# INDEPENDENT ADVISER'S REPORT

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NOVEMBER 2005

GRANT SAMUEL

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# 1 Terms of the Takeover Offer

## 1.1 Summary of the Offer

On 19 October 2005 Retirement Villages New Zealand Limited (**RVNZ**), a joint venture company owned equally by Australian companies FKP Property Group Limited (**FKP**) and Macquarie Bank Limited (**Macquarie Bank**), announced that it had entered into a pre-bid agreement with Private Health Care (NZ) Limited (**Private Health Care**), Todd Lifecare Limited (**Todd Lifecare**) and certain of their respective shareholding entities, under which RVNZ agreed to acquire Private Health Care's and Todd Lifecare's shareholdings in Metlifecare Limited (**Metlifecare**) for $3.90 per share. Private Health Care and Todd Lifecare own 21.7 million and 30.2 million shares in Metlifecare respectively, together representing 59.45% of Metlifecare's issued capital. Under the terms of the pre-bid agreement, RVNZ is required under the Takeovers Code to make a full takeover offer for all of the outstanding shares in Metlifecare (the **RVNZ Offer**), subject to the satisfaction of certain conditions.

The primary terms and conditions of the RVNZ Offer are:

- cash consideration of $3.90 per ordinary share;
- cash consideration of $2.64 for each option;
- RVNZ receiving acceptances for more than 50% of the voting rights of Metlifecare. This condition has been met as a result of the pre-bid agreement with Private Health Care and Todd Lifecare; and
- the RVNZ Offer contains a set of further conditions considered relatively standard for a takeover made under the rules and regulations of the Takeover Code. These conditions are primarily designed to preserve the current operating and financial profile of Metlifecare while the RVNZ Offer is open. A full list of these conditions is contained in the offer document that has been sent to all Metlifecare shareholders.

On 8 November 2005 RVNZ declared that its takeover offer was unconditional in all respects.

The RVNZ Offer will close on 3 December 2005, unless the offer period is extended.

The RVNZ Offer was the result of a formal tender sale process for the sale of Private Health Care's 24.9% shareholding in Metlifecare that commenced in December 2004. Existing shareholder arrangements between Private Health Care and Todd Lifecare in respect of their Metlifecare shareholdings meant that bidders for the Private Health Care shareholding were aware that they had the ability to purchase both holdings as a result of a successful bid. These arrangements led to the pre-bid agreement between RVNZ, Private Health Care and Todd Lifecare as a prelude to the RVNZ Offer.

As an adjunct arrangement, RVNZ has reached agreement with Mr Cook and Private Health Care under which the latter two parties will provide consultancy services to RVNZ for a minimum annual fee of $300,000 per annum. Mr Cook controls Private Health Care.

## 1.2 Profile of RVNZ

FKP and Macquarie Bank will each contribute a maximum of NZ$111 million of capital to RVNZ to partially fund the acquisition of shares in Metlifecare with the balance debt funded.

RVNZ recently acquired Private Life Care, which owns and operates three retirement villages in Auckland - Hillsborough Heights Village, Hibiscus Coast Village, and Longford Park Village. Private Life Care has a total of 612 retirement units across its three villages.

FKP is an Australian listed company engaged in residential, commercial, industrial and retail property development, construction, the provision of design and project management services, the ownership and management of retirement villages and property funds management. FKP's operations were recently reorganised into two primary divisions: Development and Investment. The

Development division includes all development and construction activities, typified by high investment requirements and non-recurring income. The Investment division includes recurring income activities from retirement village assets and funds management services. In the year to 30 June 2005, FKP reported revenue of A$307 million and had total assets of A$639 million. FKP's market capitalisation as at 11 November 2005 was A$852 million.

Macquarie Bank is a large and diversified provider of investment banking and financial services. The company provides investment, financial market and advisory products and services through its six core operating divisions: Investment Banking, Equity Markets, Treasury and Commodities, Banking and Property, Funds Management and Financial Services. Operations are principally based in Australasia. Select operations are conducted in The Americas, Europe, Asia and South Africa. Revenue in the year to 31 March 2005 was A$3.7 billion. As at 31 March 2005 Macquarie Bank had total assets of A$49.3 billion and funds under management of A$88.9 billion. Market capitalisation as at 11 November 2005 was A$15.7 billion.

In July 2005 the Macquarie Group acquired Eldercare from Abano Healthcare Group Limited for $63.5 million. Eldercare has 14 aged care facilities throughout New Zealand.

## 2 Scope of the Report

### 2.1 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the Companies Amendment Act 1963 and the New Zealand Exchange Listing Rule requirements governing the conduct of listed company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and, on the basis of proper disclosure, are able to make an informed decision as to whether to accept or reject an offer.

The Takeovers Code prescribes the responsibilities and obligations for both RVNZ and Metlifecare as "bidder" and "target" respectively. Metlifecare's response to the RVNZ Offer, known as a "target company statement", must contain the information prescribed in Schedule 2 of the Takeovers Code, and must include an Independent Adviser's Report.

### 2.2 Purpose of the Report

The RVNZ Offer constitutes a full takeover offer under Rule 8 of the Takeovers Code. Accordingly, the Committee of Independent Directors of Metlifecare have engaged Grant Samuel to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the RVNZ Offer to assist Metlifecare shareholders in forming an opinion on the RVNZ Offer. Grant Samuel is independent of Metlifecare and RVNZ and has no involvement with, or interest in, the outcome of the RVNZ Offer.

Grant Samuel has been approved by the Takeovers Panel to prepare the Independent Adviser's Report. The report is for the benefit of the holders of Metlifecare shares (other than Todd Lifecare and Private Health Care and associated persons). The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the RVNZ Offer.

### 2.3 Basis of Assessment

Rule 21 of the Takeovers Code requires the Independent Adviser to assess "the merits of an offer". The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merits", it suggests that "merits" include both positives and negatives in respect of a transaction.

There is mention of the phrase "fair and reasonable" in the compulsory acquisition rules of the Takeovers Code. Where the 90% threshold is reached as a result of a Takeovers Code offer and 50% of the shares not previously held by the offeror have been acquired as a result of the offer, the price for the remaining shares is set at the same price as the offer price. Where the 90% threshold is reached but 50% of the shares not previously held by the offeror have not been acquired as a result of the offer, the compulsory acquisition price is a cash price specified by the dominant owner and certified as "fair and reasonable" by an Independent Adviser. The Takeovers Code provides no guidance as to the definition of "fair and reasonable".

In Australia, the phrase "fair and reasonable" appears in legislation and the ASX Listing Rules as a basis for assessing takeovers and similar transactions. The terms "fair" and "fair and reasonable" are both widely used tests or frameworks for analysing corporate transactions. However, there is very little useful legal or regulatory guidance as to the meaning of these terms. The Australian approach draws a distinction between "fair" and "reasonable" in relation to takeover offers. A fair offer is one that reflects the full market value of a company's businesses and assets. A takeover offer that is in excess of the pre-bid market prices but less than full value may not be "fair" but may be "reasonable" if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the bid price. This is commonly the case in takeover offers where the bidder already controls the target company. In that situation, the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Reasonableness is said to involve an analysis of other factors that a shareholder might consider prior to accepting a takeover offer such as:

- the offeror's existing shareholding if any;
- other significant shareholdings;
- the liquidity of the market for the target company's shares;
- any benefits through achieving the stated level of ownership;
- any special value of the company to the offeror; and
- the likelihood of an alternative offer.

Under the Australian definition a takeover offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair". A fair offer will always be reasonable but a reasonable offer will not necessarily always be fair.

In Grant Samuel's opinion there are two distinct components of the RVNZ Offer:

- the acquisition by RVNZ of Private Health Care's and Todd Lifecare's controlling 59.5% shareholding in Metlifecare, which has already occurred; and
- the RVNZ Offer to the minority shareholders of Metlifecare, which, under the Takeovers Code, is required to be made at the same price.

Grant Samuel has assessed the merits of the RVNZ Offer after taking into consideration the following factors:

- the estimated value range of Metlifecare and the consideration under the RVNZ Offer when compared to the estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Metlifecare shares in the absence of the RVNZ Offer;
- any advantages or disadvantages for Metlifecare shareholders of accepting or rejecting the RVNZ Offer;
- the current trading conditions for Metlifecare;
- the timing and circumstances surrounding the RVNZ Offer;
- the attractions of Metlifecare's businesses; and
- the risks of Metlifecare's businesses.

Grant Samuel's opinion on the merits of the RVNZ Offer is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

## 2.4 Approach to Evaluation

The RVNZ Offer is for all the outstanding shares in Metlifecare and accordingly is a full takeover. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The underlying rationale is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the former takeover provisions of the NZX Listing Rules, a controlling shareholding could have been transferred to another party without a full or partial takeover offer being made to the remaining shareholders. Under the Takeovers Code the acquisition of more than 20% of the voting rights in a "Code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless target company shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders are to be treated equally. In this context, any available control premium is now available to all shareholders under a takeover offer regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

Given that Todd Lifecare and Private Health Care have accepted the RVNZ Offer for their collective 59.5% shareholding in Metlifecare, control of Metlifecare has passed to RVNZ. This is a significant difference to a takeover offer where the collective decision of shareholders determines whether the offeror gains control of the target or not. It does not however invalidate the argument that the offer for the remaining shares should be within or exceed the prorated full underlying valuation range of the company. Grant Samuel has compared the consideration of $3.90 per share to an assessment of the full underlying value of Metlifecare shares. A takeover offer consideration that falls within or exceeds a valuation range estimated on this basis is fair. That estimate was determined by:

- calculating an ungeared value range for Metlifecare's core operations;
- adding/deducting the value of other assets and liabilities; and
- deducting net debt.

The aggregate value of Metlifecare's assets and liabilities should match or exceed the amount that would be realised in an orderly realisation. The value would be likely to exceed the amount that would ultimately be distributed to shareholders to the extent that tax liabilities and any other costs were crystallised in the realisation.

Metlifecare has been valued at fair market value, which is defined as the estimated maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

### 2.5 Sources of Information

The following information on Metlifecare was used and relied upon in preparing this report:

- annual reports of Metlifecare for the years ended 31 December 2002, 2003 and 2004;
- half year report of Metlifecare for the six months ended 30 June 2005;
- recent Board papers, five year strategic plan and business performance reports;
- forecasts for the years ending 31 December 2005 and 2006;
- other confidential reports and working papers prepared by Metlifecare management and their advisers;
- an independent property valuation report dated 30 September 2005 on Metlifecare's retirement village portfolio, prepared by CB Richard Ellis;
- the Information Memorandum published by Private Health Care in connection with the formal sale process for Private Health Care's shareholding in Metlifecare, and information contained in the data room established for the sale process;
- recent brokers' reports on Metlifecare;
- other information on the retirement village, real estate and aged care sectors and publicly listed companies, including annual reports, interim financial results, industry studies, brokers' reports and information regarding the prospective financial performance of those companies; and
- consultancy agreements between RVNZ, Mr Cook and Private Health Care, and an opinion by KPMG on the consultancy agreements.

Grant Samuel has also held discussions with and obtained information from senior management of Metlifecare.

### 2.6 Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by Metlifecare. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Metlifecare. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

An analysis of the merits of a takeover offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Metlifecare. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Metlifecare. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice (except where noted by the company in its annual reports) and in a manner consistent with methods of accounting used in previous years.

An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included a five year strategic plan that contained financial projections of future revenues, expenditures, profits and cash flows of Metlifecare prepared

by the management of Metlifecare. In addition Grant Samuel was provided with a revised forecast for the years ending 31 December 2005 and 2006. Grant Samuel has used these forecasts and projections for the purpose of its analysis. Grant Samuel has assumed that the underlying forecasts and projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such forecasts and projections. It is assumed that the forecasts and projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

Grant Samuel in no way guarantees or otherwise warrants the achievability of the forecasts or projections of future profits and cash flows for Metlifecare in this report. Forecasts and projections are inherently uncertain. Forecasts and projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Metlifecare is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments except as disclosed in the notes to Metlifecare’s financial statements;

- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Metlifecare;

- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and

- there are no material legal proceedings regarding the business, assets or affairs of Metlifecare, other than as publicly disclosed.

