated.

108. The table below illustrates the impact of one, two or three new syndications on Kermadec's earnings:

Earnings Impact of Proposed Transaction - Including New Syndications

YE 31 March 2013 NZ$000s	Impact of Proposed Transaction	Tax Impact(1)	EPS Impact (cents)	EPS (cents)	Distributable profit per share (cents)(2)
Status Quo EPS				**4.40**	
Impact on earnings (excluding performance fee saving) - No new syndications				**4.60**	**4.47**
Impact on earnings - 1 new syndication	330	(92)	0.29	**4.89**	**4.58**
- 2 new syndications	660	(185)	0.58	**5.18**	**4.68**
- 3 new syndications	990	(277)	0.88	**5.47**	**4.79**
Impact on earnings (including performance fee saving) - No new syndications				**4.71**	**4.58**
Impact on earnings - 1 new syndication	330	(92)	0.29	**5.00**	**4.69**
- 2 new syndications	660	(185)	0.58	**5.30**	**4.80**
- 3 new syndications	990	(277)	0.88	**5.59**	**4.91**

Source: Kermadec, PwC Analysis

Note (1): Tax rate of 28%

(2): Net profit after tax before revaluations on investment properties, revaluations of derivative financial instruments, deferred tax and other non-cash NZ IFRS adjustments, essentially comprising cash that is available for distribution to Shareholders calculated as EPS less any earn-out / capital payments.

109. Management advise that each new syndication could be expected to generate approximately $330,000 of additional income for Kermadec comprising $30,000 of ongoing management fee income per annum and approximately $300,000 of one-off offeror's fees in the year of completion. It is assumed that these additional syndications do not impose any additional costs on Kermadec post internalisation. Each new syndication completed in FY13, could therefore be expected to increase Kermadec's EPS by approximately 0.29 cents. For example, three new syndications in FY13 would increase EPS by approximately 1.07 cents from EPS of 4.40 cents under the status quo to 5.47 cents (excluding performance fee savings).

110. Under the earn-out, 50% of the new syndication offeror's fees (approximately $150,000 for each new syndication) are paid out up to a maximum of $2m. There is no time limit on when payment of the earn-out ceases. Therefore, until the earn-out ceiling is reached (when new offeror's fees of $4m have been generated), the Company's distributable profit per share would only increase by approximately 0.11 cents for each additional syndication. For example, the completion of three new syndications, as discussed above, would increase distributable profit per share to approximately 4.79 cents because the earn-out payment is capitalised and is not tax deductible. For every $100 of additional offeror's fees generated for the Company from new syndications, only $22 will be available for distribution after payment of tax ($28) and the earn-out due to Augusta ($50), until the $2m maximum earn-out level has been reached.

111. The termination of the Management Agreement will also save Kermadec any performance fees that would otherwise be payable to the Manager. As discussed, Kermadec's performance fee is calculated based on TSR (the change in share price plus any dividends paid). The Manager is entitled to be paid 10% of the amount by which the TSR exceeds 10% per annum up to a maximum of 15% per annum. Any excess or deficit TSR is carried forward (for a maximum period of three years) and applied in calculating the performance fee in subsequent quarters.

112. The above earnings impact analysis is based on forecast TSR for Kermadec assuming stable dividends (of approximately 4 cents per annum) will be paid and Kermadec's share price will increase by approximately one cent per quarter in future. These assumptions result in a forecast performance fee saving of approximately $130,000 in FY13. We note that Kermadec has only been required to pay Augusta a performance fee twice. At the conclusion of the 31 March 2008 quarter a performance fee of $93,134 was paid and at the conclusion of the December 2011 quarter the Company had accrued $62,484 in performance fees because historical deficits had been eliminated in this quarter and Kermadec's share price improved at the end of 2011. Kermadec's five day VWAP would need to reach 66.1 cents for the quarter ended 31 March 2012 in order for a performance fee to be payable at the conclusion of this quarter. At the date of this report Kermadec's share price is 67 cents.

