Norfolk Investments Limited

Independent Adviser's Report

On the Full Cash Takeover Offer from Wakefield Health Limited

GRACE
HOSPITAL

GRANT SAMUEL

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1. The Wakefield Offer

1.1 Background

On 5 July 2011 Wakefield Health Limited (**Wakefield**) gave notice of its intention to make a full takeover offer for 100% of the issued ordinary shares in Norfolk Investments Limited (**Norfolk** or **the Company**) at a price of $3.80 per share (**the Wakefield Offer**, or **the Offer**), a total of $24.2 million. The offer price is payable to accepting Norfolk shareholders in cash.

The Wakefield Offer is new and is different from the previous offer for Norfolk in May 2010. That offer did not proceed because Norfolk shareholders did not approve waiving the pre-emptive rights provisions contained in Norfolk's constitution. The provisions restricted Norfolk shareholders from selling their holdings to third parties without first offering the shares to non-selling Wakefield shareholders. The Norfolk shareholder approval of the waiver was a condition of Wakefield proceeding with the 2010 offer.

At a subsequent meeting held on 15 June 2011 (**the Waiver Meeting**), Norfolk shareholders voted to approve waiving the pre-emptive rights. The waiver was specific to a new takeover offer to be made by Wakefield on terms that are described in Section 1.2 below. The vote in favour of the resolution to implement a waiver was supported by shareholders holding 93.3% of the votes cast at the meeting. Passing of the resolution has allowed Wakefield to proceed with the new offer.

1.2 Details of the Wakefield Offer

The principal terms and conditions of the Wakefield Offer are as follows:

- the offer price for each Norfolk share is $3.80 in cash;
- the Offer is conditional on Wakefield receiving acceptances from Norfolk shareholders that confer on it more than 50% of the total voting rights in Norfolk (**the Minimum Acceptance Condition**); and
- other relatively standard conditions for a takeover offer of this nature. For example, the Grace Hospital business carries on in the normal course during the Offer period and there are no changes to the capital structure of Norfolk during the offer period. Wakefield has the right to waive any of these conditions.

The Offer opens on 20 July 2011 and will close on 1 September 2011. If the Minimum Acceptance Condition is satisfied on or prior to 18 August 2011 (**the Trigger Date**) Wakefield <u>must</u> declare the Offer unconditional.

The Offer price of $3.80 per share is payable to each accepting Norfolk shareholder no later than seven days after the later of

- the Wakefield Offer becoming unconditional; or
- the date of receipt of an acceptance from a Norfolk shareholder.

1.3 History to the Wakefield Offer

The majority of Norfolk's shareholders are surgeons, specialists and other persons who work at Grace Hospital. A number of these are at or close to retirement age, which has raised concerns as to how such shareholders' investment in the company, could be realised. With a limited market for purchasing their shareholdings within the pool of remaining Norfolk shareholders, approaches were made to Wakefield and Southern Cross Hospitals in 2009 to ascertain their interest in purchasing shares available for sale. The enquiries resulted in Wakefield offering to purchase all the shares in Norfolk for $22 million ($3.45 per share) in December 2009. In February 2010 Southern Cross Hospitals made an offer to purchase 60% of

Norfolk Ventures' interest in the Norfolk Southern Cross Partnership, as opposed to purchasing shares in Norfolk. The offer valued the Norfolk interest in the Partnership at the same value as Wakefield's offer, i.e. $22 million. The Southern Cross offer also incorporated a put option arrangement that would have allowed Norfolk to sell up to a further 25% of its interest in the Partnership at any time up to six years in the future. Under this arrangement Southern Cross would have been required to make the purchase at a price based on a valuation of 7.5 times the then Partnership earnings before interest, tax depreciation, and amortisation (EBITDA) less net debt. A floor on the offer price for the additional 25% was incorporated, based on the $22 million amount of the initial offer.