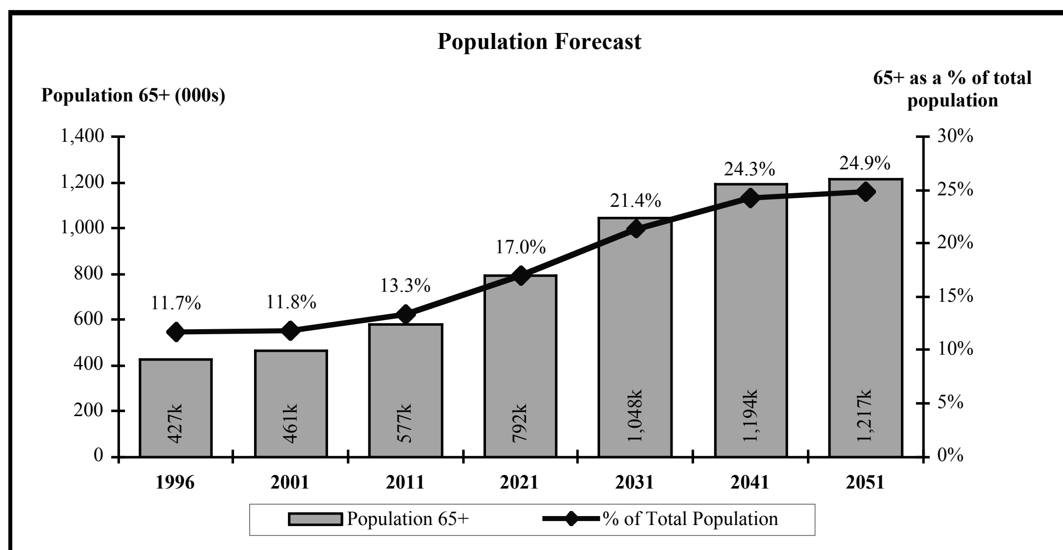
## 3 Retirement Village sector

The key factors influencing the retirement village sector in New Zealand are:

- an increasing proportion of the population in the 65 years and over age group;
- a limited number of operators with the financial capability to build large, modern facilities of sufficient number to achieve critical mass;
- competition for new locations and the development of a number of large new "lifestyle" retirement villages over the last 5 – 10 years; and
- a residential housing boom over the last five years resulting in substantial price increases, shortage of skilled labour and rising construction and development costs.

### 3.1 Ageing population and demand

At present new village developments in New Zealand are keeping pace with increasing demand from a growing number of New Zealanders in the 65 years and over age group. People over the age of 65 years currently represent 12% of the population. This segment of the population is expected to nearly treble to comprise 25% of New Zealand's projected population of 5 million in 2051.




***Source: Metlifecare***

Life expectancy in New Zealand is also increasing. By 2051 average life expectancy is forecast to increase to 82.5 years for males and 86.5 years for females. The estimated average life expectancy in 2001 was 76 years for males and 81 years for females, which compares to 71 years and 77 years respectively in 1986.

The New Zealand retirement village sector is likely to show considerable growth potential based on the growing number of New Zealanders in the 65 years and over age group. Research by The Retirement Villages Association of New Zealand Incorporated (**RVA**) shows that approximately 4.6% of people over 65 in New Zealand live in retirement villages and that the popularity of retirement villages is increasing. Once viewed as a "place of last resort", retirement village operators have invested substantial capital in developing new "lifestyle resort" villages. This strategy has allowed retirement village operators not only to increase prices and generate recurring revenue streams from the provision of more amenities such as recreational facilities but also widened the target market segment.

As the sector matures in New Zealand the proportion of New Zealanders living in retirement villages may increase towards the levels of market penetration witnessed overseas. However, there are significant structural differences between the New Zealand and overseas markets in terms of business models. For many New Zealanders the majority of their wealth is tied up in residential

property. A feature of the New Zealand retirement village market is that retirement village operators generally retain all capital gains from the resale of Licences to Occupy (**LTO**). In Australia, depending on contractual arrangements, a resident can share in capital gains when their retirement unit is on-sold. Enticing a greater proportion of New Zealand superannuants into retirement village accommodation may require changes to existing business models and some sharing of capital gains.

### 3.2 Location

Location is a key factor influencing occupancy levels and prices as well as the level of competition, which generally only arises between villages within close proximity. The main catchment area for a retirement village is estimated to be within a 10 km radius. Associated demographics and number of competing villages in that area therefore affects the performance of the village in terms of growth in prices and occupancy levels. Metlifecare Coastal Villas is located in a desirable coastal location in terms of lifestyle choice however there are a number of competing villages nearby and a comparatively low proportion of the local population in the target age group. Achieving high occupancy levels is dependent on new people moving into the area, a competitive product offering and well managed stock levels.

Location also influences the style of accommodation offered. Metlifecare Remuera is an example of 5 star accommodation targeted at a higher socio-economic market. Passing on construction costs to incoming residents in these areas is also often less challenging than lower cost accommodation. The scarcity of affordable land is a significant barrier to further developments.

There is considerable variation in geographical demand for retirement villages. Canterbury has the largest population of people aged over 65 but there is a different emphasis on retirement village services offered in the South Island compared to the North Island. Retirement village operators in the South Island have tended to focus more on the provision of aged care and nursing home facilities rather than lifestyle.

### 3.3 Market and Competitors

The retirement village sector in New Zealand comprises approximately 330 villages, with a total of 16,706 units. The sector is fragmented. Metlifecare competes with several larger, multi-village operators including Ryman Healthcare, Summerset, Primecare, Vision Senior Living, Private Life Care and a large number of smaller, independent retirement village operators. The larger multi-village operators control an estimated 34% of the market.

**Selection of larger, multi-village operators in New Zealand**

| | Villages (number) | Share of Units | Share of Care | Overview of village portfolio |
|---|---|---|---|---|
| Metlifecare | 13 | 11% | 1% | quality, lifestyle villages that aim to provide the full continuum of care. |
| Ryman Healthcare | 13 | 7% | 3% | greater emphasis on aged care rather than lifestyle villages. |
| Summerset | 8 | 4% | 1% | portfolio includes both lifestyle and aged care villages. |
| Primecare | 5 | 6% | 0% | mix of affordable aged care villages. |
| Vision Senior Living | 5 | 3% | 0% | portfolio of quality, lifestyle villages with its oldest village opening in 1999. All of the villages are at different stages of construction. |
| Private Life Care | 3 | 4% | 0% | two mature villages and one smaller, lifestyle village that was built more recently. |

Ryman Healthcare has a substantial aged care business, which accounts for approximately one third of total revenues by comparison with 11% at Metlifecare. Over the last five years it has diversified away from its government-subsidised high care rest home and hospital facilities by developing a substantial portfolio of retirement villages. Ryman Healthcare retirement village operations are

comparable to and directly compete in some areas with Metlifecare. It has 13 existing villages and three new villages in development.

The type and quality of residence provided by different retirement village operators varies, with operators focussing on different areas of the continuum of aged care which includes independent units (villas and apartments), serviced units and hospital and care facilities. The RVA estimates 47.8% of villages have rest home facilities and 31.2% have hospital care facilities. Nearly 60% of RVA members' villages include a shared community facility/pavilion and the average retirement village facility of a RVA member has:

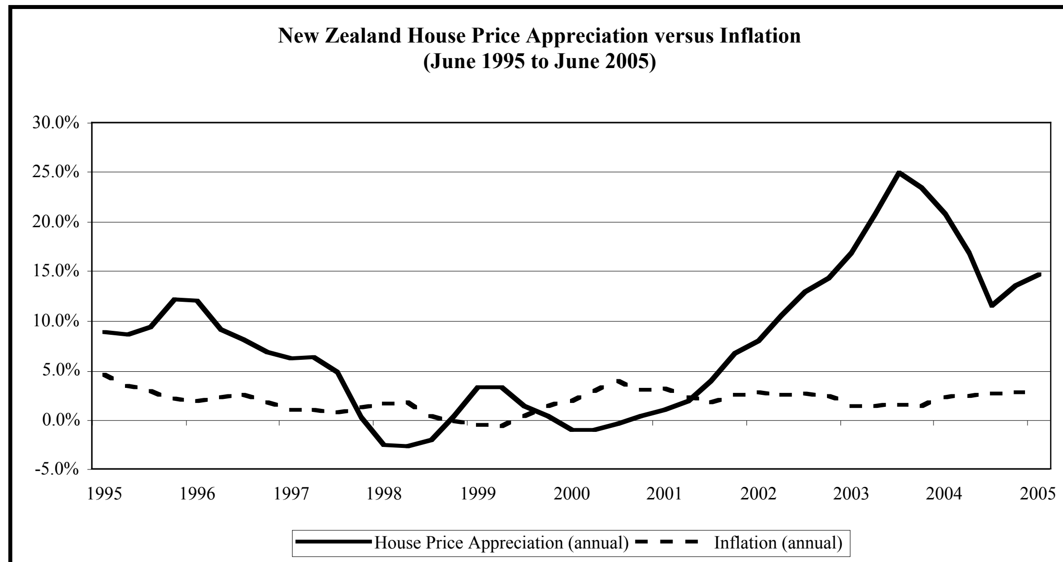
- 45 villas;
- 14 apartments;
- 11 serviced apartments;
- 4 studio units;
- 22 rest home beds; and
- 9-10 hospital beds.

The most common form of residents' tenure at a village is a LTO (58%) followed by unit title (26%), lease (11%) and rental (6%). An occupation license or LTO entitles a resident to occupy their unit for life and a right to use common facilities of the village. An incoming resident purchases the LTO. When the resident departs they receive back the lower of the price they paid or the resale price of the LTO less a predetermined amount (typically 20%-30% of the purchase price), which is paid to the village owner in return for providing village amenities and common facilities.

Of the larger, multi-village operators only Primecare offers departing residents a share of capital gains based on a prepaid fee if the resale price is greater than the departed residents original purchase price.

### 3.4 Residential Housing Market

Movement in market values of LTOs over time are closely correlated to residential housing price movements. Over the last five years the New Zealand housing sector has participated in a large housing boom driven largely by lower cost of capital and greater accessibility to mortgage lending. The chart below shows the historical appreciation in New Zealand house prices[1] versus consumer price inflation over the last ten years:




***Source: Statistics New Zealand, Reserve Bank of New Zealand, Quotable Value Limited.***

High levels of residential property activity have also lead to significant increases in construction costs and shortages of skilled labour, which has impacted on developments both in terms of timing and profitability. More recently, financial contribution levies sought by local authorities have been increasing, particularly in the Auckland region as increasing population density places greater pressure on roads, water and wastewater infrastructure.

The majority of economists do not consider the recent appreciation in house prices sustainable. The current view is that inflation in New Zealand will increase towards the upper end of the Reserve Bank of New Zealand's target band of 1% to 3% over the medium term. The Reserve Bank of New Zealand is actively seeking to discourage investment in residential property and consumer spending in part generated by the wealth effect of higher house prices. The Reserve Bank official cash rate has been increasing during 2005 and is expected to rise again later this year. The impact of past interest rate rises has slowed housing price growth. There is a lag from the time at which the official cash rate is changed to when the full impact is felt in terms of slowing consumer spending. It is therefore difficult to judge at this point to what extent the New Zealand economy will slow down as a result of changing monetary conditions.

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[1] House price appreciation equals percentage change in residential housing stock over prior year, where "housing stock" value includes all private sector residential dwellings, flats, lifestyle blocks and 'home & income' properties but excludes farm and publicly-owned dwellings.

# 4 Profile of Metlifecare

## 4.1 Background and History

Metlifecare was listed on the New Zealand Stock Exchange in July 1994 after a public issue of 15 million ordinary shares at $0.85. The company's origins date back to 1984 and a joint venture between Mr Cook, a business partner and Metropolitan Life Assurance Company of New Zealand Limited, which was established to develop retirement villages and related facilities. Today Metlifecare operates 13 retirement villages, nine associated nursing homes and six hospitals at 13 locations around New Zealand, providing accommodation for more than 2,000 residents.

