CHOW GROUP LIMITED (now called RIS Group Ltd)

INDEPENDENT EXPERT'S REPORT

Pursuant to Takeovers Code Rule 57(3)

A report prepared for the Takeovers Panel

July 2018
tdb.co.nz

STATEMENT OF INDEPENDENCE

TDB Advisory Limited confirms that it:

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

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

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1. Introduction

TDB Advisory Ltd (TDB) has been appointed by the Takeovers Panel (the Panel) to conduct an independent valuation of the value of 100% of the Chow Group Limited (CGL or the Company) shares. Chow Group Limited changed its name to RIS Group Ltd on 16 July 2018.

1.1 Our instructions

On 9 July 2018, The Takeovers Panel appointed TDB to act as an Independent Expert pursuant to Rule 58 of the Takeovers Code (Code) in respect of the compulsory acquisition of the outstanding shares in CGL.

In accordance with Rule 57(3) of the Code we are to determine the amount of consideration to be provided for the securities of the relevant class that must be a "cash sum equal to the fair and reasonable value of those securities". The outstanding shares affected by our valuation are 1,630,986 shares representing 9.91% of the Company's 16,458,120 issued shares.

1.2 Standard of value

We have assessed the fair market value of 100% of the shares in CGL. Fair market value is defined as the price that a willing but not anxious buyer, with access to all relevant information and acting on an arm's length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market. We discuss the detail of our valuation method later in the report.

1.3 Important notes

Our report is subject to the qualifications noted in Section 7.

Unless otherwise stated all currency amounts in this report are expressed in New Zealand Dollars.

Rupee refers to Indian Rupee.

CGL's balance date is 31 March. All references to the Company's reporting periods should therefore be interpreted as referring to the financial years ended 31 March.

2. Summary

2.1 Standard of value

In accordance with Rule 57(3) of the Code, we determine a "fair and reasonable value" for the Outstanding Shares by first assessing the value of all the equity securities in the Company and then allocating that value pro rata among all the securities of the affected class of shares. In so doing, we seek to properly capture the value of the company's underlying business and assets in a manner which is both fair and reasonable.

2.2 Our valuation approach

We have adopted Net Realisable Value (NRV) as our primary valuation approach. 94%, by value, of CGL's assets comprise two adjacent properties which are operated as a single boarding house / short-term hotel operation. As there is a market in properties of this nature, property valuers can compare capitalisation rates of operating earnings derived from actual transactions. With the exception of a shareholding in a listed, but highly illiquid, Indian company, all other assets and liabilities of CGL are of a current nature in terms of being readily realisable at book value. As we consider it unlikely a buyer would continue to operate the Company in its current form, and liquidation costs would be low, we consider NRV the best method by which to value CGL.

As the two properties are such an important component of value, we subcontracted commercial property valuers TelferYoung to peer review the property valuations CGL had Colliers undertake.

In valuations of this nature, it is general practice to present a range of values. This recognises the fact that when considering the parameters which affect the assessment of a value for a company's shares, certain judgements are subject to uncertainty. In this instance, however, we are required to provide our opinion of a single point value. In so doing, we nevertheless determine a range of values in the first instance which we rely on to form an opinion of a fair and reasonable price.

2.3 Our opinion of a fair and reasonable value

As explained more fully in our report, we assess a single point value of $0.62 for each of the Outstanding Shares. This represents an increase of $0.02 per share over the existing offer price of $0.60 per share. As detailed in Section 5 of this report, we assess a value of approximately $10.274 million for all the shares in the Company at 7 June 2018, the date of our valuation.

3. Purpose and scope

3.1 Background

CGL was incorporated on 5 February 2003 as Newcall Technologies Limited. The Company changed its name to Holly Springs Investments Limited on 27 February 2004 and it was listed on the NZAX in June 2006 with the objective of it being used as a vehicle to effect a reverse listing transaction.

The Company changed its name to RIS Group Limited on 3 September 2009 following the acquisition of 100% of the shares in Retail Information Systems Pty Limited in May 2009.

The core business assets of RIS were sold to USG Tech Solutions in 2012, and the company was effectively a listed shell.

RIS was the subject of a reverse takeover on 26 February 2016 whereby it acquired 100% of the shares in 16 Park Avenue Ltd (16PAL) for a purchase price of $7,599,000 (the RIS Reverse Takeover).

16PAL formed part of the Chow Group of companies owned by John Chow and Michael Chow. 16PAL is the owner of the Park Ave Residence, an Auckland residential accommodation complex comprising 2 adjacent properties and an associated accommodation business located in Park Avenue, Otahuhu, Auckland.

The purchase price for 16PAL was satisfied by CGL issuing 19,491,232,812 new ordinary shares to the Chow Trusts:

- 9,745,616,406 shares to the John Chow Investment Trust; and
- 9,745,616,406 shares to the Michael Chow Investment Trust.

Upon completion of the RIS Reverse Takeover, the Chow Trusts held 94.93% of the ordinary shares in CGL and became the dominant owner of CGL. RIS changed its name to Chow Group Limited on 4 March 2016.

On 4 and 8 March 2016, the Chow Trusts sold down 1,296,483,332 shares in CGL to various people, representing 6.31% of the shares then on issue.

CGL consolidated its shares on a 25:1 basis on 7 March 2016, resulting in there being 821,306,211 ordinary shares on issue at that date.

On 15 March 2016, CGL issued 1,597,537 new ordinary shares in satisfaction of the conversion of $21,447 of convertible notes held by VIG Limited. This increased the total number of ordinary shares on issue to 822,903,748.

On 1 November 2017, CGL undertook a share consolidation whereby its 822,903,748 ordinary shares were consolidated on a 50:1 basis into 16,458,120 ordinary shares.

