Appraisal Report for Metlifecare Minority Shareholders

Fairness of the Proposed Merger of Metlifecare with Vision Senior Living and Private Life Care Holdings

June 2012

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Abbreviations and Definitions

2011 Capital Restructure	A placement of Metlifecare shares in December 2011 resulting in new capital of $45.5 million being raised and RVNZ's shareholding in the Company reducing to 50.1%
Adjusted NTA	NTA, after various adjustments as agreed between the Merging Entities
Conditional Vision Shares	The issue of a further 7 million Metlifecare shares to Vision's shareholders, subject to the 5 day VWAP of Metlifecare's shares exceeding $3.00 within 28 months of Completion
Completion	The target date for the Proposed Transaction to take legal effect, being on or about 2 July 2012
FY	Financial Year
GFC	Global Financial Crisis
Merged Entity	Metlifecare after completion of the Proposed Transaction
Merger Agreements	Agreements dated 5 May 2012 (together with amendment agreements dated 20 May 2012) relating to the sale of shares in each of Vision and PLC to Metlifecare
Merging Entities	Metlifecare, Vision and PLC
Metlifecare or Company	Metlifecare Limited
Metlifecare Minority Shareholders	The shareholders of Metlifecare not associated with RVG
Negotiated Exchange Ratio	The agreed number of Metlifecare shares issued to Vision and PLC, determined on the basis of the relative contribution of Adjusted NTA to the Merged Entity, and subsequently adjusted following negotiations between the parties
Northington Partners	Northington Partners Limited
NTA	Net Tangible Assets
NZSX	The main board equity securities market operated by NZX
NZX	NZX Limited
ORA	Occupational Right Agreement, being an agreement signed by an intending resident of a retirement village and conferring on them the right to occupy a particular residence
PLC	Private Life Care Holdings Limited
Proposed Transaction	The proposed merger of the businesses of Metlifecare, Vision and PLC, effected by Metlifecare acquiring the shares in Vision and PLC and issuing to the shareholders of Vision and PLC shares in Metlifecare as consideration for the purchase
RVG	Retirement Villages Group, an unlisted investment fund, together with its various subsidiaries and related companies
RVNZ Sell Down	A co-ordinated process by which RVNZ intends to reduce its Metlifecare shareholding via an offering to retail investors (likely to occur contemporaneously with the share issues made to each of Vision and PLC shareholders)
RVNZ	Retirement Villages New Zealand Limited
Ryman	Ryman Healthcare Limited
Share Placement	The issue of at least $10 million (up to a maximum of $15 million) of new Metlifecare shares to third party investors, the proceeds of which will be used to reduce the debt position of the Merged Entity
Summerset	Summerset Group Holdings Limited
Vision	Vision Senior Living Limited
VWAP	Volume Weighted Average Price

1.0 Background and Summary of Our Assessment

1.1 Introduction

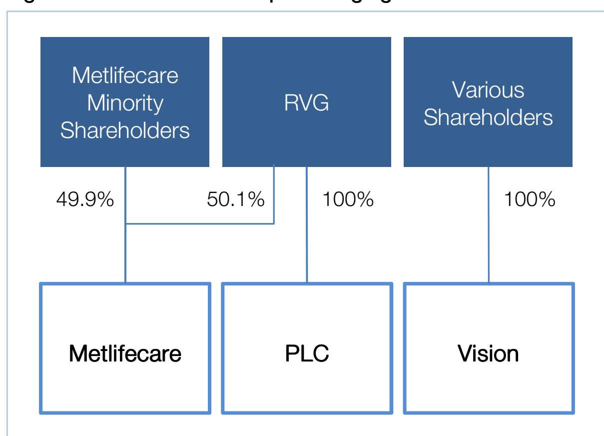
Metlifecare Limited ("**Metlifecare**" or "**Company**") has entered into conditional agreements with the shareholders of two other retirement village operators to effectively merge the three businesses ("**Proposed Transaction**"). The other counterparties to the Proposed Transaction are:

- Vision Senior Living Limited ("**Vision**"); and
- Private Life Care Holdings Limited ("**PLC**").

Metlifecare will issue new shares to the shareholders of Vision and PLC as consideration for the merger, and will be the holding company for the merged businesses ("**Merged Entity**") when the Proposed Transaction is complete. The Proposed Transaction is expected to be completed on the later of 2 July 2012 or three business days after the satisfaction of any outstanding conditions ("**Completion**").

The current shareholding structure for each of Metlifecare, Vision and PLC (the "**Merging Entities**") is presented below in Figure 1. Metlifecare currently has approximately 560 shareholders and is majority owned by Retirement Villages New Zealand Limited ("**RVNZ**"). RVNZ is a part of Retirement Villages Group ("**RVG**"), comprising an unlisted investment fund together with its various subsidiaries and related companies. RVG indirectly owns 100% of PLC as well as 50.1% of Metlifecare. Section 3.4 sets out further details of RVG's ownership structure.

Figure 1: Current Ownership of Merging Entities



Source: Metlifecare

Given RVG's indirect shareholding in both Metlifecare and PLC, the Proposed Transaction constitutes a material transaction with a related party under the NZX Listing Rules and must be approved by an ordinary resolution of Metlifecare's shareholders. As part of that process, Metlifecare has appointed Northington Partners Limited ("**Northington Partners**") to prepare an Appraisal Report for the benefit of the Metlifecare shareholders not associated with RVG ("**Metlifecare Minority Shareholders**"), for the purposes of assisting those shareholders to decide whether or not to approve the Proposed Transaction. As set out in more detail in Appendix I, this report has been prepared in accordance with the requirements of Rule 1.7.2 of the NZSX Listing Rules.

1.2 Background to the Transaction

Metlifecare is a publicly listed retirement village operator which currently owns and manages 16 villages located predominantly in the North Island. The Company provides a continuum of retirement

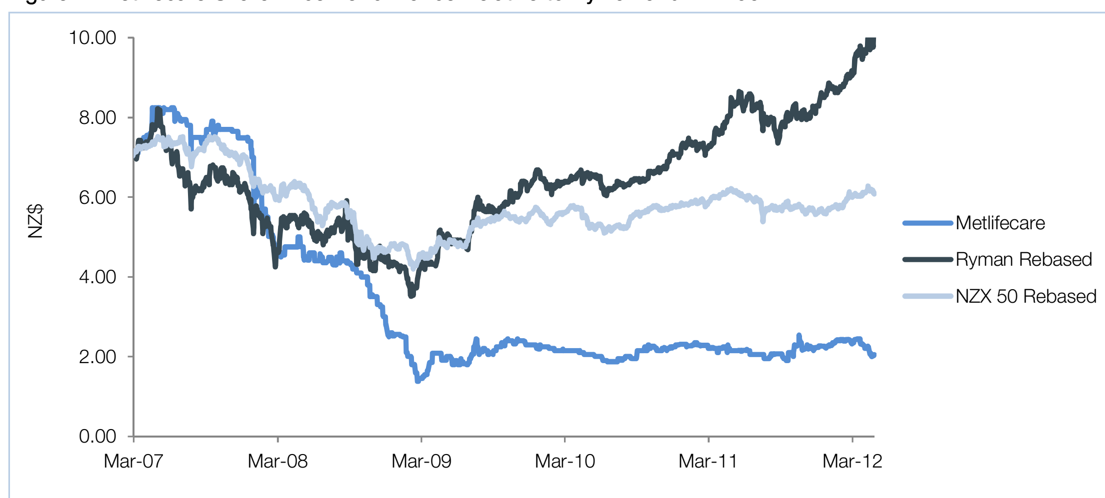
accommodation and services ranging from independent villas and apartments through to serviced apartments, rest homes and hospitals.

The shareholding structure of Metlifecare has changed significantly over the past six years following the full takeover offer by RVNZ in October 2005 for all of the shares on issue in Metlifecare. The key changes to the ownership structure are summarised as follows:

- **October 2005** - Full Takeover Offer: RVNZ was established as a joint venture company equally owned by two Australian entities (FKP Property Group Limited and Macquarie Bank Limited) to act as the vehicle for the takeover offer. The offer was made at $3.90 per share and resulted in RVNZ building a stake of about 82% of the shares on issue. Importantly, RVNZ could not achieve the 90% acceptance threshold required to compulsorily acquire 100% of the shares, and Metlifecare therefore remained as a listed entity but with a small number of shareholders.
- **December 2011** – Capital Restructure: Following a strategic review of the business, Metlifecare implemented a number of changes to its capital and shareholding structure ("**2011 Capital Restructure**"). These included a placement of new shares worth $45.5m and the partial sell-down of RVNZ's shareholding, which reduced its proportional ownership from about 82% to just over 50%.

Metlifecare's share price performance has been disappointing for several years, especially in contrast to that of its main listed peer, Ryman Healthcare Limited ("**Ryman**"). Ryman is the largest retirement village operator in New Zealand and has been a strong share market performer over a prolonged period. Figure 2 presents Metlifecare's share price history since March 2007, along with an adjusted price series for Ryman and the NZX 50 Index (where both have been adjusted so that the starting point of each series is consistent). From a high of $8.25 per share prior to the impact of the Global Financial Crisis ("**GFC**"), the Metlifecare share price fell to a low of $1.38 in March 2009 before settling into a trading range generally between $2.00 and $2.40 over the last 12 months.

Figure 2: Metlifecare Share Price Performance Relative to Ryman and NZX 50



Source: Capital IQ and Northington Partners' Analysis

Metlifecare shares have also consistently traded at a significant discount to the value of its net tangible assets ("**NTA**") since the GFC, in contrast to both Ryman and Summerset Group Holdings Limited ("**Summerset**")[1] which have both been consistently trading at a premium to NTA. Although the Metlifecare discount to NTA can be attributed to a combination of many factors, we suggest that the key historical factors relate to the market's perception that Metlifecare has limited development opportunities, a lack of

[1] Summerset listed on the NZSX in October 2011 following an initial public offering.

industry experienced development skills, a weak balance sheet (prior to the 2011 Capital Restructure), and limited flexibility due to RVNZ's controlling shareholding position.

Following the completion of the 2011 Capital Restructure, Metlifecare has been reconsidering a range of growth initiatives and other strategies which may have the potential to improve the Company's performance and market rating. Those strategy discussions have in turn led to the signing of conditional agreements by Metlifecare's Board of Directors ("**Merger Agreements**") to enter into the Proposed Transaction.

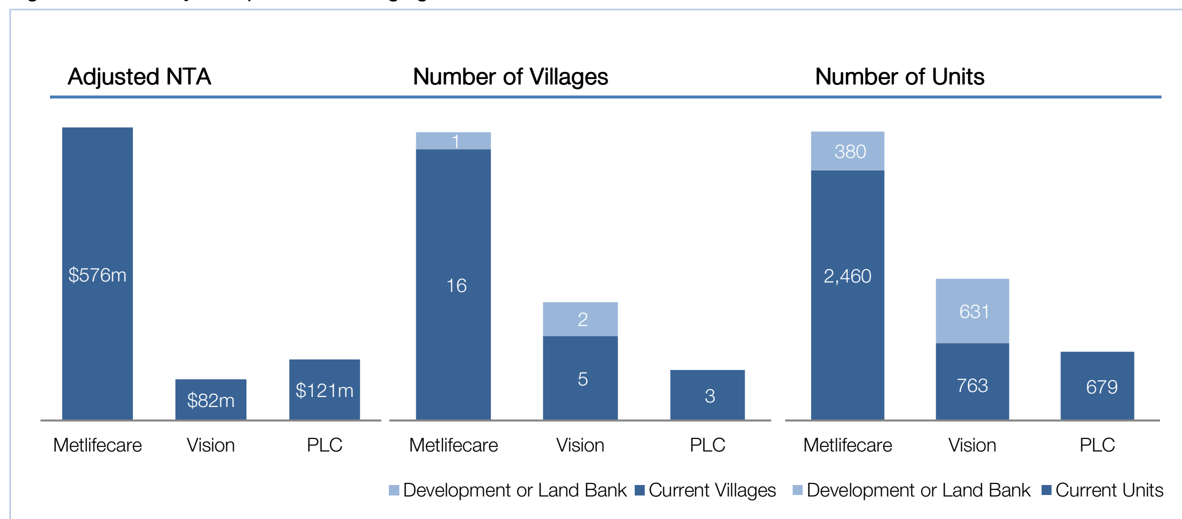
1.3 Other Parties to the Proposed Transaction

Vision and PLC are both privately held retirement village operators. Vision was founded in 1997; it owns and operates three largely established villages and two villages in various stages of development. It also owns a site in Ilam, Christchurch that has received the necessary regulatory consents but for which construction has yet to commence, and is party to a conditional contract to acquire bare land for a village in Unsworth Heights in the Auckland region. Vision is focused on providing independent living and does not provide aged care or serviced apartments.

PLC owns and operates three villages in the Auckland region which contain a mixture of independent living units and serviced apartments. It does not provide aged care facilities. PLC's villages are well established and have very limited potential for further development.

Figure 3 presents a summary of the key metrics for each of the Merging Entities.

Figure 3: Summary Comparison of Merging Entities



Source: Metlifecare

1.4 Summary of the Proposed Transaction

In practical terms the Proposed Transaction involves three initial steps, together with a possible fourth step which may take place within 28 months of Completion. Pursuant to the terms of the Merger Agreements, each of the first three steps must be completed and settled contemporaneously, otherwise the Proposed Transaction will not proceed. The transaction steps are as follows:

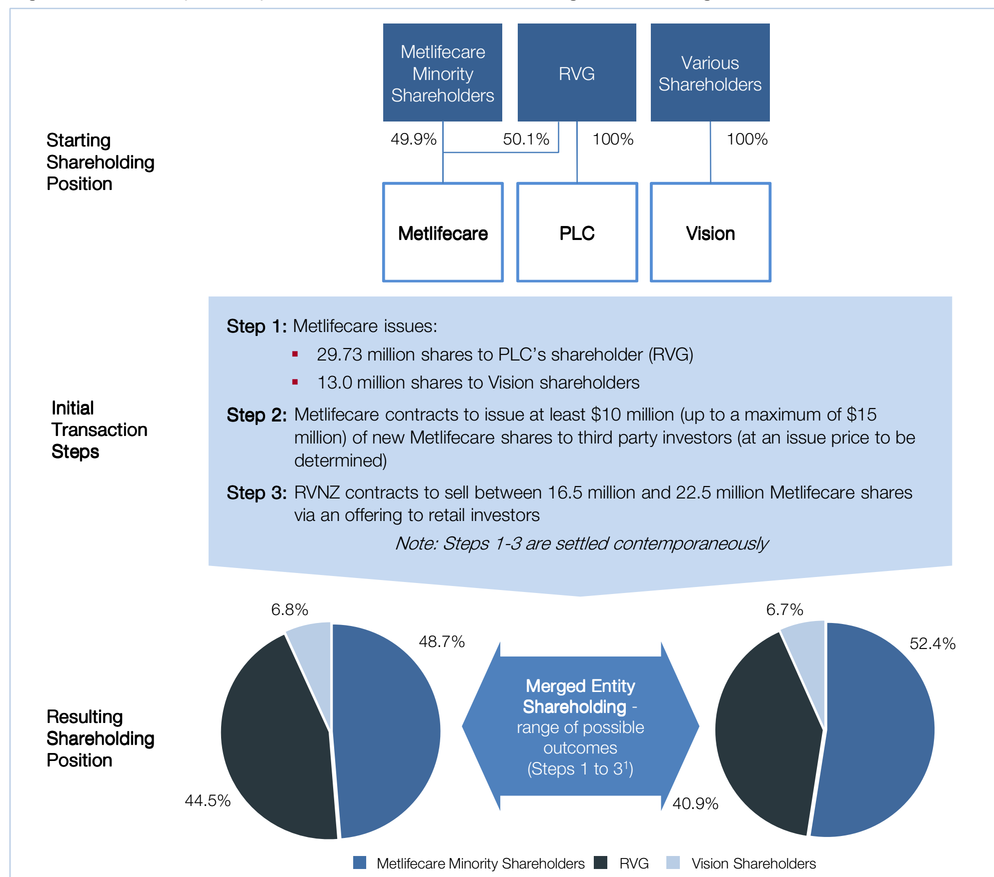
- **Step 1:** Metlifecare will acquire:
  - all the shares in PLC in return for the issue of 29.73 million Metlifecare shares; and

- all the shares in Vision in return for the immediate issue of 13.0 million Metlifecare shares (see also Step 4 below).

- **Step 2:** Metlifecare contracts to issue at least $10 million (up to a maximum of $15 million) of new Metlifecare shares to third party investors ("**Share Placement**"). The capital raised will be used to reduce the overall debt position of the Merged Entity. The number of Metlifecare shares issued pursuant to the Share Placement will depend on the ultimate issue price of the shares and the level of over subscription (if any) from third party investors. Metlifecare does not currently have a firm view on the likely pricing for the Share Placement; this is a matter which will ultimately be determined when the Company engages with the market.
- **Step 3:** RVNZ contracts to sell between 16.5 million and 22.5 million of the shares it holds in Metlifecare ("**RVNZ Sell Down**"). The RVNZ Sell Down will occur via a co-ordinated offering to retail investors to reduce RVNZ's Metlifecare shareholding. The ultimate number of shares sold will be dependent on investor demand. The balance of Metlifecare shares held by RVNZ following the RVNZ Sell Down cannot be sold within 16 months of Completion[2].
- **Step 4 (Contingent):** Vision's shareholders will be issued with a further 7.0 million Metlifecare shares if the five day volume weighted average price ("**VWAP**") of Metlifecare's shares exceeds $3.00 within 28 months of Completion ("**Conditional Vision Shares**"). None of Vision's shareholders can sell the Metlifecare shares issued as consideration for the acquisition of the Vision business or the Conditional Vision Shares (if issued in time) within 16 months of Completion[2].

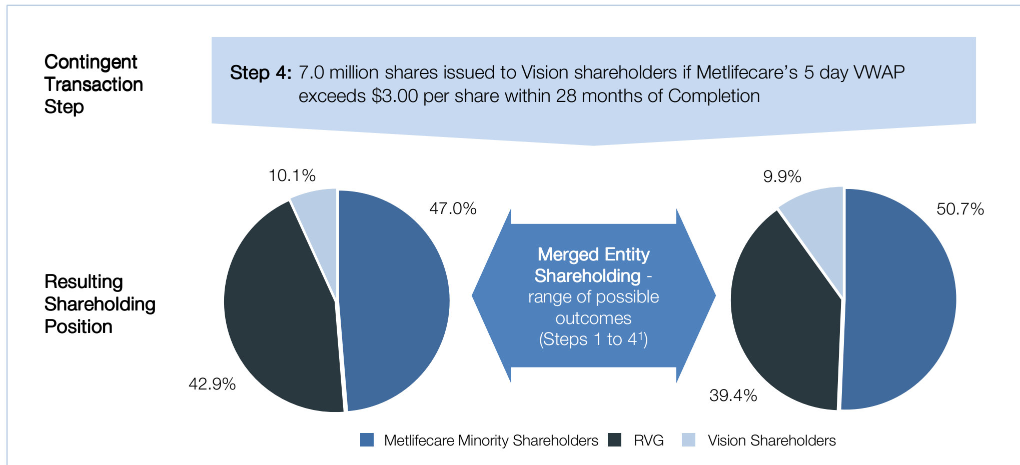
Key features of the Proposed Transaction are summarised in Figure 4.

Figure 4: Summary of Proposed Transaction and Resulting Shareholdings in Metlifecare



[2] Subject to standard exceptions for any future transactional activity – see section 4.4.

Figure 4: Summary of Proposed Transaction and Resulting Shareholdings in Metlifecare (Continued)



1. *Assumes the Share Placement raises the maximum $15 million at an issue price of $2.00 per share under Step 2.*

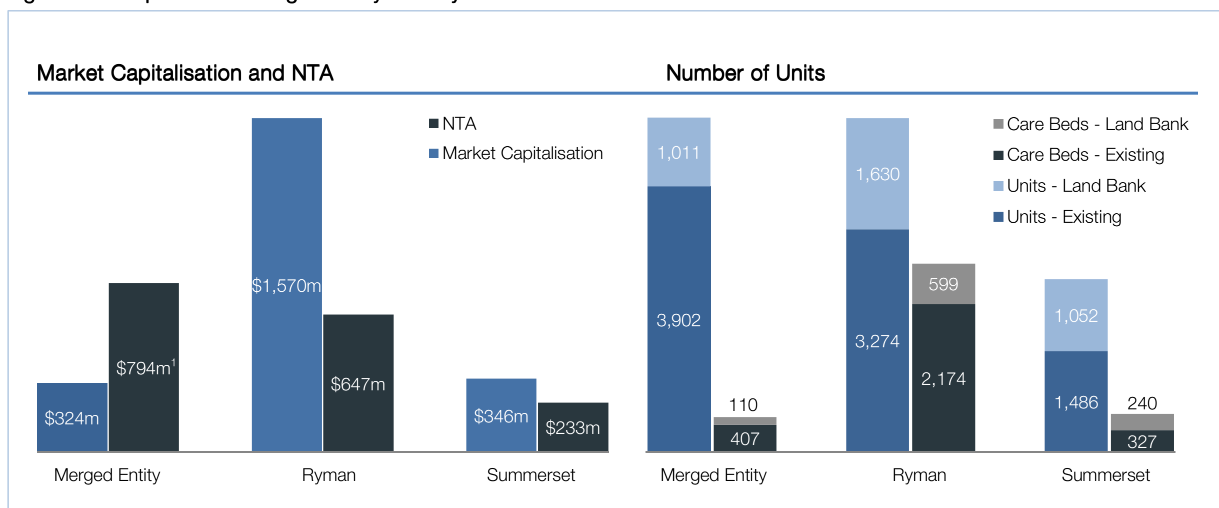
Source: Metlifecare and Northington Partners' Analysis

As set out in Figure 4, the shareholding levels that will be held by various parties in the Merged Entity following the Proposed Transaction are dependent on two key variables:

- **Share Placement:** The ultimate outcome of the Share Placement – i.e. how much money is raised and at what price the new Metlifecare shares are issued. For example, at an issue price of $2.00 per share, new capital of $10 million would require the issue of 5.0 million shares; $15 million raised would require 7.5 million shares to be issued; and
- **Vision Conditional Shares:** Whether the 7.0 million additional Metlifecare shares are ultimately issued to Vision's shareholders (this will only occur if the 5 day VWAP of Metlifecare's shares exceeds $3.00 within 28 months of Completion).