Metlifecare is one of New Zealand's largest retirement village operators. The company's vision is to be the market leader in the provision of quality lifestyle retirement villages and management's strategic plan focuses on:

- being a retirement village operator that undertakes development in response to market demand in locations with specific attributes;
- pursuing a strategy of branding and product differentiation, improving features, and implementing innovations in the delivery of the service so that the threat of competitive substitution is low; and
- driving value through its business model in key markets – Auckland and Bay of Plenty.

Metlifecare's portfolio development programme aims to deliver lifestyle retirement villages positioned at the premium end of the market with the full continuum of care available. Metlifecare villages generally comprise:

- ***Units*** – most villages offer one, two and three bedroom villas and apartments where residents live independently;
- ***Serviced Apartments*** – serviced apartments and personal suites are designed for more elderly residents who require extra assistance in their day to day life whilst maintaining the independence of their own home; and
- ***Hospital and Rest Home Care*** – Metlifecare operates nine licensed rest homes and six hospitals offering residents 24 hour care. Rest homes and hospitals have a nurse manager and team of trained staff.

Metlifecare's retirement village portfolio as at 30 September 2005 is summarised as follows:

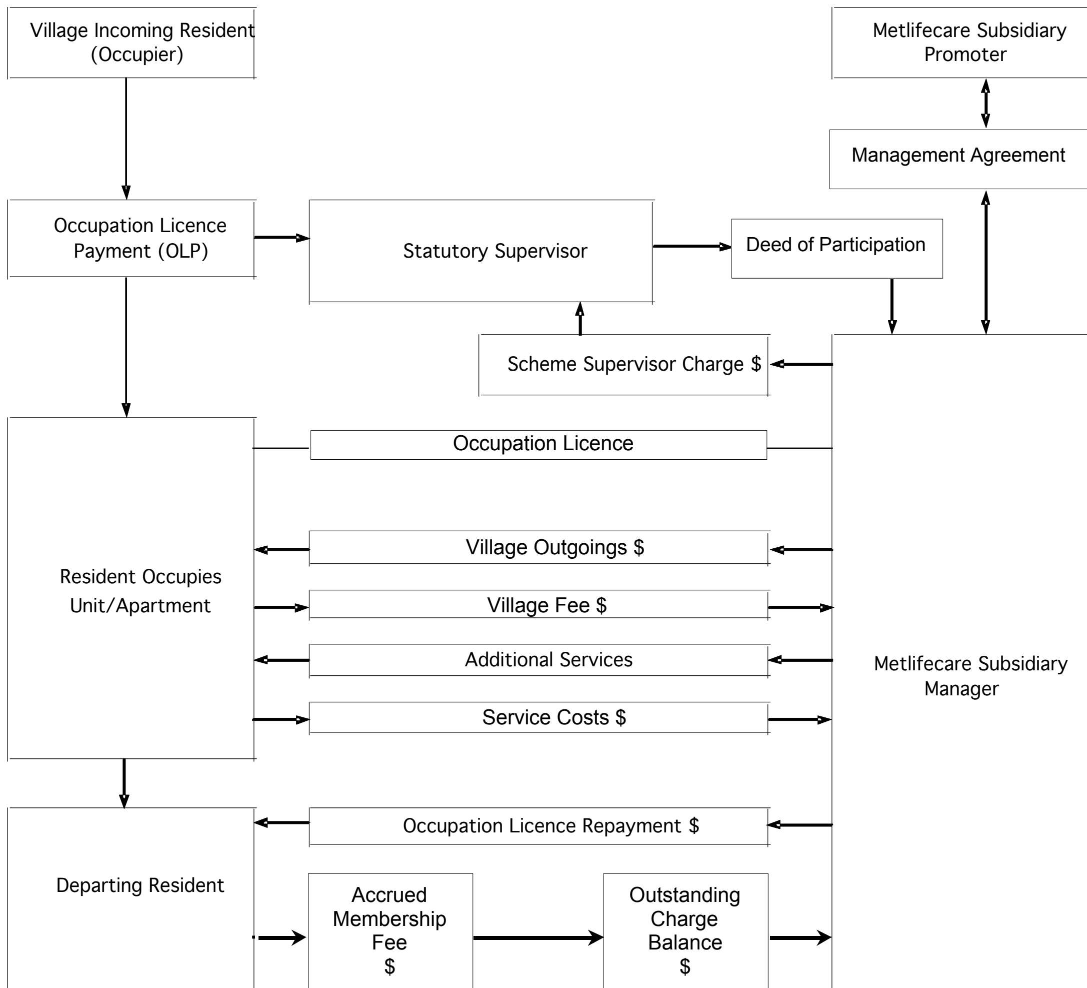
**Metlifecare – Portfolio Profile**

| Location | Villas | Apartments | Nursing Home Beds | Hospital Beds |
|---|---|---|---|---|
| Titirangi (Pinesong) | 100 | 147 | - | - |
| Blockhouse Bay | 46 | 34 | 18 | 27 |
| Remuera | - | 39 | - | - |
| Titirangi (Crestwood) | 121 | 14 | 41 | - |
| Highland Park | 129 | 70 | 41 | - |
| Pakuranga | 69 | 18 | 60 | - |
| Mt Maunganui (Bayswater) | 159 | 56 | - | - |
| Tauranga (Greenwood Park) | 207 | 15 | - | - |
| Mt Maunganui (Somervale) | 83 | 11 | 19 | 21 |
| Palmerston North | 49 | 50 | 18 | 20 |
| Masterton | 48 | 25 | 26 | 16 |
| Paraparaumu (Coastal Villas) | 125 | 41 | 7 | 23 |
| Nelson (Oakwoods) | 92 | 49 | 18 | 30 |
| **Total** | **1,228** | **569** | **248** | **137** |

In addition, Metlifecare has land available within its existing villages on which it could build a further 459 new villas and apartments. In addition plans are being developed for a new 260 apartment village at the recently acquired Takapuna development property.

***Retirement Village Schemes***

Each Metlifecare village operates as a registered retirement village scheme under the Securities Act 1978, as illustrated by the diagram below:




***Source:*** ***CB Richard Ellis***

A Metlifecare subsidiary company is both promoter of the scheme and manager of the village. The scheme promoter is responsible for selling LTOs for units and serviced apartments. The village manager is responsible for the day-to-day management of the village and provides services to residents. A government appointed trustee supervises each Metlifecare retirement village scheme.

Each Metlifecare retirement village offers a personal LTO for a unit or serviced apartment. Payments by residents under a Metlifecare LTO consist of:

- *Occupation Licence Payment* – this is a lump sum payable upfront but refundable to the resident upon termination of the licence and re-licensing of the unit to a third party;

- *Membership Fee* – an amount equivalent to 10% of the Occupation Licence Payment per annum until the earlier of either termination of the contract or the payment of a maximum fee of 30% (three years). This is deducted from the refundable Occupation Licence Payment when the LTO is on sold;

- *Village Fee* – Charge for costs of administration, rates, insurance, maintenance and provision of other services. The Village Fee is determined prior to commencement of the occupation and is fixed with annual increases linked to the Consumer Price Index. A departing resident continues to pay the Village Fee until the earlier date of when the vacated unit has been re-licensed or the six month anniversary of the resident's departure. Should the unit remain

vacant nine months from the date of termination Metlifecare will pay the resident interest on the portion of the moneys repayable to the resident;

- *Service Costs* – Payable by the residents who purchase services;
- *Repair Charges* – Costs incurred by Metlifecare in carrying out maintenance are payable by a resident either directly for internal unit repairs or indirectly as part of the Village Fee in relation to external unit repairs and maintenance; and
- *Utility Charges* – Paid by the resident directly to the supplier or through the Manager.

The LTO fee structure described above is new, having been introduced during 2005 and only fully applies to LTOs for new units built this year or where re-licensing an existing unit has taken place during 2005. As a result there are and will continue to be different fee structures in place depending on whether the LTO was issued in 2005 or if it is an earlier LTO fee structure that was in existence prior to the implementation of the new fee structure at a village. The Village Fees were introduced with effect immediately in all respects except that departed residents under old documentation will continue to pay 50% of their Village Fees beyond the six month anniversary of their departure up until the unit is re-licensed.

Metlifecare operates with a deferred management fee business model, whereby Membership Fees due from residents are accrued whilst a resident stays in the village and are received in cash when the resident leaves. The majority of the LTOs provide for Metlifecare to retain 100% of any capital gain arising on the resale.

***Nursing Homes and Hospital Care facilities***

Following the sale of its last two stand-alone aged care facilities in 2003 all of Metlifecare's nursing homes and hospitals are located at, and form an integral part of, its retirement villages:

| Metlifecare – Number of Care Facility Beds | | | |
|---|---|---|---|
| | **Nursing home beds** | **Hospital beds** | **Total beds** |
| 2005F | 248 | 137 | 385 |
| 2004A | 248 | 137 | 385 |
| 2003A | 235 | 144 | 379 |
| 2002A | 333 | 188 | 521 |

Management view their care facilities as a supplementary amenity to Metlifecare villas and apartments. The strategic plan provides for the development of new care facilities at four retirement villages, where there are currently none. Tighter government funding and increasing operating costs are expected to offset any gains from introducing new care facilities and management are not projecting any substantial improvement in operating performance.

Metlifecare's occupancy levels at the nursing homes and earnings per bed at both nursing homes and hospitals are below industry norms. Occupancy levels at Metlifecare's nursing homes have decreased slightly, averaging 89% for the year to date compared to 91% for 2004. Occupancy levels at Metlifecare's hospitals have increased averaging 98% for the year to date compared to 92% for 2004. Management attribute the higher hospital occupancy to Government policy to support "aging in place" resulting in the growing trend of those admitted to residential care having higher needs. Essentially the Government's policy supports hospital care and higher levels of nursing home care.

## 4.2 Operations

Metlifecare's revenue is derived from operations (70%) and developments (30%). Operations include the resale of LTOs, service fees from units and apartments, fees from nursing homes, private hospitals and apartment care and Amenities Contribution/Membership Fees from residents. Development revenues relate to the sale of occupation licences of newly developed villas and apartments.

| Metlifecare – Revenue Breakdown | | | |
|---|---|---|---|
| | | Revenue Contribution (%) | |
| **Revenue Source** | **Description** | **2004** | **2005F** |
| **Operations** | | | |
| Licence resales | Resale of LTOs for vacated unit LTOs. | 42% | 39% |
| Amenities | Additional value added facilities. | 11% | 11% |
| Care facilities | Nursing home and hospital facilities (24 hr care to residents). | 12% | 11% |
| Village fees plus ancillary and support services fees | Services including household cleaning, meal preparation, nurse care. | 11% | 9% |
| **Developments** | | | |
| Sales | Sale of LTOs for new units. | 24% | 30% |

***Resales***

Resales of LTOs for previously occupied units are the main contributor to total revenue and gross margins. The table below provides a summary of unit resales since 2000:

| Metlifecare – Unit Resales Statistics | | | | |
|---|---|---|---|---|
| | Number of | Average Resale Price | | Revenue |
| **Year end 31 December** | **units** | **($000s)** | **Annual change** | **($millions)** |
| 2006F | 208 | 266 | 6.0% | 55.3 |
| 2005F | 204 | 251 | 3.3% | 51.0 |
| 2004A | 189 | 243 | 17.4% | 45.9 |
| 2003A | 222 | 207 | 8.4% | 46.0 |
| 2002A | 193 | 191 | 9.1% | 36.8 |
| 2001A | 177 | 175 | 4.2% | 31.1 |
| 2000A | 149 | 168 | 20.0% | 25.0 |

The average resale price for the nine months ended 30 September 2005 was approximately $251,000 on 145 unit sales. This represents an increase of 3.3% compared to average selling price for the prior year. Forecast resales by number of units for the year ending 31 December 2005 equates to approximately 11% of all villa and apartment LTOs on issue at 30 September 2005. Management believe annual resales will average in future between 10% - 15% of the total number of available LTOs.

Retirement villages offer an alternative form of residential accommodation to the private dwelling. The price of LTO securities therefore has a correlation with local housing prices. Real Estate Institute of New Zealand statistics show median house prices increased significantly between December 2002 and December 2003, with increases ranging from 19% to 63% in the areas where Metlifecare has retirement villages. This increase in prices flowed through in higher resale prices in the 31 December 2004 financial year. The level of increase in median house prices from December 2003 to December 2004 was significantly lower, ranging from minus 7% to 34% in areas where Metlifecare villages are located and this has had a flow on effect on current year results.