Following completion of the share repurchase and compulsory acquisition of the Company's shares, Chow Group Limited changed its name back to RIS Group Ltd on 16 July 2018.

3.1.1 Acquisition Notice

CGL is a code company under the Takeovers Code (the Code). Pursuant to Rule 51 of the Code, the Chow Trusts issued a Notice of Dominant Ownership to CGL on 31 May 2018.

By virtue of becoming the dominant owner (i.e. holding over 90% of the company's shares), the Chow Trusts were required under Rule 54 of the Code to issue an acquisition notice to all other CGL shareholders (the Acquisition Notice). Pursuant to Rule 55(1)(b)(i), the Acquisition Notice dated 7 June 2018 stated that the CGL shareholders must sell their shares to the Chow Trusts.

Rule 57(1)(a) of the Code requires the Acquisition Notice to specify a cash sum as consideration for each CGL share certified as fair and reasonable by an Independent Adviser.

The Chow Trusts engaged Simmons Corporate Finance Limited (Simmons Corporate Finance or Simmons) to act as Independent Adviser in respect of their obligations under Rule 57(1)(a) of the Code. Simmons Corporate Finance certified fair value as a range of $0.58 to $0.65 per share.

The Acquisition Notice dated 7 June 2018 issued by John Chow and Michael Chow as trustees of the Chow Trusts offered $0.60 per share in cash (the Consideration) for all 1,630,986 ordinary shares in CGL that the Chow Trusts did not already hold or control.

Pursuant to Rule 57(2) of the code, written objections to the specified consideration were received from outstanding shareholders who hold the lesser of 2% or more of the equity securities; or 10% of the outstanding securities of the class. Rule 57(3) then requires an expert determination of the consideration to be provided for the securities.

3.2 Regulatory requirements

The Guidance Note on Independent Advisers and the Takeovers Code dated 1 March 2018 (the Guidance Note) issued by the Takeovers Panel includes the following guidance in respect of Independent Adviser Reports under Rule 57 of the Code.

> *In broad terms, rule 57 of the Code relates to cases of compulsory acquisition where a person (whether alone or acting jointly or in concert with one or more other persons) has become a dominant owner (ie has become the holder or controller of 90% or more of the voting rights in a Code company by means other than a takeover offer (for example, on-market acquisitions). In such cases, the consideration specified in the acquisition notice under rule 55 of the Code, for the purposes of a compulsory acquisition of the outstanding securities in the Code company must be a cash sum certified as fair and reasonable by an independent adviser.*
>
> *For the purposes of rule 57, the fair and reasonable value of an equity security must be calculated by:*
>
> a) *first assessing the value of all the equity securities in the class of equity securities of which the equity security forms part; and*
>
> b) *then allocating that value pro rata among all the securities of that class.*

4. Profile of CGL

4.1 Share price history

A summary of CGL's daily closing share price and monthly volumes of shares traded from 6 June 2017 to 6 June 2018 is depicted below. Share prices and monthly volumes prior to 1 November 2017 have been adjusted to reflect the 50:1 share consolidation on 1 November 2017.

Source: NZX Company Research

During the period 6 June 2017 to 6 June 2018, CGL's shares have traded between $0.57 and $0.80 at a volume weighted average share price (VWAP) of $0.63 (on a post consolidation basis).

Trading in the Company's shares is extremely thin, reflecting that 88.59% of the shares were held by the Chow Trusts and the top 10 shareholders collectively held around 92% of the shares.

4.2 Directors and shareholders

4.2.1 Directors

As at 7 June 2018 the directors of CGL were:

- Michael Chow, executive director;
- John Chow, executive chair; and
- Brent King, independent.

Brent King resigned as a director on 29 June 2018.

Michael Chow and John Chow are trustees of the Chow Trusts.

4.2.2 Capital structure and shareholders

As at 7 June 2018 CGL currently had 16,458,120 ordinary fully paid shares on issue held by 725 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 6 June 2018 are set out below.

Shareholder	No. of shares held	% of holding
Michael Chow Investment Trust	7,425,240	45.12%
John Chow Investment Trust	7,401,894	44.97%
Kenneth Donelan	171,472	1.04%
Ra Compusoft Private Limited	100,000	0.61%
High Street Nominees No 7 Limited	94,000	0.57%
Snowdon Peak Investments Limited (Snowdon)	51,164	0.31%
Lup Chow	50,400	0.31%
Hung Chow	48,000	0.29%
John Cheung	40,000	0.24%
Qing Xu	40,000	0.24%
Subtotal	15,422,170	93.71%
Others (715 shareholders)	1,035,950	6.29%
Total	16,458,120	100.00%

The Chow Trusts hold 14,827,134 shares, representing 90.09% of the shares in the Company.

The Chow Trusts acquired 246,557 shares from 6 related party shareholders on 31 May 2018 at $0.60 per share to increase their combined shareholding from 88.59% to 90.09%.

Snowdon is owned by CGL director Brent King.

4.3 Summary of financial performance

A summary of CGL's financial performance following the RIS Reverse Takeover on 26 February 2016 is set out below.

	Year to 31 Mar 17 (audited) $000	Year to 31 Mar 18 (draft) $000
Revenue	$2,155	$2,119
Other income	$10	$4
Operating expenses	$(1,235)	$(1,177)
Operating profit	$930	$946
Finance costs	$(299)	$(265)
Change in fair value of investment properties	$1,021	$320
Profit before income tax	$1,652	$1,001
Income tax expense	$(184)	$(201)
Net profit for the year	$1,468	$800
EPS ($)	$0.089	$0.049
EPS excluding change in fair value of investment properties	$0.027	$0.029

Revenue represents accommodation and rental income from the Properties. Operating expenses include salaries and wages, management fees paid to CGML, directors fees, rates and repairs and maintenance.