When the Proposed Transaction is completed, Metlifecare will enhance its position as one of the largest retirement village operators in New Zealand, with a property portfolio that is more balanced between completed units and on-going development sites. Figure 5 summarises some key metrics for the Merged Entity, along with a comparison to Ryman and Summerset.

Figure 5: Comparison of Merged Entity with Ryman and Summerset



1. *Assumes the Share Placement raises the maximum $15 million*

Source: Metlifecare and Northington Partners' Analysis

1.5 Assessment of the Proposed Transaction

The key requirement of an Appraisal Report produced for this sort of transaction under the NZSX Listing Rules is an assessment of whether or not the consideration and the terms and conditions of the Proposed Transaction are fair to the Metlifecare Minority Shareholders. Although the exact meaning of the word "*fair*" is not prescribed in the NZSX Listing Rules, it is usually given a fairly narrow interpretation which focuses on the price paid or received for the assets under consideration.

In this particular instance given the related party nature of the Proposed Transaction, the main focus for the Metlifecare Minority Shareholders should be whether the PLC business is being acquired by Metlifecare at a price which is favourable to RVG. Our analysis therefore gives due consideration to the fairness of the price to be paid by Metlifecare for the PLC business. However, we also believe that our assessment should be broadened in two key respects:

- Given that the acquisition of the Vision business is an integral part of the Proposed Transaction, the fairness of the proposed price that will be paid to Vision shareholders is as important to the Metlifecare Minority Shareholders as the price paid for PLC. Our assessment therefore considers the terms offered by Metlifecare for both PLC and Vision.
- Although the scope of the assessment required by the NZX Listing Rules focuses on an evaluation of whether the consideration and terms and conditions of the Proposed Transaction are fair to non-associated shareholders, we consider a range of other strategic and financial considerations that we believe the Metlifecare Minority Shareholders should take into account.

Our full assessment is set out in Section 6.0 of this report and summarised below.

1.5.1 Fairness of the Consideration Paid for Vision and PLC

The estimated contribution that each of the Merging Entities will make to the Merged Entity is based on the projected NTA for each of the Merging Entities as at 30 June 2012, adjusted to take account of various agreed costs of the Proposed Transaction and a small number of changes to the development assets since NTA was last recorded ("**Adjusted NTA**").

The number of Metlifecare shares to be issued as consideration for the Vision and PLC shares is broadly based on the relativities between Adjusted NTA (subject to a further adjustment, as noted below). This approach reflects agreement between the parties that the Adjusted NTA value is in each case, as a starting point, an appropriate measure of the fundamental underlying value contributed by each company to the Merged Entity.

Negotiated Exchange Ratio

Following negotiations between the Merging Entities, the number of Metlifecare shares that will actually be issued to the shareholders of Vision and PLC ("**Negotiated Exchange Ratio**") has been adjusted so that the merger will be NTA accretive to Metlifecare shareholders prior to the Share Placement. Although all of Steps 1-3 must occur for the Proposed Transaction to proceed, the outcome of the Negotiated Exchange Ratio (initially ignoring the dilutionary effect of the Share Placement[3]) sees Metlifecare contributing 73.9% of the Adjusted NTA to the Merged Entity and its shareholders being issued with 77.1% of the shares in the Merged Entity; an outcome which is NTA accretive to Metlifecare shareholders. If the Vision Conditional Shares are eventually issued (again ignoring the impact of the Share Placement), Metlifecare's shareholders will hold 74.3% of the Merged Entity following the issue of these additional shares.

The results of the Negotiated Exchange Ratio are summarised below in Table 1.

[3] The Share Placement involves the issue of new shares and will have a dilutionary impact on all shareholders. The RVNZ Sell Down will not have a dilutionary impact given no new shares are issued.

Table 1: Summary of Outcomes from Negotiated Exchange Ratio

	Metlifecare	Vision	PLC	Merged Entity
Adjusted NTA	$575.9m	$81.8m	$121.7m	$779.4m
Proportional Contribution to Adjusted NTA	73.9%	10.5%	15.6%	100%
Prior to Vision Conditional Shares Being Issued				
Metlifecare Shares Held / Issued	144.1m	13.0m[1]	29.7m	186.8m
Effective Shareholding in Merged Entity	77.1%	7.0%	15.9%	100%
Assuming Vision Conditional Shares Issued				
Metlifecare Shares Held / Issued	144.1m	20.0m[1]	29.7m	193.8m
Effective Shareholding in Merged Entity	74.3%	10.3%	15.3%	100%

1. *Assuming the holder of a minority interest in one of Vision's villages accepts 336,189 Metlifecare shares as consideration for the sale of that interest. See Section 4.1 for further details.*

Source: Metlifecare, Northington Partners' Analysis

Impact of Proposed Transaction on NTA per Share

We note that Metlifecare's Adjusted NTA is $4.00 per share. Following Completion (i.e. steps 1-3), the NTA of the Merged Entity will be between $4.11 and $4.09 per share (depending upon the level of capital raised under the Share Placement). The overall increase in NTA is a direct result of the Negotiated Exchange Ratio being NTA accretive (as discussed above), offset to some degree by the Share Placement being NTA dilutive (see discussion below). If the Conditional Vision Shares are ultimately issued, the resulting NTA for the Merged Entity will reduce to between $3.97 and $3.95 per share. A breakdown of the NTA changes for each step in the Proposed Transaction is shown in Table 2 below.

Table 2: Breakdown of NTA Changes from the Proposed Transaction

	NTA per Share	
	$15m New Capital[1]	$10m New Capital[1]
Metlifecare Adjusted NTA	$4.00	$4.00
Step 1: Metlifecare Issues Share to Vision and PLC Shareholders	$4.17	$4.17
Step 2: Share Placement	$4.09	$4.11
Step 3: RVNZ Sell Down	$4.09	$4.11
Net Movement in NTA upon Completion	**$0.09**	**$0.11**
Step 4: Conditional Vision Shares Issued	$3.95	$3.97
Net Movement in NTA (Relative to Adjusted NTA)	**$(0.05)**	**$(0.03)**

1. *Assuming an issue price of $2.00 per share*

Source: Metlifecare, Northington Partners' Analysis

We believe that the most appropriate way to consider the Proposed Transaction from the Metlifecare Minority Shareholders' point of view is on a "fully diluted" basis – i.e. assuming that the Conditional Vision Shares are issued. While an assessment based on the relative shareholdings in the Merged Entity immediately after Completion (and prior to the issue of the Conditional Vision Shares) may appear to be attractive to the Metlifecare Minority Shareholders, this shareholding position will only be maintained if the $3.00 per share VWAP target is not reached. Given that a key objective of the Proposed Transaction is to reduce the current discount to NTA, an appreciation in the share price to a level exceeding $3.00 per share will clearly be in the interests of all Metlifecare shareholders, and the issue of the Conditional Vision Shares should be viewed in this context.

Conclusions on Fairness of the Purchase Price

Based on our assessment of the financial position and outlook for each of the Merging Entities, we conclude that the adopted approach to establishing the post-transaction shareholdings in Metlifecare is fair from the point of view of the Metlifecare Minority Shareholders. Our view is based on the important considerations as set out in Table 3 below.

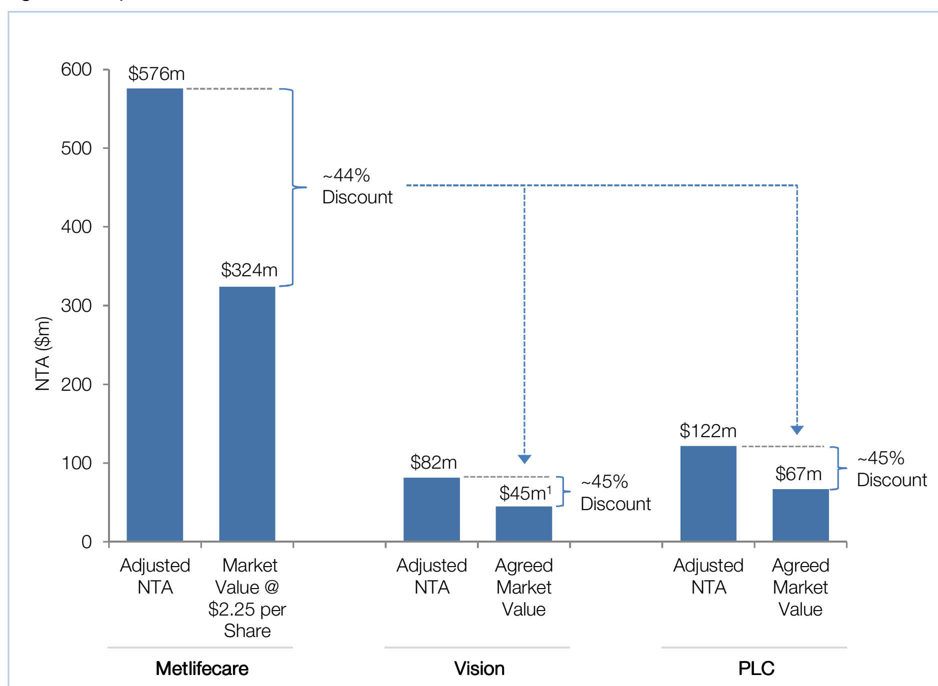
Table 3: Summary of Conclusions in Relation to the Purchase Price Paid to Vision and PLC Shareholders

Reported NTA is an appropriate measure of value	We believe that reported NTA is an appropriate benchmark measure of value for retirement village operators. The majority of the total asset value for each of the Merging Entities is made up of investment properties, which are re-valued to a fair market value standard on an annual basis by independent valuers. The property valuations are all established using a consistent methodology and appropriately incorporate allowances for the many specific factors which affect the market value of each individual property. To the extent that the villages owned by either Vision or PLC are perceived by the market to be inferior to those owned by Metlifecare, these factors are incorporated into the Adjusted NTA values.
The basis for the Adjusted NTA calculations is reasonable	Although the projected NTA values for Metlifecare and PLC are based on property valuations that were last formally updated in 2011, we believe that the adjustments agreed between the parties are reasonable. When actual NTA values are updated for the 30 June 2012 balance date, we do not expect that the revised NTA relativities will be materially inconsistent with the agreed number of Metlifecare shares to be issued to each counterparty under the Proposed Transaction.
The dilutionary impact of the Share Placement is largely immaterial	The placement of between approximately 5.0 million and 7.5 million new Metlifecare shares (assuming an issue price of $2.00) to third party investors is an integral part of the Proposed Transaction. The capital raising will be implemented to maintain the debt position of the Merged Entity at an acceptable level, and is largely needed because of the high debt level assumed from Vision. In terms of its impact on the NTA of the Merged Entity, this capital raising component is technically detrimental to the Metlifecare Minority Shareholders who are unable to participate in the Share Placement because the NTA is reduced slightly by around 6 to 8 cents per share (compared to the NTA immediately after Step 1 of the transaction process). However, we conclude that the negative impact is largely immaterial in the context of the broader potential benefits that arise from the Proposed Transaction, and should be viewed by the Metlifecare Minority Shareholders as a necessary step in the successful implementation of the overall process. The Metlifecare Minority Shareholders also effectively receive compensation for the NTA dilution from Vision's shareholders as a result of the framework adopted for the issue of the Conditional Vision Shares (see below).
The issue terms of the Conditional Vision Shares provide the Metlifecare Minority Shareholders with downside protection	The Conditional Vision Shares will only be issued if the 5-day VWAP of Metlifecare shares exceeds $3.00 within 28 months of Completion. This means that Vision's shareholders are exposed to a greater risk of the Merged Entity not meeting its operational and financial targets post-Completion, and provides the Metlifecare Minority Shareholders with a reasonable level of downside protection; if the VWAP threshold is not met, Metlifecare will ultimately acquire the Vision business at a 35% discount to the relative values assessed for the other two Merging Entities. While all shareholders in the Merged Entity will clearly be better off if Metlifecare's share price exceeds $3.00 in the medium term, we believe that this downside protection is valuable to the Metlifecare Minority Shareholders and more than offsets the dilutionary impact of the Share Placement that is needed to deal with Vision's high debt level.

Table 3: Summary of Conclusions in Relation to the Purchase Price Paid to Vision and PLC Shareholders (continued)

Based on current market pricing, Metlifecare will effectively acquire Vision and PLC at a 45% discount to Adjusted NTA	Metlifecare shares have traded at a significant discount to NTA for a number of years; the VWAP for the two month period to 18 May was approximately $2.25 per share, representing a discount of approximately 44% to the current Adjusted NTA of $4.00 per share. By initially basing the number of Metlifecare shares to be issued to the Vision and PLC shareholders on the basis of relative Adjusted NTA (prior to the adjustments as a result of the Negotiated Exchange Ratio), the Proposed Transaction can be interpreted as Metlifecare effectively acquiring the Vision and PLC businesses at a market value which reflects more or less the same discount to Adjusted NTA. Assuming the Metlifecare discount to NTA remains at around its current level, Figure 6 summarises this interpretation of the Proposed Transaction.

Figure 6: Implied Market Price of Vision and PLC Shares



1. The agreed market value and discount to NTA shown for Vision includes the Conditional Vision Shares

Source: Northington Partners' Analysis

The Proposed Transaction represents an ideal opportunity for Metlifecare to acquire assets which offer a good strategic fit	Although we do not have visibility to the circumstances and objectives of the Vision and PLC shareholders, we assume that they are reasonably motivated to realise their investments (for a variety of different reasons) and may have limited exit alternatives in the short term. In our view this has created an ideal opportunity for Metlifecare to acquire assets which offer a good strategic fit for the existing portfolio at an attractive value. We think that it is unlikely that Metlifecare could grow its asset base to the same degree by acquiring appropriate assets from other third parties for cash consideration (even assuming the cash resources were available).

1.5.2 Other Important Considerations

In addition to the purchase price paid for the Vision and PLC businesses, we suggest that the other important considerations for the Metlifecare Minority Shareholders can be broadly grouped into Strategic, Financial and Market categories. Table 4 sets out a summary of each key point, based on the full analysis contained in Section 6.2.

Table 4: Summary of Other Considerations

Strategic	Scale	The Proposed Transaction will result in a Merged Entity that is approximately 35% larger than the current Metlifecare business. Management expects that it will be able to extract a number of scale efficiencies from the larger entity which will ultimately improve profitability.
	Auckland Market Coverage	Metlifecare will expand its Auckland portfolio from 7 to 12 developed villages, and thereby enhance its existing network from which to cater for strong expected future demand in New Zealand's key market.
	Access to Development Opportunities and Expertise	Metlifecare has a limited land bank, few existing development opportunities and limited in-house development capabilities. The acquisition of Vision provides immediate access to property suitable for development, together with an experienced development team.
Financial	Short-term Earnings	Even though we believe that the full potential benefits are likely to be realised over the medium to long term, the Proposed Transaction is expected to be considerably cash flow accretive for Metlifecare shareholders over the next financial year.
	Debt Position	The Proposed Transaction will result in an increase to the percentage gearing level of the Merged Entity compared to the current Metlifecare debt position. However, the resulting gearing level remains lower than the other listed participants in the sector and would very likely increase even if the Proposed Transaction does not proceed because we expect that Metlifecare will eventually acquire new assets to meet its growth aspirations.
Market	RVNZ Sell-Down	RVNZ is planning on selling between 16.5 million and 22.5 million Metlifecare shares as part of the RVNZ Sell Down. Depending on the volume of the eventual sales and the market's assessment of the incremental value of the Proposed Transaction, it could be argued that the sell-down may lead to a decrease in the traded price of the Metlifecare shares. That price decrease may persist for some time until the share "overhang" is eliminated. However, we believe that RVG will potentially look to divest at least part of its current shareholding in the absence of the Proposed Transaction, meaning that the overhang effectively already exists. The restrictions imposed by the Proposed Transaction on RVNZ in relation to its ability to sell the balance of its Metlifecare shares following the RVNZ Sell Down may in fact help to reduce the impact of the eventual share divestment.
	Shareholder Base and Liquidity	The corollary to the RVNZ Sell Down is that the shareholder base will be significantly broadened given RVNZ's undertaking to sell between 16.5 million and 22.5 million of its shares via a retail offering. The large increase in the number of retail investors is very likely to have a beneficial impact on the liquidity of the Metlifecare shares, which has been very low for a prolonged period.
	Potential Market Re-rating	We believe that the large and persistent discount between Metlifecare's share price and NTA can be attributed at least in part to a number of negative factors which Metlifecare is attempting to address with the Proposed Transaction. These factors include a lack of development capability, concerns around the dominant shareholding position of RVNZ, and the lack of share market liquidity. Although it is difficult to accurately predict the market reaction to the Proposed Transaction, we think that the current discount to NTA should reduce through time if the merged business successfully implements its growth strategy.

1.5.3 Overall Conclusion Regarding the Merits of the Proposed Transaction

Taking all of the key elements of the Proposed Transaction into account, we conclude that the terms and conditions are fair to the Metlifecare Minority Shareholders. The merger of the Vision and PLC businesses into Metlifecare:

- Will take place at appropriate relative values for each of the Merging Entities;
- Provides the existing Metlifecare shareholders with a level of protection against the Merged Entity performing poorly via the structure governing the issue of the Conditional Vision Shares; and
- Provides the Metlifecare Minority Shareholders with potential share price upside (especially in the medium term) at an acceptable level of risk.

Section 6.0 sets out our detailed assessment of the Proposed Transaction.

2.0 Industry Overview

2.1 Sector Growth and Development

The retirement village sector has grown strongly over the last decade. A number of factors have impacted on the rate of growth and the way in which the sector has developed, including (but not limited to) the matters listed in Table 5 below.

Table 5: Macro Factors Impacting Sector Growth and Development

Demographics	▪ The number of New Zealanders over the age of 75 is expected to double to more than 500,000 over the next 20 years. ▪ Improved life expectancy (forecast by 2051 to be over 82 for males and 86 for females)
Increased Penetration Rates	▪ Increased familiarity and acceptance of the retirement village concept ▪ Better understanding of the difference between rest homes and retirement villages that offer a "lifestyle resort" ▪ Better quality facilities and services offered by operators
Operators	▪ Considerable consolidation in the sector in recent years ▪ Few operators with the financial capacity to build large, modern facilities in sufficient number to achieve critical mass
Location	▪ A key factor in influencing occupancy levels, prices, the style of accommodation, and the level of competition ▪ Demographics of the area are important (catchment areas for a village tend to be within an 8-10km radius), together with the desirability of the area in general so that new people move into it
Residential Housing Market	▪ Demand and supply dynamics influence raw material and labour costs for operators looking to develop new villages or refurbish existing facilities ▪ House price appreciation / depreciation influences the success of the economic model currently employed by many operators, particularly those using occupational right agreements ("**ORAs**") and who seek to derive a substantial portion of their return from capital gains (i.e. movements in the market value of ORAs are closely correlated to residential house price movements)

Source: Northington Partners' analysis

2.2 Recent Sector Themes

As summarised in Table 6 below, several key themes have influenced the landscape of the retirement villages sector over recent years.

Table 6: Key Recent Sector Themes

Consolidation	▪ Unprecedented levels of business value in the sector were driven by consolidation in the market between 2006 and 2008, particularly initiated by Australian private equity and other interests ▪ A strong residential housing market also fuelled the significant increase in the value of operators' businesses

Table 6: Key Recent Sector Themes (Continued)

Global Financial Crisis	▪ The onset of the GFC resulted in a market peak during 2008 from a value perspective ▪ Over the last 3-4 years, activity levels have been modest as operators have been restricted in the amount of credit they can access and many have focused on repaying debt ▪ A number of operators have realised they overpaid for assets given previously held growth assumptions no longer hold true
Scale	▪ Although debt is now harder to obtain than in the pre-GFC era, the larger operators have the ability to secure credit and are predominantly focused on opportunities that will allow them to access meaningful scale

Source: Northington Partners' analysis

2.3 Industry Regulation

The rapid development of the sector led to the introduction of the Retirement Villages Act 2003, which is administered by the Department of Building and Housing. The aim of this legislation is to standardise and regulate the industry, thereby protecting the interests of residents who choose to live in a retirement village. Among other things, the Act requires retirement village operators to:

- Register the village on the Retirement Villages Register, which is maintained by the Companies Office
- Make annual returns to the Registrar
- Appoint an approved statutory supervisor (statutory supervisors are appointed under a deed of supervision and provide the role of safeguarding the interests of residents of a village)
- Provide a disclosure statement to every intending resident
- Have a clear and unambiguous ORA
- Ensure intending residents receive independent legal advice
- Provide intending residents with a minimum 15 working days "cooling off" period (i.e. a period which allows residents to change their mind about becoming a resident after signing an ORA and receive a refund of any deposit that may already have been paid)

2.4 Occupational Right Agreements

Most retirement village operators have adopted an ORA as the legal structure pursuant to which residents take up residence. Although legacy structures mean that some operators have a variety of legal arrangements under which occupancy is maintained, gradually the transition is towards an ORA model as residents move out and are replaced by new residents.

Under the terms of the ORA, an incoming resident pays an upfront capital sum to secure the right to occupy a particular unit. The capital sum varies from village to village and within a village depending on the size and location of the unit selected. Given the upfront sums involved, most intending residents often rely on selling their family home as the main source of capital to fund their entry into a retirement village.