Average sale and resale LTO prices are also heavily influenced by sales mix in terms of village locations, product quality and different types of accommodation. While the timing of new unit LTO sales is dependent largely on completion of construction, resales fluctuate from village to village and are linked to the length of stay of residents or duration of LTOs.

Within the industry the average duration of an LTO for an independent living unit falls in the range of 7 – 9 years. Over the last five years the overall average length of stay by residents who have vacated a Metlifecare village has been less than seven years:

| Metlifecare – Resident Statistics (years) | | | | | |
|---|---|---|---|---|---|
| | Average length of stay of residents who vacated | | | | |
| | **2000** | **2001** | **2002** | **2003** | **2004** |
| Independent living units | 6.2 | 5.5 | 6.3 | 6.7 | 5.9 |
| Serviced apartments | 2.4 | 2.8 | 3.1 | 3.1 | 3.4 |

These historical averages are distorted by the growth in Metlifecare's portfolio of securities from 1,425 LTOs in 2000 to 1,797 LTOs at 30 September 2005. This means that there is a commensurately higher proportion of shorter duration residents at 2005. Residents' length of stay is also characterised by two common traits; either an early exit in the first 1 – 3 years or the resident settles into village accommodation and stays for a lengthier period of time. To some extent the LTO structure acts as a financial constraint on residents' choice of accommodation going forward. Under the current Metlifecare model a resident does not share in the capital growth in the value of the LTO and, after deducting the amenities contribution or Membership Fee, a resident would find it financially more difficult to change accommodation, particularly in a residential property market that has experienced considerable growth in house prices. The average length of stay of residents vacating independent living units at Metlifecare's newer villages[2] has historically been low but has been steadily increasing over time. The average length of stay in independent living units at Metlifecare's older villages has historically tended to fall within the industry norm range of 7 – 9 years.

The average age on entry is significantly higher and therefore the average length of stay is shorter for residents of serviced apartments. Historically serviced apartments have tended to be occupied by an existing resident of the village who has moved to a serviced apartment from an independent living unit. The resident's LTO for the independent living unit is resold and in turn the resident buys an LTO for the serviced apartment. In situations where a resident is changing accommodation within the village Metlifecare does not charge the resident a further Membership Fee.

***Amenities Contributions & Membership Fees***

The Membership Fee of 30% is accrued over the first three years[3] and is deductible from the repayment by Metlifecare to the resident of the Occupation Licence when the unit is sold. The 30% Membership Fee is an aggregated fee that includes an amenities contribution, administration (selling) fees, unit refurbishment costs and resident guarantees. The revenue from amenities contributions increased 16% on the previous year to $11.3 million for the year ended 31 December 2004 ($9.7 million in 2003). This growth is attributable to the increasing scale and value of Metlifecare's assets. The 2005 estimate is $14 million. Amenities contributions are expected to rise over the next five years due to the increasing number of resales as planned new unit developments come on stream.

| Metlifecare – Revenue From Amenities Contributions/ Membership Fees | |
|---|---|
| **Year end 31 December** | **($millions)** |
| 2005F | 14.0 |
| 2004A | 11.3 |
| 2003A | 9.7 |
| 2002A | 8.1 |
| 2001A | 8.1 |
| 2000A | 7.1 |

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[2] Units were first occupied at Bayswater and Coastal Villas in 1996 and at Remuera and Pinesong in 1999. Since the first units were occupied a number of new units have been and continue to be added to these villages.

[3] Metlifecare's previous fee structure still applies for the majority of its existing LTOs, which means an amenities contribution fee of 23%-25% is payable on resale of the LTO and is amortised over the first three-five years. Under Metlifecare's previous fee structure administration fees and unit refurbishment costs are paid directly by the resident at the point of resale.

*Village Fee and Ancillary and Support Services*

The new Village Fee described earlier replaces a previous cost recovery model and will vary from location to location depending on the running costs of each village.

Metlifecare also provides a number of ancillary and support services, which management believe is an important component of supporting the needs and continued independence of residents. These services range from domestic services, such as household cleaning and meal preparation, through to the provision of specialist home nursing care. Revenue generated from ancillary and support services totalled $3.7 million for the year ended 31 December 2004.

## 4.3 Development

Metlifecare developed 74 villas and apartments in 2004 and expects to complete construction of a further 74 units in 2005:

**Metlifecare – Development Sales Statistics**

| Year end 31 December | Number of units | | Average sale price | Sales revenue |
|---|---|---|---|---|
| | Developed | Sold | ($000s) | ($millions) |
| 2006F | 124 | 74 | 388 | 28.7 |
| 2005F | 74 | 77 | 520 | 40.0 |
| 2004A | 107 | 74 | 353 | 26.1 |
| 2003A | 100 | 106 | 274 | 29.0 |
| 2002A | 109 | 111 | 261 | 28.9 |
| 2001A | 62 | 72 | 259 | 18.7 |
| 2000A | 109 | 119 | 259 | 30.8 |

The average sales price of a unit is dependent on the type of property being sold, location and state of the property sector. The average selling price of units for the nine months ended 30 September 2005 was approximately $392,000 on sales of 36 units located primarily at the Bayswater, Coastal Villas and Pinesong villages. Management are forecasting a total of 41 unit sales for the three months ending 31 December 2005, which includes 28 higher value premium apartments at 7 St Vincent Ave, Remuera. The sale of the higher value units at St Vincent Ave largely explains the forecast 47% increase in average selling prices for the current year compared to 2004.

The final stage of development at Metlifecare Remuera is understood to be progressing well. The addition of 42 units, 12 serviced apartments and two care suites to the existing 39 apartments will complete the development for this village. The units are scheduled for completion at the end of 2005 and serviced apartments and care suites completed during the first quarter of 2006.

Metlifecare holds land (i.e. excluding the Takapuna property) within its existing villages for the development of new villas and apartments. Management plan to complete construction of 336 new units and serviced apartments on this land by 31 December 2009 including the 54 units and serviced apartments at Remuera, 113 units and serviced apartments at Pinesong and 62 units and serviced apartments at Coastal Villas.

In November 2004 Metlifecare settled the purchase of a 1.8 hectare site in Takapuna, on Auckland's North Shore, for $12.8 million. Metlifecare has obtained resource consent to build a large lifestyle retirement village at this location. It will comprise 260 luxury apartments and a care facility. The next phase in the development is to obtain building consents and construction contracts. At this time management estimate the Takapuna development will cost in the region of $100 - $110 million to complete. Substantial further planning is required before these estimates can be considered firm.

The forecasts within Management's five year strategic plan do not provide for the acquisition of either existing villages or new development sites.

## 4.4 Financial Performance

The financial performance of Metlifecare for the years ended 31 December 2003 and 2004, and projections for the years ending 31 December 2005 and 2006 are shown below:

| Metlifecare – Financial Performance ($millions) | | | | |
|---|---|---|---|---|
| | Year end 31 December | | | |
| | **2003A** | **2004A** | **2005F** | **2006F** |
| *Operating revenue:* | | | | |
| Unit sales | 29.0 | 26.1 | 40.0 | 28.7 |
| Unit resales | 46.0 | 45.9 | 51.0 | 55.3 |
| Amenities revenue | 9.7 | 11.3 | 14.0 | 19.0 |
| Village operating and other revenue | 25.4 | 25.6 | 27.0 | 29.0 |
| **Total operating revenue** | **110.1** | **108.9** | **132.0** | **132.0** |
| Operating expenses | (92.3) | (87.6) | (106.2) | (106.2) |
| **EBITDA** | **17.8** | **21.3** | **25.8** | **25.8** |
| Depreciation | (2.0) | (1.8) | (1.5) | (1.8) |
| **EBITA** | **15.8** | **19.5** | **24.3** | **24.0** |
| Amortisation of goodwill | (0.1) | (0.1) | (0.1) | - |
| **EBIT** | **15.7** | **19.4** | **24.2** | **24.0** |
| Net interest expense | (1.6) | (1.5) | (2.0) | (2.0) |
| Abnormal or non recurring item | 0.5 | - | - | - |
| Taxation | - | - | - | - |
| Net earnings | 14.6 | 17.9 | 22.2 | 22.0 |
| Minority interest in net earnings | (0.4) | (0.5) | (0.5) | (0.5) |
| **Net profit after tax** | **14.2** | **17.4** | **21.7** | **21.5** |

A = Actual F = Forecast

Results for 2005 in the table above reflect actual earnings for the nine months ended 30 September 2005 and a forecast for the three months ending 31 December 2005. Management are confident given actual results for the year to date and progress on village developments that the company will deliver a net surplus of $21.7 million for the year ending 31 December 2005. The final outcome for the year is dependent upon the completion of sales of new apartments at Metlifecare Remuera. A higher contribution from developments largely explains the forecast increase in earnings in 2005 compared to the prior year.

Management projections show Amenities Contribution/Membership Fees and contribution from resales growing as a result of assumed increases in capital values and implementing the new operating model this year. By contrast, the net contribution from care facilities is expected to decline due primarily to rising operating costs not being matched by increases in revenue.

Management's forecast for the year ending 31 December 2006 reflects the following principal assumptions:

- no material change in the operating environment as a result of unforeseen actions or events that impact on the competitive, macro economic and political environment both domestically and overseas;
- the residential property market softens and capital growth in LTOs reverts to management's long term expectations of 4% per annum growth in Auckland and Bay of Plenty regions and 2% per annum growth elsewhere;
- Metlifecare completes construction and sells LTOs for 74 new units in total at Coastal Villas, Crestwood, Pinesong and Remuera villages and proceeds with the planned development of its Takapuna property. Management have assumed an average selling price for new unit sales in 2006 of $388,000;
- Metlifecare resells 208 LTOs, which represents approximately 11% of all LTOs forecast to be on issue at 31 December 2005, at an average selling price of $266,000. Metlifecare's share of unit refurbishment costs totals $3 million for the year ending 31 December 2006;
- Village Fees, administration and operating costs, with the exception of property rates and insurance, are assumed to increase broadly in line with inflation, which management estimate

will equate to an average of 3% per annum for the year ending 31 December 2006. Property rates and insurance are assumed to increase by 5% next year;

- Occupancy levels at care facilities are assumed to increase to 95% overall (93% in 2005) with new care facilities completed at Remuera and Pinesong; and
- Group administration costs are projected to increase by 7% due to inflation and an allowance for higher depreciation in relation to the Metlifecare's IT systems.

### 4.5 Cash Flow

The actual cash flows of Metlifecare for the years ended 31 December 2003 and 2004, and projected cash flows for the years ending 31 December 2005 and 2006 are summarised below:

| Metlifecare – Cash Flows ($millions) | | | | |
|---|---|---|---|---|
| | Year to 31 December | | | |
| | **2003A** | **2004A** | **2005F** | **2006F** |
| Net surplus | 14.2 | 17.5 | 21.7 | 21.5 |
| Add back development cost of sales | 24.6 | 21.3 | 30.0 | 8.7 |
| Repurchases | (0.7) | (0.7) | (0.5) | (0.5) |
| Non-cash items | 2.7 | 2.4 | 2.7 | 3.0 |
| Movement in working capital | (4.9) | (12.7) | (14.0) | 10.0 |
| **Net cash flow from operations** | **35.8** | **27.8** | **39.9** | **42.7** |
| | | | | |
| Proceeds from sale of assets and properties | 1.0 | - | - | - |
| Proceeds from sale of subsidiaries | 10.5 | - | - | - |
| Purchase of assets and properties | (29.5) | (52.0) | (30.8) | (41.3) |
| **Net cash flow from investing** | **(18.0)** | **(52.0)** | **(30.8)** | **(41.3)** |
| | | | | |
| Draw down of loans | - | 31.1 | - | 4.0 |
| Draw down of shareholder advances | - | 0.1 | - | - |
| Payment of dividends | - | (6.1) | (4.9) | (5.4) |
| Repayment of loans | (17.9) | - | (5.0) | - |
| Repayment of shareholder advances | (0.3) | (0.2) | - | - |
| Issue of shares under ESOP | - | - | 1.0 | - |
| **Net cash flow from financing** | **(18.2)** | **24.9** | **(8.9)** | **(1.4)** |
| | | | | |
| **Net change in cash** | **(0.4)** | **0.8** | **0.2** | **-** |

A = Actual F = Forecast

Management's projected cash flows from operations improve as a result of assumed realisation of capital gains on resales and higher sales values as well as cash from Membership Fees/Amenities Contributions increasing.