4.4 Summary of financial position

CGL's financial position following the RIS Reverse Takeover on 26 February 2016 is set out below.

	Year to 31 Mar 16 (audited) $000	Year to 31 Mar 17 (audited) $000	Year to 31 Mar 18 (draft) $000
Cash and cash equivalents	876	946	796
Trade and other receivables	73	16	16
Related party receivables	1,973	2,088	15
Prepayments	67	27	13
Available-for-sale financial assets	162	162	162
Current assets	3,151	3,239	1,002
Property, plant and equipment	-	19	-
Investment property	15,510	16,550	16,890
Non current assets	15,510	16,569	16,890
Total assets	18,661	19,808	17,892
Trade creditors and other payables	(444)	(300)	(237)
Related party payables	(2,311)	(2,403)	(25)
Loans and borrowings	(448)	(404)	(400)
Income tax payable	(33)	(101)	(159)
Current liabilities	(3,236)	(3,208)	(821)
Loans and borrowings	(6,896)	(6,492)	(6,092)
Deferred tax	(25)	(136)	(207)
Non current liabilities	(6,921)	(6,628)	(6,299)
Total liabilities	(10,157)	(9,836)	(7,120)
Total equity	8,504	9,972	10,772
Net assets per share	$0.52	$0.61	$0.65

The Company's current assets as at 31 March 2018 consisted mainly of cash and cash equivalents and available-for-sale financial assets.

Available-for-sale financial assets consist of 3,463,410 ordinary shares in USG Tech Solutions Limited (USG) that CGL acquired via the RIS Reverse Takeover (the USG Shares).

Investment property comprises the Properties. The fair value of the Properties is established annually by an independent valuer. The Colliers 2018 Valuations assessed the fair value of the Properties to be $16.89 million as at 31 March 2018.

Related party balances as at 31 March 2018 consist of receivables from Stonewood Homes NZ Franchisor Limited and payables to CGML.

Loans and borrowings consist of a secured loan from ANZ Bank Limited (ANZ):

- security is in the form of a general security agreement granted by 16PAL and a registered first mortgage over the Properties;
- repayments are $0.4 million per annum; and
- the interest rate at 31 March 2018 was 4.01% per annum, reset monthly.

Deferred tax mainly represents timing differences on depreciation on the Properties.

Total equity of $10.8 million as at 31 March 2018 consisted of:

- $0.5 million of issued share capital; and
- $10.3 million of retained earnings.

4.5 Cash flows

A summary of CGL's cash flows are presented below.

	Year to 31 Mar 17 (audited) $000	Year to 31 Mar 18 (draft) $000
Net cash inflow from operating activities	$735	$577
Net cash (outflow) from investing activities	$(42)	$(20)
Net cash (outflow) from financing activities	$(623)	$(707)
Net increase / (decrease) in cash held	$70	$(150)
Opening cash balance	$876	$946
Closing cash balance	$946	$796

4.6 Description of operations

16PAL was incorporated on 12 March 2012 as a commercial property investment company.

During 2014, 16PAL purchased 2 adjacent Otahuhu properties at 10-14 Park Avenue and 16-20 Park Avenue (the Properties). The Properties were commercial buildings that were previously tenanted by Inland Revenue. The Properties were refurbished in 2015 into a 132 room residential accommodation complex now known as the Park Ave Residence.

The properties have earthquake ratings above the 67% level where any discount is applied in the market, with 10-14 Park Avenue having a 71% "B" rating and 16-20 Park Avenue a 73% "A" rating.

16PAL commenced trading in July 2015 following the renovation of the 16–20 Park Avenue property. The second property (10-14 Park Avenue) was opened during December 2015, resulting in a significant increase in the number of rooms available at the Park Ave Residence.

10-14 Park Avenue is a two-story building constructed in the 1970s. The site area is 857m^2 and the floor area is 1,004.1 m^2. It has recently been converted into a 45-room accommodation complex with communal facilities. Tenancy is both long and short stay.

16-20 Park Avenue a four-story building constructed in the 1970s. It has a site area of 931m^2 and a floor area of 3,203.04m^2. It has recently been renovated into an 87-room accommodation complex that has part communal and part private facilities. Tenancy is both long and short stay.

Both buildings are zoned mixed use.

4.6.1 *Operations*

The Properties are managed together and provide budget short-stay and long-stay accommodation in the South Auckland area. The accommodation is comparable with basic hotel rooms and is marketed on web-based accommodation platforms such as Booking.com, Expedia and Trivago.

80% of the rooms are long stay. The business is moving towards long-stay accommodation (defined as longer than 1 week). Colliers has undertaken its valuation on the basis that the property is long-stay accommodation only. The consequence of this assumption is lower revenue; but more than offset by lower costs with reduced staffing, marketing and commissions etc required compared with short-stay accommodation.

The Properties provide a range of rooms:

- studio twin with ensuite;
- studio double with ensuite;
- double room with shared facilities; and
- twin room with shared facilities.

Current weekly room rates are set out below. The weekly rates include water but power is charged in addition.

Weekly room rates

	10 - 14 Park Avenue	16 - 20 Park Avenue
Singles	$250	$259
Couples	$265	$335

Electricity use is charged back to tenants. Additional revenue is generated from services such as vending commissions, washing machine/dryer use, locker hire and car parking. The weekly room rates are competitive with typical budget hotel and flat rates in the area and demand has been strong since the first accommodation block opened in July 2015.