The Norfolk board decided not to recommend either offer on the basis that $22 million was not considered to be a fair value for the Norfolk interest in Grace Hospital. Subsequently Southern Cross Hospital declined to increase its offer and Wakefield announced its intention to make an increased offer in May 2010 at a price of $3.5365 per share which valued Norfolk at $22.5 million. This offer did not proceed as Norfolk shareholders did not approve waiving the pre-emptive rights provisions in the company's constitution.

The current Wakefield Offer at a price of $3.80 per Norfolk share follows a period of the Norfolk board actively seeking purchasers earlier in 2011 in the knowledge that shareholders holding over 50% of Norfolk shares were willing sellers at an appropriate price. Dialogue was entered into with several prospective purchasers but none offered prices that were close to Wakefield's $3.80 per share.

1.4 Arrangements with Certain Norfolk Shareholders

Prior to the Waiver Meeting Norfolk shareholders were given the opportunity to make pre-bid commitments to Norfolk to accept the Wakefield Offer in anticipation of the Offer being made. Pre-bid commitments were received from 36 Norfolk shareholders who hold in aggregate 71.28% of the issued shares of Norfolk. The material terms of the pre-bid commitments are:

- the Norfolk shareholder agrees to sell to Wakefield the number of shares indicated on the pre-bid commitment form signed by the shareholder;
- the Norfolk shareholder authorises the Chairman of Norfolk to sign, on the Norfolk shareholder's behalf, an irrevocable commitment to sell the shareholder's shares to Wakefield in accordance with a takeover offer to be made by Wakefield; and
- the Norfolk shareholder appoints the Chairman of Norfolk as the shareholder's proxy at the special meeting held on 15 June 2011 to vote all of the shareholder's Norfolk shares in favour of the resolution waiving the pre-emptive rights, thereby facilitating Wakefield making a takeover offer for Norfolk.

From a practical viewpoint it is understood that the Norfolk shareholders who have entered into the pre-bid commitment arrangements will receive the Wakefield offer documentation and can sign their acceptances in the normal fashion as other accepting shareholders can. The Norfolk Chairman will only exercise his authority to sign on behalf of a shareholder who has entered into a pre-bid commitment arrangement in the event that that shareholder fails to send their signed acceptance to Wakefield.

In correspondence from the Norfolk board of directors to shareholders prior to the Waiver Meeting, the board disclosed that Wakefield had indicated that it may be prepared to make a new takeover offer at $3.80 per share. The board stated that shareholders holding in excess of 60% of Norfolk's shares had indicated to Norfolk that they would be prepared to sell their shares to Wakefield were it to make such an offer. The board itself had determined that it would support a Wakefield takeover offer at $3.80 per share and subject to receiving acceptances from shareholders in respect of more than 50% of Norfolk shares.

1.5 Arrangements with Wakefield

Following the Waiver Meeting the Norfolk board wrote to Wakefield advising that the resolution to waive the pre-emptive rights had been passed and as there had been previous unsuccessful attempts by Wakefield to acquire Norfolk shares, the Norfolk board offered Wakefield the following undertakings:

- payment of a break fee of $200,000 and Wakefield's costs associated with the takeover offer, in the event that the offer did not receive acceptances in respect of more than 50% of Norfolk's shares;
- agreement not to seek reimbursement of costs incurred in relation to the proposed Offer, including those costs that Norfolk would be entitled to seek reimbursement for under the Takeovers Code;
- an opportunity for Wakefield to undertake an updated due diligence review of Norfolk; and
- agreement that Norfolk would not declare any dividend during the period of the offer.

The undertakings were conditional upon Wakefield giving its takeover notice by 5pm on 5 July 2011, which was done.

1.6 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001. It applies to voting securities in Code company. A Code company is a New Zealand company that is listed on the New Zealand Exchange, or has 50 or more shareholders. Norfolk is a Code company by virtue of having more than 50 shareholders. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure are able to make informed decisions on shareholding transactions that may impact their own holdings.

The fundamental rule of the Takeovers Code states that a person who holds or controls:

- no voting rights, or less than 20% of the voting rights, in a Code company may not become the holder or controller of an increased percentage of the voting rights in the Code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the Code company; and
- 20% or more of the voting rights in a Code company may not become the holder or controller of an increased percentage of the voting rights in the Code company.

