Our reference: CWN LTR/k

11 May 2015

Attention: Grant David
Chapman Tripp

Dear Grant,

Valuation Methodology

You have asked me to reconsider the issues I discuss and the conclusion I reach in my report of 21 April 2015 to you on the valuation reports prepared by [ ] and Telfer Young for the three wool scour properties in Hawkes Bay and Christchurch,

In particular, you have asked me to reconsider those issues and my conclusion in light of the following materials which you have made available to me:

- Paragraph 6 of Bell Gully's memorandum to the Commerce Commission dated 21 April 2015;
- Telfer Young's letter dated 21 April 2015 to Hawkes Bay Woolscourers Limited;
- Paragraph 7 of Bell Gully's memorandum to the Commerce Commission dated 29 April 2015;
- Paragraph 8 of Bell Gully's memorandum to the Commerce Commission dated 29 April 2015;
- [ ];
- [ ]; and
- [ ].
- [ ].

Clive site

Briefly, the Telfer Young letters note that they consider that their assessed market value of $[ ] should be adopted as the value of this property and no further deductions are warranted. They state they "have adopted appropriate valuation methodologies and placed most reliance on the Income Capitalisation method of valuation. It is further claimed that the valuation reflects "the substantial vacancy level associated with the property" and any further arbitrary deduction is unnecessary.

No detail or reasons are given to support those claims.

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[ ]

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[ ].

[ ].

[ ]

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[

] The letter does not provide any further explanation of the details of the [ ].

This raises more questions. The value of the property will be heavily dependent on the new use of the property; my reasons for this are explained in detail below.

Conclusions

All those properties are to be subject to covenants that will expressly exclude the use of the properties as a wool scour and related activities for a period of 50 years. In my report dated 21 April I listed the various valuation considerations that need to be considered in order to value alternative use – vacant possession.

Of those valuation considerations that are listed, I identified as most important:

- [ ];
- [ ];

- [ ].

All of these considerations need to be fully assessed and allowance made for any contingencies arising in order to arrive at a fair value conclusion.

Dealing first with

[

]. The KWS valuation

[

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The change of use enforced by the 50 year covenants going forward are likely to heighten awareness of the

[

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Similarly in relation to [ ] that the Kaputone site is not categorised as

[ ], is not the end of the matter.

[ ]. The Logan Stone (WWS) report under

[

] I agree with this view.

In this context too, regard needs to be had to the fact that the new occupier of the site will be compelled by the covenant to engage in different activities that the [ ] wool scouring and related activities carried on by the previous occupier. The level of risk that the new occupier or occupiers is prepared to assume in relation to [ ] will depend upon the nature of the activities to be carried on over the next 50 years. But, it cannot be assumed that the new occupier will simply adopt the same risk profile as the previous occupier.

Finally, in relation to the [ ] of the new occupier or occupiers of these sites, account must be taken of possible substantial changes required for alternative use. It cannot be assumed that a new occupier will

[

]. All of those contingencies need to be factored into the alternative use valuation.

In conclusion, having considered the material I refer to page 1, my conclusion as set out in my report dated 21 April 2015 remains unchanged. That is, there could be major contingencies associated with all three properties if offered for sale for alternative use – vacant possession. Any prospective occupier or purchaser would need to investigate – in much further detail than has happened so far – the costs associated with all the contingencies I identified but in particular:

- [ ];
- [ ], and;
- [ ].

[ ]. Further investigation in respect of each of the sites is required.

[ ].

As to the range that should be built into a valuation to allow for these contingencies I repeat my previous observation that although the overall 20% range suggested by the Commerce Commission is possible, there is nothing to indicate that the top of that range should be at any point above the valuations given in the valuation reports. [ ].

The best way to advance is to fully investigate the contingencies highlighted to determine effect on saleability and as a consequence value.

Yours faithfully

C W Nyberg
Registered Valuer

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