Customers include a range of professionals and other persons including doctors and nurses working at Middlemore Hospital. All long-term tenants are fully vetted prior to their stay including security checks, references and other relevant information. A number of rooms have been let to Work & Income (WINZ) residents at considerably higher rates. However, these are a very small proportion, have additional costs and have been excluded by Colliers in its valuation assumptions.

Local competition includes a small number of traditional boarding houses in the Otahuhu area as well as the Auckland Astro Residence Motel located at 21 Park Avenue, which provides 30 units for short-term and long-term accommodation.

4.6.2 *Occupancy rates and average room rates*

The Properties’ monthly occupancy rates and average daily room rates for the year ended 31 March 2018 are set out below.

Occupancy rates and average room rates		
	Monthly occupancy rates	Daily average room rates
Low	84%	$39.87
Average	90%	$46.63
High	97%	$58.97

Colliers have assumed occupancies of long-term stay rooms at 95% for 10-14 Park Ave (cheaper rooms with shared facilities) and 90% for 16-20 Park Ave (more expensive rooms with ensuite).

4.6.3 Contract for Services

Following the acquisition of 16PAL in 2016, CGL entered into a Contract for Services with CGML under which CGML provides secretarial and management services to CGL.

The key of terms of the Contract for Services include:

- a term of 5 years commencing 26 February 2016 (or such shorter period as determined by CGL);
- the Contract for Services may be terminated by CGL at any time without penalty by giving one month's written notice to CGML;
- an annual management fee based on CGML's existing hourly charge out rates (plus GST), capped at $150,000 (plus GST) per annum; and
- CGML provides a range of management services to CGL including, but not limited to, property management / administration services, tax and accounting services, recruitment assistance, payroll management and record keeping.

4.7 Description of USG shares

USG is a software solutions and services company in India. The company provides payment and loyalty systems, value added services related to those systems, mobile payments systems and data analytics.

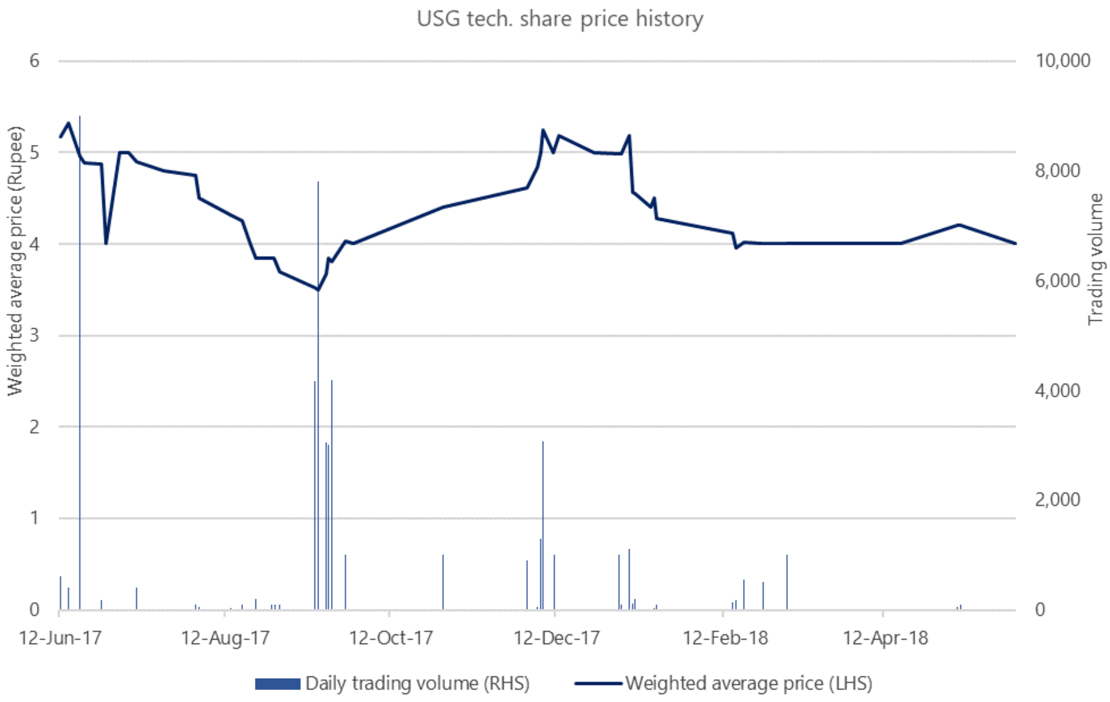
USG's historical financial performance over the 5-year period ending 31 March 2018 is summarised below.

USG Summary Financial Performance (lachs=100,000Rupee)

Financial Year	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Revenue	133	175	143	96	241
Other Income*	140	95	110	67	90
EBITDA	111	103	15	-4	1
NPAT	94**	95	13	-2	1

**Mainly interest*
***Approx NZD 200,000*

USG's shares are listed on the Bombay Stock Exchange with a share price of 4.00 Rupee and market capitalisation of NZD 3.34 million as at 7 June 2018.



Source: Bombay stock exchange

As shown above, over the year ending 6 June 2018 USG's share price has fluctuated between 3.5 and 5.32 Rupee with very low liquidity.

5. Valuation

5.1 Introduction

Section 57(4) of the Takeovers code requires us to determine the fair and reasonable value of an equity security calculated by

(a) First assessing the value of all the equity securities in the class of equity securities of which the equity security forms part; and

(b) Then allocating that value pro rata among all the securities of that class.

This approach reflects the fair market value of 100% of the shares in CGL.

In valuations of this nature, it is general practice to present a range of values. This recognises the fact that when considering the parameters which affect the assessment of a value for a company's shares, certain judgements are subject to uncertainty. In this instance, however, we are required to provide our opinion of a single point value. In so doing, we nevertheless determine a range of values in the first instance which we rely on to form an opinion of fair and reasonable price.