Rule 7 of the Takeovers Code sets out the exceptions to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a Code company under the following circumstances:

- **by an acquisition under a full offer (as in the Wakefield Offer);**
- by an acquisition under a partial offer;
- by an acquisition by the person of voting securities in the Code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the Code company in accordance with the Code;
- by an allotment to the person of voting securities in the Code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the Code company in accordance with the code, if:

  (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the Code company; and

  (ii) the resulting percentage held by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the Code company held or controlled by the person in the12-month period ending on, and inclusive of, the date of the increase;

- if the person already holds or controls 90% or more of the voting rights in the Code company.

The procedure to be followed by Wakefield in making a full offer is governed by the Takeovers Code. **Under Rule 20 an offer must be made on the same terms and provide the same consideration for all securities belonging to the same class of equity securities under the offer.**

2. Scope of the Report

2.1 Purpose of the Report

The Wakefield Offer constitutes a full takeover offer under Rule 8 of the Takeovers Code. Accordingly, the Independent Directors of Norfolk have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the Wakefield Offer to assist Norfolk shareholders in forming an opinion on the Offer.

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

A copy of the report will accompany the Target Company Statement to be sent to all Norfolk shareholders. This report is for the benefit of the shareholders of Norfolk. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Wakefield Offer.

2.2 Basis of Assessment

Grant Samuel has evaluated the merits of the Norfolk Offer by reviewing the following factors:

- the estimated value range of Norfolk and the price of the Wakefield Offer when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the value and liquidity of Norfolk shares in the absence of the Wakefield Offer;
- advantages or disadvantages for Norfolk shareholders who accept or reject the Wakefield Offer;
- the current business environment for Norfolk;
- the timing and circumstances surrounding the Wakefield Offer;
- the attractions of the Norfolk business;
- the risks attached to the Norfolk business; and
- other possible benefits to Wakefield arising from the takeover of Norfolk.

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

3. Consideration of the Merits of the Offer

3.1 Summary

In summary, the merits of the Wakefield Offer include:

- **the Wakefield Offer is highly likely to succeed.** Norfolk shareholders have made pre-bid commitments representing 71.28% of all Norfolk shares on issue to accept the Wakefield Offer. This will constitute a sufficient level of acceptances to meet the Minimum Acceptance Condition of the Offer. Although the commitments are not enforceable by Wakefield, the Norfolk chairman is empowered to act on them and the Norfolk board is recommending that shareholders accept the Offer. Wakefield can, at its sole discretion, waive any of the other minor standard conditions not met and proceed with the acquisition of the shares accepted into the Offer;
- **the compulsory acquisition provisions of the Takeovers Code come into effect where the dominant owner reaches ownership or control of 90% of all voting securities on issue.** To reach this threshold and after taking into account the level of pre-bid commitments, Wakefield requires further acceptances for 18.72% of the Norfolk shares on issue. That percentage represents approximately two-thirds of the shares held by shareholders who did not enter into pre-bid commitments;
- **Wakefield has stated that it has made no decision as to whether it will invoke the compulsory acquisition provisions if the 90% control threshold is obtained.** The decision would be considered at the time the threshold is reached. If the threshold is reached and Wakefield does not invoke the provision, remaining Norfolk shareholders can require Wakefield to purchase their shares under the Takeovers Code at the same $3.80 share price;
- **if the 90% compulsory acquisition threshold is not achieved, Wakefield will acquire all the shares that were accepted into the Offer and those shareholders who do not accept the Offer will remain Norfolk minority shareholders.** In that circumstance Norfolk will be controlled by Wakefield. Wakefield has signalled that it will seek appropriate representation on the Norfolk board. It could reasonably be expected that it would seek to do the same on the Norfolk Southern Cross board. It is likely that Norfolk will cease to be a company under the ambit of the Takeovers Code as a result of the number of remaining shareholders dropping below 50;
- **Wakefield can increase its offer price while the Offer is open.** If it does so the higher price will be available to all shareholders even if they accepted the initial Wakefield Offer;
- **if the Wakefield Offer closes without acceptances reaching the 90% compulsory acquisition threshold, Wakefield could subsequently decide to make a new takeover offer at a higher price.** This has happened in previous takeovers, but there is no guarantee that any new higher offer will be forthcoming;
- **The Wakefield Offer price of $3.80 per share is above the mid point of Grant Samuel's valuation range of $3.25 to $3.83 per share;**
- **Wakefield has stated in the Takeover Notice that it considers that Norfolk may require further capital and that it would support appropriate capital raising initiatives.** This is likely to mean that remaining minority shareholders will be asked to contribute as well; and
- **the current low liquidity in the market for Norfolk shares will be reduced even further with Wakefield holding 71% or more of Norfolk.**