2.5 Typical Fee and Revenue Structures

Typically, a retirement village operator will derive fees and revenue from any or all of the following principal sources:

- **Membership fee**: This fee is often a deferred fee payable only when a resident leaves the village, and is capped at a certain percentage (e.g. 25-30%) of the upfront capital sum paid by the resident to

secure the ORA. The fee is typically accrued over a number of years and, once fully accrued, cannot be charged again. A resident who leaves the village prior to the fee being fully accrued will normally only pay the fee accrued as at the date of departure. To the extent this fee has been deferred, it is deducted from the capital sum due back to a resident when a new ORA is signed and settled in respect of the unit which they previously occupied.

- Village fee: This fee covers outgoings of the village and would typically include such things as local body rates, water rates, buildings insurance, staff costs and costs of maintaining and managing the village. Residents are responsible for their own costs such an internal maintenance, power and phone bills.
- Capital gains (or losses): The market value of the ORA often changes during the term of a resident's occupancy. When a resident moves out of the village, the difference between the original capital sum paid by that resident for the ORA and the new capital sum paid by the incoming resident is for the village operator's account. That is, the village operator will get to keep any capital gains and the resident will often bear any capital losses.

2.6 Principal Valuation Drivers

Retirement village operators have relatively unique characteristics and a number of key factors typically influence the value of a particular operator's business. A summary of the principal valuation drivers is set out in Table 7 below.

Table 7: Key Valuation Drivers

Location	The value of a particular village (particularly its land value) will be impacted by its location and the demographic base from surrounding areas which typically form the village's catchment area.
Property Price Movements	As discussed above, property value changes are an important consideration for the ORA model where a significant portion of the operator's economic return is dependent on the sale price of ORAs (either re-sales or new sales in the case of developments).
Discount Rate	Most retirement village operators are valued using a discounted cash flow analysis, which is typically chosen as the best framework to adequately capture the unique characteristics of the business. Accordingly, an operator's cost of equity and debt has a direct bearing on the present value of the future cash flows expected to be generated from the business. For many of the larger operators, a discount rate in the range of 12% to 18% is common.
Occupancy Periods (Churn)	The length of time residents retain occupancy of their units is particularly relevant for the ORA model which most New Zealand operators employ. ORA duration typically varies between accommodation types and, industry wide, typically falls between 6-10 years for independent living and a far shorter duration for aged care.
Occupancy Levels	The number of units occupied and vacant within a particular village is heavily influenced by changes in demand and supply, demographics within a village's catchment area, levels of competition, and the attractiveness and amenities offered within the village.
Development Plans and Construction Costs	Although not all operators own material land-banks or undeveloped facilities, this is a significant driver of value and a key part of the economic model for some of the larger corporate operators.

Source: Northington Partners' analysis

3.0 Profile of the Merging Entities and RVG

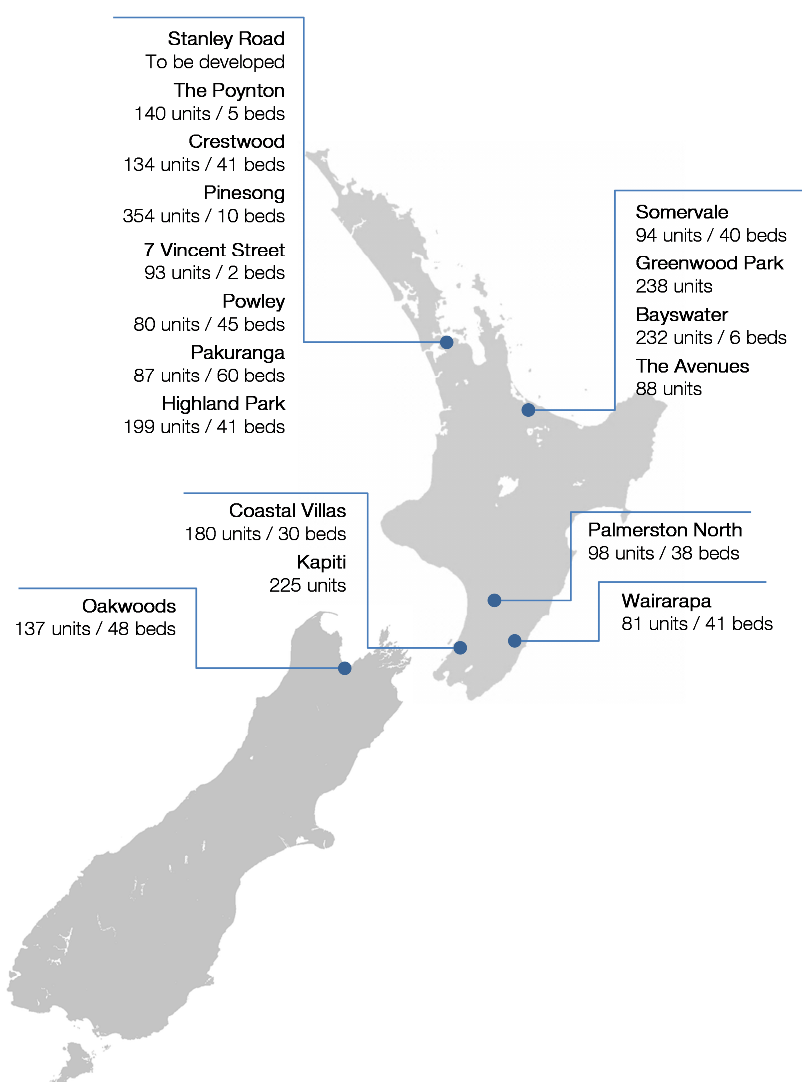
3.1 Metlifecare Limited

3.1.1 Background

Established in 1986, Metlifecare aims to provide quality retirement living and aged care services to meet the unique needs of each community within which it is located. The Company provides a continuum of care ranging from independent villas and apartments through to serviced apartments, rest homes and hospitals.

Metlifecare currently owns and manages 16 villages, incorporating 9 care facilities, which are home to more than 3,200 residents. As set out in Figure 7 below, with the exception of one village near Nelson, all of the Company's villages are North Island based, located in and around the regions of Auckland, the Bay of Plenty, and the lower North Island.

Figure 7: Location of Metlifecare Villages



Source: Metlifecare

Additional information on Metlifecare's existing and development portfolio is set out in Table 8 below.

Table 8: Key Metlifecare Portfolio Statistics

Item	Existing	Land Bank / Development[1]	Combined
Villages	16	1	**17**
Units (independent and serviced)	2,460	380	**2,840**
Care Beds	407	70	**477**

1. Includes the recently acquired land site in Glenfield (March 2012) with potential for 92 independent living units / 38 care bed facility

Source: Metlifecare

Further information on Metlifecare, including details on each of its villages and their respective facilities, can be found on its website: www.metlifecare.co.nz

3.1.2 Significant Recent Events

One of the most significant events in the recent history of Metlifecare was the full takeover offer made for the company by RVNZ. As noted earlier, RVNZ acquired an 82% stake through the takeover process but was not able to achieve the 90% acceptance threshold required to compulsorily acquire all of the shares. Accordingly, Metlifecare remained as a listed entity, albeit with a small number of shareholders.

Metlifecare has been affected by the soft property market which followed the GFC. Given that potential residents often rely on selling their family home as the main source of capital to fund their entry into a retirement village, depressed volumes of real estate sales (particularly in FY2009) impacted Metlifecare's ability to sell and re-sell units. Combined with high levels of debt (a situation which has now been significantly improved), lower cash flows from reduced sales of units provided Metlifecare with limited flexibility to pursue growth initiatives, impacted its ability to pay dividends, and left the business with little headroom in terms of compliance with financial covenants under banking facilities.

Notable events in the recent history of the Company (subsequent to the RVNZ takeover offer and the onset of the GFC) include:

- March 2009: Equity capital of $37.4 million was raised to strengthen Metlifecare's balance sheet and assist in the securing of new bank funding lines.
- June 2009: The Company's Takapuna village was officially opened.
- May 2010: New bank facilities were signed to refinance a maturing loan facility, extending funding through to 31 March 2013.
- February 2011: Metlifecare's Merivale retirement village in Christchurch was sold for $26 million, with the proceeds used to repay debt.
- November 2011: The Company completed and announced the outcome of a strategic review designed to reposition the Company's capital and governance structure and provide a platform for growth.
- December 2011: As part of implementing initiatives arising from the strategic review, the 2011 Capital Restructure was conducted pursuant to which:
  - $45.5 million in equity capital was raised, with the proceeds being used to reduce debt; and
  - RVNZ's shareholding in Metlifecare was decreased from 82.0% to 50.1%.
- March 2012: Metlifecare announced new funding facilities (to replace the facilities due to expire in March 2013), extending tenure through to 2015 and 2016.

- **March 2012**: The Company announced the acquisition of a 1.1 hectare land site in Glenfield, Auckland which will become home to Metlifecare's 17th retirement village. Once complete, the village will offer approximately 92 independent living units and 38 care beds.

3.1.3 Ownership Structure

The current issued capital of Metlifecare consists of 144,115,209 fully paid ordinary shares. RVNZ is the majority shareholder and directly holds 50.1% of the voting shares. RVNZ is a wholly owned subsidiary of RVG, an unlisted investment fund managed by FKP Property Group in Australia. Four institutional fund managers are also significant shareholders, with stakes ranging from 7.0% to 8.0%. The top 20 shareholders in the Company as at 31 March 2012 are set out in Table 9 below.

Table 9: Top 20 Shareholders in Metlifecare

#	Shareholder	Number of Shares	% Shareholding
1	Retirement Villages New Zealand Limited	72,163,043	50.1%
2	TEA Custodians Limited	13,275,695	9.2%
3	New Zealand Superannuation Fund Nominees Limited	9,974,357	6.9%
4	MFL Mutual Fund Limited	6,215,101	4.3%
5	AMP Investments Strategic Equity Growth Fund	5,430,660	3.8%
6	Citibank Nominees (New Zealand) Limited	5,293,057	3.7%
7	HSBC Nominees (New Zealand) Limited	4,109,185	2.9%
8	NZGT Nominees Limited - AIF Equity Fund	2,681,903	1.9%
9	Premier Nominees Limited - OnePath Wholesale Property Securities	2,680,364	1.9%
10	BT NZ Unit Trust Nominees Limited	2,571,429	1.8%
11	Premier Nominees Limited - OnePath Wholesale Australasian SHR Fund	2,006,682	1.4%
12	Westpac NZ Shares 2002 Wholesale Trust	1,837,143	1.3%
13	Cogent Nominees (NZ) Limited	1,611,560	1.1%
14	JP Morgan Chase Bank	1,584,836	1.1%
15	Newberg Nominees Limited - Aust Value Eq Nom Pool	1,198,563	0.8%
16	Cogent Nominees (NZ) Limited	919,438	0.6%
17	Newberg Nominees Limited - Aust Value Eq Nom Pool	630,051	0.4%
18	Investment Custodial Services Limited	554,230	0.4%
19	Craig John Thompson	500,140	0.3%
20	JBWere (NZ) Nominees Limited	458,718	0.3%
Top 20 Shareholders		**135,696,155**	**94.2%**
Remaining Shareholders		8,419,054	5.8%
Total Shares on Issue		**144,115,209**	**100.0%**

Source: Computershare / Northington Partners' Analysis

Substantial shareholders in Metlifecare as at 23 May 2012 are set out in Table 10 below.

Table 10: Substantial Shareholders in Metlifecare (Greater than 5.0%)

#	Substantial Shareholder	Number of Shares	% Shareholding	Disclosure Date
1	Retirement Villages New Zealand Limited and Related Companies	72,163,043	50.1%	10/11/2011
2	OnePath (NZ) Limited	11,512,967	8.0%	30/04/2012
3	AMP Capital Investors (New Zealand) Limited[1]	10,939,284	7.6%	8/11/2011
4	New Zealand Superannuation Fund Nominees Limited	10,555,612	7.3%	8/11/2011
5	Fisher Funds Management Limited	10,153,496	7.0%	9/11/2011
6	Devon Funds Management Limited[1]	6,989,907	4.9%	9/11/2011
Total Shares Held by Substantial Shareholders		**122,314,309**	**84.9%**	

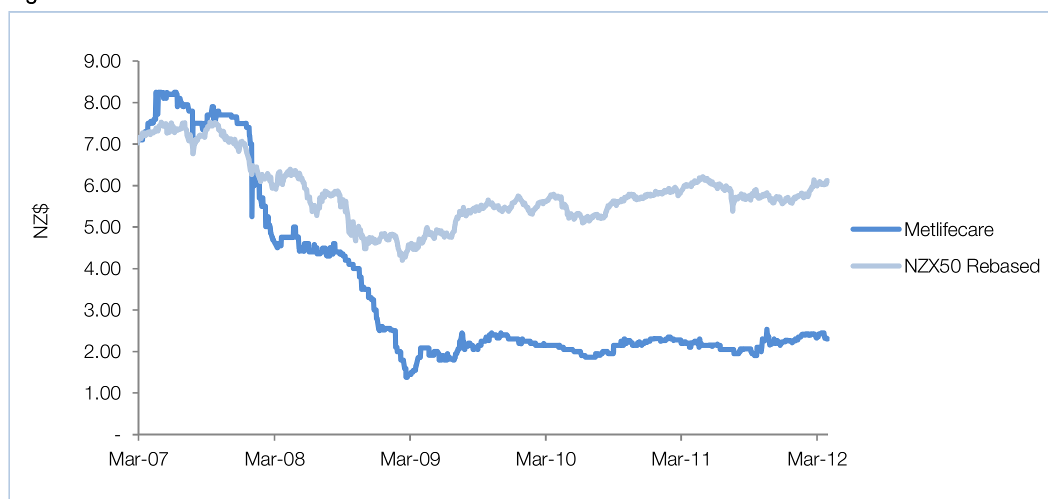
1. *AMP Capital Investors (New Zealand) Limited and Devon Funds Management Limited hold shares on behalf of The New Zealand Superannuation Fund, being 2,595,519 shares and 2,510,093 shares respectively. To eliminate any double counting the shares held on behalf of The New Zealand Superannuation Fund by these investment managers have been eliminated from their holdings as they are included within the New Zealand Superannuation Fund Nominees Limited holding.*

Source: NZSX / Northington Partners' analysis

3.1.4 Share Price Performance and Liquidity

The performance of Metlifecare's shares since March 2007 relative to the NZSX 50 Index is shown in Figure 8. Since the onset of the GFC, Metlifecare's share price has substantially underperformed the index, reflecting the market's perception of the Company's prospects, particularly given the high levels of debt it carried prior to the 2011 Capital Restructure.

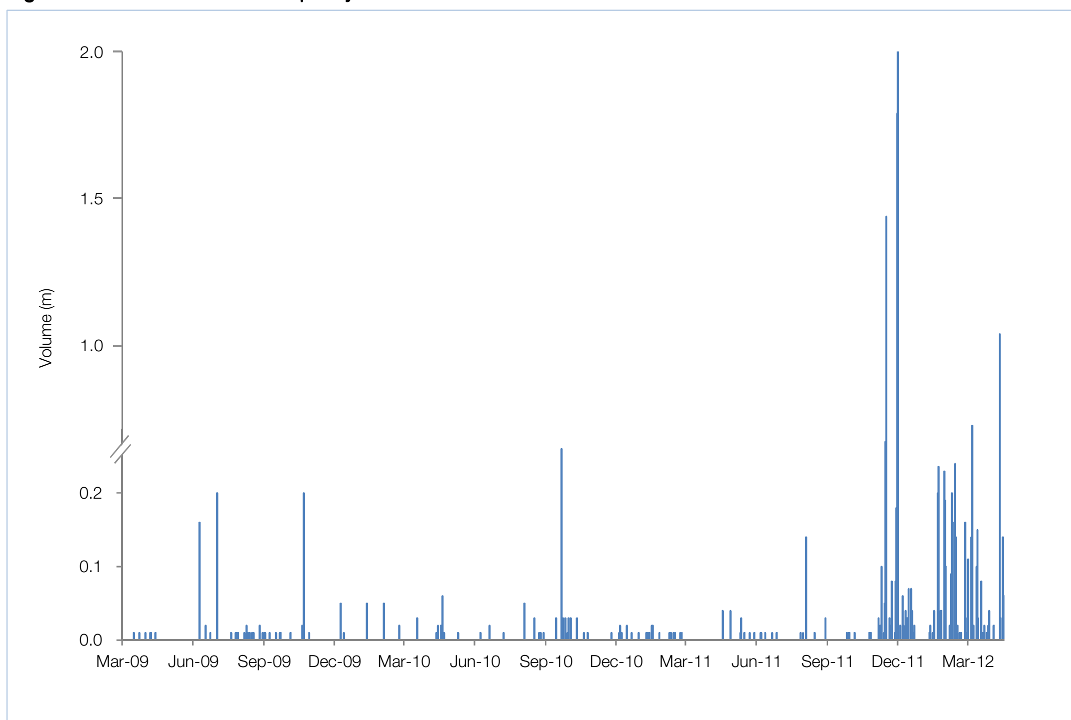
Figure 8: Metlifecare Share Price Performance Relative to NZSX 50 Index



Source: Capital IQ / Northington Partners' analysis

Given the significant shareholding in Metlifecare held by RVNZ, Metlifecare's shares have historically also suffered from low liquidity. Figure 9 below sets out the daily trading volumes in Metlifecare's shares during the period March 2009 to March 2012. Although current trading volumes still remain modest, they were particularly low during most of this historical period. Liquidity has clearly increased since Metlifecare implemented the 2011 Capital Restructure which resulted in a reduction in RVNZ's shareholding, an increase in the number of institutional shareholders, and a corresponding increase in the Company's free float.

Figure 9: Metlifecare Share Liquidity



Source: Capital IQ / Northington Partners' analysis

Table 11 below shows that trading volumes increased from 0.3% of the shares on issue in the 5 months preceding the 2011 Capital Restructure, to 9.2% of the shares on issue in the subsequent 5 month period.

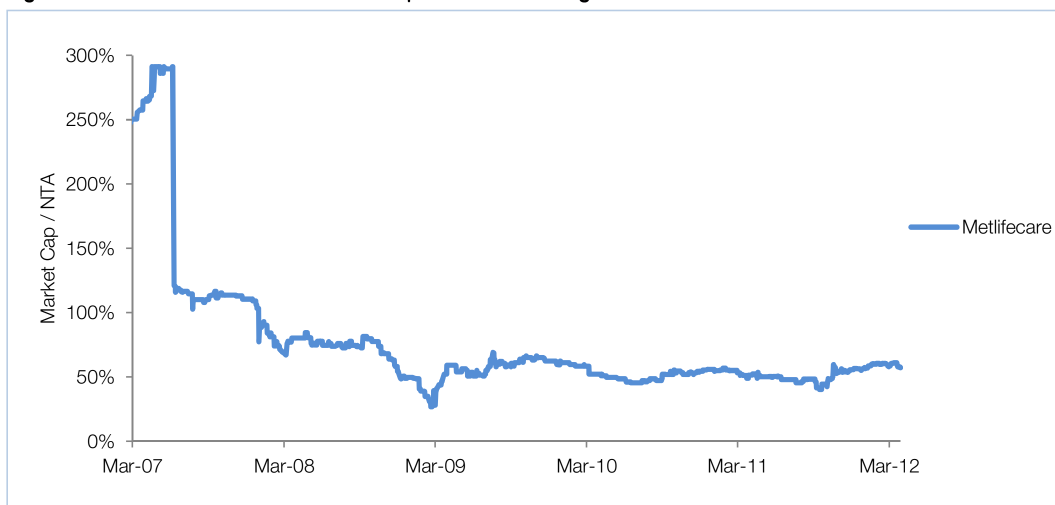
Table 11: Metlifecare Share Liquidity Before and After the 2011 Capital Restructure

	5 Months Prior to 2011 Capital Restructure	5 Months Post 2011 Capital Restructure
Average Daily Share Trading Volume	3,055	116,235
Total Shares Traded (5 Month Period)	326,847	13,250,787
Shares on Issue	122,448,541	144,115,209
Total Volume / Shares on Issue	0.3%	9.2%

Source: Capital IQ, / Northington Partners' analysis

Prior to the onset of the GFC, the market value of Metlifecare's shares traded at a premium to the book value of its NTA (at one stage reaching a premium of close to 300%). However, as set out in Figure 10 below, Metlifecare's share price dropped significantly when the GFC took effect, and the market capitalisation of the Company has traded at a discount to NTA from January 2008 through to the present time. The discount to NTA reached a high in March 2009 when the market capitalisation fell to a level under 30% of NTA, but has since recovered to more recent levels of around 55% of NTA. We suggest that the key historical factors that have driven Metlifecare's discount to NTA have been the market's perception that Metlifecare has limited development opportunities, a lack of industry experienced development skills, a weak balance sheet (prior to the 2011 Capital Restructure), and limited flexibility due to RVNZ's controlling shareholding position.

Figure 10: Ratio of Metlifecare Market Capitalisation to Tangible Book Value



Source: Capital IQ / Northington Partners' analysis

3.1.5 Financial Information

Historical Financial Performance

A summary of the financial performance of Metlifecare for the period FY2008 to FY2011 is set out Table 12 below.

The main features of Metlifecare's historical financial performance can be summarised as follows:

- Reported profit from FY2008 to FY2011 has been highly influenced by annual revaluations of the Company's property assets. Large negative revaluations in FY2008 and FY2009 resulted in losses of $54.0 million and $115.7 million, respectively. Positive revaluation in the following two years contributed to reported profits of $67.5 million in FY2010 and $20.8 million in FY2011.
- Operating revenue has increased at an average annual rate of 2.8% over the historical period, driven by increases in membership fees, village fees, and rest home, hospital and service fees.
- Employee expenses have increased between FY2008 and FY2011 at an average annual rate of 2.3%, broadly in line with the increase in operating revenue (membership and rest home and village fees).
- An extraordinary impairment charge of $2.5 million in FY2009 and $3.5 million in FY2010 was made. This resulted from an adjustment to the fair value of goodwill from a revaluation of the Merivale Retirement Village.