5.2 Valuation methods

The method adopted for valuing a business or shares will vary according to the purposes of the valuation and the particular circumstances. Commonly applied methods are:

- discounted cash flow ("DCF");
- capitalisation of future maintainable earnings;
- review of comparable transactions;
- net realisation of assets; and
- industry rules of thumb.

In the case of CGL, its operating assets comprise two properties. Its other assets are the USG Tech shares and current, readily realisable assets. The properties represent 94% of the assets on CGL's reported 31 March 2018 balance sheet.

Property valuations reflect comparable transactions for similar properties, with a capitalisation rate applied to the future maintainable earnings of the property. The capitalisation rate is derived by looking at the rate calculated from actual transactions. Factors impacting capitalisation rate include investors' cost of capital and the expected growth in income from the building (which in turn reflects factors such as the location and quality of the building).

Our preferred method of valuation is DCF, but where a business is mature, no significant capex is required and real income growth is likely to be constant over the valuation period, a DCF approach is mathematically close to the capitalisation of earnings approach. Hence this is the standard industry approach. In this situation we see no advantage in undertaking a DCF valuation (in addition there are no long-term projections signed off by the Board, which would be a starting point for gaining any more accuracy from a DCF approach).

5.3 Valuation approach

We have therefore chosen to consider CGL's value from two approaches:

- Sum of the parts (SOTP) – valuing individual assets (parts) and assuming CGL continues as a going concern; and
- Net realisable value (NRV) – assumes all assets are sold in an orderly manner and CGL is liquidated.

As a final reasonableness test we compare the valuation derived from observed earnings and net tangible asset backing (NTA) ratios of listed companies operating in New Zealand in the property and hotel sectors, albeit none operate in the boarding house segment that CGL does.

Both SOTP and NRV require a valuation of individual asset classes. Before considering the overall valuation we consider the value of the Properties (majority of CGL's value) and the USG Tech shares (special valuation considerations).

5.4 Valuation of the Properties

Colliers valued the Properties as at 31 March 2018 at a combined value of $16.89 million. As noted in Section 4.6 above the valuation assumes the Properties will be managed for long stay only. Colliers also added $40,000 to the valuation representing the present value of telecommunications leases in place.

Colliers key assumptions and conclusions are set out in the table below:

	10 - 14 Park Avenue	**16 - 20 Park Avenue**
Valuation method	Capitalisation of net income	Capitalisation of net income
Average room rate per week	$260	$300
Other income per week	$15	$15
Car parks income per week	$40	$40
Expenses per annum	$165,000	$348,000
Net income per annum	$413,053	$851,435
Expected market rental growth	0%	0%
Occupancy rate	95%	90%
Net market capitalisation	7.50%	7.50%
Fair value	$5,500,000	$11,390,000
Value per room	$122,222	$130,460

The combined EBITDAR from the properties of $1.264 million used for valuation purposes by Colliers is greater than the actual EBITDAR of $1.144 million reported in the management accounts for the year to March 2018. In Section 5.6.3 below we note that the $150,000 CGML fee is included as a cost in the property company accounts and a case can be made for including $50,000 of that in corporate overheads rather than management costs directly associated with the properties. This would raise actual EBITDAR to $1.194 million, still below the number Colliers use. We have also received the monthly management accounts for May 2018 and note that EBITDAR for the first two months of the financial year is tracking slightly below the same two months last year.

We have discussed this with CGL and concluded that whilst CGL is transitioning to all long stay the cost structure associated with short-stay guests cannot be reduced at the same rate. Hence we are comfortable with both the rationale to shift to long stay only and the higher EBITDAR assumed by Colliers for valuation purposes.

Colliers has considered a range of sales of similar boarding house style accomodation and derived a capitalisation rate of 7.5%. The resulting value per room numbers sit within the range derived from comparable sales data.

TDB subcontracted TelferYoung (Auckland) to undertake a peer review of the Colliers valuation. TelferYoung undertook a desktop review of the Colliers valuation reports of the property only, not a valuation report.

TelferYoung concluded "The valuations have adopted appropriate methodology and analysis and have applied the correct calculation of the market evidence to arrive at the value outcome. The value outcome seems reasonable."

We have adopted the Colliers valuation of $16.89 million for the Properties.

5.5 Valuation of the USG shares

CGL owns 3,463,410 shares of USG Tech Solutions (USG), representing 8.79% of USG's equity. As at 7 June 2018, USG's closing traded price on the Bombay Stock Exchange (BSE) was 4.00 Rupee, yielding a market capitalisation of 158 million Rupee or NZD 3.4 million.

Trading price and volume data for USG is set out below.

USG Tech Solutions trading summary data

Year	High Price	Low Price	No of shares traded
2016	3.01	1.9	92,780
2017	5.61	2.85	100,172
2018*	5.23	3.82	8,122

**1/1/18-13/7/18*

Source: Bombay Stock Exchange

As can be seen from the table above the shares are very illiquid. At 4.00 Rupee/share CGL's shareholding is worth $299,000 (NZD). The shares are carried in CGL's balance sheet at $161,500. We understand CGL, in conjunction with is auditors, made an assessment of the value that could be realised if USG was liquidated on a net recoverable asset basis over four years. A discount rate of 25% was applied to the realisation cash flows.

CGL stated to us it has approached the major shareholders to see if they would buy its parcel, but with no success. A sale on a normal market basis would take many years or a substantial discount, given the liquidity exhibited. Any sale would likely require a local broker searching for an interested party and probably a significant discount to market. This could take a long time, and the shares are not paying a dividend currently.

