

Radius Properties Limited
PO Box 691, Shortland Street, Auckland

14 July 2010

Dear Shareholder

Radius Properties Limited – July 2010 update

On 31 March 2010 I wrote to you on behalf of the Board with an update on Radius Properties Limited ('RPL'). There have been a number of positive developments since that last communication and many of the problems previously referred to have been resolved.

Actual and threatened litigation proceedings have been resolved on most fronts, and the Board is now able to give you more detailed information on the state of RPL on 10 November 2009 when the Board and interim manager took full control.

It is the Board's view that had the problems facing RPL not been speedily resolved, RPL investors could have faced a complete loss on their RPL investment.

Effective strategies, attention to detail, commitment of the interim manager, the support of the bank, and excellent legal advice all played a part in fixing the problems.

The process has not been without significant cost – with over \$600k of legal fees incurred alone. Your Board believes that value regained through settlement of the problems is far in excess of those costs.

Estimated net asset position of RPL – November 2009

The situation the Board found on taking control was worse than had been represented to shareholders.

The accounts prepared by the Previous Managers showed a net asset backing per share of 95 cents. The Board believes that this number was based on a Balance Sheet that was materially incorrect.

The Board believes the net asset backing of each RPL share at the time we assumed control was approximately \$0.36 per share – based on a re-constituted Balance Sheet. This re-constituted Balance Sheet has not been audited, and instead represents the Board's opinion, backed by independent third party valuations where practical and cost-effective.

The appendix to this letter sets out the key differences between the 95 cents and the 36 cents.

Details of the Settlement with the Previous Managers

Following up on my earlier letters, you will know that for the last few months RPL has been in discussions with Tony Hannon and Chris Holmes (together with their various management entities, the "Previous Managers") about the best way to achieve a 'clean break' between the parties. I am pleased to say that these discussions are now concluded, and I am finally in a position to provide you with further details.

The settlement with the Previous Managers deals with a number of the key short term commercial and financial risks facing RPL that I alluded to in my letter of 8 December 2009. The details of the settlement are as follows:

1. The Previous Managers have purchased RPL's interest in the property and rest home business that was acquired by RPL immediately prior to the 2009 AGM;
2. The Previous Managers have purchased RPL's interests in Stoney Creek Village Limited;
3. RPL has used the proceeds of these asset sales (both of which represent good value for RPL) to fully repay a short term loan of approximately \$1.7m (including interest) to the Previous Managers. This loan had been due to mature on 1 April 2010 and represented a significant short term risk for RPL;
4. The Previous Managers have agreed to sell their shares in RPL back to RPL for nominal consideration, thereby materially benefiting all other RPL shareholders;
5. The Previous Managers will no longer be involved in the management of the Proportionate Ownership Schemes in which RPL has an interest;
6. The Previous Managers have agreed that their management contract with RPL was mutually terminated and that RPL has no residual liability in that regard;
7. As outlined in my last letter, Tony Hannon and Chris Holmes have resigned from the Board of RPL, leaving RPL with three directors (Sherry Maier, David Glenn, and myself);
8. The Previous Managers have made a cash payment to RPL in connection with the above arrangements; and
9. As is typical in these situations, the parties have entered into certain confidentiality arrangements.

In addition to the above, arguably the most important outcome is the removal of the \$4.8 million liability reported in RPL's 2009 consolidated accounts. This liability was incurred in conjunction with a development property in Wanaka and was effectively 'on demand' from an RPL perspective from December 2009. This liability was the "significant other matter" referred to in my previous letters.

I am pleased to report that this liability has now been extinguished.

Litigation surrounding the Hamilton Property

Prior to our involvement in RPL, RPL had guaranteed the performance of Radius Property Holdings Limited ("RPHL") under a Sale and Purchase Agreement for the purchase of a substantial property in St Andrews, Hamilton. When RPHL failed to complete the acquisition, RPL served a notice under section 141 of the Companies Act seeking to avoid the transaction. Notwithstanding this avoidance notice, the vendor subsequently commenced High Court proceedings against RPL seeking specific performance or, failing that, damages. In a worst case scenario, RPL would have been forced to pay the remainder of the \$3.3m purchase price – money which it did not have.

RPL has now settled out of court with the vendor for payments totaling \$150,000 (plus GST if any), payable over the next few months. A further payment of \$35,000 (plus GST if any) will be payable by RPL under certain circumstances.

Potential for litigation still exists

In my letter of 31 March 2010 I also outlined the lease amendments that RPL had agreed to with its tenant, Radius Residential Care ("RRC"). These lease amendments extended the leases for a further 10 years, altered the rent review formula, and enabled RRC to gain benefits with third parties.

RPL subsequently received a letter from lawyers representing Radius Residential Care alleging that the agreement governing these lease amendments was in breach of the Property Law Act 2007 and was entered into under duress.

RPL strongly refutes the allegations made by its tenant and intends to strongly defend any litigation.

RPL does not believe that commercial bargains between two sophisticated counterparties should be unpicked simply because one of the parties has changed its mind down the track and wishes to retain the benefits of agreements without the associated obligations.

2010 Audit Process

The March 2010 audit process is now well underway. The March 2010 accounts are especially complicated given the settlement arrangements with the Previous Managers. We currently expect the 2010 Annual Report to be available in late August.

Appointment of a Permanent Manager

We are continuing to progress this issue and hope to update you shortly. We are focussed on producing a management contract that is for a lesser term than the previous one, doesn't harbour an unusually large termination fee, and better aligns the interests of the manager with RPL's stakeholders.