113. It is not possible to accurately predict whether and to what extent a performance fee would be payable to Augusta under the status quo, although we note Kermadec's recent improving share price performance and the fact that at 31 December 2011 an amount was payable. Including the saving on performance fees in the earnings impact analysis increases Kermadec's EPS under the Proposed Transaction by 0.12 cents.

114. In summary, the Proposed Transaction including one-off offeror's fees for the Farmers King Street Syndication and performance fee savings increases Kermadec's forecast FY13 EPS by 0.31 cents from 4.40 cents to 4.71 cents. The Company's FY13 distributable profit per share is increased by 0.18 cents to 4.58 cents. There is potential earnings upside for Kermadec if new syndications are completed, however, the positive impact of the offeror's fees from new syndications on the Company's distributable profit per share is partially offset by the earn-out payments to Augusta until such time as the maximum total payment of $2m is reached.

115. The table below summarises the key metrics resulting from the Proposed Transaction including the impact on Kermadec's forecast FY13 earnings, the Farmers King Street Syndication offeror's fees and the related earn-out payment to Augusta:

Impact of Proposed Transaction - Key Metrics (1)

Comparison	Status Quo	Proposed Transaction	Difference	With 3 new syndications	Difference
FY11 NTA (cents per share)	78.0	77.9	(0.1)		
FY11 Debt / Total Assets %	33.2%	38.3%	5.1%		
FY11 Debt / Equity %	53.2%	61.5%	8.2%		
Impact on earnings excluding performance fee saving - FY13 (2)					
EPS (cents per share)	4.40	4.60	0.20	5.47	1.07
Distributable profit per share (3) (cents per share)	4.40	4.47	0.07	4.79	0.39
Impact on earnings including performance fee saving - FY13 (2)					
EPS (cents per share)	4.40	4.71	0.31	5.59	1.19
Distributable profit per share (3) (cents per share)	4.40	4.58	0.19	4.91	0.51

Source: Kermadec, PwC Analysis

Note (1): All metrics based on hypothetical impact on FY11 figures, except for EPS and distributable profit per share which are based on forecast FY13 figures.

(2): The performance fee saving is only applicable to the Proposed Transaction and therefore does not impact the Status Quo.

(3): Net profit after tax before revaluations on investment properties, revaluations of derivative financial instruments, deferred tax and other non-cash NZ IFRS adjustments, essentially comprising cash that is available for distribution to Shareholders calculated as EPS less any earn-out / capital payments.

116. The Proposed Transaction should therefore have a marginally positive impact on Kermadec's forecast FY13 earnings, of between 0.1 and 0.2 cents per share even if no new syndications are completed. The increase is greater if performance fee savings are assumed (between 0.2 and 0.3 cents per share), although it is not possible to predict whether these would be payable or not, and if so the amount. Any increase in EPS as a result of the Proposed Transaction will exceed any increase in the distributable profit per share because the earn-out payment is assumed to be capitalised and not tax deductible.

117. There is potential earnings upside for Kermadec if new syndications are completed in future. For example, the completion of three new syndications (in addition to Farmers King Street) could increase EPS by between 0.4 and 1.2 cents per share.

118. The forecasts referred to throughout the Report have been based on various assumptions, and in PwC's view, the assumption of no new syndications is "conservative", whereas the assumption of three new syndications each year is towards the "upper limit" of what could reasonably be expected.

119. The future net earnings impact of the Proposed Transaction also depends on ongoing interest rates, especially if no new syndications are completed. By way of illustration, if the interest rate on the additional $5.25m of net debt used to fund the Proposed Transaction increased to 6.0%, the impact on Kermadec's earnings would be marginally negative (before allowing for any performance fee savings and offeror's fee income). Given current interest rates are near all time lows, there is a prospect that rates will increase, especially in the medium to long term, meaning that absent any performance fee savings or offeror's fees, the medium to longer term earnings impact could be marginally negative if no new syndications are completed. The Company is able to mitigate this risk in the short to medium term through fixing the interest rate.