To reflect the likely discount on sale, brokerage fees and costs of holding until realisation we have applied a discount range of 30-50% to current market value, ie a value range of $149,000 to $209,000. This range includes the carrying value in the accounts. We have adopted the midpoint value – at a 40% discount to market – of $179,000.

5.6 SOTP Valuation

The SOTP approach assumes CGL continues as a going concern. It is calculated as:

- the current market value of CGL's assets; less
- the current value of CGL's liabilities; less
- the net present value of obligations not reflected in liabilities.

5.6.1 Assets

The valuation ranges for the properties and the USG shares are as assessed in Sections 5.4 and 5.5 respectively. The other assets are cash, receivables and prepayments whose market value is reflected in CGL's accounts.

We have received the management accounts for Park Avenue Residence for April and May 2018. As this valuation is as at 7 June 2018 we have added the after-tax profit earned in these two months of $67,000.

5.6.2 Liabilities

$6.5mil of $7.2mil of liabilities is an ANZ bank loan. Currently interest is set on a monthly floating rate, so there is no reason to value it at other than its face value. With the exception of deferred tax all other liabilities are of the nature of current creditors, hence market value is reflected in USG's accounts.

Deferred tax largely relates to depreciation on property and fittings, and is unlikely to reverse unless the building is sold. Therefore, on a going concern basis it is appropriate to value this liability at zero.

5.6.3 NPV of obligations not reflected in liabilities

We have reviewed CGL's management accounts for the year to 31 March 2018. Of $1.177mil total operating expenses, $969,000 is are charged to the property-owning companies and $204,000 to corporate overheads. The $204,000 comprises items such as external Directors' fees, audit and listing expenses. The $969,000 comprises hotel management, rates, cleaning etc. However, it also includes the $150,000 contract for services agreement with CGML. This covers accounting and administration costs incurred within the property companies, but also strategic and Board input from Michael and John Chow.

The EBITDAR which Colliers capitalised in valuing the Properties takes account of expenses in running a boarding house operation, but not the corporate overheads of a listed company structure. We assess that $250,000 per annum is an appropriate level of corporate overheads.

We have capitalised annual corporate overheads at a pre-tax multiple of 5-6 times, in line with standard market valuation practice. This yields an NPV of capitalised corporate overheads in the range of $1.25 million to $1.5 million. We have adopted the midpoint, $1.375 million.

5.6.4 Valuation

Our SOTP valuation is presented below.

SOTP valuation assesment

	Year to 31 Mar 18 (draft) $000	Basis	Valuation $000
Cash and cash equivalents	$796	*1*	$796
Trade and other receivables	$16	*1*	$16
Related party receivables	$15	*1*	$15
Prepayments	$13	*1*	$13
Available-for-sale financial assets	$162	*2*	$179
Current assets	1,002		1,019
Investment property	$16,890	*3*	$16,890
Total assets	$17,892		$17,909
Trade creditors and other payables	$(237)	*1*	$(237)
Related party payables	$(25)	*1*	$(25)
Loans and borrowings	$(400)	*1*	$(400)
Income tax payable	$(159)	*1*	$(159)
Current liabilities	$(821)		$(821)
Loans and borrowings	$(6,092)	*1*	$(6,092)
Deferred tax	$(207)	*4*	-
Non current liabilities	$(6,299)		$(6,092)
Total liabilities	$(7,120)		$(6,913)
Total equity	$10,772		$10,996
Capitalised corporate costs		*5*	$(1,375)
After tax earnings April & May 2018		*6*	$67
Value of 100% of shares			$9,688
No. of shares (000)			16,458
Value per share			$0.59

1 CGL draft 2018 Annual report.
2 Assessed discount to market value.
3 Colliers 2018 revaluation, peer reviewed by Telfer Young.
4 Deferred tax liability assumed not to crystallise.
5 Assessed by TDB.
6 From Park Avenue Residential management accounts April & May 2018.

We assess the value of CLG's shares to be $0.59 per share using the SOTP approach.

5.7 NRV valuation

The NRV approach assumes the business is liquidated in an orderly fashion and calculated as:

- the proceeds from selling or realising CGL's assets; less
- repayment of all liabilities; less
- costs involved in liquidation.

5.7.1 Assets

The valuation ranges for the Properties and the USG shares are as assessed in Sections 5.4 and 5.5 respectively. Sales commission of 3% has been deducted from the Property values. The other assets are cash, receivables and prepayments whose market value is reflected in CGL's accounts.

We have considered whether the shell of CGL has value for a backdoor listing. With the intended wind-down of the NZAX and migration of companies to the NZX, there is now little benefit to be gained from a reverse listing. With costs of preparation of a Profile, meetings, legal and other advisors costs associated with a reverse listing on the NZX there are no longer large savings to be made from a reverse listing.

We note further moves of discouraging reverse listings in the Exposure Draft Listing Rules circulated by the NZX for application from July 2019:

"1.11.1 If an issuer proposes to enter a Backdoor or Reverse listing transaction, the NZX may, in addition to any rights and powers it has under these Rules, require the issuer to re-comply with the relevant listing and quotation requirements in Section 1 of the Rules as if the Issuer was a new applicant for listing, to the extent the NZX considers necessary."

Furthermore, there has been little demand for new equity issues in the last year, and we understand that remains the case. The cost of keeping a listing until a purchaser comes along may outweigh the value of the listing. Hence, we have not placed any value on CGL's listing.

As previously noted we have also received the management accounts for Park Avenue Residence for April and May 2018. As this valuation is as at 7 June 2018 we have added the after-tax profit earned in these two months of $67,000.