Projected capital expenditure for the year ending 31 December 2006 includes $11.2 million on amenity and care facilities at existing villages and $8.2 million in relation to the Takapuna development. The balance relates to new unit developments at existing villages. The Cash flow projections assume management's village development plans are implemented. Currently this is static and the threat of a property market contraction affecting sale prices and development margins is a risk going forward.

## 4.6 Financial Position

The financial position of Metlifecare at 30 June 2005 and forecast position at 31 December 2005 are summarised below:

| Metlifecare – Financial Position ($millions) | | |
|---|---|---|
| **As at** | **30 June 2005A** | **31 December 2005F** |
| *Current assets* | | |
| Accounts receivable and prepayments | 20.7 | 32.0 |
| Inventory* | 40.0 | 28.0 |
| **Total current assets** | **60.7** | **60.0** |
| *Current liabilities* | | |
| Creditors and accruals | (9.4) | (12.0) |
| Refundable occupation licenses | (6.3) | (7.0) |
| Amortising liabilities to residents | (0.4) | (0.4) |
| Other current liabilities | (0.1) | (0.1) |
| **Total current liabilities** | **(16.2)** | **(19.5)** |
| *Non current assets* | | |
| Investment properties | 140.7 | 178.0 |
| Property, plant and equipment | 32.7 | 33.0 |
| Other non-current assets | 44.0 | 50.0 |
| **Total non-current assets** | **217.4** | **261.0** |
| *Non-current liabilities* | | |
| Refundable occupation licenses | (1.7) | (1.7) |
| Amortising liabilities to residents | (0.2) | (0.2) |
| **Total non-current liabilities** | **(1.9)** | **(1.9)** |
| **Net operating assets** | **260.0** | **299.6** |
| *Net borrowings* | | |
| Cash at bank | (0.1) | (0.8) |
| Other borrowings | 4.3 | 4.3 |
| Term borrowings and finance leases | 60.3 | 54.0 |
| **Total net borrowings** | **64.5** | **57.5** |
| *Shareholders funds* | | |
| Parent shareholders' equity | 190.1 | 236.1 |
| Minority interest | 5.4 | 6.0 |
| **Total shareholders' funds** | **195.5** | **242.1** |
| **Total capital employed** | **260.0** | **299.6** |

* Represents units held for sale and resale, and units and properties currently under development.

Net debt will increase as more units are added at Metlifecare's Pinesong village and the Takapuna development takes place. Management project net debt will peak at $140 million prior to the sell down of units at Takapuna.

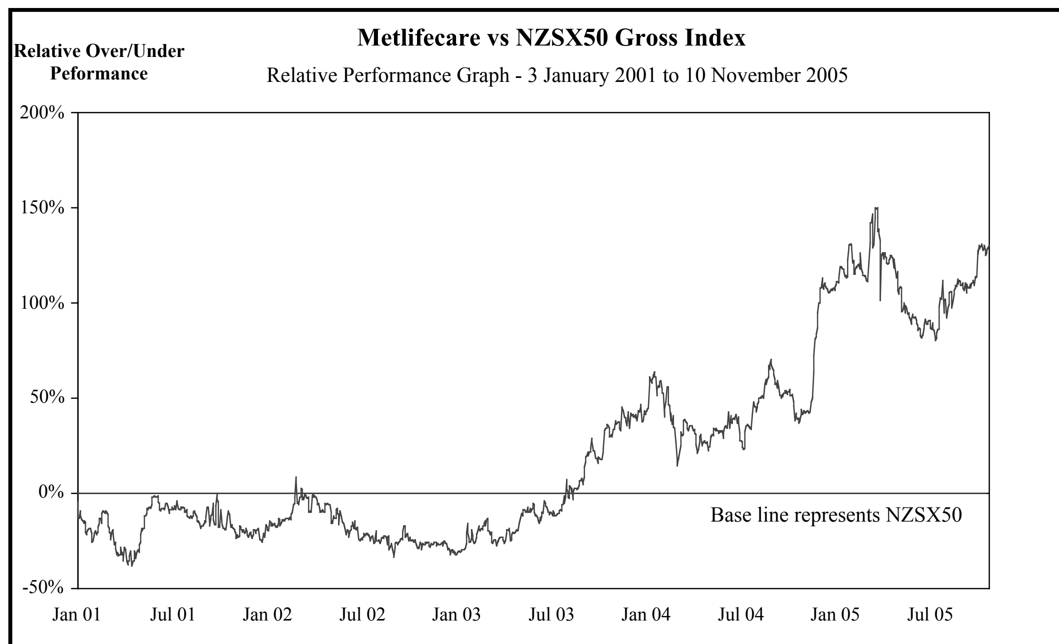
The forecast balance sheet at 31 December 2005 reflects CB Richard Ellis' valuation of investment properties as at 30 September 2005. CB Richard Ellis' valuations of the LTO securities increased by $69 million due principally to an increase in the number of LTOs from 1,764 as at 31 December 2004 to 1,839 LTOs at 30 September 2005 and an overall increase of 9.3% in the average market values of individual LTOs.

## 4.7 Capital Structure and Ownership

The major shareholders as at 15 November 2005 are set out in the table below:

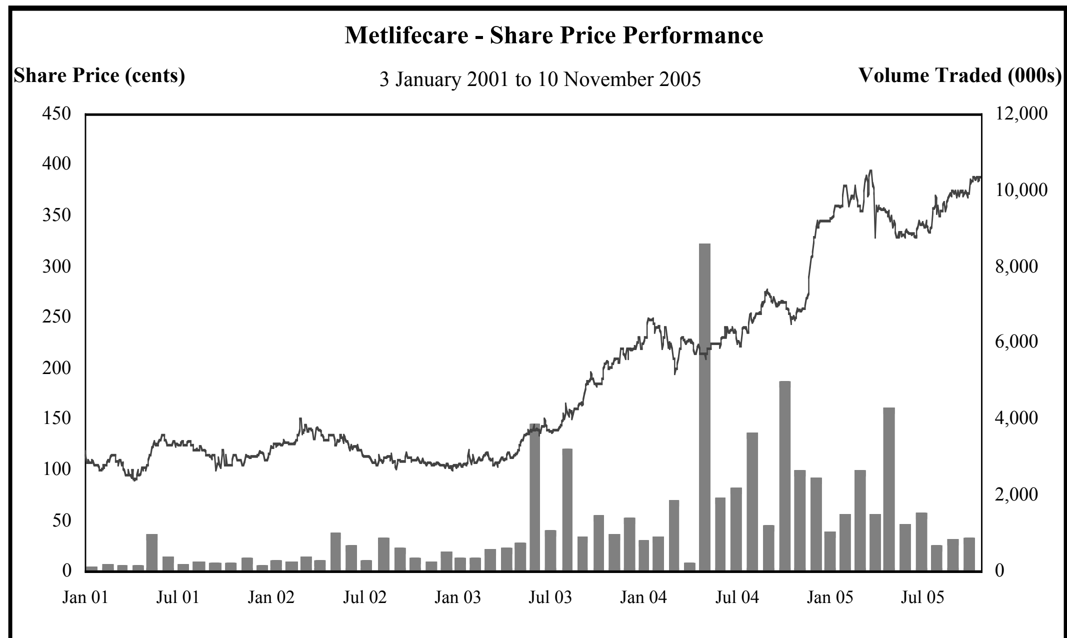
| Metlifecare Limited – Top 20 Shareholders as at 15 November 2005 | | |
|---|---|---|
| | **Shares (000s)** | **% of total** |
| RVNZ | 57,210 | 65.50% |
| Tea Custodians Ltd | 7,946 | 9.10% |
| Citibank Noms (NZ) Ltd | 3,105 | 3.55% |
| NZ Superannuation Fund Noms Ltd | 2,911 | 3.33% |
| ANZ Noms Ltd | 2,026 | 2.32% |
| Resolution Investments Ltd | 1,680 | 1.92% |
| MFL Mutual Fund Ltd | 1,636 | 1.87% |
| Westpac Banking Corp Client Assets | 894 | 1.02% |
| Westpac Noms (NZ) Ltd | 751 | 0.86% |
| Premier Noms Ltd | 545 | 0.62% |
| Asteron Life Ltd | 439 | 0.50% |
| Forbar Custodians Ltd | 346 | 0.40% |
| UBS New Zealand Ltd | 318 | 0.36% |
| M.L. Stiassny, M.P. Stiassny & B.J. Gibson | 250 | 0.29% |
| Apollo Holdings Ltd | 215 | 0.25% |
| NZ Guardian Trust Investment Noms Ltd | 190 | 0.22% |
| Hylton LeGrice & Angela Lindsay | 187 | 0.21% |
| Forbar Custodians Ltd | 142 | 0.16% |
| Angela Lindsay | 140 | 0.16% |
| First NZ Capital Custodians Ltd | 128 | 0.15% |
| **Top 20 shareholders** | **81,058** | **92.80%** |
| Other shareholders | 6,291 | 7.20% |
| | **87,349** | **100.00%** |

Fisher Funds Management Limited controls 11.61% of all Metlifecare shares on issue. The shares are held by various custodians for Fisher Funds Management, namely TEA Custodians Limited, NZ Superannuation Fund Nominees Limited and ASB Nominees Limited.




## 4.8 Share Price Performance

Metlifecare's ordinary shares are traded on the NZSX. The share price performance of Metlifecare since January 2001 is illustrated in the following graphs:




The following should be taken into account when reviewing the above graphs:

- the large volume of shares traded in May 2004 was the result of the on-market sale of 8.1 million shares by interests of Hanover Group Limited on 28 May 2004;
- on 3 December 2004 an article in the National Business Review triggered speculation of a potential takeover offer for Metlifecare. Metlifecare shares closed at $2.90, up 6% from the previous days close of $2.74;
- on 10 December 2004 Cliff Cook announced the appointment of an adviser in relation to Private Health Care's 25% shareholding in Metlifecare;
- on 18 April 2005 Private Health Care offered to sell its 25% shareholding in Metlifecare to Todd Capital at $3.72 per share in accordance with the pre-emptive right provisions of the shareholders agreement between these parties. Metlifecare's share price closed at $3.60 the following day;
- On 17 May 2005 Todd Lifecare declined to buy Private Health Care's shares. Under the shareholders agreement Private Health Care then had 30 days to sell its Metlifecare shares to a third party and at the same time could require Todd Lifecare to sell its Metlifecare shares at the price of $3.72 per share. Metlifecare's share price closed at $3.45 that day;
- on 16 June 2005 Private Health Care announced that the sale process for its 25% shareholding had progressed to due diligence and detailed discussions with a number of parties. These discussions were expected to extend beyond 20 June 2005, the last day Private Health Care could "drag along" Todd Lifecare into a takeover offer. Metlifecare's share price closed at $3.35 on 17 June 2005;
- on 30 September 2005 Private Health Care signed a pre-bid agreement with FKP and Macquarie for the sale of its 25% shareholding in Metlifecare under a proposed full takeover offer at $3.75 per share; and
- on 19 October 2005 Todd Capital, Todd Lifecare and Private Health Care accepted a pre-bid agreement under which RVNZ agreed to make a full takeover offer for Metlifecare at $3.90 per share.

# 5 Valuation of Metlifecare

## 5.1 Valuation Methodology

Grant Samuel has assessed the value of Metlifecare by estimating the fair market value of its core operations and adding other assets and deducting external borrowings and other liabilities. The valuation is on the basis of full value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming potential buyers have full information.