3.2 The value of the Wakefield Offer

The Wakefield Offer price of $3.80 per share can be benchmarked against the following:

- in Grant Samuel's opinion, the full underlying value of Norfolk is in the range $3.25 to $3.83 per share. The mid-point of this range is $3.54. Full underlying value is the price Grant Samuel would expect purchasers to pay to acquire 100% of Norfolk. It therefore includes a premium for control. Our valuation range excludes the value of any synergies that a trade buyer, such as Wakefield, may be able to gain by achieving full control of Norfolk and thereby control of the Norfolk Southern Cross business. The offer of $3.80 per share is above the mid-point of Grant Samuel's value range;
- the Wakefield Offer implies a multiple of 8.7 times forecast EBITDA for Norfolk Southern Cross (Norfolk's core business) for the year ended 30 June 2011 and 8.3 times budgeted EBITDA for the year ending 30 June 2012. Grant Samuel has considered other market evidence (refer section 7.4 of this report) and that the multiples are comparable with multiples inferred from recent transaction evidence and sharemarket ratings of a selection of listed companies;
- the arrangements regarding the Wakefield offer made with the Norfolk board prior to the special meeting of Norfolk shareholders held in June 2011 followed an active search by the Norfolk board for offers from other potential purchasers. Offers were received from several other parties but were below the $3.80 offer price of Wakefield;
- Norfolk shareholders who have entered into the pre-bid commitment arrangements do not have any additional benefits conferred on them than are available to all of Norfolk shareholders. To some extent, the pre-bid commitment arrangements have the effect of reducing the flexibility available to Norfolk shareholders who have entered into the pre-bid commitments. Wakefield has made the Offer on the terms and within the timeframe it indicated in discussions with the Norfolk Board and subsequently communicated to Norfolk shareholders and those who entered into pre-bid commitments <u>must</u> accept the Wakefield Offer. They do not have the ability to accept any alternative offer or to retain their shareholding in Norfolk. Wakefield is not able to enforce the pre-bid commitments, but the Norfolk chairman is able to do so.

3.3 Other Merits of the Wakefield Offer

Grant Samuel considered the following factors in assessing the other merits of the Wakefield Offer:

Wakefield's Intentions

- Wakefield has not made any statement regarding the level of minority shareholder representation on the Norfolk board nor whether there will be any forum for direct engagement between Grace Hospital consultants (many of whom are Norfolk shareholders) and Wakefield concerning strategic direction and operation of the hospital;
- Wakefield has stated in the Offer that if it does not receive sufficient acceptances to the Offer to invoke compulsory acquisition, it will seek representation on the Norfolk board at a level to be determined;
- Wakefield has stated in the Offer that it will seek to become directly involved in the administration of the Norfolk Southern Cross Partnership Agreement. Accordingly it is reasonable to assume that Norfolk will continue to hold a majority of Norfolk Southern Cross board seats. It is unclear whether this will include any representation from Norfolk minority shareholders if Wakefield does not control 100% of Norfolk; and
- Wakefield has also stated that it considers that Norfolk may require further capital, although it has not considered the details of any capital raising. As the majority shareholder if the Offer is declared unconditional, Wakefield stated that it would support "appropriate capital raising initiatives".