Table 12: Metlifecare Statement of Historical Financial Performance

Year Ended 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Income				
Operating Revenue	58,199	58,425	62,761	65,007
Finance Income	163	133	101	121
Change in Fair Value of Investment Properties	-	-	73,238	27,521
Total Income	**58,362**	**58,558**	**136,100**	**92,649**
Expenses				
Change in Fair Value of Investment Properties	(44,406)	(106,869)	-	-

Year Ended 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Employee Costs	(26,480)	(27,837)	(28,829)	(29,045)
Depreciation	(1,677)	(1,709)	(1,744)	(1,445)
Amortisation	(180)	(228)	(351)	(411)
Impairment of Goodwill	-	(2,468)	(3,514)	-
Finance Costs	(9,954)	(13,180)	(8,242)	(12,885)
Other Expenses	(29,705)	(21,969)	(25,933)	(28,089)
Total Expenses	**(112,402)**	**(174,260)**	**(68,613)**	**(71,875)**
Profit before Income Tax	**(54,040)**	**(115,702)**	**67,487**	**20,774**
Income Tax Expense	-	-	-	-
Profit after Income Tax	**(54,040)**	**(115,702)**	**67,487**	**20,774**
Attributable to:				
Shareholders of the Parent Company	(53,070)	(115,702)	67,487	20,774
Minority Interests	(970)	-	-	-
Total Comprehensive Income After Tax	**(54,040)**	**(115,702)**	**67,487**	**20,774**

Source: Metlifecare Audited Financial Statements

Historical Financial Position

Table 13 below summarises Metlifecare's financial position at the end of each year from FY2008 to FY2011.

Table 13: Metlifecare Statement of Historical Financial Position

As at 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Assets				
Cash & Equivalents	1,146		1,772	516
Trade Receivables and Other Assets	26,006	27,738	23,483	13,980
Amounts Due from Subsidiaries	-	-	-	-
Amounts Due from Jointly Controlled Entity	-	239	195	85
Derivative Financial Instruments	531	-	-	-
Plant, Property and Equipment	98,478	72,532	29,584	20,816
Intangible Assets	6,151	3,991	395	391
Investments in Controlled Entities	-	-	-	-
Investment Properties	1,175,551	1,128,768	1,268,176	1,258,523
Total Assets	**1,307,863**	**1,233,268**	**1,323,605**	**1,294,311**
Liabilities				
Bank Overdraft	-	208	-	-
Trade and Other Payables	14,192	13,300	11,824	13,106
Amounts due to Subsidiaries	-	-	-	-
Derivative Financial Instruments	-	1,186	886	1,812

As at 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Bank Loans	166,196	174,017	168,127	124,252
Finance Leases	65	404	281	213
Deferred Membership Fees	34,983	38,297	39,535	39,076
Resident Refundable Deposits	561,325	567,951	597,560	589,686
Deferred Tax Liabilities			-	-
Total Liabilities	**776,761**	**795,363**	**818,213**	**768,145**
Net Assets	**531,102**	**437,905**	**505,392**	**526,166**
Equity				
Share Capital	44,596	81,958	81,958	81,958
Retained Earnings	478,645	355,947	423,434	444,208
Minority Interests	7,861	-	-	-
Total Equity	**531,102**	**437,905**	**505,392**	**526,166**

Source: Metlifecare Audited Financial Statements

The main features of Metlifecare's historical financial position can be summarised as follows:

- Over the historical period, Metlifecare's net assets have remained relatively flat, moving from $531 million in FY2008 to $526 million in FY2011. A significant portion of the large negative revaluation of investment property assets of $107 million in FY2009 was reversed by a positive revaluation of $73.2 million in FY2010.
- Total assets have also stayed relatively flat, moving from $1.31 billion in FY2008 to $1.29 billion in FY2011, balanced by a combination of the development of new investment property assets, disposals, and the revaluation of the portfolio in each year.
- Metlifecare raised $37.4 million of new capital through a rights issue in FY2009 to help strengthen its balance sheet and assist in securing bank funding lines.
- Bank loan liabilities reduced by approximately $45 million in FY2011, a significant portion of this amount representing the proceeds from the sale of the Metlifecare Merivale Village.

Historical Cash Flows

Table 14 summarises Metlifecare's historical cash flows for the period FY2008 to FY2011.

Table 14: Metlifecare Statement of Historical Cash Flows

Year Ended 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Cash Flows from Operating Activities				
Receipts from Customers	44,442	47,269	54,156	53,850
Payments to Suppliers & Employees	(49,391)	(48,138)	(49,143)	(52,416)
Receipts from Customers for Refundable Occupation Right	87,857	74,268	128,419	113,733
Payments to Customers for Refundable Occupation Right	(48,997)	(47,107)	(86,317)	(78,550)
Net GST (paid/received)	(620)	(1,579)	(1,921)	(1,973)
Management Fees and Other Income Received	-	-	-	-

Year Ended 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Interest Received	93	89	53	42
Interest Paid	(9,754)	(11,389)	(10,192)	(11,682)
Dividends Received				
Net Cash Flow from Operating Activities	**23,630**	**13,413**	**35,055**	**23,004**
Cash Flows from Investing Activities				
Disposal of Business	-	529	-	24,428
Payments for Property, Plant and Equipment	(2,314)	(1,392)	(1,237)	(202)
Payments for Intangibles	-	-	(270)	(416)
Net Repayments from Advances to Subsidiaries	-	-	-	-
Net Repayments from Advances to Jointly Controlled Entity	-	(239)	44	110
Payments for Investment Properties	(33,603)	(47,186)	(23,556)	(3,110)
Payments for Acquired Village Assets	(44,271)	-	-	-
Investment in Subsidiaries	-	-	-	-
Capitalised Interest Paid				
Net Cash Flow from Investing Activities	**(83,491)**	**(52,573)**	**(28,558)**	**20,250**
Cash Flow from Financing Activities				
Net (repayments)/proceeds from Borrowings	81,571	8,121	(4,517)	(44,510)
Proceeds from Issue of Shares		37,362	-	-
Dividends paid to Shareholders	(20,113)	(6,996)	-	-
Share of Dividend paid by Jointly Controlled Entity	(500)	(600)	-	-
Net Cash Flow from Financing Activities	**60,958**	**37,887**	**(4,517)**	**(44,510)**
Net (decrease)/increase in Cash	**1,097**	**(1,273)**	**1,980**	**(1,256)**

Source: Metlifecare Audited Financial Statements

The main features of Metlifecare's historical cash flows can be summarised as follows:

- Over the last four years, net cash flows from operations have moved largely in line with movements in receipts and payments from customers in relation to Refundable Occupation Rights.
- Metlifecare has invested approximately $107 million in the development of village assets, units and hospital assets over the historical period, together with significant development acquisitions in FY2008 ($44.3 million).

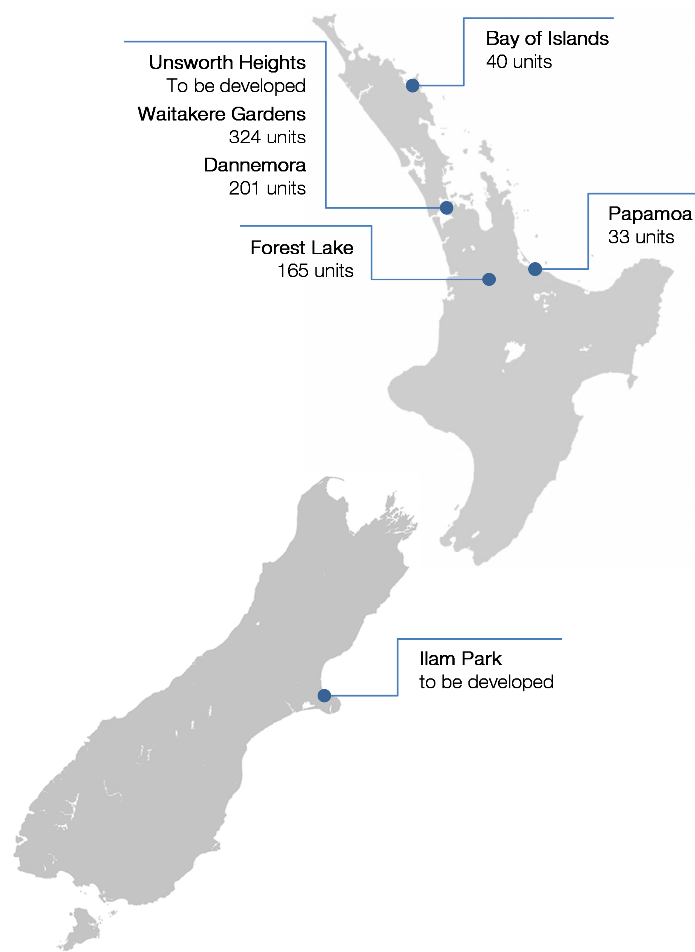
3.2 Vision Senior Living

3.2.1 Background

Vision is a privately held retirement village operator founded in 1997 by Ron Anderson, Peter Bourke and Bob Foster. The business is focused on providing independent living and does not provide aged care or serviced apartments at any of its villages; where surplus land is available, Vision's strategy is to partner with dedicated age care providers to co-locate on nearby Vision sites.

Since opening its first village in Henderson, Auckland in 1999, Vision has opened a further four villages and has an additional village consented and planned in Christchurch. The locations of the Vision villages are shown in Figure 11.

Figure 11: Location of Vision Villages



Source: Metlifecare

Three of Vision's five villages are largely established, while the two other villages are in the early stages of development. VSL also owns bare land in Ilam, Christchurch that has received the required regulatory consents but for which construction has yet to commence, and has recently entered into a conditional contract to acquire bare land at Unsworth Heights. Key information on the business's property portfolio is set out section 3.2.5.

The company's website (www.seniorvisionliving.co.nz) contains pictures and details of the various amenities existing or planned within each of the villages.

3.2.2 Significant Recent Events

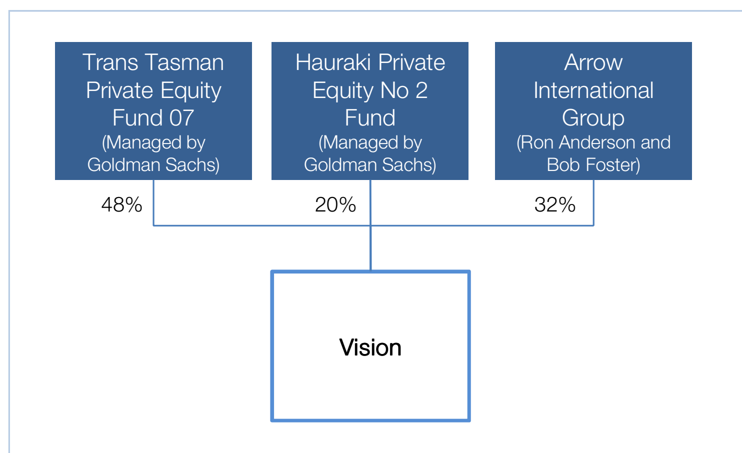
Notable events in the history of Vision include:

- **1999**: The first stage of Vision's first village (Waitakere Gardens) was completed.
- **2001**: Construction began of a second village (Dannemora), with the first unit sales occurring in October 2002.
- **2002**: An agreement was entered into with Waikato Racing for Vision to build and own the Forest Lake village on land adjoining the Te Rapa racecourse in Hamilton.
- **2003**: 8.5 hectares of land was acquired at the southern end of Papamoa, and the consent process commenced and was ultimately obtained for the construction of a 160 unit village.
- **2006**: Hauraki Private Equity No.2 Fund provided $20 million of new equity in exchange for a 28.5% stake in Vision.
- **2007**: Vision acquired land in the centre of Kerikeri (upon which the Bay of Islands village is now located), together with land in Christchurch (which will become the Ilam Park village – consents are in place although construction has yet to commence).
- **2007**: Trans-Tasman Private Equity Fund 07 acquired a 35.5% stake in Vision for $54 million ($20 million being paid on closing of the transaction, with the balance paid in March 2009).

3.2.3 Ownership Structure

The current issued capital of Vision consists of 49,961,169 fully paid ordinary shares. As set out in Figure 12 below, Vision is currently ultimately owned by two private equity funds managed by Goldman Sachs (the Trans Tasman Private Equity Fund 07 and the Hauraki Private Equity No.2 Fund, via Perpetual Nominees Limited and Perpetual Corporate Trust Limited, respectively) and two of its three founders, Ron Anderson and Bob Foster via their investment vehicle, Arrow International Group Limited.

Figure 12: Ultimate Vision Shareholders



Source: Companies Office

3.2.4 Financial Information

Historical Financial Performance

A summary of the financial performance of Vision for the period FY2009 to FY2012 is set out in Table 15.

Table 15: Vision Statement of Historical Financial Performance

Year Ended 31 March	2009 ($000)	2010 ($000)	2011 ($000)	2012E ($000)
Income				
Community Facility Fees	5,420	6,262	5,559	6,671
Village Outgoings Payments + Other	3,793	4,256	4,701	5,225
Change in Fair Value of Investment	-	6,264	3,611	11,582
Total Income	**9,213**	**16,782**	**13,871**	**23,478**
Expenses				
Change in Fair Value of Investment	(34,275)	-	-	-
Employee Costs	(4,364)	(4,449)	(3,896)	(4,059)
Depreciation and Amortisation	(132)	(125)	(110)	-
Impairment of Goodwill				
Finance Costs	(16,734)	(8,046)	(9,624)	(7,078)
Other Expenses	(6,697)	(5,944)	(5,983)	(7,355)
Total Expenses	**(62,202)**	**(18,564)**	**(19,613)**	**(18,492)**
Profit before Income Tax	**(52,989)**	**(1,782)**	**(5,742)**	**4,986**
Income Tax Expense	-	-	-	-
Total Comprehensive Income After Tax	**(52,989)**	**(1,782)**	**(5,742)**	**4,986**

Source: Vision Audited Financial Statements (FY2009 to FY2011), Vision Management Accounts (FY2012)

The main features of Vision's historical financial performance are as follows:

- Reported profit over the historical period from FY2009 to FY2012 has been highly influenced by annual revaluations of investment property assets. After allowing for continued significant investment during the year, a large net negative revaluation of the portfolio in FY2009 resulted in a significant loss of $52.9 million in that year. Positive revaluations were recognised in the three years from FY2010 to FY2012, although losses of $1.8 million and $5.7 million were still generated in FY2010 and FY2011, respectively.
- Amortised community facility fees increased from $5.4 million in FY2009 to $6.3 million in FY2010, an increase of approximately 16%, then reduced slightly to $5.6 million in FY2011 (due primarily to a change in the basis of amortisation), before increasing to $6.7 million in FY2012.
- Other fee revenue increased at approximately 9% per annum over the historical period, as the total number of occupied units has increased.
- Partly reflecting the moderate reduction in the use of debt funding over the historical period (due primarily to a reduction in the number of future development sites held by Vision during this time), finance costs have reduced between FY2009 and FY2012 due to an overall decrease in interest rates and related funding expenses. A large spike in FY2009 was due to the revaluation of interest rate swaps.

Historical Financial Position

Table 16 below summarises Vision's financial position for FY2009 to FY2012.

Table 16: Vision Statement of Historical Financial Position

As at 31 March	2009 ($000)	2010 ($000)	2011 ($000)	2012E ($000)
Assets				
Cash and Cash Equivalents	20,712	6,826	3,471	4,030
Trade and Other Receivables	996	850	566	599
Investment Property	307,738	326,802	341,947	368,162
Employee Loans	789	-	-	-
Property, Plant and Equipment	461	412	348	291
Total Assets	**330,697**	**334,891**	**346,332**	**373,082**
Liabilities				
Trade and Other Payables	5,872	5,057	5,035	5,518
Resident Refundable Deposits	113,659	124,677	137,311	152,571
Unamortised Community Facility Fees	22,351	23,944	26,905	30,448
Resident Entitlements to Capital Gains	3,832	3,818	3,695	3,723
Derivative Financial Instruments	5,561	3,640	2,172	-
Westpac / BOS Loan	109,653	87,471	90,818	95,695
Marac Loan	6,008	5,965	5,821	5,315
Total Liabilities	**266,937**	**254,572**	**271,756**	**293,270**
Net Assets	**63,759**	**80,319**	**74,575**	**79,812**
Equity				
Contributed Equity	78,825	97,166	97,165	97,165
Minority Interest	2,036	1,912	1,790	1,342
Retained Earnings	(17,101)	(18,759)	(24,379)	(18,695)
Total Equity	**63,759**	**80,319**	**74,575**	**79,812**

Source: Vision Audited Financial Statements (FY2009 to FY2011), Vision Management Accounts (FY2012)

The main features of Vision's historical financial position can be summarised as follows:

- Over the period from FY2009 to FY2012, Vision's net assets have increased at an average annual rate of approximately 6%, which is higher than the increase in the book value of property assets (5% average annual increase over the same period).
- Resident refundable deposits have increased at an average of approximately 8.6% per annum over the historical period, as the number of active occupation licenses has increased.
- Vision has funding facilities from Westpac / BOS and Marac, the aggregate drawn amount of which has reduced from $115.7 million in FY2009 to $101.0 million in FY2012.

Historical Cash Flows

Table 17 below summarises Vision's historical cash flows for the period FY2009 to FY2012.

Table 17: Vision Statement of Historical Cash Flows

Year Ended 31 March	2009 ($000)	2010 ($000)	2011 ($000)	2012E ($000)
Cash Flows from Operating Activities				
Issue of new ORAs	13,764	18,662	21,046	25,784
Receipt from Customers	3,699	4,151	4,578	4,890
Payments to Suppliers	(12,122)	(11,008)	(9,416)	(11,255)
Net Cash from Operating Activities	**5,341**	**11,805**	**16,208**	**19,419**
Cash Flows from Investing Activities				
Capital Expenditure - Investment Properties	(20,555)	(11,990)	(11,273)	(13,617)
Capital Expenditure - Fixed Assets	(130)	(75)	(48)	(33)
Purchase / (sale) of Development Land	5,647	-	-	700
Net Cash Flows from Investing Activities	**(15,038)**	**(12,065)**	**(11,321)**	**(12,950)**
Cash Flow from Financing Activities				
Establishment Fees Paid	(2,715)	(1,200)	-	-
Net Interest Paid	(12,884)	(9,894)	(9,617)	(8,948)
Repayment of Secured Debenture Stock	(32,910)	-	-	-
Marac Loan - Vision BOI & HP Finance	(490)	(531)	(625)	(962)
Movement in Westpac BOS Bank Borrowings	37,100	(22,000)	2,000	4,000
Increase in Shareholder Equity	26,918	20,000	-	-
Net Cash Flow from Financing Activities	**15,019**	**(13,625)**	**(8,242)**	**(5,910)**
Net (decrease) / increase in Cash	**5,322**	**(13,885)**	**(3,355)**	**559**

Source: Vision Audited Financial Statements (FY2009 to FY2011), Vision Management Accounts (FY2012)

The main features of the Vision's historical cash flows can be summarised as follows:

- Over the last four years, Vision has invested approximately $57 million in the development of village assets, and approximately a net $6.3 million on new land for future development.
- Cash flows from operating activities over the same period have improved significantly from $5.3 million (FY2009) to $19.4 million (FY2012).
- Interest costs totalled $41 million over the period. A significant reduction in debt occurred in FY2010 following a capital raising from shareholders. In total, shareholders have contributed approximately $47 million over this period.

3.2.5 Overview of Vision's Property Portfolio

As set out in Table 18 below, the Vision portfolio currently consists of six properties (along with the conditional contract held on Unsworth Heights).

Table 18: Key Vision Portfolio Statistics

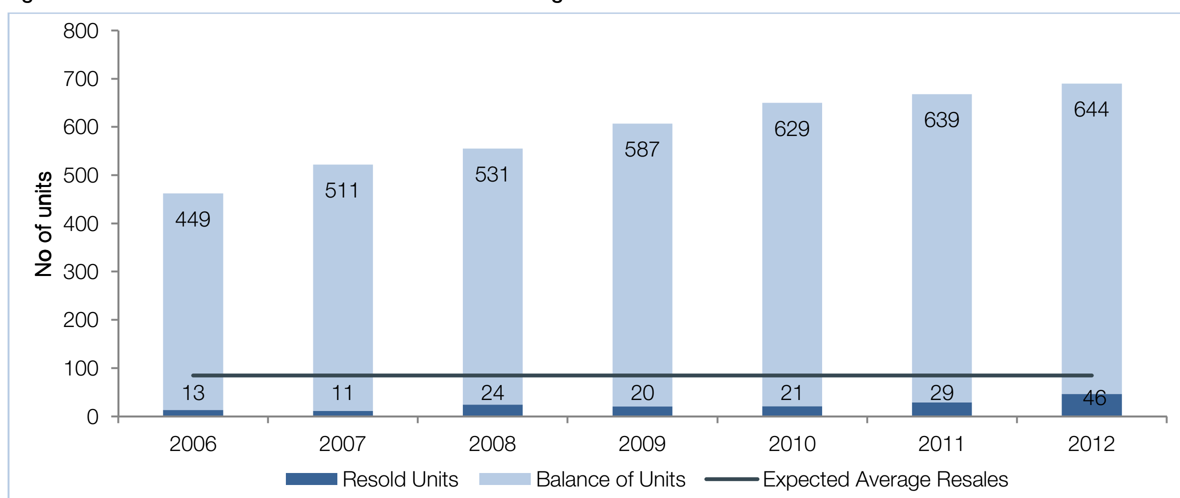
Village	Year First Occupied	Existing Units	Planned Units	Planned Care	Combined	Interest in ORAs ($000s)	% of total ORA Value
Waitakere Gardens	1999	324	-	-	324	62,360	45.6%
Dannemora	2002	201	-	-	201	41,040	30.0%
Forest Lake	2003	165	33	-	198	27,930	20.4%
Established Villages		**690**	**33**	**-**	**723**	**131,330**	**96.0%**
Papamoa	2004	33	127	-	160	3,380	2.5%
Bay of Islands	2008	40	101	-	141	2,110	1.5%
Ilam Park	n/a	-	170	-	170	-	-
Unsworth Heights	n/a	-	200	40	240	-	-
Village Developments		**73**	**598**	**40**	**711**	**5,490**	**4.0%**
Total Portfolio		**763**	**631**	**40**	**1,434**	**136,820**	**100.0%**

Source: Metlifecare

CB Richard Ellis ("**CBRE**") ascribed a value of $147.1 million to Vision's three established villages as at 31 March 2012, representing the sum of Vision's interest in ORAs plus unsold stock and development land. This makes up 82% of the total property portfolio (net of Resident Refundable Deposits and excluding Unsworth Heights, which was not included in the valuation).