In the meantime, Ascot Capital Management continues in its role as the interim manager and questions from investors regarding RPL should continue to be directed to David Glenn (david@ascotcapital.co.nz).

Summary

The Board appreciates that the news of the net asset backing per share being around \$0.36 at November 2009 will be unwelcome. However, your new directors were elected on a platform on transparency and openness and have zero tolerance for 'gilding the lily' in this regard.

We are very pleased to be able to report the outstanding work done by the interim manager to mitigate the various risks that RPL faced and restore value to shareholders.

We currently expect that these transactions will result in a net asset backing per share at 31 March 2010 that is materially higher than the \$0.36. The exact number will only be determined after the full audit process is completed and will be advised to you in the 2010 Annual Report.

In the meantime we appreciate your continued support.

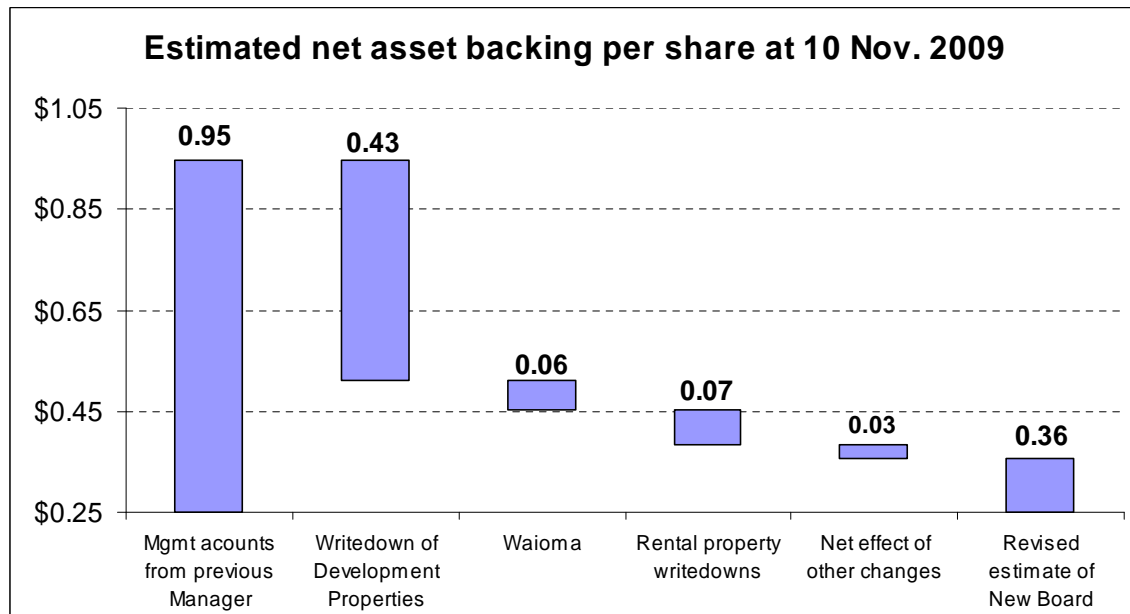
Yours faithfully



Samford Lee (Sandy) Maier, Jnr
Chairman
Radius Properties Limited

Appendix

The chart below illustrates the significant differences between the 95 cents and the new Board's 36 cent estimate as at 10 November 2010.



The following table provides further detail on these differences:

Issue per chart above	Per 30 October 2009 Management Accounts provided to RPL Board by Previous Managers	Opinion of new Board and Manager after lengthy assessment
Write-down of development properties	<ul style="list-style-type: none"> Valued the three development properties in Wanaka, Hamilton, and Peppertree at a combined value of \$14.5m (including capitalised costs associated with the developments) 	<ul style="list-style-type: none"> We have had the three development properties valued by an independent valuer Combining the three valuations provides a range for the three properties combined of \$4.2m – \$5.1m The Board has conservatively adopted the lower value
Waioma	<ul style="list-style-type: none"> Valued equity in the Waioma business at \$1.4m 	<ul style="list-style-type: none"> We don't believe any equity value existed, and have written off this amount. However please note that for cost reasons we have <u>not</u> sought an independent opinion
Rental property write downs	<ul style="list-style-type: none"> Properties independently valued 	<ul style="list-style-type: none"> Different valuer, market movements
Others	<ul style="list-style-type: none"> Various 	<ul style="list-style-type: none"> Includes writing off: goodwill in Sun Living Limited; the work-in-progress at the Baycare site; bad debts associated with Radius Hospitals Ltd; and some RPL treasury stock
RPL net assets at 10 Nov 2009	<ul style="list-style-type: none"> \$22.6 million 	<ul style="list-style-type: none"> \$8.5 million
Net asset value per share at 10 Nov 2009	<ul style="list-style-type: none"> \$0.95 per RPL share 	<ul style="list-style-type: none"> \$0.36 per RPL share

Wherever possible (and economic) the interim manager has sought independent opinions from third party valuers to provide as much comfort as possible to the Board and RPL investors. Because RPL on-sold the Waioma business prior to its 31 March 2010 balance date (and therefore an independent opinion was not required for the 2010 audit or any other reason), the interim manager did not solicit an independent valuation on this business (largely for reasons of cost). Consequently this view is more subjective than the other property valuations.

It is also important to note that the net asset backing per share has been based on the situation as it would have been represented in a balance sheet compiled at the time. Consequently it ignores contingent assets such as potential legal claims and counter-claims.