5.7.2 Liabilities

$6.5m of $7.2m of liabilities is an ANZ bank loan. Currently interest is set on a monthly floating rate, so there is no reason to value it at other than its face value. There may be a break fee for early repayment, but it is unlikely to be significant on a floating rate loan. With the exception of deferred tax, all other liabilities are of the nature of current creditors, hence market value is reflected in USG's accounts.

Deferred tax largely relates to depreciation on property and fittings, and, is likely to reverse on sale of the properties. Therefore, on an NRV assessment this liability should be included at full accounting value.

5.7.3 Costs involved in liquidation

As noted above, we have assumed fees of 3% on sale of the properties. We have assessed the legal and accounting costs required for a liquidation to be in the range of $50,000-100,000. We have taken the midpoint of $75,000.

5.7.4 Valuation

The NRV valuation is presented below.

NRV valuation assessment

	Year to 31 Mar 18 (draft) $000	**Basis**	**Valuation $000**
Cash and cash equivalents	$796	*1*	$796
Trade and other receivables	$16	*1*	$16
Related party receivables	$15	*1*	$15
Prepayments	$13	*1*	$13
Available-for-sale financial assets	$162	*2*	$179
Current assets	$1,002		1,019
Investment property	$16,890	*3*	$16,383
Total assets	$17,892		$17,402
Trade creditors and other payables	$(237)	*1*	$(237)
Related party payables	$(25)	*1*	$(25)
Loans and borrowings	$(400)	*1*	$(400)
Income tax payable	$(159)	*1*	$(159)
Current liabilities	$(821)		$(821)
Loans and borrowings	$(6,092)	*1*	$(6,092)
Deferred tax	$(207)	*1*	$(207)
Non current liabilities	$(6,299)		$(6,299)
Total liabilities	$(7,120)		$(7,120)
Total equity	$10,772		$10,282
NZAX listing			-
Liquidation costs		*4*	$(75)
After tax earnings April & May 2018		*5*	$67
Value of 100% of shares			$10,274
No. of shares (000)			16,458
Value per share			$0.62

1 CGL draft 2018 Annual report.
2 Assessed discount to market value.
3 Colliers 2018 revaluation, peer reviewed by Telfer Young, less 3 percent sales commission.
4 Assessed.
5 From Park Avenue Residential management accounts April & May 2018.

We assess the value of CLG's shares to be $0.62 per share using the NRV approach.

5.8 Valuation conclusion

Our point estimate valuations are $0.59 using the Sum-of-Parts methodology; and $0.62 using the NRV method. The difference is down to the NPV of corporate costs applied to maintaining CGL as a stand-alone listed company versus the much lower liquidation costs in the NRV method.

In our view it is unlikely a buyer of 100% of CGL would maintain its current structure. Because CGL's only operating assets are the two properties it does not have the scale to support a listed company structure with its overheads and compliance requirements. The proposed migration of NZAX companies to the NZX exacerbates that.

A buyer would either liquidate or integrate the properties with a group that is either larger or run them with a low overhead structure. The Net Realisable Value method reflects the way the assets are likely to be manged by a purchaser and hence what a willing buyer might pay. Similarly, this valuation represents the best a willing seller of 100% could expect to achieve. Hence we adopt out point estimate of NRV as the fair and reasonable value for CGL.

In our opinion a fair and reasonable value for all the shares in CGL is $10.274 million representing a value per share of $0.62.

5.9 Listed company comparables

As a reasonableness check we have compared the value per share we have assessed for CGL to other New Zealand listed property companies. This is only a check as none of the companies are closely comparable and the values are for trades of small parcels of shares, not 100% of a company (although we would not anticipate large control premiums applying to property companies when there is a reasonable market in property assets).

Most of the comparison group are property companies. We have excluded ones with specialised assets or the bulk of their income from management. However, it should be noted that the companies:

- own variously commercial, retail and/or industrial property, not boarding-house accommodation; and
- have substantially bigger scale with market capitalisations between 10 and 200 times CGL.

We have included the one hotel operator listed on the NZX, Millennium & Copthorne (MCK) and note that:

- it operates mid – upmarket short-stay hotels throughout New Zealand;
- it has substantially bigger scale with a market capitalisation approximately 50 times CGL; and
- like CGL it has a majority shareholder and is somewhat illiquid.

The valuation multiples for each company's most recent completed financial year are presented below.

Company	PE multiple including revaluations	PE multiple excluding revaluations	EV/EBITDA Multiple	NTA multiple
Argosy Property	9.2X	16.8X	10.3X	1X
Goodman Property	9.5X	15.8X	11.5X	1X
Kiwi Property Group	15.9X	18.6X	14.5X	1X
NPT (now Asset Plus a subsidary of Augusta)	30.9X	10.7X	18X	0.8X
Precinct Properties	11.3X	21X	11.6X	1X
Property for Industry	15.1X	15.7X	18.1X	1X
Stride Property	7X	17.9X	11.2X	1.1X
Millennium & Copthorne Hotels NZ	4.5X	11.2X	6.5X	0.7X
Average	**12.9X**	**16X**	**12.7X**	**1X**
Minimum	4.48X	10.7X	6.5X	0.7X
Maximum	30.9X	21X	18.1X	1.1X
Chow Group at assessed value	**12.7X**	**21.3X**	**17.7X**	**0.95X**

Source: NZX & Company annual filings.

As property assets are regularly revalued for balance sheet purposes, it is not surprising that the listed companies trade close to Net Tangible Asset (NTA) backing. The valuation we have derived for CGL is also close to NTA.

Using earnings excluding revaluations, and considering both price/earnings multiples (PE) and Enterprise Value/EBITDAR our valuation metrics for CGL are at the high end of the range. This reflects CGL having higher proportionate overheads as a smaller company and the overheads are excluded under a NRV valuation of the assets.