The value ascribed to an operator's interest in ORAs is based on an assessment of the net present value of projected net future cash flows that the operator can reasonably expect to receive from future re-sales of the independent living units ("**ILU**"). Vision's established villages are comparatively new and still maturing. Historical rates of unit re-sales for maturing villages (as summarised in Figure 13 below) are therefore not representative of the projected long run stabilised average that are included in the valuation of these villages, which in aggregate amounts to 82 units per annum from a portfolio of 690 units[4].

Figure 13: Actual Unit Re-sales – Vision Established Villages



Source: Metlifecare

The expectation is that the number of unit re-sales that occur each year at Vision's established villages will trend upwards over time towards CBRE's assessed stabilised average as the villages mature.

[4] This figure does not include the 33 units that are planned at Forest Lakes, 18 of which are under construction.

At 31 March 2012, Vision had 33 units of unsold stock at its three established villages, including 21 apartments relating to the recently completed final stage of development at Dannemora (95% of these units were pre-sold and are expected to settle in the June 2012 quarter). A further 18 apartments were in the early stages of construction at Forest Lake, which the valuer treated as development land for valuation purposes[5].

The expected sell down of existing stock over the next year has a realisable value of $14.1 million; if that level of sales is achieved, the proceeds will provide sufficient funding for the construction of the final stages of development at Forest Lake (circa $8 million) and allow Vision to retire core debt.

Vision employs ten people at its head office who perform finance, portfolio development and sales and marketing functions in addition to overseeing the operation of its five villages. Village development activities include all site investigations, resource consent applications, feasibility analysis, village design and planning, new unit sales and marketing, and project administration at an estimated cost to the business of $1.5 - $2.0 million per year.

When all of the currently anticipated developments have been completed, there will be a total of approximately 1,430 units and apartments, of which just over 50% are currently in place. However, only 23% or $44.2 million of the assessed value of Vision's property portfolio as at 31 March 2012 (net of Resident Refundable Deposits but including Unsworth Heights) relates to this development pipeline at four locations. Table 19 shows a break-down of Vision's development assets into the three component parts.

Table 19: Vision Development Portfolio Valuation Breakdown

Component	%
Interest in OLAs	12.4%
Unsold Stock	15.4%
Development Land	72.2%
Total	**100.0%**

Source: Independent Valuation as at 31 March 2012

3.3 Private Life Care

3.3.1 Background

PLC is a privately held retirement village operator, owned indirectly 100% by RVG. PLC owns and operates three villages which contain a mixture of independent living units and serviced apartments. Aged care facilities are not provided at any of the villages. As set out in Figure 14 below, all three villages are located in the Auckland region.

[5] CBRE's preferred approach is to adopt a residual valuation method to determine the value of development land at Forest Lake. This involves forecasting the gross realisation of planned units based on current ingoing values and deducting the cost of construction and infrastructure costs, professional fees, holding costs and an allowance for a development margin for profit and risk.

Figure 14: Location of PLC Villages

Source: Metlifecare

The company's website (www.villages.co.nz) contains pictures and details of the various amenities within each of the three villages.

3.3.2 Financial Information

Historical Financial Performance

A summary of the financial performance of PLC for the period FY2008 to FY2011 is set out in Table 20 below.

Table 20: PLC Statement of Historical Financial Performance

Year Ended 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Income				
Facility Fees	7,368	7,583	8,472	9,771
Other Revenue	1,151	553	496	484
Change in Fair Value of Investment Properties	2,506		33,338	2,736
Total Income	**11,025**	**8,136**	**42,306**	**12,991**
Expenses				
Change in Fair Value of Investment Properties		(21,092)		
Employee Costs	(2,918)	(3,125)	(3,670)	(3,545)
Property Costs				
Depreciation and Amortisation	(58)	(86)	(104)	(87)
Impairment of Goodwill				
Finance Costs (net)	(2,200)	(4,322)	(3,837)	(3,314)
Other Expenses	(5,115)	(5,293)	(6,997)	(6,514)
Total Expenses	**(10,291)**	**(33,918)**	**(14,608)**	**(13,460)**
Profit before Income Tax	**734**	**(25,782)**	**27,698**	**(469)**

Year Ended 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Income Tax Expense	-	-	(987)	230
Profit after Income Tax	**734**	**(25,782)**	**26,711**	**(239)**
Attributable to:				
Shareholders of the Parent Company	734	(25,782)	26,711	(239)
Minority Interests	-	-	-	-
Total Comprehensive Income After Tax	**734**	**(25,782)**	**26,711**	**(239)**

Source: PLC Audited Financial Statements

The main features of PLC's historical financial performance can be summarised as follows:

- PLC's reported profit over the historical period from FY2008 to FY2011 has been highly influenced by annual revaluations of the portfolio property assets. A large negative revaluation in FY2009 resulted in a significant loss of $25.8 million in that year. Positive revaluations of $33.3 million and $2.7 million were recognised in FY2010 and FY2011 respectively, contributing towards a profit in FY2010 of $26.7 million and contributing to a flat result in FY2011.
- Facility fees (which include both facility fees and fortnightly fees) increased at an average of over 7% over the period, in line with the growth in resident obligations and deferred facility fee income (see the statement of Historical Financial Position below).
- Employee costs have increased at approximately 5% per annum.
- Increases in "Other Expenses" over the period were driven mainly by an increase in repairs and maintenance costs for the investment property portfolio.

Historical Financial Position

Table 21 below summarises PLC's financial position for FY2008 to FY2011.

Table 21: PLC Statement of Historical Financial Position

As at 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Assets				
Cash and Cash Equivalents	4,168	3,866	5,358	4,837
Trade and Other Receivables	237	299	113	111
Property, Plant and Equipment	6,927	3,650	223	134
Investment Properties	291,965	272,096	309,284	312,405
Total Assets	**303,297**	**279,911**	**314,978**	**317,487**
Liabilities				
Trade Payables	363	563	536	441
Other Payables	640	273	599	548
Employee Benefits	285	236	276	308
Fortnightly Fees Received in Advance	83	74	71	60
Resident Refundable Deposits	124,190	128,413	138,074	144,070
Deferred Facility Fee Income	1,562	3,310	5,969	8,323

As at 30 June	2008 ($000)	2009 ($000)	2010 ($000)	2011 ($000)
Loan Advances from Parent	50,376	48,426	43,139	37,892
Deferred Tax Liabilities	-	-	987	757
Total Liabilities	**177,499**	**181,295**	**189,651**	**192,399**
Net Assets	**125,798**	**98,616**	**125,327**	**125,088**
Equity				
Contributed Equity	40,385	40,385	40,385	40,385
Retained Earnings	85,413	58,231	84,942	84,703
Total Equity	**125,798**	**98,616**	**125,327**	**125,088**

Source: PLC Audited Financial Statements

The main features of PLC's historical financial position can be summarised as follows:

- Over the period FY2008 to FY2011, PLC's net assets have remained flat at approximately $125 million, with a dip in FY2009 to $98.6 million due to a negative revaluation of the investment property portfolio (which reverted the following year with an offsetting positive revaluation).
- The carrying value of investment properties has increased on average at 1.7% per annum between FY2008 and FY2011, driven by revaluations of the existing portfolio.
- Resident obligations and deferred facility fee income have both increased over the period and have facilitated a reduction in the funding loan from PLC's parent company, from $50.4 million in FY2008 to $37.9 million in FY2011.

3.3.3 Overview of the Property Portfolio

PLC's villages are well established, and offer little (if any) meaningful development potential. Details of PLC's portfolio are set out below in Table 22.

Table 22: Key PLC Portfolio Statistics

Village	Year First Occupied	Independent Living Units[1]	Serviced Apartments	Combined Units	Interest in ORAs ($000s)	% of total ORA Value
Hibiscus Coast	1985	221	48	269	$53,594	39.4%
Hillsborough Heights	1987	176	41	217	$45,910	33.7%
Longford Park	1997	144	49	193	$36,650	26.9%
Total Portfolio		**541**	**138**	**679**	**$136,154**	**100.0%**

1. Includes units currently under construction

Source: Metlifecare

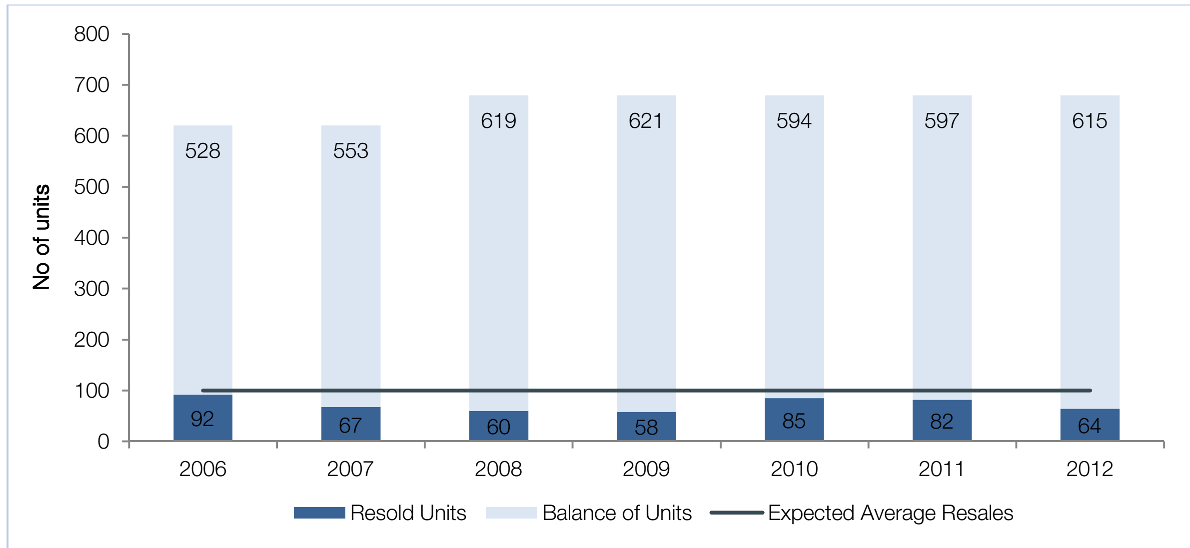
Practical completion and the first sales of 71 units at Hibiscus Coast village occurred in 2008. Strong competition, the conditional sale of the Peninsula Golf Course and a weak property market had a significant impact on the new unit sales. As at 31 March 2012 there remained 17 unsold apartments, down from 35 units at 30 June 2011. PLC management expects the bulk of unsold new stock at Hibiscus Coast to be sold by December 2012.

The PLC valuer, Darroch, adopts a different methodology to CBRE for the purposes of projecting net cash flows from retirement villages; the alternative approach is based on a profile of ILU re-sales that reflects the actual age of existing residents and the expected length of stay, and which thereafter assumes a constant

average length of stay for new residents of eight years in ILUs and four years in serviced apartments. The current resident profile data suggest that there will be a material uplift in cash flows from re-sales of units for the PLC villages over the next few years. After this uplift, cash flows are expected to decline in the later years to a level below the expected long run average implied by the assumed average length of stay.

Figure 15 presents the actual unit re-sales for PLC for the last 7 years. Recent sales volumes have been below expectations and an uplift in unit re-sales over the near to medium term is therefore expected.

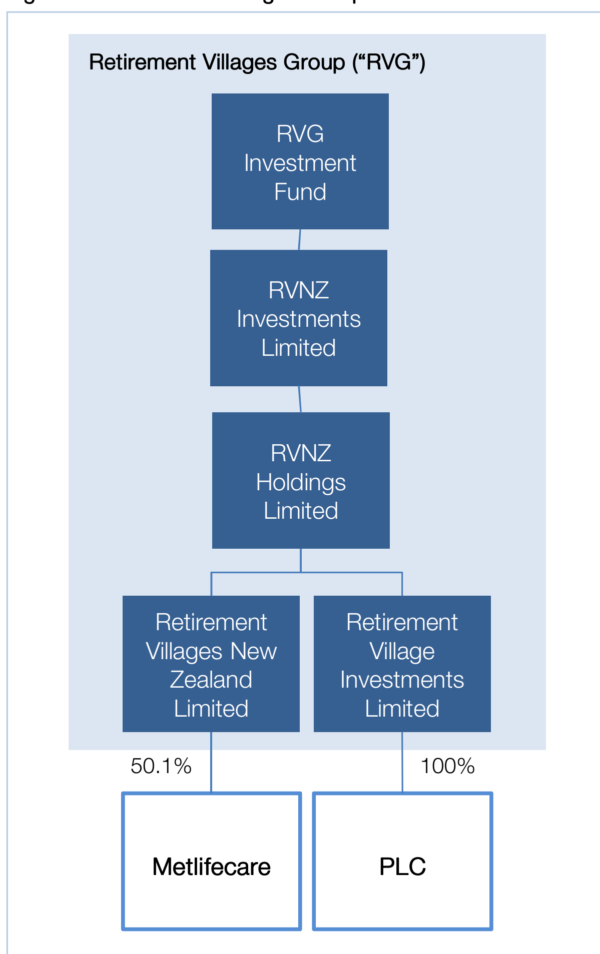
Figure 15: Actual Unit Re-sales - PLC



3.4 Retirement Villages Group

Metlifecare is directly and majority owned by RVNZ, which is a wholly owned subsidiary of RVNZ Holdings Limited. PLC is a wholly owned subsidiary of Retirement Villages Investments Limited, which is also a wholly owned subsidiary of RVNZ Holdings Limited. The Retirement Villages Group comprises an unlisted investment fund, together with its various subsidiaries and related companies. The RVG ownership structure is shown in Figure 16 below.

Figure 16: Retirement Villages Group Structure



Source: Metlifecare

4.0 Details of the Proposed Transaction

4.1 Proposed Transaction Steps

In practical terms, the Proposed Transaction involves three initial steps with a possible fourth step which may take place within 28 months of Completion. Each of the first three steps must be completed and settled contemporaneously, otherwise the Proposed Transaction will not proceed. The transaction steps are as follows:

- **Step 1 (Merger):** Metlifecare will acquire 100% of the shares in each of Vision and PLC in return for an issue of new Metlifecare shares to the shareholders of Vision and PLC. A total of 42.73 million[6] new Metlifecare shares will be issued upon Completion. Metlifecare will issue shares as follows:
  - 29.73 million Metlifecare shares to PLC's shareholder in return for 100% of the shares in PLC; and
  - 13.0 million Metlifecare shares to Vision shareholders in return for 100% of the shares in Vision.
- **Step 2 (Share Placement):** Metlifecare contracts to raise a minimum of $10 million (up to a maximum of $15 million) of new capital by issuing new shares to third party investors. The capital raised will be used to reduce the overall debt position of the Merged Entity. The number of Metlifecare shares issued pursuant to the Share Placement will depend on the ultimate issue price of the shares (which has yet to be decided and will ultimately be determined when Metlifecare engages with the market), and the level of over subscription (if any) from third party investors. Assuming an issue price of $2.00 per share, between 5.0 million and 7.5 million new shares will be issued, depending upon the level of capital raised.
- **Step 3 (RVNZ Sell Down):** RVNZ contracts to sell between 16.5 million and 22.5 million of the shares it holds in Metlifecare (between 11.5% and 15.6% of the total shares currently on issue). The RVNZ Sell Down will occur via a co-ordinated offering to retail investors to reduce RVNZ's Metlifecare shareholding. The ultimate number of shares sold will be dependent on investor demand.
- **Step 4 (Conditional Vision Shares):** Vision's shareholders will be issued the Conditional Vision Shares (being a further 7.0 million Metlifecare shares) as further consideration for the shares in Vision if the 5 day VWAP of Metlifecare's shares exceeds $3.00 within 28 months of Completion.

A summary of the share issues contemplated under the Proposed Transaction is set out in Table 23.

[6] If a minority shareholder of the management company that manages Vision's Forest Lake village does not accept Metlifecare shares as consideration for selling its interest in that management company, the number of Metlifecare shares issued will be reduced. A total of 336,189 Metlifecare shares are intended to be issued to this party (218,523 upon Completion and 117,666 if the Conditional Vision Shares are issued).

Table 23: Summary of Share Issues Contemplated Under the Proposed Transaction

Transaction Step	Recipient of New Shares Issued	Number of Ordinary Shares Issued / Sold	Timing of Share Issue / Sale	Metlifecare Receives in Exchange for Issuing Shares
Step 1: Merger	PLC shareholders	29.73m issued	Upon Completion	100% of the PLC shares on issue
	Vision shareholders	13.0m issued[1]	Upon Completion	100% of the Vision shares on issue
Step 2: Share Placement	Third party investors	5.0m to 7.5m issued[2]	Upon Completion	$10 million to $15 million
Step 3: RVNZ Sell Down	No new shares issued	16.5m to 22.5m sold	Upon Completion	Proceeds are paid to RVG
Step 4: Conditional Vision Shares	Vision shareholders	7.0m issued[3]	Up to 28 months after Completion (Contingent)	No additional consideration (part of overall merger terms)

1. *This number could potentially be reduced by 218,523 Metlifecare shares - see footnote 6.*
2. *Assuming the Share Placement is at an issue price of $2.00 per share*
3. *Issued only if the VWAP of Metlifecare's shares exceeds $3.00 within 28 months of Completion. This number could potentially be reduced by 117,666 Metlifecare shares - see footnote 6.*

Source: Metlifecare

4.2 Negotiated Exchange Ratio

The number of shares to be issued by Metlifecare to the shareholders of Vision and PLC was calculated initially based on the proportion of the Adjusted NTA of Vision and PLC projected as at 30 June 2012 relative to the corresponding Adjusted NTA of the Merged Entity.

The projected NTA for each of the Merging Entities as at 30 June 2012 was determined as shown in Table 24 below. NTA for Vision was initially based on management financial information as at 31 March 2012[7], and an adjustment was therefore needed to reflect the net value of future development that will be in place before the 30 June 2012 projection date. NTA values for both Metlifecare and PLC were also initially based on audited financial information as at 30 June 2011, but have been updated to 31 December 2011 based on an interim "roll forward" process which takes into consideration respective management's assessment of the net changes that occurred in that six month period. The parties agreed that no further adjustments were needed for Metlifecare and PLC to account for activity in the subsequent six month period to June 2012.

Table 24: Projected Adjusted NTA of the Merging Entities and the Merged Entity

	Metlifecare	Vision	PLC	Combined Total
Starting Date for Adjusted NTA Calculation	31 Dec 2011	31 March 2012	31 Dec 2011	n/a
Initial Net Assets	$578.4m	$80.3m	$123.4m	$782.1m
Less intangibles	$(0.4)m			$(0.4)m
Plus Projected Adjustments	-	$2.7m	-	$2.7m
Projected NTA	**$578.0m**	**$83.0m**	**$123.4m**	**$784.4m**
Less Transaction Costs	$(2.1)m	$(1.2)m	$(1.7)m	$(5.0)m
Projected Adjusted NTA	**$575.9m**	**$81.8m**	**$121.7m**	**$779.4m**

Source: Metlifecare

[7] Values for the Investment Properties included in the NTA calculation are taken from the independent valuation completed as at 31 March 2012.

A further adjustment was made to the projected Adjusted NTAs following negotiations between the Merging Entities to derive the Negotiated Exchange Ratio. The Negotiated Exchange Ratio reflects the intention that the Proposed Transaction is NTA accretive to Metlifecare shareholders prior to the Share Placement.

As a result of the Negotiated Exchange Ratio (but initially ignoring the impact of the Share Placement):

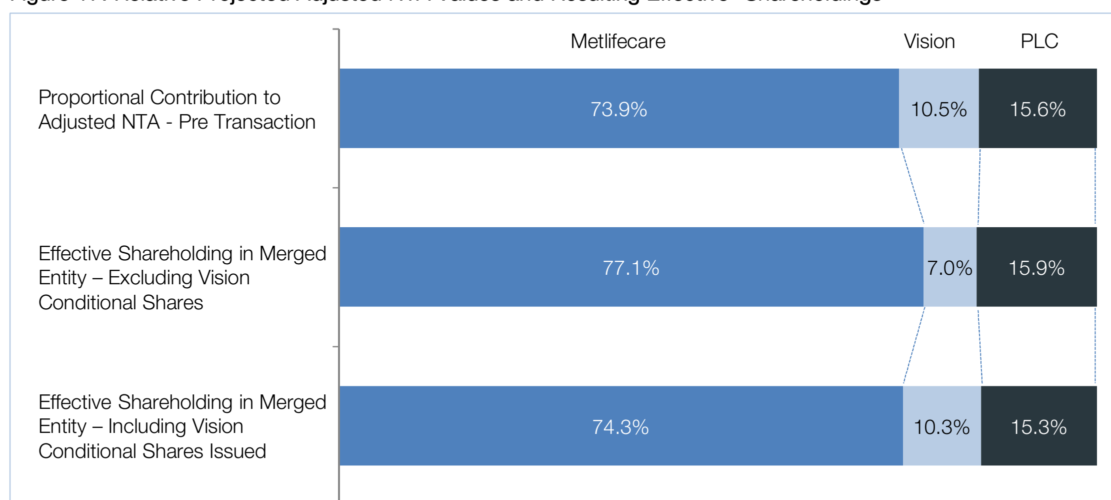
- Metlifecare contributes approximately 73.9% of the combined Adjusted NTA of the Merged Entity and its current shareholders (including RVG) retain a total of 77.1% of the Merged Entity's total shares;
- PLC contributes approximately 15.6% of the combined Adjusted NTA of the Merged Entity and its shareholder (RVG) is issued with 15.9% of the Merged Entity's total shares; and
- Vision contributes approximately 10.5% of the combined Adjusted NTA of the Merged Entity and its shareholders are issued with 7.0% of the Merged Entity's total shares.