120. In assessing the impact of the Proposed Transaction on Kermadec's earnings we have focussed on the FY13 forecasts prepared by Management. Subject to our comments above about the sensitivity to upwards movements in interest rates, we consider that there is no other reason why the earnings impact of the Proposed Transaction should be materially adverse in subsequent years given the fact that both Kermadec and Augusta's ongoing revenue and expenses are able to be predicted with a reasonable degree of confidence because of the relatively stable nature of the property rental income and syndication management fees.

121. There is also a realistic prospect that the $2m consideration to be paid to Augusta for the termination of the Management Agreement will be tax deductible to Kermadec. At the date of this Report Kermadec has lodged an application seeking a binding ruling from the Inland Revenue Department in relation to this. We are aware of other similar internalisation transactions where the tax deductibility of the termination payment has been confirmed in this manner. The potential tax deductibility benefit is approximately $560,000, which would reduce the effective net purchase price to $1.44m. This is equivalent to 0.69 cents per share. Due to the timing of the Proposed Transaction, any tax deduction would likely be available in FY13.

Comparable Transactions

122. We set out below a number of recent Australasian transactions involving property investment vehicles and management contracts that have been acquired or internalised:

Date	Target	Transaction	Price(1)	AUM	Price(2) / AUM	Revenue Multiple (2)
Oct-2011	Vital Healthcare	Acquisition of Manager	NZ$11.5m	NZ$0.3b	3.8%	3.7x
Aug-2011	Argosy	Internalisation	NZ$21.6m	NZ$1.0b	2.2%	3.7x
Oct-2010	National Property Trust	Internalisation	NZ$2.5m	NZ$0.2b	1.4%	1.8x
Jul-2010	DNZ	Internalisation	NZ$35.0m	NZ$0.7b	4.0%	3.5x
Mar-2010	Officium Capital	Acquisition of Manager	A$6.5m	A$0.5b	1.4%	1.4x
Aug-2009	Ardent Leisure	Internalisation	A$17.0m	A$0.8b	2.0%	5.0x
Jul-2009	MacArthur Cook	Acquisition of Manager	A$14.2m	A$1.3b	1.1%	1.1x
Jun-2009	Macquarie Airports	Internalisation	A$345.0m	A$13.0b	2.7%	7.9x
Jun-2009	Macquarie Leisure	Internalisation	A$17.0m	A$0.8b	2.0%	5.7x
Apr-2009	Macquarie Communications	Acquisition of Fund and Manager	A$96.5m	A$7.6b	1.3%	2.4x
Dec-2008	B&B Communities	Acquisition of Fund and Manager	A$17.5m	A$2.7b	0.7%	1.4x
Dec-2008	B&B Wind	Internalisation	A$40.0m	A$6.1b	0.7%	1.4x
Nov-2008	B&B Capital	Internalisation	A$5.0m	A$0.9b	0.5%	0.3x
Dec-2007	ING Property Management	Acquisition of 50% stake	NZ$77.6m	NZ$1.1b	6.9%	8.3x
Dec-2007	Rubicon Holdings (Aust)	Acquisition of 79.6% stake	A$328.0m	A$5.1b	6.4%	n.a.
Jun-2007	Scarborough	Acquisition	A$865.0m	A$10.2b	8.5%	n.a.
Jun-2007	Halverton Real Estate	Acquisition of 75%	A$125.0m	A$2.2b	5.7%	n.a.
Jun-2007	Multiplex Capital	Takeover	A$375.0m	A$5.8b	6.5%	n.a.
Mean					**3.2%**	**3.4x**
Median					**2.1%**	**3.0x**

Source: Factiva, Company Websites, Capital IQ

Note (1): If less than 100% of company / assets acquired, implied value for 100% is used

(2): Based on "full price", i.e. not assuming price is tax deductible

123. The Proposed Transaction is not directly comparable to the transactions set out above because it comprises both the internalisation of the Management Agreement as well as the acquisition of the Funds Management Business.