Using earnings including revaluations, CGL's metric is average. However, revaluations tend to be lumpy and this metric shows a much wider spread than the others in the table.

5.9.1 Comparison with Simmons Corporate Finance valuation

In its independent certificate Simmons Corporate Finance assessed the fair market value of 100% of the shares in CGL to be between $0.58 and $0.65 per share This reflected a SOTP valuation range of $0.58-$0.60 and an NRV range of $0.63-$0.65.

We have focused on NRV for our point estimate. As discussed above we do not believe a buyer would maintain the current structure of overheads for this scale of operation and would either realise assets or operate the business as part of a larger or a lower cost structure.

The specific assets and liabilities in the NRV analysis where we either differ from Simmons Corporate Finance or have made a point estimate rather than a range are:

- assets available for sale;
- NZAX listing;
- liquidation costs; and
- post-tax earnings reported for April and May.

Each point is discussed in turn below.

Available for sale assets

We have made a point estimate which is at the lower end of the Simmons range.

NZAX listing

We have put zero value on the NZAX listing reflecting the requirement for NZAX companies to transition to the NZX, the disclosure requirements of a backdoor listing now being similar to a new applicant listing and the latest exposure draft NZX listing rules giving the NZX power to require full compliance with listing and quotation rules for backdoor listings. Furthermore, the lack of companies in the current market seeking a listing would mean ongoing costs incurred until a buyer of a backdoor listing could be found.

Liquidation costs

We have made a point estimate which is the mid-point of the Simmons range.

Earnings reported in management accounts to 30 May

These have subsequently become available and have been added to the value.

A summary of the differences in NRV valuation between TDB and Simmons is set out below.

Asset or liability valued	Simmons Corporate Finance		TDB
	Low	High	
Equity value excluding items below	$10,103	$10,103	$10,103
Available-for-sale assets	$162	$243	$179
NZAX listing	$200	$450	-
Liquidation costs	$(100)	$(50)	$(75)
After tax earnings April & May 2018	-	-	$67
Equity value	$10,365	$10,746	$10,274
Shares	16,458	16,458	16,458
Value per share	$0.63	$0.65	$0.62

6. Sources and information

The statements and opinions expressed in this report are based on the following main sources of information:

- the Acquisition Notice;
- the CGL annual report for the years ended 31 March 2016 and 2017;
- the draft CGL annual report for the year ended 31 March 2018;
- the Park Avenue Residence management accounts for the year ended 31 March 2018;
- the Park Avenue Residence management accounts for the 2 months ending 30 May 2018;
- the Colliers 2018 Valuations;
- the RIS Independent Adviser's Report and Appraisal Report prepared by Campbell MacPherson Limited dated 18 January 2016;
- the CGL Independent Adviser's Report prepared by Campbell MacPherson Limited dated 29 March 2016;
- data in respect of CGL from NZX Company Research;
- data in respect of USG from the Bombay Stock Exchange; and
- financial information on USG from its website.

During the course of preparing this report, we have had discussions with and / or received information from the CGL and its advisers. We have not requested any information from CGL that has not been supplied to us.

John Chow and Michael Chow have confirmed that we have been provided for the purpose of this Independent Expert's Report with all information relevant to the valuation of CGL that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Expert's Report.

The opinions recorded on this report are expressed as at the date hereof and reflect our assessment of the information reviewed based on the prevailing business and market conditions existing at the date of this report. Such conditions may change, with potentially material impact on the opinions expressed herein.

6.1.1 Reliance on information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by CGL and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report, but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of CGL. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

6.1.2 Disclaimer

This report has been prepared by TDB with care and diligence. The statements and opinions given by TDB in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by TDB or any of its officers, employees, subcontractors or agents for errors or omissions arising out of the preparation of this report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit, provided that this shall not absolve TDB Advisory from liability arising from an opinion expressed recklessly or in bad faith or which cannot be disclaimed by law.

6.1.3 Indemnity

In accordance with rule 58(3) of the Takeovers Code, as the dominant owner, the Chows must pay the costs of the expert determination, including any costs incurred by TDB (or its personnel) in respect of any claims, suits or proceedings (including without limitation, attorney's fees associated therewith) brought against TDB arising out of or relating to the TDB's services under this contract, except to the extent finally determined to have resulted from negligence or willful misconduct, provided that the liability of TDB shall not under any circumstances total more than three times the amount of the fees that have been actually received.

7. Qualifications and expertise

TDB Advisory Limited (TDB) is a boutique corporate finance and economics advisory company. We have been in operation since 2002 and are based in Wellington and Christchurch. Amongst other services, TDB has advised on mergers and acquisitions, company and asset valuations and independent expert reports.

The persons in the company responsible for issuing this report are

- David Smith (TDB Director), MBA (Finance), BSc, DipSci (Mathematics); and
- Tom Stannard (TDB Analyst), BCA Hons (Econ).

Phillip Barry (TDB Director), MBA (Finance), BA Hons (Econ) has conducted a peer review of the analysis underpinning the findings presented by this report.

TDB, David Smith and Philip Barry have significant experience in business valuations, business appraisals and independent expert reports.

7.1 Independence

TDB confirms that it:

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

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

7.2 Declarations

An advance draft of this report was provided to John Chow and Michael Chow and CGL for their comments as to the factual accuracy of the contents of this report. An advance copy of this report was also provided to the Takeovers Panel for their comments on completeness and meeting the requirements of the code. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term that materially restricted the scope of this report.

7.3 Consents

We consent to the issuing of this report in the form and context in which it is sent to the Company’s shareholders. We also consent to the public distribution of this report.