Prior to the issue of the Conditional Vision Shares, the beneficial outcome for the Metlifecare and PLC shareholders (based on a comparison of the relative Adjusted NTA contribution and post-transaction shareholdings) is largely at the expense of the Vision shareholders. However, the relative position changes when the Conditional Vision Shares are taken into account; assuming that all else is equal at the point in time at which the 7.0 million shares are issued:

- The existing Metlifecare shareholders will hold a total of 74.3% of the Merged Entity's issued shares (compared to the 73.9% of the combined Adjusted NTA that Metlifecare contributes);
- PLC's shareholder (RVG) would ultimately hold a total of 15.3% of the Merged Entity's issued shares (compared to the approximate 15.6% of the combined Adjusted NTA that it contributes); and
- Vision shareholders would ultimately hold a total of 10.3% of the Merged Entity's issued shares (compared to the approximate 10.5% of the combined Adjusted NTA that it contributes).

The relative contributions and post-Completion "shareholdings" are summarised in Figure 17 below, again prior to the impact of the Share Placement. The effective "shareholding" levels shown do not take into account the fact that RVG currently owns (indirectly) a majority of the shares in Metlifecare. The analysis simply demonstrates the different "shareholding" levels that would result if Metlifecare shares were issued to Vision and PLC shareholders based on Adjusted NTA contributions compared to the "shareholding" levels that have been determined on the basis of the Negotiated Exchange Ratio.

Figure 17: Relative Projected Adjusted NTA Values and Resulting Effective "Shareholdings"



Source: Metlifecare, Northington Partners' analysis

4.3 Share Placement

The Share Placement component of the Proposed Transaction involves the issue of new Metlifecare shares to third party investors at an issue price which is yet to be determined. Table 25 summarises the details of the share issue and includes an estimate of the resulting post-placement NTA per share for Metlifecare based on several possible issue prices and differing levels of new capital being raised. Because the Metlifecare shares will be issued at a price that is lower than its NTA, the share issue will result in a reduction in Metlifecare's post-placement NTA per share. However, the results in Table 25 show that the reduction in NTA is not particularly sensitive to the eventual issue price given the relatively small size of the placement.

Table 25: Projected Metlifecare Post Placement NTA per Share

	Issue Price: $1.80	Issue Price: $2.00	Issue Price: $2.20
Metlifecare NTA per share after Step 1	$4.17	$4.17	$4.17
Capital Raised	$10.0m	$10.0m	$10.0m
Shares Issued Pursuant to Step 2 (Share Placement)	5.56m	5.00m	4.55m
Total Metlifecare Shares on Issue After Step 2 (Share Placement)	192.4m	191.8m	191.4m
Metlifecare NTA per share after Step 2 (Share Placement)	$4.10	$4.11	$4.12
Change in Metlifecare NTA per share	$(0.07)	$(0.06)	$(0.05)
Metlifecare NTA per share after Step 1	$4.17	$4.17	$4.17
Capital Raised	$15.0m	$15.0m	$15.0m
Shares Issued Pursuant to Share Placement	8.33m	7.50m	6.82m
Total Metlifecare Shares on Issue After Share Placement	195.2m	194.3m	193.7m
Metlifecare NTA per share after Share Placement	$4.07	$4.09	$4.10
Change in Metlifecare NTA per share	$(0.10)	$(0.08)	$(0.07)

Source: Northington Partners' analysis

4.4 Escrow Arrangements

The following escrow arrangements have been agreed in relation to the Metlifecare shares issued to the shareholders of PLC and Vision:

- None of Vision's shareholders can sell the Metlifecare shares issued as consideration for the acquisition of the Vision business or the Conditional Vision Shares (if issued in time) within 16 months of Completion.
- The balance of Metlifecare shares held by RVG following the RVNZ Sell Down cannot be sold within 16 months of Completion.
- The restriction on Vision and RVNZ shareholders to sell shares in the first 16 months is subject to standard corporate activity exceptions. The shareholders may sell within the 16 month period:
    - If a Metlifecare corporate reorganisation becomes unconditional;
    - To accept a full or partial takeover offer made under the Takeovers Code to the maximum extent permitted by the Code; or
    - For an acquisition or allotment of MET shares approved under rules 7(c) or 7(d) of the Takeovers Code.

4.5 Timetable and Other Terms of the Proposed Transaction

Table 26 sets out the currently anticipated timetable for the Proposed Transaction.

Table 26: Target Completion Timetable

Condition	Description	Proposed Date
Shareholder Approval	Approval of the Proposed Transaction by the Metlifecare Minority shareholders.	21 June 2012
OIA and Other Consents	Receipt of Overseas Investment Act consent and other material third parties. Covenant Trustee Services consent has been received.	30 June 2012
Bank Consents	Consent of Metlifecare's banks to the Proposed Transaction and the provision of additional funding facilities. A committed term sheet has been received.	30 June 2012
Vision Indebtedness	Vision not having indebtedness of more than $101 million on 2 July 2012.	2 July 2012
No Material Adverse Change	No material adverse change occurring to the business or financial position of any of the Merging Entities from the date of signing the Sale and Purchase Agreement until Completion.	Completion

Source: Metlifecare

Other key terms of the Proposed Transaction are as follows:

- The Metlifecare Board will endeavour to procure the appointment of two additional independent directors. The anticipated timing is to appoint one of the additional independent directors within 30 days of Completion and the other director by 31 December 2012. This will ensure that by the end of calendar year 2012 the board of Metlifecare will be made up of four independent directors, two RVG appointees and the Managing Director. The current independent directors of Vision will be considered as part of the appointment process.
- RVNZ will meet any costs associated with reducing its Metlifecare shareholding.

5.0 Profile of the Merged Entity

5.1 Perceived Strategic Benefits of the Merged Entity

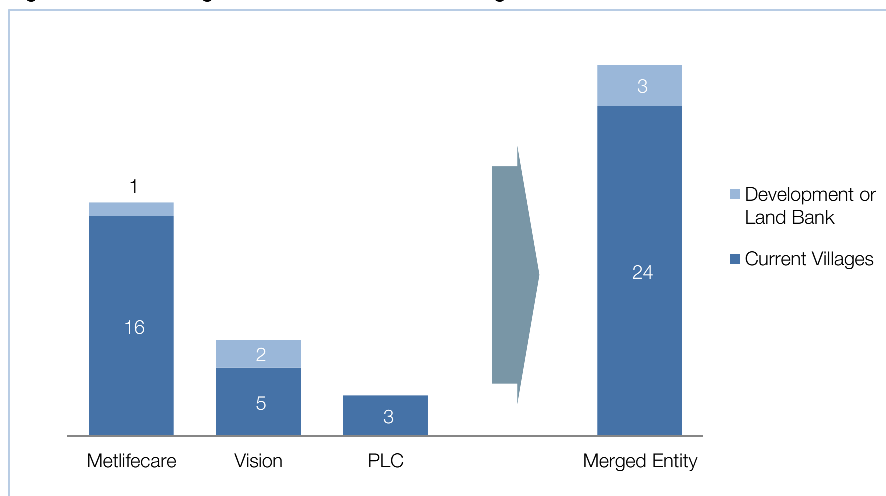
Metlifecare management believes the Proposed Transaction will deliver a number of strategic benefits for Metlifecare:

- The Company will increase in size by around 35%.
- Through the acquisition of Vision, Metlifecare will acquire access to development opportunities and expertise that would otherwise not be available (development capacity will more than double from around 450 units / care beds to over 1,100 units / care beds).
- Metlifecare has the opportunity to expand care services to the Vision and PLC villages.
- Metlifecare will broaden its geographical coverage across New Zealand and strengthen its position in the growing Auckland market.
- The Metlifecare brand will be strengthened as a result of its improved geographical coverage and increase in size.

5.2 Outcome of the Proposed Transaction

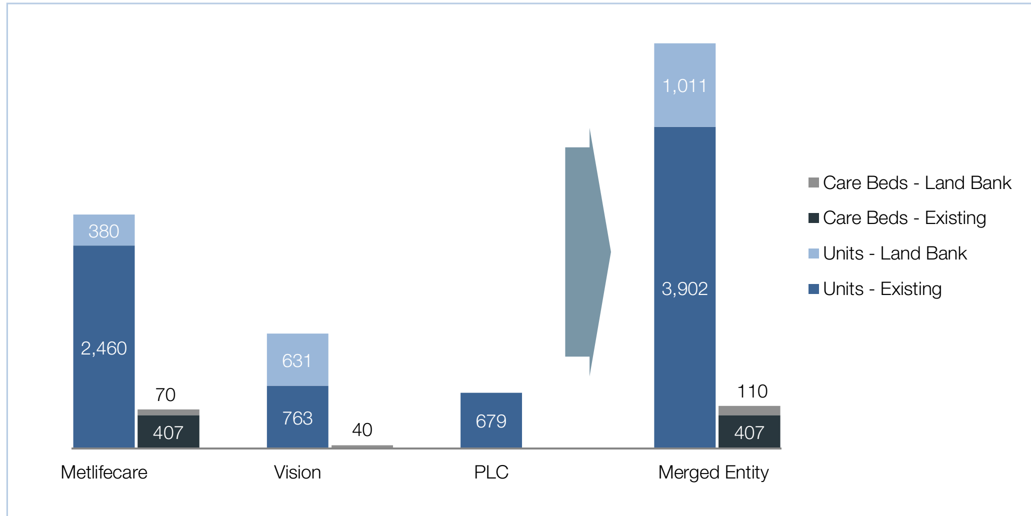
As set out in Figure 18 and Figure 19 below, the Proposed Transaction will result in Metlifecare becoming a much larger retirement village operator, with significantly improved development potential.

Figure 18: Post Merger Combined Number of Villages



Source: Metlifecare

Figure 19: Post Merger Combined Number of Units and Care Beds



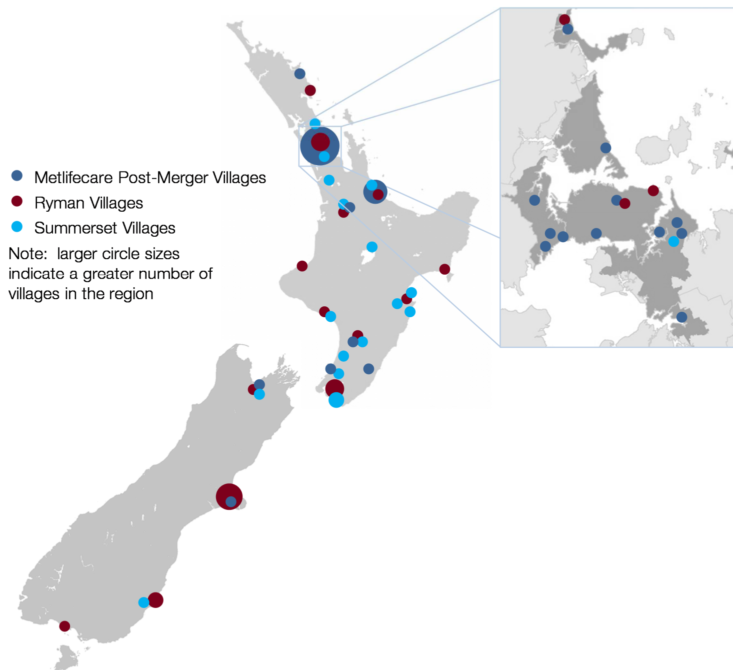
Source: Metlifecare

Vision and PLC together add a portfolio of six established villages and 1,402 ORAs. Metlifecare management believes the age and mix of these established villages and underlying ORAs should deliver an uplift in re-sales cash flows, initially derived from a higher proportion of cash inflows from PLC villages over the near term with growing support from the maturing Vision villages in the longer term. The inclusion of Vision also introduces development capability, two brownfield developments and two development sites where construction is expected to start within the next 12 -18 months.

5.3 Geographical Coverage

As mentioned above, and set out in Figure 20, the Merged Entity will have a broad geographical spread across New Zealand giving Metlifecare increased brand recognition, with a key emphasis in the growing Auckland region.

Figure 20: Metlifecare Post-Merger, Ryman and Summerset Existing Village Geographic Coverage



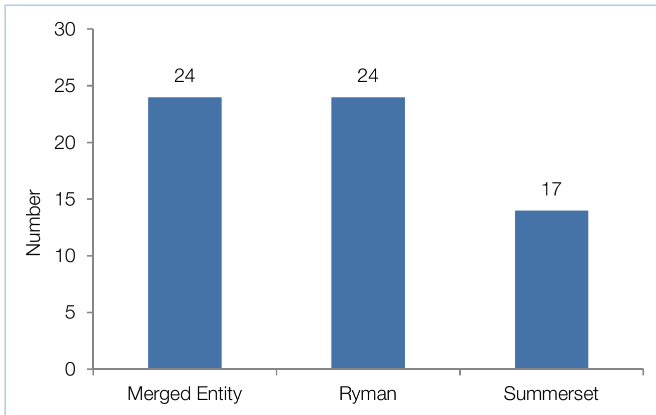
Source: Metlifecare, Ryman and Summerset websites

5.4 Merged Entity Comparison Against its Peers

Immediately after the Proposed Transaction, the Merged Entity will initially have the same number of villages as Ryman (24 villages), a higher number of independent living / serviced units than Ryman or Summerset, but significantly less care beds than Ryman. Ryman and Summerset will also continue to have more development capacity than the Merged Entity. We note that Ryman and Summerset are also committed to developing new villages, with Ryman targeting to build at least 700 units and care beds each year and Summerset targeting 155 units in 2012.

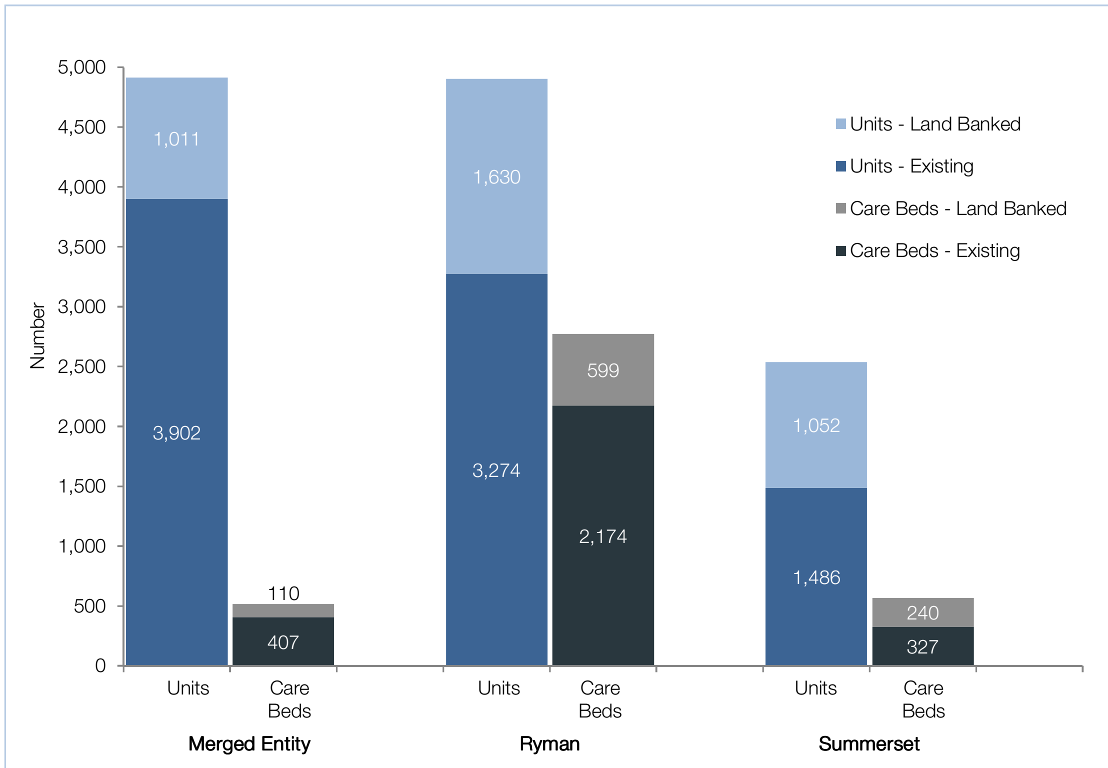
Figure 21 provides a comparison of the number of villages for each of the three listed retirement village operators, while Figure 22 provides a comparison of the number of existing and land-banked living units and care beds held by each entity.

Figure 21: Merged Entity Villages Compared to Listed Peers



Source: Metlifecare, Ryman and Summerset Annual Reports and websites

Figure 22: Merged Entity Existing and Land-banked Units and Care Beds Compared to Listed Peers



Source: Metlifecare, Ryman and Summerset Annual Reports and websites

Table 27 shows the projected balance sheet for the Merging Entities as at 30 June 2012 and the pro-forma balance sheet for the Merged Entity.

Table 27: Pro-Forma Balance Sheet for the Merged Entity

Pro-Forma 30 June 2012 Forecasts ($m)	Metlifecare	Vision	PLC	Pro-Forma Adjustments	Merged Entity
Investment Properties	1,270.6	376.0	313.2	12.6[1]	1,972.4
Property, Plant and Equipment	21.4	0.3	0.1		21.8
Other Assets	32.2	0.6	3.2		36.0
Total Assets	**1,324.2**	**376.9**	**316.5**	**12.6**	**2,030.2**
Liabilities					
Resident Refundable Deposits	663.4	195.4	165.4		1,024.2
Bank Debt (Net of Cash)	58.8	97.4	25.1	2.6[2]	183.9
Other Liabilities	24.0	1.1	2.6		27.7
Total Liabilities	**746.2**	**293.9**	**193.1**	**7.6**	**1,235.8**
Total Equity	**578.0**	**83.0**	**123.4**	**10.0**	**794.4**

1. *The increase in investment properties of $12.6m assumes that Unsworth Heights is settled prior to 30 June 2012*
2. *The increase in bank debt reflects the settlement of Unsworth Heights ($12.6 million), plus transactions costs relating to the Proposed Transaction ($5.0 million) less funds received from the Share Placement (assuming the maximum $15 million is raised)*

Source: Metlifecare, Annual Reports and Northington Partners' analysis

Table 28 shows a comparison of some of the key financial metrics of the Merged Entity against Ryman and Summerset.

Table 28: Comparison of Key Financial Metrics

Pro-Forma Metrics Comparison	Merged Entity (Pro-Forma 30 June 2012)	Ryman (31 March 2012)	Summerset (31 Dec 2011)
Total Assets	$2,030m	$1,913m	$616m
Investment Properties	$1,972m	$1,434m	$557m
Resident Refundable Deposits	$1,024m	$929m	$278m
Core Debt & Development Funding	$184m	$213m	$69m
Debt as % of total assets less resident refundable deposits	**18.3%**	**21.6%**	**20.4%**
NTA per Share	$3.96[1]	$1.29	$1.09
Share Price (2 month VWAP)	$2.25	$3.14	$1.61
Price to NTA	**0.6x**	**2.4x**	**1.5x**

1. *Includes Conditional Vision Shares and assumes the Share Placement raises the maximum $15 million (issued at $2.00 per share)*

Source: Metlifecare, Annual Reports and Northington Partners' analysis

6.0 Assessment of the Proposed Transaction

6.1 Transaction Terms

As set out in Section 4.0, the Proposed Transaction can be interpreted from the Metlifecare Minority Shareholders' point of view as an acquisition of the Vision and PLC businesses. Metlifecare remains as the continuing entity after the properties and operations of Vision and PLC have been merged into the Metlifecare business, and Metlifecare is proposing to pay for those assets by the issue of Metlifecare shares.

We suggest that the Metlifecare Minority Shareholders should consider the fairness of the key terms of the Proposed Transaction on the basis of the fundamental questions outlined in Table 29. Each issue is then dealt with in turn below.

Table 29: Key Issues in Relation to Proposed Transaction Terms

Issue 1	Is relative Adjusted NTA an appropriate starting point for determining the number of Metlifecare shares to be issued as consideration for the acquisition of the Vision and PLC shares?
Issue 2	What are the implications for Metlifecare Minority Shareholders of the two factors that affect the relative post-Completion shareholdings, namely: (i) The Share Placement; and (ii) The Conditional Vision Shares.
Issue 3	What are the implications of issuing Metlifecare shares to Vision and PLC shareholders when the current Metlifecare share price is trading at a significant discount to NTA?

6.1.1 Assessment of Relative Adjusted NTA

Relationship Between NTA and Underlying Equity Value

A core determinant of the fairness of the Proposed Transaction is an assessment of the relative valuations for each of the Merging Entities, and there is a range of valuation methodologies that can be used for this purpose. No matter which approach is adopted, the relativities between the assessed values are most important; even if the absolute values are believed to be incorrect, the merger terms may still be fair to the participating entities if all of the valuations are assessed in the same way and are subject to the same degree of bias.

Relative contributions to the Merged Entity should be based on the aggregate underlying value of equity for each business, which in general terms is assessed as presented in Table 30.