124. The proposed purchase price for the internalisation of the Management Agreement of $2m represents 2.0% of Kermadec's AUM (including investment properties held for sale) as at 30 September 2011. This consideration implies a revenue multiple of 3.5x based on management fees for FY11 or 3.7x forecast base management fees for FY13. Therefore, the $2m being paid for the internalisation is within the range of implied multiples evidenced by recent comparable internalisation transactions.

125. The revenue multiple of the internalisation component of the Proposed Transaction is broadly in line with the recent New Zealand transactions involving Vital Healthcare, Argosy and DNZ, but higher than that implied by the internalisation of the National Property Trust management agreement where the ultimate owner of the manager was in receivership (and the transaction may therefore have been reflected some aspects of a distressed sale).

126. If the purchase price is deductible for tax purposes, then the implied revenue multiple reduces to 2.5x and the price as a percentage of AUM reduces to 1.4%. These multiples are at the lower end of multiples implied by recent similar transactions, although we note that the multiples presented in the table above mostly reflect the full price paid (i.e. do not reflect that fact that the price may have been tax deductible).

127. The proposed total consideration of $5m represents an EV/EBIT multiple on incremental earnings (excluding performance fee savings) of approximately 10x. Based on our knowledge of EV/EBIT multiples implied by other similar transactions involving LPVs, this implied multiple suggests a price that is at the higher end of the range of multiples evidenced by comparable transactions is being paid for the internalisation and acquisition of the Funds Management Business, especially given the size of Kermadec (and therefore the absolute level of its management fee and associated profit component) and its limited growth prospects. If the purchase price for the internalisation of the Management Agreement is tax deductible, the implied EV/EBIT multiple reduces to approximately 9x.

128. The valuation metrics (such as revenue multiple or price as a percentage of AUM) are ultimately a function of the profitability of the manager. Generally, higher revenue multiples or percentages of AUM will be achieved by managers with:

- a greater level of AUM as management fees tend to be linked to the level AUM and there are economies of scale;
- higher expected growth in AUM; and
- security of tenure provided by the management agreement and the level of termination payment required if a manager is able to be removed.

129. The revenue multiple implied by the $3m acquisition price of the Funds Management Business based on forecast FY13 ongoing syndication revenue (i.e. excluding offeror's fees) is 5.2x. This multiple is higher than that attributable to the internalisation of the Management Agreement, however, we note that it does not include offeror's fees earned on future syndications. Assuming three syndications per annum (adjusted for the earn-out) the implied revenue multiple for the Funds Management Business is 3.0x.

130. As an alternative approach, applying a multiple of 3.0x to ongoing syndicate revenue implies a value for future syndication offeror's fees and MetroClean of approximately $1.3m.

Other Considerations

131. A number of benefits should accrue to Kermadec as a result of the internalisation of the Management Agreement, namely:

- removal of any potential conflict of interest that could exist between the Manager and Shareholders;
- removal of a potential impediment to a takeover; and
- transitioning from a cost model linked to the level of AUM to a cost model that should be relatively fixed.

132. Internalisation of the Management Agreement removes the potential for a conflict of interest between the Manager and the Company. With external management, the Manager is typically incentivised to grow the size of the portfolio to increase its management fee, even if it may not be in the best interests of the Company or the Shareholders to do so. Although there is no evidence to illustrate that the Manager has ever or would intend to act in this way, internalisation ensures that if the size of Kermadec's property portfolio increases, the Company will not be required to pay additional base management fees as is currently the case. Internalisation also eliminates the prospect that the Company could be required to pay performance fees.

133. The current external Management Agreement could act as an impediment to any attempt to take over Kermadec as any potential acquirer would need to either purchase the Manager or gain enough support to terminate the Management Agreement (by way of a special resolution) to facilitate a takeover. Internalisation removes this impediment and potentially makes Kermadec a more attractive takeover target, which could be value enhancing for Kermadec Shareholders in the future.

134. This could be an important consideration for Shareholders, especially if Kermadec's share price continues to reflect a sizeable discount to its underlying NTA, as the Company is likely to be attractive as a potential takeover target, and this could be a value maximising outcome for Shareholders.