Factors that will affect the outcome of the Offer

- Wakefield is seeking to acquire more than 50% of the Norfolk shares on issue. Norfolk shareholders representing 71.28% of Norfolk shares have signed pre-bid commitments. Acceptances from all of these shareholders have not been received at the date of this report but can reasonably expected to be received during the offer period. The Norfolk chairman is empowered to accept on behalf of any of these shareholders who have not accepted for any reason. Wakefield will not be able to declare the Offer unconditional until the acceptances are received and the Minimum Acceptance Condition is met; and

- Wakefield's control over 71.28% of all Norfolk shares creates a significant impediment to another competing offer being made.

Potential Outcomes

- the Wakefield Offer is highly unlikely to fail due to pre-bid commitments being in excess of Wakefield's Minimum Acceptance Condition;
- if Wakefield receives acceptances from Norfolk shareholders totalling 90% of the voting rights, it can proceed to compulsorily acquire the shares of those shareholders not accepting the Wakefield Offer. Wakefield has advised that it has not decided whether it would do so. With the pre-bid commitments accounting for 71.28% of the voting rights, it requires additional acceptances totalling 18.72% of the voting rights to reach the 90% threshold. If for any reason upon reaching the threshold Wakefield chooses not to use the compulsory acquisition provisions, the remaining Norfolk shareholders have the right to sell their shares to Wakefield, in which case Wakefield must purchase those shares. The price under both scenarios is $3.80 per share being the Wakefield Offer price;
- if Wakefield does not achieve the 90% threshold under the current offer, it can then only increase its shareholding in Norfolk by making a new takeover offer or by waiting 12 months after its current offer expires and using the "creep" provisions of the Takeovers Code. These provisions allow Wakefield to increase its shareholding by 5% over any 12 month period ending on, and inclusive of the date of the increase; and
- if, during the period the Offer is open, Wakefield wished to reach the 90% compulsory acquisition threshold and increased its offer price to assist with this, the higher price would be available to all shareholders (including the shareholders who have signed pre-bid commitments) even if they have accepted the $3.80 price.
- to date, Southern Cross Hospitals, Norfolk's 40% partner in the Grace Hospital business has not commented publicly on its position if the Wakefield Offer is successful. Wakefield is a competitor to Southern Cross's hospitals division. Southern Cross tried unsuccessfully to purchase the Norfolk interest in the Norfolk Southern Cross Partnership in 2010 and considered making a new offer in early 2011, albeit at a lower price than the Wakefield Offer. It is unable to successfully make another offer for a controlling interest in Norfolk because of the level of pre-bid commitments for the Wakefield Offer. Under the circumstances it is possible that Southern Cross Hospitals may decide to sell its interest in the Partnership, with Wakefield being the logical purchaser. If this were the case, it is not unreasonable to assume that Wakefield would make a new takeover offer for any remaining shares in Norfolk in order to achieve 100% control the company; and
- it is unlikely that any other party will put forward an alternative competing offer because of the level of pre-bid commitments for the Wakefield Offer.

Non-acceptance of the Wakefield Offer and compulsory acquisition not invoked by Wakefield

- the 36 Norfolk shareholders who have signed pre-bid commitments have appointed the Norfolk Chairman to accept the Wakefield Offer on their behalf. Remaining shareholders can choose not to accept the Offer. In that event they will remain minority shareholders in Norfolk with broadly the same legal rights that they have now. However, if the number of remaining shareholders falls below 50 in number, as is likely, Norfolk will no longer be a Code company and minority shareholders will lose the protection of the Takeovers Code in the event that another offer is made for their shares;