There are four primary methodologies for valuing businesses:

- discounting projected cash flows ("DCF analysis");
- capitalisation of earnings or cash flow;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these methodologies has an application in different circumstances. The primary factor in determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

***Discounted Cash Flows***

DCF analysis has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries including the retirement village sector and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value ("NPV") of projected cash flows. The cash flows are discounted using a discount rate that reflects the risks associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and the valuer generally places great reliance on medium to long term projections prepared by management. In addition, even where cash flow forecasts are available for up to, say, ten years, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes a critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). NPV outcomes are typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. Notwithstanding these limitations, DCF analyses are commonly used in valuing industrial companies and can play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance that need to be made.

***Capitalisation of Earnings***

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between EBITDA, EBITA, or EBIT is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult.

***Industry Rules of Thumb***

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a "cross check" in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In any event, it must be recognised that rules of thumb are usually relatively crude and prone to misinterpretation and are not appropriate in this instance as a primary valuation tool.

***Realisation of Assets***

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

***Preferred Approach***

Grant Samuel has placed primary reliance on DCF analysis to determine a value for Metlifecare. DCF analysis is considered the most appropriate methodology in this instance as it enables the valuer to explicitly model Metlifecare's development plans, occupancy levels, growth in sale prices and duration of LTOs and utilisation of tax losses. Multiples implied by the DCF valuation have then been compared with the capitalisation multiples derived from an analysis of comparable listed companies and where possible those derived from transaction evidence.

## 5.2 Valuation Summary

Grant Samuel has estimated the equity value of Metlifecare at 30 September 2005 in the range of $317 million to $363 million or $3.63 to $4.15 per share. This valuation is set out in the following table:

| Metlifecare – Summary of Value ($million) | | |
|---|---|---|
| | Value Range | |
| | Low | High |
| **Enterprise value** | **385** | **431** |
| Net debt | (66) | (66) |
| Other assets and liabilities | (2) | (2) |
| **Equity value** | **317** | **363** |
| Number of shares outstanding (million) | 87.4 | 87.4 |
| **Equity value per share ($)** | **$3.63** | **$4.15** |

Grant Samuel calculated the enterprise value of Metlifecare by applying post tax, nominal discount rates of 9.3% and 10.0% to forecast Cash flows derived from a single "Base Case" set of assumptions (refer Section 4.3). DCF analysis is heavily dependent on the assumptions adopted and the DCF outcomes are typically sensitive to small changes in these assumptions. In the case of

Metlifecare, the wide range of DCF outcomes (refer section 5.4) resulting from relatively minor changes in assumed growth rates and the average duration of LTOs needs to be considered when evaluating the RVNZ Offer.

Grant Samuel believes that the valuation takes into account the value of Metlifecare's property development potential. The Takapuna development is very large and has a number of significant risks. While Metlifecare has a track record in development of retirement villages from greenfields, the size of the development (i.e. total development costs currently estimated by management to be in the range of $100 million to $110 million) and length of time expected to complete the development need to be taken into consideration. Despite recent significant increases in construction costs and local body levies Metlifecare's management remain confident that there is a substantial development margin to be realised from the Takapuna development.

Net debt represents actual debt, finance lease liabilities, cash and cash equivalents as at 30 September 2005. Other assets and liabilities comprise:

- *loans and advances* – Metlifecare has made loans and advances to residents of $2.4 million as at 30 September 2005. The loans and advances are secured by a right of set off in respect of amounts payable to residents pursuant to the terms of LTOs; and
- *Calan Healthcare loan* – a $4.3 million borrowing is secured by way of mortgage over Metlifecare's Takapuna property and is repayable at the earlier date of November 2008 or pro rata sale of the units of the development. Interest is payable on the loan at a rate of 6.5% per annum. Given the current timetable for the development at Takapuna it is expected this loan will fall due for repayment in full in November 2008.

Management have advised that Metlifecare has no material contingent liabilities as at 30 September 2005.

### 5.3 Discounted Cash Flow

Grant Samuel has developed a financial model that forecasts cash flows from LTO securities for all villages for several duration cycles. The model uses as a starting point the actual resident status at 30 September 2005, which was provided by Metlifecare. Grant Samuel has then applied the following "Base Case" assumptions:

- current selling values for each LTO security determined by CB Richard Ellis as at 30 September 2005. CB Richard Ellis valued the individual units and serviced apartments based on an assessment of prices achievable in the current market for standard Metlifecare documentation (i.e. the new LTO structure introduced this year). CB Richard Ellis adopted primarily the sales comparison approach, having been provided with and analysed LTO transactions that have occurred within the individual villages and making adjustments where necessary to reflect individual characteristics of each unit or serviced apartment (e.g. location within village, design, size, outlook, deck or balcony etc);
- Grant Samuel applied a long run compound average nominal growth rate of 3.5% per annum with effect from 1 January 2007;
- an average LTO duration of 8 years for independent living units and 4 years for serviced apartments. Duration may vary considerably at any one point in time from village to village and by security. Grant Samuel considers that over the long run the duration assumptions are reasonable given the myriad of factors influencing the length of stay of a resident, such as lengthening life expectancy and a maturing portfolio of LTOs;
- an average occupancy level of 98% across the portfolio of villages. New Zealand's aging population, comparatively low levels of retirement village accommodation and length of time needed to develop new villages is expected to support high occupancy levels at attractive and well maintained villages. Affordability is also a key factor. Grant Samuel believes the assumed high occupancy level is consistent with the long run average growth rate;

- Grant Samuel has adopted management's current five year strategic plan in relation to village development:

| Metlifecare – Village Development Programme | | | | | |
|---|---|---|---|---|---|
| | **2006** | **2007** | **2008** | **2009** | **2010** |
| Villas | 3 | - | 13 | 2 | - |
| Apartments | 73 | 70 | 20 | 109 | 92 |
| Serviced Apartments | 48 | 18 | 12 | 19 | - |
| **Total** | **124** | **88** | **45** | **130** | **92** |

  These figures include the Takapuna development, where site excavation is now expected to start late in 2006;

- Metlifecare's contribution to selling and refurbishment costs have been modelled to reflect a transition over time to the new 30% Membership Fee;
- Grant Samuel adopted management's five year strategic plan cash flow forecasts for Metlifecare's care facilities and other village operations. The addition of new care facilities is planned for Remuera, Bayswater, Pinesong and Greenwood Park at a total cost of $4 million over the next three years;
- group administration currently costs of approximately $5.5 million to $6 million per annum. Grant Samuel adopted management's five year strategic plan cash flow forecasts for group administration costs, which broadly assume a continuation of the existing cost structure;
- taxation expense has been modelled explicitly based on a company tax rate of 33% per annum. Metlifecare pays tax on the amenities contribution or Membership Fee, which is accrued over the first 3 to 5 years of the life of the LTO. As at 31 October 2004 Metlifecare had unrecognised tax losses carried forward of $92.7 million. The change in ownership that has already taken place as a result of the sale of the Todd Lifecare and Private Health Care shareholding has resulted in these tax losses being forfeited. Metlifecare will generate future deductions from the next resale of specific LTOs, under private binding rulings from IRD, which will give rise to new tax losses going forward. Grant Samuel has assumed these tax losses are fully utilised through offset against future income tax expense.

### 5.4 Sensitivity Analysis

The actual future performance of Metlifecare will be positively or negatively impacted by a number of factors including, but not limited to:

- changes in demand and supply (e.g. as the demographics within a village catchment area change or with the introduction of a new village);
- changes in residential property markets in general and in the retirement village sector that may, for example, give rise to changes to Metlifecare's LTO fee structure (e.g. more equitable sharing between village operator and residents of financial benefits and risks of changes in value of the LTO over time); and
- further improvements in both health care and standards of living that result in lengthening life expectancy.

These factors influence the key drivers of value for Metlifecare:

- length of stay or duration of LTOs;
- growth in value of LTOs; and
- village occupancy and development.

Grant Samuel has modelled in isolation a range of different assumptions to illustrate the sensitivity of the value ascribed to Metlifecare to changes in the Base Case assumptions:

| Metlifecare – Sensitivity Analysis | | |
|---|---|---|
| | Value range | |
| | **Low** | **High** |
| **Base Case** | **$3.63** | **$4.15** |
| *Long-run average growth in LTO prices:* | | |
| 4.0% per annum | $4.17 | $4.81 |
| 3.0% per annum | $3.15 | $3.59 |
| *Duration:* | | |
| Plus 1 year | $3.12 | $3.59 |
| Minus 1 year | $4.06 | $4.60 |
| *Long-run average occupancy levels:* | | |
| 99% | $3.72 | $4.25 |
| 97% | $3.54 | $4.05 |

No opinion is expressed as to the probability of the Base Case occurring or whether different market conditions may arise. In addition the sensitivity analysis does not show all possible variations to the Base Case as many of the assumptions are interrelated. The sensitivity table has been included to illustrate the degree of sensitivity of DCF analysis to changes in the Base Case and in particular to different growth rate and duration assumptions.

## 5.5 Comparison With Market Evidence

Grant Samuel's valuation of Metlifecare implies the following capitalisation multiples:

| Metlifecare – Multiples Implied by Valuation | | | |
|---|---|---|---|
| | | **Low** | **High** |
| Enterprise Value | | 385 | 431 |
| EBITDA Multiples | - 2004 Actual | 18.1 | 20.2 |
| | - 2005 Forecast | 14.9 | 16.7 |
| EBITA Multiples | - 2004 Actual | 13.3 | 14.8 |
| | - 2005 Forecast | 9.2 | 10.3 |
| **Ungeared NTA at 30 September 2005** | | **1.5** | **1.6** |

The multiples above have been compared to sharemarket ratings of a selection of comparable companies (refer Appendix A) and multiples inferred from recent transaction evidence involving retirement village and aged care assets (refer Appendix B). In Grant Samuel's opinion the multiples implied by the valuation are reasonable having regard to the specific attributes of Metlifecare, its portfolio of retirement villages, development properties and existing LTO structures.

## 6 Evaluation of the Merits of the RVNZ Offer

### 6.1 The RVNZ Offer is Fair

**In Grant Samuel's opinion the full underlying value of Metlifecare shares is in the range of \$3.63 to \$4.15 per share. The value is for 100% of Metlifecare and includes a premium for control. Under a full takeover offer RVNZ should pay a price equivalent to the full underlying value to the minority shareholders despite already owning a controlling shareholding in the company. The reasons for this opinion are set out in Section 2.4 of this report. As the RVNZ Offer of \$3.90 per share falls within Grant Samuel's value range, it is fair.**

In the three months prior to December 2004 Metlifecare shares traded at prices in the range \$2.45 - \$2.78. In December 2004 market rumours of a potential takeover emerged and on 10 December 2004, the day Private Health Care announced it had appointed an adviser to assist with the review of strategic options, Metlifecare's share price closed at \$3.15. It was widely recognised at the time that if Private Health Care sold its 25% stake in Metlifecare, it would trigger a full takeover offer. Metlifecare continued to keep the market informed of progress in relation to the Private Health Care sale process and its shares consistently traded at prices above \$3.15 throughout 2005.

In Grant Samuel's opinion, Metlifecare's recent historical share price has reflected to varying degrees some takeover premium given publicity of the Private Health Care sale process. While the RVNZ Offer of \$3.90 represents only a 4% premium to the closing price of \$3.75 on the day prior to the announcement of the pre-bid agreement, it represents a premium of 42% to Metlifecare's closing share price on 2 December 2004. A premium for control in this range is consistent with the premiums for control observed in other successful takeovers of other listed companies in New Zealand and Australia.