135. The Proposed Transaction means that in future Kermadec will have a relatively fixed management cost structure and investors will benefit as the portfolio grows, as under the existing Management Agreement costs escalate directly as the level of AUM increases. Internalisation not only provides LPVs with greater control over costs, but also enables more direct control over the management of their portfolios.

136. The acquisition of Augusta's Funds Management Business offers upside for the Company in the form of additional income that it can earn from management of existing property syndicates and MetroClean, together with additional income it could earn from new property syndications in the future.

137. One of the main reasons cited by the Directors for recommending the Proposed Transaction is the additional revenue generation that the Funds Management Business is able to provide without requiring additional capital investment that would otherwise be needed to generate similar levels of incremental earnings from additional directly owned property assets.

138. Kermadec may also be better positioned, relative to Augusta presently, to carry out new syndications, as there may be potential to utilise Kermadec's balance sheet to selectively "underwrite" new syndications and therefore implement these transactions on more advantageous terms than is currently possible. (At present, Augusta needs to complete each syndication capital raising before it can commit to purchasing properties, meaning it is not always able to acquire properties intended for syndication on the most advantageous terms, or transactions take longer to complete with associated cost implications.) However, we believe that any decision by Kermadec to engage in such underwriting activities would need to be carefully considered on its merits, as this would entail the Company accepting a level of financial risk.

139. Repositioning itself as an integrated property investment and funds management business will make Kermadec unique among its peers listed on the NZSX. Kermadec will be able to utilise the existing skill set, knowledge and capabilities of Augusta to not only increase the Company's earnings, but also to offer investors a differentiated investment opportunity with a more diversified revenue base.

140. Under the Proposed Transaction the key employees of Augusta, Mark and Chris Francis, are subject to a non-compete clause which restricts them from competing with Kermadec for three years from the completion of the Proposed Transaction or one year after ceasing employment of Kermadec, whichever is the longer period.

141. These restrictive covenants help ensure that knowledge and skills and other intellectual property are "locked in" for Kermadec's benefit, which is relatively important given the nature of the Funds Management Business and the importance of the Francis' existing relationships, 'know-how', intellectual property and contacts to such businesses. The restraint prevents Chris and Mark Francis from establishing another funds management business creating property syndicates that could compete directly with Kermadec's activities in this regard, for a reasonable period of time.

142. There are several other factors that also go some way towards mitigating this risk, such as the fact that Mark and Chris Francis own 17.8% of the Company and should therefore be disinclined to do anything that would impair the value of the Company and their investment in it. The Francis' are also incentivised to remain with Kermadec and promote the Funds Management Business given the earn-out component of the consideration that forms part of the Proposed Transaction.

Assessment of Alternative Options Available to Kermadec

Maintenance of the status quo

143. The most obvious alternative for Kermadec is maintenance of the status quo. There are no issues with respect to Augusta's performance to date under the Management Agreement or Kermadec's relationship with the Manager generally. Kermadec's current management fee structure is consistent with the market, and not dissimilar to other smaller New Zealand LPVs with external management.

144. Under the status quo, given that the Company currently trades at a discount to NTA, raising new capital for growth is an unattractive option because it would be likely to dilute value for existing Shareholders. The Proposed Transaction provides Kermadec with the opportunity to grow without needing to issue new capital at a discount.

145. Kermadec's decision to proceed with the Proposed Transaction therefore appears to be based on the Company's goal to become an integrated property investment and funds management business. Under the status quo this aim would not be achieved.

146. The Proposed Transaction also mirrors the current trend in the Australasian property sector, evidenced by recent transactions in both markets, to internalise management of property funds and companies. Three of New Zealand's LPVs have internalised their management agreements since 2009 suggesting that investor sentiment has moved against externally managed property investment vehicles as investors focus on more on cost control and achieving greater alignment of interests as between investors and management. Therefore the status quo may not be such a popular option with future investors, especially if most other New Zealand LPVs move to internalise management in the coming years.