Table 30: Framework for Assessing Underlying Equity Value

	Step	Comment
	Enterprise Value	Represents the aggregate value of the operating assets of the business.
Plus	Surplus Assets	The value of assets that are not required to support the on-going operation of the business and which can therefore be sold.
Less	Net Debt	Defined as interest-bearing debt less cash reserves.
Equals	Equity Value	

Source: Northington Partners'

In almost all cases, estimating enterprise value is the most difficult part of the process and a number of alternative methods can be used. For retirement village operators, we believe that a discounted cash flow ("**DCF**") approach is most appropriate because it can directly incorporate the numerous factors that affect the future level of cash flows that each asset will generate; these factors include the projected capital expenditure committed to development projects, the expected future profile of new and existing unit sales, and expectations in relation to property price movements.

Importantly, given the nature of the assets of retirement village operators, we believe that the sum of the individual village valuations represents a close approximation to the Enterprise Value of each business, and that NTA is therefore an accurate proxy for the underlying equity value that would be determined using the approach outlined above. As set out in the reported financial position for each entity (summarised in Section 3.0), the NTA for each entity is dominated by the assessed value of the property holdings. Property values are determined on a periodic basis by independent registered valuers, and are established with reference to the "fair market value" standard. That means that the asset base for each company is measured on a current basis, and that the ascribed values will appropriately reflect differences in the portfolio composition (completed units versus development land), location, demographic profile and all of the other key factors that affect the market value of each retirement village.

There are two main factors that give rise to a potential divergence between Enterprise Value and the aggregate value of the village assets as determined by the annual revaluation process:

1. **Overhead Costs** The asset valuations do not make any allowance for the overhead costs of managing the portfolio of villages and, with all else being equal, the sum of the individual values therefore overstates the Enterprise Value of the business. However, to the extent that the overhead costs relative to the size of the asset base for each entity are consistent, the relative difference between the Enterprise Value and the aggregate asset value for each entity will also be the same. In these circumstances, relative NTA is an appropriate basis for assessing the value contributed by each party to the Merged Entity.
2. **Ability to Optimally Manage Village Assets** The asset valuations are assessed on the basis that the current owner is in a position to efficiently manage the assets and complete the developments in line with the plans assumed by the valuer. That requires that the asset owner has access to the requisite management expertise and capital, and that there are no other internal impediments that would prevent efficient asset management.

From the point of view of the Metlifecare Minority Shareholders, the relative overheads position should be viewed in terms of the Vision and PLC businesses taken together. This reflects the fact that the two entities will be acquired as a package and that the overall impact of the combined overheads is more relevant to Metlifecare Minority Shareholders than the overheads of each entity considered in isolation.

Table 31: Overheads Comparison

	Metlifecare	PLC and Vision Combined
Overheads Cost	$6.0m	$3.4m
Overheads / Total Assets less Resident Refundable Deposits	**0.91%**	**1.02%**

Source: Metlifecare and Northington Partners' analysis

Table 31 summarises our analysis of the relative overheads costs, and shows that Metlifecare has a marginally lower proportional overheads cost compared to the combined costs of PLC and Vision. On that basis, the relative NTA basis used to determine shareholdings in the Merged Entity is detrimental to the Metlifecare shareholders. However, we note that the difference is small in terms of the overall transaction and

is mitigated by two factors; first, the Vision overheads structure includes the costs of a development team comprising 4-5 senior staff, and that cost would need to be largely replicated by Metlifecare if the Proposed Transaction does not proceed and the Company pursued an alternative development strategy. Second, the Proposed Transaction will deliver cost synergies in relation to overheads, estimated by Metlifecare management at $2.5 million on a steady state basis. From the Metlifecare Minority Shareholders' point of view, we suggest that both of these factors taken together are sufficient mitigation for the small difference in relative overheads.

In relation to the second point outlined above, we believe that there are no question marks over the future financial or operational position of PLC. The three PLC villages are fully developed, the company has limited gearing, and a low level of future capital expenditure requirements. However, on the face of it, there is more of a question mark over Vision's financial position and ability to carry out all of the development activity in line with the asset valuation assumptions. Consistent with its higher weighting towards development property, Vision has a higher debt level than the other two entities and may face some future capital constraints if the cashflows generated from the existing assets do not continue to improve. Balancing those concerns, we note that the three developed villages in the Vision portfolio are becoming more established and have a resident profile that will lead to on-going improvements in unit turnover and cashflow. As discussed in Section 6.2.4 below, the Vision debt headroom is also expected to improve in the short term as the high level of completed stock is sold down.

In summary, based on our analysis and understanding of the valuation framework, we are comfortable that Adjusted NTA is a reasonable measure of the underlying value that each entity will contribute to the Merged Entity. In our view, an equity value assessment based on a DCF-derived Enterprise Value as a starting point (using the framework summarised in Table 30) would provide substantially the same result.

Outline of Independent Valuation Process

The independent valuers used by each of the Merging Entities are set out in Table 32.

Table 32: Independent Valuers

Company	Valuer
Metlifecare	Darroch
Vision	CBRE
PLC	Darroch

Both of the valuers take the same fundamental approach to the valuation assessment for each of the property types owned by the Merging Entities, including the completed development properties (independent living units and apartments, and care facilities), units under construction, development land and surplus land. Although there are some differences in the detailed assumptions and methodology adopted by Darroch and CBRE, we do not think that these will give rise to material changes to the resulting valuations. Importantly from the point of view of the related parties to the Proposed Transaction, the valuations for Metlifecare and PLC have been carried out by the same valuer and the relativity between the assessed NTA values for these two entities is therefore reliable.

We have reviewed the detailed valuations of each village owned by all three companies, which were prepared as at 30 June 2011 for Metlifecare and PLC, and as at 31 March 2012 for Vision. The valuations are all based on a standard discounted cash flow framework which considers the future net cash earnings from the assets, discounted back into present value terms at a rate reflecting the perceived risk profile of each investment. We are comfortable that the key assumptions used in the valuation of each village reflect an

appropriate allowance for differences in village specific characteristics that are the main determinants of value. These include the impact of:

- Village location on current unit values and the likely appreciation in property values. In general, current unit values for Auckland-based villages are higher than those for villages located in provincial centres and the projected future increase in values is also higher;
- Differences in the structure of the ORAs in place with each existing resident, and the projected future revenue and costs that are therefore associated with the units when they are next vacated;
- The age profile of the current village residents, and the consequent projected timeframe for future unit turnover. The relative value of villages with a younger resident population is lower because of the expectation that it will take longer for the units to be vacated and resold;
- Village location on the risk profile of the business, with provincial villages generally deemed to be risker than those located in Auckland and therefore valued at a higher required rate of return.

In general, the Vision portfolio is perceived to be less established and more risky than the villages held by both Metlifecare and PLC. That is of course expected for a portfolio that contains a material area of development land, and which is being targeted by Metlifecare partly because of its development upside. However, based on our review of the independent valuations, we conclude that to the extent that these factors may be material to the value of each asset, they are fully incorporated into assessed valuations and are therefore also fully reflected in the relative NTA of each business.

It should also be noted that the value of the Vision portfolio is dominated by three villages which are close to being fully developed, and that the perception held by some market participants that Vision is predominantly a development vehicle is therefore somewhat misplaced. The portfolio breakdown presented in Section 3.2.5 shows that Waitakere Gardens, Dannemora, and Forest Lake contribute approximately 82% of the existing portfolio value, with just 2% of the combined value relating to development land (all of which is located at Forest Lake). Papamoa, Ilam Park, and Unsworth Heights represent the bulk of the development opportunity, and collectively make-up about 18% of the total portfolio value. While that development exposure is material, it does not dominate the overall portfolio.

Effective Date of Valuations

The property valuations used as the basis for the relative NTA calculations are arguably a little outdated, especially in relation to Metlifecare and PLC where the latest formal valuations were assessed as at 30 June 2011. As part of the negotiations between the parties, some relatively minor adjustments have been made to account for changes to the NTA position since the previous balance date but this did not involve any third party verification. Given that Completion is expected to take place around the same time that Metlifecare and PLC are due to receive updated valuations (as at 30 June 2012), the Proposed Transaction could have been constructed to include a mechanism whereby the number of Metlifecare shares issued to Vision and PLC is adjusted to reflect the updated NTA values.

The counterparties instead agreed to a fixed number of Metlifecare shares based initially (prior to the adjustments resulting in the Negotiated Exchange Ratio) on forecast Adjusted NTA contributions, effectively trading the potential for small changes in actual NTA outcomes for a transaction structure that is far more straight forward and certain. While the actual Adjusted NTA of each entity at Completion will differ from the forecast values used to assess the number of shares to be issued to Vision and PLC, all parties are clearly comfortable that the differences will not be material. Based on our analysis, we are also comfortable that the use of forecast Adjusted NTA values is very unlikely to result in relative values that are materially different from those that will be observed at Completion.

Impact of Deferred Tax Assets

The calculation of Adjusted NTA for each of the Merging Entities has been made without regard to any existing deferred tax assets or liabilities recognised by the Merging Entities. We understand the reason for this is that in the case of both the Merging Entities and the Merged Entity, the deferred tax position does not reflect a real cash or contingent liability arising from the Proposed Transaction that is expected to crystallise in the foreseeable future. Thus, although existing tax losses carried forward by Vision (and potentially PLC) will be forfeited if the Proposed Transaction is implemented[8], the exclusion of deferred tax from the Adjusted NTA calculations means this outcome should not be relevant to the Metlifecare Minority Shareholders' assessment of the Proposed Transaction.

A related issue is whether Metlifecare will be able to carry forward its existing accumulated tax losses (approximately $22.3 million as at 30 June 2011) if the Proposed Transaction is implemented, and effectively use these losses as a shield against future income tax liabilities. We understand tax advice received by Metlifecare concludes that If RVNZ sells between 16.5 million and 22.5 million Metlifecare shares currently contemplated as part of the RVG Sell Down, the provision of the tax code requiring 49% continuity of shareholding will be satisfied and Metlifecare will be able to carry forward its existing accumulated tax losses.

In summary, Metlifecare's ability to carry forward its existing accumulated tax losses is dependent on RVG's actions with respect to its shareholding level in the Company. This is the case irrespective of whether or not the Proposed Transaction is implemented; in the absence of the Proposed Transaction, RVG could still decide to sell down its shareholding in the Company to a level where the ability to carry forward existing tax losses is compromised. Accordingly, in our view, the treatment of Metlifecare's tax losses should not be relevant to the Metlifecare Minority Shareholders assessment of the Proposed Transaction.

Conclusion

Based on all of the analysis and discussion set out above, on balance we believe that the approach used to assess the relative Adjusted NTA values of the three entities and the subsequent Negotiated Exchange Ratio is fair from the point of view of the Metlifecare Minority Shareholders.

6.1.2 Impact of Share Placement and Conditional Vision Shares

As described in Section 6.2.4 below, the Vision business is carrying a far higher level of gearing than either Metlifecare or PLC. In order to address the incremental impact that the Vision debt will have on the gearing level of the Merged Entity, the parties have agreed to raise between $10 and $15 million of additional capital. Although the issue price for the Share Placement has not yet been established, it is expected to be substantially below the Adjusted NTA value of $4.00 per share. The capital raising will consequently lead to a reduction in the post-transaction NTA per share.

Table 33 shows the impact of the Share Placement on the NTA per share of the Merged Entity for a range of potential issue prices. On balance, we conclude that the net impact of the Share Placement from the Metlifecare Minority Shareholders' point of view is limited. This view reflects the following:

- One of the main objectives of the 2011 Capital Restructure carried out by Metlifecare was to achieve an on-going debt position that was considered more sustainable. Without the capital raising component included in the Proposed Transaction, the post-Completion debt level for the Merged Entity would again approach the level carried by Metlifecare prior to the 2011 Capital Restructure. On the basis that the target debt position of the Merged Entity should be no higher than the existing debt level carried by Metlifecare, more capital is needed to achieve the same proportional gearing level;

[8] For accumulated tax losses to be available to offset against future taxable income, the Income Tax Act 2007 requires 49% continuity in the shareholding of the relevant company from the year of the loss until the year the losses are utilised against future income.

- The amount of capital raised and the consequent number of shares issued has been restricted to the level required to meet the post-Completion debt targets only. Depending on the issue price and level of oversubscription, between 4.5 million to 8.3 million new Metlifecare shares will be issued as a result of this part of the Proposed Transaction, representing between 2.3% and 4.1% of the total shares that will be on issue when the process is completed (including the Conditional Vision Shares);
- Given the relatively small size of the allotment, the dilution per share caused by the capital raising is also small; assuming the Conditional Vision Shares are issued, the dilution ranges between 6 cents per share ("**cps**") and 9 cps (1.5% - 2.2% of NTA) depending on the eventual issue price per share and level of new capital raised. We believe that in the broader context of the Proposed Transaction and the range of potential benefits that it may provide the Metlifecare Minority Shareholders, this level of NTA dilution is largely immaterial.

Table 33: Impact of Share Placement on NTA per Share

	Issue Price: $1.80	Issue Price: $2.00	Issue Price: $2.20
Prior to the issue of the Conditional Vision Shares[1]			
Adjusted NTA Post Merger (Prior to the Share Placement)	$4.17	$4.17	$4.17
Shares Issued Pursuant to Share Placement	8.33m	7.50m	6.82m
Adjusted NTA (Following the Share Placement)	$4.07	$4.09	$4.10
Percentage Dilution	2.4%	2.0%	1.7%
After the issue of the Conditional Vision Shares[1]			
Adjusted NTA Post Merger (Prior to the Share Placement)	$4.02	$4.02	$4.02
Shares Issued Pursuant to Share Placement	8.33m	7.50m	6.82m
Adjusted NTA (Following the Share Placement)	$3.93	$3.95	$3.96
Percentage Dilution	2.2%	1.8%	1.5%

1. Assumes the Share Placement raises the maximum $15 million
Source: Northington Partners' Analysis

We suggest that the benefits conferred on the Metlifecare Minority Shareholders (at the expense of the Vision shareholders) by the structure of the Conditional Vision Shares also more than offset the negative impacts of the dilution caused by the Share Placement. Because the Conditional Vision Shares will not be issued unless the Metlifecare share price exceeds $3.00 within 28 months of Completion (based on a 5-day VWAP), Vision's shareholders are effectively providing all of the other shareholders in the Merged Entity with a partial risk underwrite in the event that the expected benefits of the Proposed Transaction are not realised.

It is reasonable to assume that the Conditional Vision Shares will not be issued only in circumstances where the Merged Entity has performed relatively poorly over the 28 month period following Completion. For the Metlifecare Minority Shareholders, any such poor performance will be partially offset by the fact that the Merged Entity will acquire the Vision shares for total consideration of just 13.0 million Metlifecare shares, representing a 35% discount to the relative values assessed for the other two Merging Entities. The poor future performance of the Merged Entity may be caused by many factors that are unrelated to the Vision assets, and Vision's shareholders are therefore accepting a disproportionate level of risk compared to the other shareholders in the Company.

We conclude that the terms of issue of the Conditional Vision Shares materially improve the overall assessment of the Proposed Transaction from the point of view of the Metlifecare Minority Shareholders. For those investors who perceive that the relative contribution of the Vision assets to the Merged Entity is

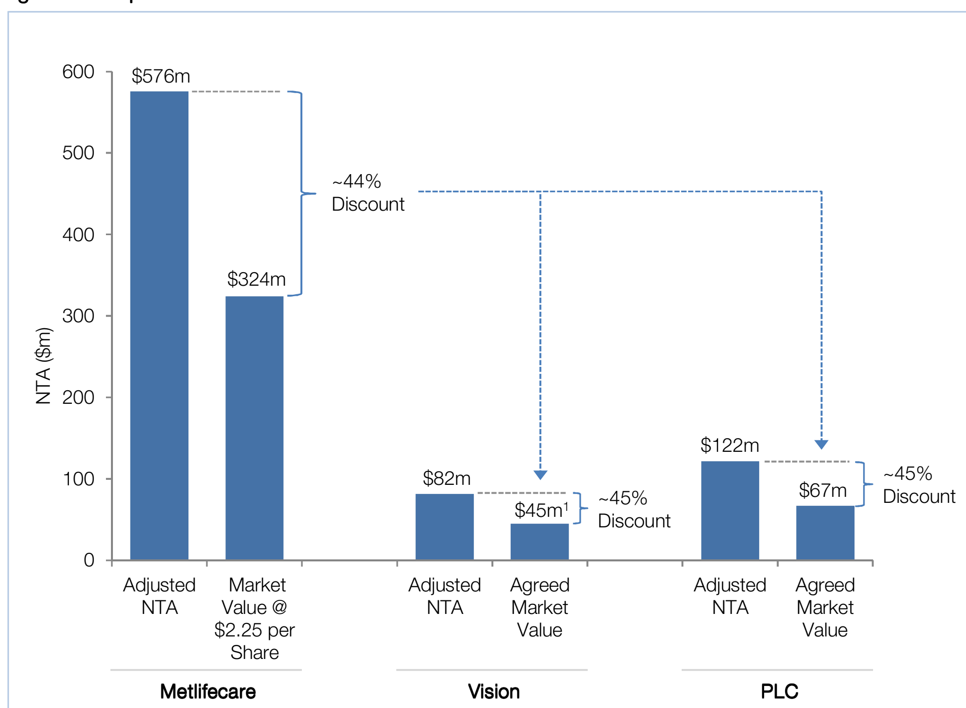
potentially overstated based on Adjusted NTA (because the Vision business has a higher risk profile), this structure clearly provides a partial limit to any future downside.

6.1.3 Implications of Issuing Metlifecare Shares as Consideration

As discussed in Section 3.1, Metlifecare shares have traded at a significant discount to NTA for some time. Based on traded prices for the 2-month period to 18 May, the VWAP of $2.25 represents a discount of approximately 44% to the Adjusted NTA value of $4.00 per share. On the face of it, using Metlifecare shares as consideration for the purchase of the Vision and PLC shares therefore has the potential to dilute the underlying NTA per share from the Metlifecare Minority Shareholders' point of view.

However, by using relative Adjusted NTA as the basis of determining the number of Metlifecare shares to be issued to Vision and PLC shareholders, the potential issue of NTA dilution is avoided. Effectively the consideration paid by Metlifecare in both cases incorporates the same discount to the negotiated Adjusted NTA values of Vision and PLC as that currently embedded in the Metlifecare share price. Assuming a VWAP of $2.25 for Metlifecare shares at Completion, the effective negotiated transaction values for the Vision and PLC shares are summarised in Figure 23.

Figure 23: Implied Transaction Values for Vision and PLC Shares



1. The agreed market value and discount to NTA shown for Vision includes the Conditional Vision Shares

Source: Northington Partners' analysis

The implied transaction values are also set out in Table 34, showing that the existing NTA for Metlifecare shares is substantially the same after the merger component of the Proposed Transaction is completed (but before the Share Placement).

Table 34: Summary Analysis of Share Issues

	Metlifecare	Vision	PLC	Merged Entity[2]
Projected Adjusted NTA (after transaction costs)	**$575.9m**	**$81.8m**	**$121.7m**	**$779.4m**
Metlifecare Shares on Issue / to be Issued	144.1m	20.0m[1]	29.7m	193.8m
Value of Shares (@2.25 per share)	$324.3m	$45.0m	$66.9m	$436.2m
Discount to Adjusted NTA (@$2.25 per share)	43.7%	45.0%	45.0%	44.0%
Adjusted NTA per share	$4.00			$4.02

1. *Assuming the holder of a minority interest in one of Vision's villages accepts 336,189 Metlifecare shares as consideration for the sale of that interest. See Section 4.1 for further details. Also assumes that the Conditional Vision Shares are issued.*
2. *Excludes Share Placement*

Source: Metlifecare, Northington Partners' analysis

In our view, the issue of Metlifecare shares as consideration for the purchase of the Vision and PLC shares is fair for the Metlifecare Minority Shareholders. The structure of the Proposed Transaction effectively places a current value on the Vision and PLC shares that is consistent with the current market value of the Metlifecare shares (relative to NTA). Thus, irrespective of whether or not the observed discount to NTA for Metlifecare shares is believed to be a reasonable reflection of the fundamental underlying value of the business, the same discount is being applied to the price being paid for the Vision and PLC shares. We do not believe there is any compelling reason to suggest that the discount to NTA applied to the Vision and PLC shares should be any greater than that for Metlifecare.

It could in fact be argued that the Metlifecare shareholders are acquiring the Vision and PLC shares at an attractive discount to NTA. The shareholders of both parties may be able to realise greater value in the medium term from pursuing alternative transactions, but have agreed to effectively sell to Metlifecare at the negotiated discount because of a range of extenuating circumstances.

6.1.4 Summary Assessment of Transaction Terms

When all three of the issues discussed above are considered together, we believe that the key terms of the Proposed Transaction are fair to the Metlifecare Minority Shareholders. The most important consideration is the proposed price that will be paid by Metlifecare for the Vision and PLC shares, and we conclude that the relative Adjusted NTA basis used to derive the Negotiated Exchange Ratio ensures that the Metlifecare Minority Shareholders are treated fairly.

6.2 Other Important Merits of the Proposed Transaction

6.2.1 General Strategic Considerations

As signalled to the market in November 2011, Metlifecare had a number of strategic considerations in mind when it undertook the 2011 Capital Restructure. These included an objective to:

- Reduce the existing gearing level of the Company to provide headroom to fund growth initiatives and rebalance the asset portfolio with a higher level of development opportunities; and
- Improve the liquidity of the Metlifecare shares by reducing the proportional shareholding of RVG and broadening the shareholder base.

Metlifecare's overall objective is to reposition the Company so that it compares more favourably to the other listed entities in the sector, with the expectation that the significant divergence between the recorded NTA per share and the current market capitalisation will reduce through time.

We believe that the Proposed Transaction has the potential to at least partially satisfy these objectives. The acquisition of the Vision and PLC businesses represents a growth strategy that is more readily achievable compared to one in which individual greenfield development opportunities are identified and acquired on a piecemeal basis. As already stated, we also believe that the price at which Metlifecare is acquiring these particular development assets is likely to be at least as favourable to the Metlifecare Minority Shareholders as any other comparable opportunities.