### 6.2 Other Merits of the RVNZ Offer

In assessing the merits of the RVNZ Offer Grant Samuel considered the following factors:

- Private Health Care undertook a formal sale process for its shareholding in Metlifecare. Prospective purchasers were sought and provided with a confidential information memorandum. Selected bidders were then invited to undertake due diligence, site visits and interview Metlifecare senior management. Interested parties were also advised that a successful bid for Private Health Care's shareholding in Metlifecare provided the ability to deliver a 59.5% shareholding in the company under the provisions of a shareholders' agreement between Private Health Care and Todd Lifecare. The resulting RVNZ Offer was an outcome of this sale process and arms length negotiations between fully informed buyers and sellers;

- RVNZ is a joint venture company owned by Macquarie and FKP that prior to the acquisition of the interest in Metlifecare held a small investment in the retirement village sector. Metlifecare currently has a caretaker CEO and in FKP, RVNZ has access to considerable experience and expertise in the retirement village sector in Australia. RVNZ's strategy for Metlifecare is not known and the extent to which changes will take place will only be evident with time;

- the acquisition of a majority interest in Metlifecare gives RVNZ control over a large portfolio of retirement villages from which to pursue further retirement village developments and/or begin to effect consolidation within the sector, should it choose to do so. The development of large scale retirement villages is a lengthy and capital intensive process, which requires substantial financial capacity. In addition to acquiring a large portfolio of retirement villages, Metlifecare offers RVNZ access to recurring income streams from which it can service a higher level of debt, a well established brand in New Zealand and local operational and property development capability. Given the current outlook for strong demand for retirement village accommodation and current low levels of gearing Metlifecare is a sound vehicle for further portfolio development;

- it is unlikely RVNZ will choose to increase its current offer. If RVNZ were to increase its current offer the increased price will be available to all shareholders, including Private Life

Care and Todd Lifecare, even though they have already accepted a price of $3.90 per share. Although the acquisition of 100% is likely to be RVNZ's preferred outcome there is no evidence that RVNZ must obtain 100% of Metlifecare. RVNZ may be content to leave Metlifecare as a listed company under its control. In any event, even if it did want 100%, RVNZ may be content to "creep" towards the 90% threshold over time by buying a further 5% per annum as permitted by the Takeovers Code commencing 12 months after the expiry of this offer or by making a subsequent takeover offer;

- RVNZ's current 65.5% shareholding in Metlifecare now creates an impediment to an alternative offer. Under the Takeovers Code any offer to acquire a controlling shareholding must be made to all shareholders unless the shareholders not associated with the major shareholder approve otherwise by ordinary resolution. An alternative takeover offer would require RVNZ to sell into that offer to be successful. This is a highly unlikely prospect in the short term given that RVNZ has stated its intention to be a long term strategic shareholder of Metlifecare and has indicated its willingness to acquire 100% of Metlifecare by making its current takeover offer;

- RVNZ already controls Metlifecare by virtue of its existing 65.5% shareholding in the company. If RVNZ achieves acceptances of less than 90% then Metlifecare will remain a listed company controlled by RVNZ. In these circumstances:

  - RVNZ has declared its offer unconditional and will acquire any shares from Metlifecare shareholders that have accepted the RVNZ Offer. The Target Company Statement states that directors intend to accept the RVNZ Offer. Messrs Fitzsimmons, LeGrice and Stiassny and associates currently hold approximately 2.1 million shares, which represents 2.4% of all Metlifecare shares on issue. If RVNZ acquires more than a 65.5% shareholding in Metlifecare the liquidity of Metlifecare shares will be adversely affected as the current size of the total public pool of shareholders will reduce further As at 15 November 2005 Metlifecare had a limited free float of only 30.1 million shares, approximately 5 million shares less than before the RVNZ Offer was made;

  - RVNZ will have the opportunity to acquire a further 5% each year using the creep provisions of the Takeover Code. In the event that a 90% shareholding is reached the compulsory acquisition provisions would then apply. This would enable RVNZ to be certain of acquiring 100% but not certain as to the price as only a comparatively small number of shareholders could object to the price being offered and have the acquisition price determined by a third party. The course being followed with the RVNZ Offer provides RVNZ with greater certainty as to its total cost; and

  - depending on RVNZ's level of shareholding under the RVNZ Offer, there could be the prospect of a subsequent "mop up" bid at a later date. Such bids can be at a significant premium to the prevailing market price. However there is no certainty that such a bid would occur. Unless a revised or eventual "mop up" bid is anticipated by the market Metlifecare shares are likely to subsequently trade at levels below the RVNZ Offer of $3.90 per share when the RVNZ Offer closes.

- if, as a result of the RVNZ Offer, RVNZ achieves the 90% of the total voting rights threshold it can move to compulsorily acquire the remaining outstanding shares at the same price as the RVNZ Offer price. The next ten largest Metlifecare shareholders control approximately 25% of all Metlifecare shares on issue and if they elect to accept the RVNZ Offer RVNZ will reach the 90% threshold. RVNZ will then move to compulsory acquisition at the same price. In these circumstances minority shareholders are left without any opportunity to object to the terms of the RVNZ Offer. The support or otherwise of the next ten largest shareholders, and in particular Fisher Funds Management Limited who controls 11.61% of all Metlifecare shares on issue, will therefore be instrumental in determining whether RVNZ achieves the 90% compulsory acquisition threshold;

- as with any equity investment there are specific risks and potential benefits that should be taken into consideration:

  - the past decade has seen significant changes occur in the retirement village sector, including some regulatory reform, the introduction of new LTO structures, village

amenity improvements and branding, tax deductibility of LTO payments and substantial investment in new retirement villages;

- Metlifecare has one of the largest portfolios of villas and apartments in New Zealand and is well placed to participate in further sector consolidation and growth. The continued development of new units means sales must be achieved in a timely manner to ensure LTO stocks and debt levels do not increase significantly. To date Metlifecare has achieved adequate levels of pre-sales before commencing any development. Any change in this approach could impact on near term cash flows;
- the key value drivers for Metlifecare today are growth in the resale value of LTOs and realising in cash the amenities contribution or Membership Fee at the point of resale. Metlifecare recently changed its LTO structure moving to a Membership Fee of 30% that now also covers future refurbishment and LTO selling costs. The transition to this new structure will take time as the majority of LTOs remain under the old model. Any future changes to the LTO structure (e.g. an increase in the Membership Fee percentage or sharing of capital gains from the resale of LTOs) will potentially have a material impact on the value of Metlifecare;
- the Metlifecare portfolio is a mix of old and newer retirement villages. The size and spread of duration of LTO securities within Metlifecare's portfolio means it has established a sustainable level of resales in the range of 10-15% of the value of LTO securities per annum;
- while the actual timing may differ from what has been assumed in management's current projections, it is reasonable to assume that Metlifecare will complete the development of its existing portfolio of villages in accordance with the village development plans that are in place. The exception is Takapuna where considerably more work is required before any firm development plan is implemented. Unlike the other villages there is also no transaction evidence to support sales price assumptions for new LTOs at Takapuna. The outcome of this development therefore remains highly uncertain;
- Metlifecare's Takapuna property has the potential to be developed into a valuable investment with significant recurring revenue streams. However, the development phase is expected to extend over a number of years. One of RVNZ's motives for making the acquisition may be that it wishes to secure control of this substantial development and this may encourage RVNZ to seek 100% ownership of Metlifecare. In Grant Samuel's opinion with 65.5% ownership RVNZ already has control of Metlifecare. The RVNZ Offer fully reflects the value today of all Metlifecare's development properties having regard to resource consents that have been obtained and the risks associated with these developments;
- Metlifecare may not be able to realise value from its Takapuna property as quickly as anticipated. The current development plan for the Takapuna property provides for substantial earthworks to accommodate a two level underground car park commencing no earlier than the end of 2006. Missing the site earthworks window may increase costs and subsequent peak debt levels. External factors such as weaker market conditions during the development period from 2006 to 2009 may alleviate cost pressure but will also negatively impact on initial sales value of new LTOs if these conditions persist for an extended period;
- Metlifecare's aged care business performs poorly in comparison to other larger, specialised care facility operators and are offered primarily as an extension of the amenity services available within the villages rather than as a standalone business. There is potential for improvement and there may be scope to create value from a closer association with a large specialist aged care provider such as Macquarie Group's recently acquired Eldercare; and

▪ acceptance of the RVNZ Offer will realise cash for shareholders. For those shareholders wishing to have an equity investment in the retirement village sector there is only one directly comparable listed company on the NZX. Ryman Healthcare is similar to Metlifecare in terms of portfolio size and current focus on retirement village developments. It also has its own unique characteristics with a greater presence in the aged care sector, a different LTO fee structure and greater proportion of its villages located in the South Island and lower North

Island compared to Metlifecare, whose villages are concentrated in Auckland and the Bay of Plenty. An investment in shares in another operator such as Ryman Healthcare may not necessarily give an investor the same risk return profile as Metlifecare.

### 6.3 Share Options

The consideration offered of $2.64 per share option equates to the intrinsic value of the options. That is the difference between the RVNZ Offer price for an ordinary Metlifecare share of $3.90 and the exercise price of the options of $1.26 per share. As the RVNZ Offer price is fair and the option holder is being offered the equivalent price to participate in the takeover offer then the consideration offered for the options is also fair.

The Black Scholes model is a widely used technique for valuing traded share options and is appropriate for valuing options that cannot be exercised prior to maturity. However there are limitations with the Black Scholes model because it does not explicitly allow for characteristics such as restrictions on transferability of the options, vesting periods, early exercise periods and threshold prices that are common to employee share option schemes. As a result a number of assumptions have to be made, which can result in a wide range of valuation outcomes. Grant Samuel has assessed the theoretical value of the Metlifecare options using both the Black Scholes model and Binomial Tree valuation methodologies. The theoretical value ranges assessed by Grant Samuel for the outstanding options were significantly less than the consideration offered of $2.64 per option.

The option holder is understood to have accepted the RVNZ Offer.

### 6.4 Consultancy Agreement

Grant Samuel is satisfied that the consultancy agreement between RVNZ and Mr Cook and Private Health Care does not constitute additional consideration being paid to Mr Cook. Accordingly, Grant Samuel has concluded that the same terms and consideration is being offered to all security holders.

Mr Cook had an existing consultancy agreement with Metlifecare, which terminated in November 2004. Grant Samuel understands that RVNZ wishes for this arrangement to re-commence and the terms of the new agreement are broadly similar to those of the old agreement. Grant Samuel has been advised that the agreement was negotiated on an arms length basis and at RVNZ's instigation. Appendix C has a summary of material differences of the two agreements.

### 6.5 Acceptance or Rejection of the RVNZ Offer

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

## 7 Qualifications, Declarations and Consents

### 7.1 Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally), property advisory services and manages property development funds. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 325 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA, Peter Jackson, BCom, CA, John Mandeno, BCom, Simon Cotter, BCom, MAppFin, Asia, Damien Smith, BA(Hons), MBA, and Rory Burdon, BCom(Hons). Each has a number of years experience in relevant corporate advisory matters.

### 7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits and fairness of the RVNZ Offer. Grant Samuel expressly disclaims any liability to any Metlifecare shareholder that relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by Metlifecare and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

### 7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Metlifecare or RVNZ that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the RVNZ Offer. Grant Samuel had no part in the formulation of the RVNZ Offer. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the RVNZ Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

### 7.4 Information

Grant Samuel has not obtained all information that it believes is desirable for the purposes of preparing this report. A financial model prepared by an external consultant based on information provided by the company was made available to prospective buyers by Private Health Care. Grant Samuel requested, but was not given, access to this financial model. Grant Samuel also requested that the independent directors of Metlifecare obtain an independent property valuation of Metlifecare's Takapuna property. The independent directors were not satisfied that a separate property valuation was required and have confirmed to Grant Samuel that in their opinion all information which is or should have been known to any director of Metlifecare and made available to the directors has been provided to Grant Samuel.

## 7.5 Declarations

Metlifecare has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Metlifecare has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Metlifecare are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the independent directors and executive management of Metlifecare. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

## 7.6 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to Metlifecare shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

**GRANT SAMUEL & ASSOCIATES LIMITED**
15 November 2005

Grant Samuel + Associates

## Appendix A

### Selected Comparable Companies

An analysis of sharemarket ratings and multiples for selected companies with operations similar to those of Metlifecare is set out below. The multiples shown are based on sharemarket prices as at 1 November 2005 and do not reflect a premium for control.

| Sharemarket Ratings of Selected Comparable Companies | | | | | | |
|---|---|---|---|---|---|---|
| | Market | EBITDA Multiple[2] | | Cash flow Multiple[3] | | NTA Multiple[4] |
| Company | Cap (m)[1] | Historical | Forecast | Historical | Forecast | (Ungeared) |
| ***New Zealand*** | | | | | | |
| Ryman Healthcare | NZ$475 | 18.3 | 15.2 | 9.1 | na | 2.1 |
| ***Australia*** | | | | | | |
| Primelife | A$153 | 18.5 | na | nm | na | 1.2 |
| DCA Group | A$1,989 | 11.4 | 10.7 | 11.5 | 12.6 | nm |
| FKP Property | A$827 | 11.3 | 9.2 | 16.5 | 9.9 | 2.0 |
| Aevum | A$125 | 22.6 | na | 12.8 | na | 1.0 |
| ***US*** | | | | | | |
| American Retirement | US$602 | 16.1 | 12.1 | 13.8 | na | 2.3 |
| Sunrise Senior Living | US$1,028 | 13.8 | 10.9 | 9.5 | na | 1.5 |
| Retirement Residences | CAD610 | 12.7 | na | 12.5 | na | 1.0 |

1 Total market capitalisation including, where relevant, preference share capital, convertible securities and unexercised options.
2 Gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before interest, tax, depreciation, amortisation and abnormal items.
3 Gross capitalisation divided by operating Cash flow before tax and net interest.
4 Gross capitalisation divided by ungeared net tangible assets.