147. A number of Kermadec Shareholders would have invested in the Company as a 'pure' property investment vehicle and maintaining the status quo would ensure that Kermadec continues to satisfy this criteria. Adding the Funds Management Business to Kermadec's operations will change the risk profile of the Company which may make it more or less attractive to some of its Shareholders. On the other hand the Proposed Transaction also provides Kermadec with another source of revenue and differentiates it from other LPVs. This may attract new investors, although ultimately success will be measured by the impact that the Proposed Transaction has on enhancing future earnings.

148. As mentioned previously, the external Management Agreement could act as an impediment to a takeover or merger. It could therefore be argued that Kermadec's share price could be suppressed under the status quo.

Removal of the Manager by special resolution

149. Another conceivable alternative to the Proposed Transaction is to terminate the Management Agreement by special resolution. As previously outlined, the Manager can be removed by special resolution without there needing to be fault or failure on the part of the Manager. However, in these circumstances the Company must pay the Manager a termination fee equal to 1.00% of total property assets for that quarter which would result in a payment due to the Manager of approximately $1m.

150. The Independent Directors have advised that they would not recommend this course of action. Although it would save Kermadec Shareholders c.$1m compared to the consideration payable under the Proposed Transaction, it would cost the Company significantly in terms of lost institutional knowledge, potential additional legal fees and animosity between the Company and the Manager, potential loss of investors' support and increased costs to employ replacement personnel to manage the properties. The Directors have advised that they would only contemplate the removal by special resolution alternative if there was non-performance by the Manager.

151. There would also be no certainty that a special resolution (which requires approval from 75% of those Shareholders entitled to vote and voting on the matter) would receive the requisite amount of support given Mark and Chris Francis hold 17.8% in aggregate and various institutional investors and other investors, who might support the Francis', also own a significant proportion of the Company.

Complete one part of the Proposed Transaction without the other

152. A further alternative option available to the Company would be to attempt to complete only part but not all of the Proposed Transaction. For example, the Company could seek to terminate the Management Agreement but not purchase the Funds Management Business; or purchase the Funds Management Business and not internalise the Management Agreement.

153. These options would allow Kermadec to benefit from either the decreased costs and increased control arising from internalisation of management, or from the increased revenue generating potential through acquiring the Funds Management Business, but without the benefits (and costs) of the other.

154. It is our understanding that these outcomes are most unlikely to proceed given the Francis' are heavily involved with both components of the Proposed Transaction as well as with Kermadec, and the Proposed Transaction as a whole is more valuable to them. The Kermadec Board also share this view.

155. It is also unlikely that the two businesses (the property management operations and the Funds Management Business) could each operate as profitably if separate from each other, given the size of the business and the staffing and administrative cost sharing that exists. Therefore, each option on its own would be likely to be less compelling in terms of costs savings, compared to the outcome if the two components of the Proposed Transaction are completed together.

Appendix A – Statement of Independence, Disclaimer, Restrictions, Limitation of Liability, and Indemnity

Qualifications

This Report has been prepared by the Corporate Finance division of PricewaterhouseCoopers, which provides advice on mergers, acquisitions and divestments, valuations, independent expert's reports and appraisals, financial investigations and strategic corporate advice.

The Partners responsible for this Report are David Bridgman M.Com, LLB, CA and Eric Lucas BA (Hons), FCA, both of whom have extensive experience in relation to corporate restructurings and the preparation of independent expert's reports for the benefit of investors.

Independence

PricewaterhouseCoopers considers itself independent of Kermadec in relation to the Proposed Transaction.

Our fee for preparation of this report is based on the time required for its completion, and it is not contingent on the success or implementation of the Proposed Transaction.

We are not, and do not intend to be, a director, officer, or employee of, Kermadec.

In addition to this Report we have provided the following advice and reports to Kermadec during the last five years:

- Independent Appraisal Report in relation to acquisition of properties by Kermadec from a related party, dated March 2008.

Scope, Disclaimer and Restrictions

The purpose of this Report is to advise the Directors of the Kermadec Board about the Proposed Transaction and its likely future impact on the Company and its Shareholders.