The acquisition of Vision and PLC must be viewed as a package deal whereby one cannot be acquired without the other. Because the development opportunities are accessed exclusively through the Vision acquisition, it could be argued that the Proposed Transaction does not provide as much exposure to development property as would be the case if a range of greenfield opportunities were pursued instead. However, we believe that this possible downside is more than compensated by the following factors:

- The Vision acquisition provides Metlifecare with an experienced and successful development team. We understand that key development personnel have provided an informal commitment to remain with the Merged Entity, and this provides the Metlifecare Minority Shareholders with considerable benefit. Assuming the key people can be retained, the Company will not be exposed to the same risk that would arise if a new development team had to be assembled from a zero base; and
- PLC owns three developed villages in Auckland which will not only provide a boost to the core earnings of the Merged Entity, but which will also help to establish Metlifecare as the village operator with by far the broadest coverage in Auckland. As set out in Section 5.2, Metlifecare will have 12 established villages in the greater Auckland region, in comparison to three villages for Ryman and one village for Summerset. The Company is confident that this larger footprint will place it in a strong position to better service future growth in the region, which has the country's highest expected population growth (both in terms of the growth rate and absolute numbers).

The impact of the Proposed Transaction on the liquidity of the Metlifecare shares is further discussed below in Section 6.2.3.

6.2.2 Financial Outlook

We understand that Metlifecare management has undertaken a strategic review for the Merged Entity, which will ultimately be used to assist in the development of an implementation plan after Completion. To date, high level projections for the next financial year simply reflect the completion of development activity currently underway for each of the Merging Entities. On that basis, management has prepared high level projections for FY2013 at two earnings levels:

- **Operating Cash Flows Before Funding Costs**: cash flows based on revenues and expenses associated with the re-sale of existing units plus revenues from newly developed units sold for the first time, before any allowance for funding costs.
- **Operating Cash Flows After Funding Costs**: the cash flows as described above, but after allowance for funding costs.

These projections are summarised in Table 35 and Table 36 below.

Table 35: Pro-Forma Operating Cash Flow per Share Before Funding Costs

Operating Cash Flow per Share Before Funding Costs	FY2013[1]
Metlifecare	23.2cps
Merged Entity (before synergies)	29.8cps
Merged Entity (incl synergies)	30.6cps
Total Increase in Operating Cash Flow per Share	32%

1. *Assumes Conditional Vision Shares are issued*

Source: Metlifecare

Table 36: Pro-Forma Operating Cash Flow per Share After Funding Costs

Operating Cash Flow per Share After Funding Costs	FY2013[1]
Metlifecare	20.5cps
Merged Entity (before synergies)	25.8cps
Merged Entity (incl synergies)	26.6cps
Increase in Operating Cash Flow per Share Post Funding Costs (incl synergies)	30%

1. *Assumes Conditional Vision Shares are issued*

Source: Metlifecare

The key features of the projected earnings profile are as follows:

- Management has projected cost synergies of $1.5 million or 1.1cps in year 1 (FY2013). Management has also projected a maintainable level of cost synergies of $2.5 million per annum (1.7cps) from year 2 (FY2014) onwards. Based on our analysis, this level of synergies should be achievable.
- Metlifecare's operating cash flows per share (after funding costs and including projected synergies of $1.5 million per annum) are expected to increase from 20.5 cps to 26.6 cps in FY2013 (a lift of 30%). This anticipated increase is on a fully diluted basis, assuming the Conditional Vision Shares are issued.

Although these projections indicate that the Proposed Transaction is expected to be considerably cash flow accretive over the next financial year for Metlifecare shareholders, the estimates are relatively rudimentary and uncertain, with a large proportion of the earnings uplift being attributable to revenues from the sale of newly developed units sold for the first time. We believe that the full potential benefits are likely to be more fully realised over the medium to long term through the development of proposed villages and the acquisition of bare land allowing for the development of new villages, and that the Metlifecare Minority Shareholders should therefore balance short term earnings changes against the longer term upside.

6.2.3 Metlifecare Share Liquidity and Price

As discussed in Section 3.1.3, Metlifecare's shares are currently very narrowly held with the top 20 investors holding over 94% of the shares on issue. As at December 2011, we understand that the Company had about 560 shareholders on its register and that only just over 4.0% of the shares were held by what can be described as retail investors. Trading volumes for Metlifecare shares have therefore been very low; as summarised in Section 3.1.4, the aggregate volume of shares traded in the five months prior to the capital restructure in November 2011 was just 327,000 shares, representing about 0.3% of the total shares on issue. Average traded volumes in the period since the capital restructure have been far higher (total trades of approximately 13.25 million shares since December 2011), but it is unclear whether the recently observed volumes would persist in the medium term once the institutional investors which have been added to the register as part of the 2011 Capital Restructure have achieved their target shareholding size.

RVNZ has agreed as part of the Proposed Transaction to sell some of its Metlifecare shareholding via an offering to retail investors[9]. The parties have agreed that between 16.5 million and 22.5 million shares will be sold to retail investors following an investor road-show managed by Metlifecare, and this process is very likely to significantly broaden the Metlifecare shareholder base. Based on an assumed average retail parcel of $15,000 to $30,000, a successful placement of 16.5 million shares could increase the retail investor base by between approximately 1,100 and 2,200 shareholders (based on a transaction price of $2.00 per share).

Many factors will affect the outcome from the anticipated RVNZ Sell Down, including the proposed sale price, broker support and underlying investor demand. However, assuming that the process is successfully completed, the number of Metlifecare shareholders will increase significantly and we expect that the medium-long term liquidity of Metlifecare shares will improve as a consequence[10]. The Merged Entity may also meet the free-float and liquidity requirements set by the NZSX to be included in the NZSX 50 index. Inclusion in the index will further enhance on-going trading activity as some institutional investors look to rebalance their portfolios in-line with Metlifecare's weighting in the index.

Some investors may perceive that the announced details of the agreed RVNZ Sell Down will create a supply "over-hang" in Metlifecare shares and thereby depress the Metlifecare share price for some time. The 16.5 million to 22.5 million shares will represent between 8.6% and 11.8% of the total shares on issue (excluding the Conditional Vision Shares), and together with the 4.5 million – 8.3 million shares that will be issued via the Share Placement, represent a relatively large number of shares to be absorbed by the market in the short term. It is however very difficult to predict the eventual impact that this factor may have on share prices. For the Metlifecare Minority Shareholders, the over-hang risk should be weighed against the overall benefits that the Proposed Transaction may deliver in terms of improved market sentiment for Metlifecare's prospects and the degree to which the Proposed Transaction favourably addresses the perceived strategic weaknesses of the existing business.

It is also important to note that the over-hang risk effectively exists in the absence of the Proposed Transaction. RVG's current financial position and objectives have obviously motivated its requirement to negotiate the provisions of the RVNZ Sell Down as part of the Proposed Transaction and it is reasonable to expect that RVG's position will not change if the Proposed Transaction does not proceed. If that is the case, an alternative sale process for a meaningful number of RVNZ's shareholding in Metlifecare (outside of the framework agreed as part of the Proposed Transaction) may depress short-term share prices even further and leave the Metlifecare Minority Shareholders in a worse position.

6.2.4 Impact on Metlifecare's Debt Position

Table 37 compares Metlifecare's projected gearing ratios (as at 30 June 2012) before and after completion of the Proposed Transaction.

[9] Details of the proposed sell down are set out in Section 4.

[10] We note that RVNZ may choose to divest some of its shares in Metlifecare even if the Proposed Transaction does not proceed. However it is more likely in this scenario that RVNZ would undertake a series of share placements to institutions rather than undergo a process to sell down its shares to retail investors. This outcome would be unlikely to broaden the shareholder base sufficiently to materially improve on-going liquidity in Metlifecare shares.

Table 37: Projected Gearing Levels

Debt	Metlifecare	Vision	PLC	Adjustments	Merged Entity	Facility Limit
Core Debt	$40.8m	$70.0m	$20.1m	$2.6m[1]	$133.5m	$150.0m
Development Funding	$18.0m	$27.4m	$5.0m	-	$50.4m	$100.0m
Total Drawn Debt	**$58.8m**	**$97.4m**	**$25.1m**	**$2.6m**	**$183.9m**	**$250.0m**
Debt as % of total assets less resident refundable deposits	8.9%	53.7%	16.6%		18.3%	45.0%
Projected interest cover ratio [2]	3.0x				2.2x	1.75x

1. *Core debt is expected to increase by $7.6 million being made up of the settlement of Unsworth Heights ($12.6 million), plus transaction costs relating to the Proposed Transaction ($5.0 million) less funds received from the Share Placement (assuming it raises the maximum $15 million)*
2. *Metlifecare's projected interest cover ratio is for the 12 months to 30 June 2012 and the Merged Entity interest cover ratio is for the 12 months to 30 June 2013*

Source: Metlifecare

Key features of the impact of the Proposed Transaction on the debt position of Metlifecare are as follows:

- The core debt facility limit of $90 million will increase to $150 million, initially drawn to between $138 million and $133 million (depending upon the level of new capital raised) giving projected headroom of between $12 million and $17 million. Metlifecare's development facility will also increase to $100 million, drawn down to around $50 million with projected headroom of $50 million;
- The Company's total debt levels will increase from its current level of $59m to between $184 million and $189 million;
- Gearing will increase from 8.9% to between 18.3% and 18.8% of total assets less resident refundable deposits (depending upon the level of new capita raised), compared to a maximum potential gearing level of 25% if the banking facility for the Merged Entity was to be fully drawn; and
- The projected interest cover ratio will reduce from its current level of about 3.0x to about 2.2x (compared to the current banking covenant ratio of 1.75x).

The proportional gearing level of the Merged Entity is therefore considerably higher than that achieved following the 2011 Capital Restructure. While this gives rise to an increase in the financial risk faced by the Merged Entity in the short-term, we believe that the practical impact of the change is limited in the context of the overall transaction. Even after the increase, the projected gearing level of the Merged Entity remains comfortably within banking covenants.

If the Proposed Transaction does not proceed, we expect that Metlifecare will look to use some of its existing debt facility headroom to acquire other development assets, with a resulting increase in the post-acquisition gearing level. That means that the Metlifecare gearing level is very likely to eventually increase to a similar level irrespective of whether or not the Proposed Transaction goes ahead.

The increase in the overall gearing level is clearly driven by the current debt position of Vision, which is considerably higher than that for both Metlifecare and PLC partly because of the proportionately larger investment by Vision in development assets. We note that part of the existing development funding for Vision is expected to be repaid in the short to medium term as recently completed units are sold. As summarised in Table 38, the sales are expected to reduce the development funding debt by around $18 million, at which point the gearing level of the Merged Entity will reduce by around 1.8% to 16.5%, subject to any new developments being undertaken.

Table 38: Projected Reduction in Vision Development Funding

	Core Debt	Development Debt	Total Debt	Gearing
Pro Forma Merged Entity Debt	$133.5m	50.4m	$183.9m	18.3%
less Sale of Vision Unsold Stock		$18.0m		
Debt Post Sell Down of 'Vision Unsold Stock'	$133.5m	32.4m	$165.9m	16.5%
Merged Entity Debt Reduction				1.8%

Source: Metlifecare, Northington Partners' analysis

6.2.5 Impact on Control Position of Metlifecare

Under the current shareholding structure, RVNZ holds 50.1% of the Metlifecare shares on issue and therefore has a controlling position in the Company. The impact of the Proposed Transaction on RVNZ's shareholding position in the first year following the transaction is ultimately dependent on the number of shares that are included in the RVNZ Sell Down process, but it is currently anticipated that RVNZ will definitely hold less than a controlling stake. If the current plan to divest between 16.5 million and 22.5 million shares to retail investors is implemented, RVNZ will own between 40.9% and 44.5% of the total shares on issue (prior to the Conditional Vision Shares) for the duration of the 16 month escrow period. The RVNZ shareholding position may reduce further after the completion of this period.

The Proposed Transaction also includes changes to the Board composition that are broadly consistent with the expected reduction in RVNZ's shareholding. In addition to the Managing Director, the Metlifecare Board currently consists of two representatives of RVG and two independent directors. Following the Proposed Transaction, two further independent directors are expected to be added to the Board.

We suggest that the anticipated dilution in RVG's control position will be considered positively by the market. Some commentators have previously expressed the view that the low Metlifecare share price may be partially reflective of the fact that RVG holds a controlling stake and that the prospects and strategy for the Company were potentially subject to RVG's imperatives. Any such negative perceptions should therefore be eliminated as RVG's shareholding is reduced to a level materially below 50%. However, we again note our expectation that some form of RVG sell-down, and the corresponding change in control, may eventually take place in the absence of the Proposed Transaction.

6.2.6 Alternatives to the Proposed Transaction

Metlifecare has considered a range of alternative strategies to grow Metlifecare since the completion of the 2011 Capital Restructure. We understand that this includes the potential acquisition of other development land (and hiring the requisite personnel with development experience that would also be needed), together with the acquisition of existing individual villages and aged care operations. The directors and management of Metlifecare have formed a view that the Proposed Transaction is their preferred strategy.

In the event that shareholders do not approve the Proposed Transaction, the current proposal could not proceed. However, the likely alternative course of action that may be pursued by Metlifecare is unclear, as are the on-going implications for the Metlifecare Minority Shareholders. Some of the potential alternatives are as follows:

- The Merging Entities may continue negotiations with a view to alter the key terms of the transactions. However, negotiations to date have been extensive and some level of concession has already been extracted from the shareholders of Vision and PLC; there is certainly no assurance that Metlifecare will be able to achieve an improved merger proposal, or indeed be in a position to reconsider the current proposal;

- Should the Proposed Transaction not proceed, there is a possibility that RVG may seek to sell some or all of its shareholding in Metlifecare in the near term. It is also possible that RVG may contemplate the sale of PLC to a third party, either as a portfolio or via a separate sale of the three individual villages;
- It would also be possible for the Company to negotiate an alternative agreement with the Vision shareholders to acquire the Vision business, and not acquire PLC. If that were the case, Metlifecare shareholder approval may not be required as Vision and its shareholders are not a related party of Metlifecare;
- Without the benefit of a co-ordinated sell down process as envisaged by the Proposed Transaction and the restrictions to the sale of the balance of RVG's holding in Metlifecare after Completion, the Company's share price could be suppressed for an undetermined period. This could reflect on-going uncertainty over RVG's intentions in relation to Metlifecare and the Company's ability to implement a viable growth strategy.

It is possible that an alternative growth and acquisition strategy may be developed over time which will be value enhancing for Metlifecare. However, based on its recent investigations, Metlifecare management believes that there are currently no suitable alternatives with the scale and other benefits offered by the Proposed Transaction. Assuming that this is the case, it could take a considerable period of time before Metlifecare is able to make any meaningful changes to its current portfolio.

Appendix 1: Regulatory Requirements and Scope of this Report

Application of the NZSX Listing Rules

The Proposed Transaction is subject to NZSX Listing Rule 9.2 (Transactions with Related Parties). Rule 9.2.1 prevents a listed entity from entering into a material transaction with a related party unless the material transaction is approved by an ordinary resolution of the listed entity's shareholders.

The Proposed Transaction represents a "material transaction" under the Listing Rules on the basis that it constitutes by Metlifecare:

- the acquisition of assets (being the shares in Vision and PLC) that have an aggregate net value in excess of 10% of the volume weighted average market capitalisation of Metlifecare during the 20 business days prior to the Proposed Transaction being announced to the market (Rule 9.2.2(a)); and
- the issue of its own securities (as consideration for the purchase of the shares in Vision and PLC) that have a market value in excess of 10% of the volume weighted average market capitalisation of Metlifecare during the 20 business days prior to the Proposed Transaction being announced to the market (Rule 9.2.2(b)).

Metlifecare and PLC are related parties through being "associated persons" due to RVG majority owning both entities (Rule 9.2.3(c)). RVG indirectly owns 50.1% of Metlifecare and 100% of PLC.

Requirements of the NZSX Listing Rules

As noted above, the Listing Rules require that the Proposed Transaction is approved by an ordinary resolution of Metlifecare's shareholders. All shareholders are entitled to vote on the resolution except any party that is an associated person of RVNZ (as defined by the Listing Rules).

Under Listing Rule 6.2.2, an issue of equity securities under Rule 7.3.1 must be accompanied by an Appraisal Report if the issue is intended or is likely to result in more than 50% of the securities to be issued being acquired by directors or Associated Persons of directors of the issuer. PLC, RVNZ, and RVG are Associated Persons of Peter Brown and David Hunt, and RVNZ will likely be acquiring more than 50% of the securities being issued.

Listing Rule 9.2.5 requires that the notice of meeting sent to Metlifecare shareholders outlining the Proposed Transaction must be accompanied by an Appraisal Report. This report represents the Appraisal Report required by the Listing Rules and, pursuant to Listing Rule 1.7.2, sets out our opinion on whether or not the consideration and the terms and conditions of the Proposed Transaction are fair to the Metlifecare Minority Shareholders not associated with RVG and the grounds for that opinion.

For the purpose of the Listing Rules we certify that:

- We believe that the Metlifecare Minority shareholders entitled to vote on the resolution in relation to the Proposed Transaction will be provided with sufficient information on which to make an informed decision. The main sources of information are this report and the Notice of Meeting;
- We have been provided with all of the information that we believe is required for the purposes of preparing this report; and
- The material assumptions on which our opinion has been based are clearly set out in the body of this report.

Northington Partners has not been previously engaged on any matter by Metlifecare or (to the best of our knowledge) by any other party to the Proposed Transaction. None of the Directors or employees of Northington Partners have a relationship with any of the parties to the Proposed Transaction that could reasonably be regarded as being capable of affecting Northington Partners' ability to provide an unbiased opinion in relation to the Proposed Transaction.

The preparation of this Appraisal Report will be Northington Partners' only involvement in relation to the Proposed Transaction. Northington Partners will be paid a fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Scope of the Appraisal Report

The key component of the Appraisal Report required by the Listing Rules is an assessment of the "fairness" of the transaction from the point of view of the non-associated shareholders in Metlifecare. The exact meaning of the word "*fair*" is not prescribed in the Listing Rules and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered for an assessment of this nature.

Statutory requirements within the Australian market are defined in somewhat more detail. The Australian Securities and Investments Commission has issued a policy statement regarding "Independent Expert Reports to Shareholders", which sets out some fundamental requirements for a report that is completed as part of a takeover offer for a public company. According to the policy statement, an offer is "fair" if the value of the consideration to be paid under the offer is equal to or greater than the value of the securities that are subject to the offer. We believe that this definition provides a useful starting point for assessing the fairness of the Proposed Transaction to which the Listing Rules apply.

In our view, the fairness of the Proposed Transaction from the point of view of the Metlifecare Minority Shareholders can be determined based on a consideration of:

- The proposed merger exchange ratio, and the relative valuations that are used to support the agreed exchange terms;
- A comparative assessment of the potential future outcomes for the Metlifecare Minority Shareholders assuming the Proposed Transaction is approved;
- A high level assessment of alternative courses of action that may be pursued by Metlifecare if the Proposed Transaction does not proceed, and the possible consequences of those alternatives for the Metlifecare Minority Shareholders;
- Other potential merits of the Proposed Transaction such as the likely impact on the liquidity of Metlifecare shares, the impact on the control position of Metlifecare following the anticipated changes to the register, and any other non-financial factors.

Based on this assessment framework, our analysis and conclusions on the fairness of the Proposed Transaction are set out in Section 6.0 of this report.

Reliance on this Report

This report represents one source of information that Metlifecare shareholders may wish to consider when forming their own view on the Proposed Transaction. It is not possible to contemplate all stakeholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each stakeholder is dependent on their own unique situation.

Appendix 2: Sources of Information Used in this Report

In preparing this report we have relied on the following sources of information:

- Annual reports prepared by each of the Merging Entities, including audited financial information
- Annual reports for Ryman and Summerset
- The website of each of the Merging Entities
- A term sheet signed by each of the Merging Entities outlining non-binding proposed terms of the Proposed Transaction
- Discussions with the Managing Director and other senior management personnel of Metlifecare
- The most recent independent property valuation reports prepared for each of the Merging Entities
- Management forecasts for each Merging Entity, collated and supplied by Metlifecare
- Various summary reports of the Proposed Transaction and/or individual Merging Entities prepared by Goldman Sachs and Grant Samuel
- The final agreed version of the Merger Agreements each dated 5 May 2012 (together with the amendment agreements each dated 20 May 2012)
- The draft Notice of Special Meeting of Metlifecare shareholders
- Various other documents that we considered necessary for the purposes of our analysis

Appendix 3: Qualifications, Declarations and Consents

Declarations

This report is dated 2 June 2012 and has been prepared by Northington Partners at the request of the independent directors of Metlifecare to fulfil the reporting requirements of the NZSX Listing Rules. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Metlifecare for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of the Metlifecare Minority Shareholders, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, Steven Grant B.Com, LLB (Hons) and Anthony Katavich BE (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous Independent Adviser Reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZSX Listing Rules.

Independence

Northington Partners has not been previously engaged on any matter by Metlifecare or (to the best of our knowledge) by any other party to the Proposed Transaction. None of the Directors or employees of Northington Partners have a relationship with any of the parties to the Proposed Transaction that could reasonably be regarded as being capable of affecting Northington Partners' ability to provide an unbiased opinion in relation to the Proposed Transaction.

The preparation of this Appraisal Report will be Northington Partners' only involvement in relation to the Proposed Transaction. Northington Partners will be paid a fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of our Work

In preparing this report, Northington Partners has relied on information provided by Metlifecare. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

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

Furthermore, our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, our assessment and our conclusions could be materially affected.

Indemnity

Metlifecare has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Metlifecare has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington Partners Limited

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