#### *Ryman Healthcare*

Ryman Healthcare Limited (**Ryman**) develops and operates retirement villages, rest homes and hospitals for the elderly within New Zealand. Complexes and hospitals are located in Invercargill, Dunedin, Christchurch, Wellington, Lower Hutt, Napier, Hamilton and Auckland. Additional complexes are currently being developed in Auckland, Wanganui and Christchurch. As at 31 March 2005 Ryman had 375 hospital beds, 702 rest home beds and 1,203 retirement village units. The company employs over 1,200 staff and provides care for over 2,500 residents. Revenue in the last financial year was $121.2 million.

#### *Primelife*

Primelife Corporation Limited (**Primelife**) is the largest listed retirement village operator in Australia. Primelife owns or manages 38 retirement villages and 18 and aged care facilities in Australia and New Zealand with a further 14 projects currently under construction. Only two of the existing retirement villages and one aged care facility are company owned, with the rest either leased or solely managed. The company is understood to hold 18% of the self-funded senior living market in Australia. In October 2005 Primelife established the PrimeLiving Trust, an unlisted trust specializing in investment in retirement villages. The trust has gross assets of A$250 million and is jointly owned by Primelife and Australian listed investment companies Babcock & Brown Limited and MFS Limited. Primelife is contracted to manage the operating assets of the trust.

#### *DCA*

DCA Group Limited (**DCA**) is an Australian listed company engaged in the provision of diagnostic imaging and aged healthcare services. Diagnostic imaging services are carried out by DCA's wholly owned subsidiaries, I-MED and MIA Group throughout Australia and Lodestone in the UK. The aged care division operates the wholly owned retirement and aged care businesses of Amity Group in Australia and Guardian Healthcare in New Zealand (acquired July 2005). Following the Guardian acquisition, DCA had 69 aged care facilities with approximately 5,100 beds and 379 residential units. DCA aims to add 500 aged care beds per year through development, extension and acquisition. The aged care division represented 28% of group revenue and 23% of group EBITDA in the year to 30 June 2005 (including pro-forma results of Guardian Healthcare).

***Aevum***

Aevum Limited (**Aevum**) is an owner, operator and developer of retirement villages and aged care facilities in the Sydney area. The company currently owns and operates four retirement communities around metropolitan Sydney comprising 516 residential units and 202 aged care beds. Formerly operated as the Hibernian Australasian Catholic Benefit Society of New South Wales, the entity has owned and operated retirement communities since 1973. Aevum was demutualised in 2002 and listed on the ASX in November 2004. 80% of earnings in the year to 30 June 2005 were derived from retirement village operations.

***FKP Property***

The operations of FKP include residential, commercial, industrial and retail property development, construction, the provision of design and project management services, the ownership and management of retirement villages and property funds management. Operations are split into two main divisions, the Development Division, which encapsulates all development activities and associated non-recurring incomes, and the Investment Division, representing all recurring income activities. Earnings of the Investment Division are sourced from the ownership and operation of retirement community assets and income flows from property investment and funds management. Retirement assets include 28 retirement communities in Australia comprising approximately 4,000 units. The retirement investment division represented 25% of net earnings in the year to 30 June 2005. FKP is pursuing a high level of growth in its retirement division with 1,200 new units under development and further growth targeted through expansion and acquisition opportunities.

***American Retirement***

American Retirement Corporation Inc (**American Retirement**) operates three principal business segments: Retirement Centres, Assisted Living Communities, and Management Services. The Retirement Centres division operates 29 retirement centres within the US. Seven of these communities operate under a "license to occupy" model while the remainder operate under a rental model. The Assisted Living division operates 33 assisted living communities providing accommodation, aged care and specialist dementia services to residents. The company also manages five retirement centres on behalf of third parties. As at 31 March 2005, the company owned and/or operated 67 senior living communities in the US comprising approximately 13,200 residential units. The Retirement Centres division represents approximately 80% of group revenue and divisional profit. American Retirement produced an after tax loss in the last financial year as the company seeks to improve per unit revenues in its retirement community and assisted living operations and increase assisted living occupancy rates, which remain on a recovery track from oversupply in recent years.

***Sunrise***

Sunrise Senior Living Inc (**Sunrise**) owns and operates independent senior living communities and assisted living communities. As at 31 August 2005, Sunrise operated 424 senior living communities in the US, Canada, Germany and the United Kingdom, with a total resident capacity of approximately 57,000. The company also had 36 communities under development with capacity for a further 3,700 residents. Approximately half of all communities are company owned, with the rest managed for third parties. In conjunction with its senior living and assisted living operations, Sunrise also provides aged care, nursing, rehabilitation and specialist dementia services.

***Retirement Residences***

Retirement Residences REIT (**Retirement Residences**) is a Canadian listed real estate investment trust specializing in the ownership and operation of retirement homes and aged care facilities. As at 30 June 2005 the trust owned 111 retirement homes and 104 aged care homes. A further 3 retirement homes and 8 aged care homes are managed by the trust. The majority of retirement homes and aged care facilities are located in Canada where the trust is the largest owner and operator of such facilities. A small proportion of facilities are located in the US.

## Appendix B

### Recent Transaction Evidence

The following table summarises the multiples derived from transactions involving retirement village and aged care assets that are comparable to those of Metlifecare.

| Recent Transaction Evidence | | | | | |
|---|---|---|---|---|---|
| | | | Price | EBITDA Multiples | |
| Date | Target | Acquirer | ($m) | Historical | Forecast |
| **Retirement Villages** | | | | | |
| Oct 05 | Private Life Care | RVNZ | na | na | na |
| Aug 05 | Zig Inge | MCAG | A$100 | 17.2 | na |
| Nov 04 | Aevum | Primelife | A$106 | 19.9 | 18.9 |
| **Aged Care** | | | | | |
| Jul 05 | Guardian Healthcare | DCA Group | NZ$300 | 16.0 | 10.5 |
| May 05 | ElderCare | Macquarie Bank | NZ$64 | 14.1 | na |
| Nov 04 | Guardian Healthcare | PEP | NZ$176 | 11.2 | 8.6 |

Each transaction included in the above table is summarised below:

- On 27 October 2005 RVNZ announced that it had entered into an agreement to acquire Private Life Care Limited (**PLC**), a New Zealand retirement village owner and operator. PLC owns and operates three retirement villages in the Auckland area with a total of 612 units. Transaction value and financial information were not disclosed.
- On 31 August 2005 Macquarie Capital Alliance Group (**MCAG**) announced it had entered into an agreement to acquire 49% of Zig Inge Retirement Villages Group (**ZIG**), a privately held Australian retirement village owner and operator, for A$100 million. ZIG owns and manages 15 retirement villages, comprising 1,772 independent living units and 201 serviced apartments. At the time of acquisition ZIG also had a further 539 units and 35 apartments at varying stages of development.
- On 17 November 2004, the day before official quotation of Aevum shares on the ASX, Primelife announced a takeover proposal to acquire all of the soon to be listed shares in Aevum. The offer involved scrip consideration of $1.30 worth of Primelife shares for each Aevum share held, valuing the equity in Aevum at A$106 million and representing a 44% premium to the IPO price of A$0.90 per share. The following day Aevum shares debuted on the ASX at A$1.52 and closed at $1.54. The board of Aevum unanimously recommended shareholders reject the Primelife offer on the basis that the consideration offered was inadequate and uncertain, and that the Primelife offer failed to adequately disclose the risks and implications of accepting shares in Primelife.
- On 11 July 2005 Pacific Equity Partners (**PEP**) announced that it had entered into an agreement to sell Guardian Healthcare Limited (**Guardian**), a substantial New Zealand aged care business, to Australian listed healthcare company DCA for $300 million. PEP had acquired Guardian in November 2004 and had since that time made several acquisitions increasing the size of the business to 32 facilities with 2,163 residential aged care beds and 379 independent living units across New Zealand.
- On 24 May 2005 Abano Healthcare Group Limited (**Abano)** announced a conditional agreement to sell aged care provider and retirement village operator ElderCare New Zealand Limited (**ElderCare**) to Macquarie Bank. The sale was for 100% of the shares of ElderCare and, when including the assumption of a related inter-company loan from Abano to ElderCare, involved total consideration of NZ$63.5 million. ElderCare operates 13 aged care facilities in New Zealand comprising 740 aged care beds, 69 independent retirement villas and 35 services apartments.
- PEP acquired Guardian in November 2004 for total consideration of NZ$178 million. At the time of the transaction the company owned 25 rest home and hospital facilities, representing approximately 1,700 beds throughout New Zealand.

## Appendix C

### Consultancy Agreement between RVNZ, Mr Cook and Private Health Care

Grant Samuel has reviewed the consultancy agreement dated 30 September 2005 between Cliff Cook's company, Private Health Care, and RVNZ and compared it with a previous contract for management services between Metropolitan Lifecare Ltd (later Metlifecare), Cook Management Services Ltd and Mr Cook, put in place in July 1997.

A comparison of the terms of the new consultancy agreement with the old shows they are broadly similar to the original agreement. Some important differences are summarised in the table below:

| PHC Consultancy Services | |
|---|---|
| **RVNZ (new agreement)** | **Metlifecare (the original agreement)** |
| Territory - global<br>New Zealand, United Kingdom, USA, Canada, Australia plus other jurisdictions as agreed. | Territory - local<br>New Zealand. |
| Term:<br>12 months, renewable by mutual agreement. | Term:<br>Fixed term of 2 years renewable by mutual agreement. |
| Notice:<br>One month by either party. RVNZ can terminate immediately if a breach is not remedied within 7 days. | Notice:<br>90 days by either party or by the company in case of a breach that is not remedied within 10 days. |
| Consultancy fees:<br>$300,000 p.a. for no less than 100 days service p.a.<br>Additional days at a rate of NZ$3,000 per day. | Consultancy fees:<br>$230,000 p.a. with no specified minimum amount of work. The fee increased to $275,000 p.a. in March 2001. |
| Restraint:<br>Extended to 12 months in relation to the solicitation of employees and applies globally. Broader in scope including a restriction on involvement in any business or activity which RVNZ reasonably believes may interfere with the provision of the services, as well as any business which RVNZ reasonably believes will compete with Macquarie Bank Limited, FKP Limited, RVNZ or Metlifecare. | Restraint:<br>Three months and limited to New Zealand. Mr Cook and Private Health Care able to pursue other business opportunities during the term of the agreement if the opportunities are rejected by Metlifecare. |
| Services:<br>The company will provide consultancy services to RVNZ in relation to Metlifecare and the retirement village and aged care sector generally as required by RVNZ. Services include, but are not limited to:<br>a) regular and on-going strategic advice and direction, with a particular focus on expansion of existing facilities, acquisitions and divestments as part of RVNZ's development programme, as well as providing consulting advice regarding general management issues as and when required;<br>b) identification and assessment of retirement village and aged care acquisition opportunities globally; and<br>c) assistance, where appropriate, on execution of mandates in the retirement village and aged care sector globally. | Services:<br>Provide the company with regular and ongoing strategic advice and direction, with a particular focus on expansion of existing facilities, acquisitions and divestments as part of the company's development programme, as well as providing consulting advice regarding general management issues as required. |

There has not been a consultancy agreement between Mr Cook and Metlifecare Limited since November 2004, when it was terminated by mutual consent by the Board, at their meeting on 4 November 2004.