This Report is prepared solely for this purpose and should not be used or relied upon for any other purpose.

The statements and opinions expressed in this Report are based on information available as at the date of the Report.

In preparing our Report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Kermadec or any of its related entities. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

In forming our opinions, we have relied on forecasts and assumptions prepared by Kermadec and Augusta about future events which by their nature are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing our Report has been provided by Kermadec and / or its directors and advisers, and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise.

Accordingly, neither PricewaterhouseCoopers nor its partners, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in our Report resulting directly or indirectly from any such circumstances or from any assumptions upon which our Report is based proving unjustified.

Our opinions have been arrived at based on economic, market and other conditions prevailing at the date of our Report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of our Report, was not brought to our attention, or subsequently comes to light.

Limitation of Liability

PricewaterhouseCoopers will accept liability to pay damages for losses arising as a direct result of breach of contract or negligence on our part in respect of services provided in connection with, or arising out of, this engagement but, to the extent permitted by law, any liability of PricewaterhouseCoopers, its partners and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed five times the fees paid in the aggregate in respect of all such services.

We accept no liability to any party other than the addressee, as our client.

Indemnity

Kermadec has agreed to indemnify us against claims brought by any third party (which includes but is not limited to Kermadec Shareholders and prospective investors). The indemnity covers PricewaterhouseCoopers for any loss or liability suffered or incurred as a result of or in connection with the preparation of our Report. The indemnity will not apply to the extent that it has been determined by a Court that there is negligence or misconduct on our part.

Appendix B – Sources of Information

PwC has obtained all the information that we believe is desirable for the purposes of preparing this Report, including all relevant information which is or should be known to any director of Kermadec or the Manager. In PwC's opinion the information to be provided to Kermadec Shareholders is sufficient to enable them to understand all relevant factors and make an informed decision.

The following information was used and relied upon in preparing this Report:

- Kermadec Annual Reports for financial years ended 31 March 2009, 2010 and 2010
- Kermadec Interim Report for 6 months ended 30 September 2011
- Augusta Annual Reports for financial years ended 31 March 2009, 2010 and 2011
- Augusta Management Reports for 6 months ended 30 September 2011
- Forecast / budgeted financial information for Kermadec
- Forecast / budgeted financial information for Augusta
- Financial model illustrating impact of the Proposed Transaction on Kermadec's FY13 performance provided by Management
- Calculations of Kermadec's historic base management fee and performance fee provided by Management
- Kermadec Prospectus and Investment Statement dated 7 November 2006
- Kermadec Constitution dated 6 November 2006
- Augusta Investor Presentation dated May 2011
- Farmers Hasting Information Memorandum
- Countdown Huntly Offeror's Statement dated 4 November 2011
- Management Agreement between Kermadec and Augusta dated 6 November 2006
- Term Sheet for Acquisition of Business and Assets of Augusta and Termination of Kermadec Management Contract
- Agreement for Sale and Purchase of Business and Assets and Termination Agreement between Augusta, Kermadec and Mark and Chris Francis
- Draft Notice of Special Meeting of Shareholders
- Augusta Summary of Ownership and Management Deeds (for all property syndicates) (provided by Chapman Tripp)
- ASB Approval of Funding Letter dated 15 December 2011
- Kermadec shareholder announcements
- Kermadec website (www.kermadecproperty.co.nz)
- Augusta website (www.augusta.co.nz)
- Deed of First Right of Refusal between Augusta Group Limited and Kermadec

- Various email correspondence and discussions with Kermadec and Augusta Management and Directors
- Other information provided by Kermadec and Augusta management
- NZX and NZX Listing Rules
- Capital IQ
- Factiva
- NZX Company Research
- New Zealand and Australian LPVs annual reports, broker reports, shareholder announcements and websites
- Reserve Bank of New Zealand (www.rbnz.govt.nz)
- Property market commentary from Seagar & Partners (www.seagars.co.nz) and Bayleys (www.bayleys.co.nz)
- ANZ Property Focus publications
- Other publically available information