- If Wakefield receives acceptances for the Offer that confer on it 75% or more of Norfolk's voting rights, it will have the ability to approve special resolutions enabling it, inter alia, to change the company's constitution;
- Norfolk shares have historically been relatively illiquid for shareholders wishing to sell. This was the reason that offers from Wakefield and Southern Cross were sought. Should any remaining shareholder wish to sell their shares after the Wakefield Offer has expired, they cannot assume that Wakefield will, or will be able, to purchase the shares or at what price it would do so if it were able. In any event, Wakefield is restricted by the "creep" provisions of the Takeovers Code as to how many shares it is able to purchase in any 12 month period without making another full takeover offer, as long as Norfolk remains a Code company. The "creep" provisions would enable Wakefield to acquire up to a further 5% of Norfolk from remaining shareholders on-market commencing twelve months after the current Offer has closed;
- Norfolk Southern Cross has ongoing expansion plans for the Grace Hospital that will require capital expenditure in the medium term. Current forecasts are for this to be funded from existing banking lines and internal resources. This is likely to mean that operating profits will be retained to assist with such expenditure, restricting the ability for Norfolk shareholders to receive dividends. Norfolk may also be asked to contribute new capital to the Norfolk Southern Cross Partnership. Wakefield has stated that it would support calls for additional capital. This may mean Norfolk minority shareholders are asked to participate in calls, although they would not be bound to do so. Shareholders who do not participate in any cash issue will have their percentage holdings diluted; and
- a significant number of Norfolk shareholders are surgeons or specialists that use the Grace Hospital facilities. With Wakefield becoming the majority shareholder of Norfolk it will likely seek to have control of the Norfolk board of directors and also the board of Norfolk Southern Cross. It is likely that the influence of shareholder surgeons and specialists on the strategic direction of Grace Hospital and other operational policy matters will be diminished compared to the current situation.

A Continuing Investment in Norfolk

As with any equity investment there are risks and opportunities associated with the sector in which Norfolk operates and specific benefits and risks attributable to the company itself:

- the Grace Hospital enjoys a strong competitive position in the Bay of Plenty private hospital sector and proposed moves into a day stay facility in central Tauranga will bolster this position. Barriers to entry for a new competitor to the region are significant due to the high costs of establishing a new hospital;
- funding pressure on the public health system is expected to continue, leading to increasing demand for private sector hospitals. Grace Hospital is well positioned to take advantage of this demand;
- the cost of health insurance is expected to remain under pressure due to increased costs of hospital procedures and an ageing population demographic. The minority partner in the Grace Hospital business, Southern Cross, is New Zealand's largest provider of health insurance; and
- it is likely that continuing rapid technological advances in surgical and diagnostic procedures will require Grace Hospital to maintain a significant capital expenditure programme, potentially necessitating capital injections from Norfolk Southern Cross partners.

3.4 Acceptance or Rejection of the Wakefield Offer

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

4. Trends in the New Zealand Healthcare Sector

4.1 Background

Prior to World War II, private funding of health care dominated in New Zealand, accounting for approximately 57% of total funding in 1925. However, this gradually reversed over time and by 1945 public funding accounted for around 74% of total funding and steadily increased to peak at 88% by the early 1980s. Since then the percentage of funding from public sources gradually reduced from the high of 88% to around 77%, a level which has persisted since the mid 1990s. As a percentage of GDP and based on 2008 OECD data, New Zealand is the fifth biggest public spender on health in the OECD. The balance of funding is contributed by private sources including households, health insurance, and non-profit organisations.

The organisation of publicly funded health and disability support services in New Zealand has undergone numerous changes in the last decades. These have ranged from a "purchaser/provider" market orientated model introduced in 1993 to the more community-orientated model currently in place. The creation of District Health Boards has been a key step in moving to a population-based health system.

4.2 Recent Trends

Despite a rapid increase in healthcare expenditure in the last decade New Zealand faces significant pressure to deliver more services. A major reason for this is New Zealand's aging population. The proportion of the population aged 65 years or older is estimated by Treasury to currently be 12% but accounts for 40% of health funding. By 2050 the proportion of population over 65 is expected to be approximately 24% with the share of total health spending increasing to 63%. In addition to the higher proportion of aged people, advances in medical technology mean that more surgical procedures are available at reasonable costs, again placing pressure on health funding.

As government health funding faces continuing pressures, the requirement for private funding is likely to become an increasing necessity. The Health Funds Association of NZ (representing the interests of private health insurers etc) showed that in March 2011 approximately 32% of all New Zealanders are covered by health insurance. The level of persons with insurance cover declines markedly post 65 years of age due to higher premiums as age increases. This is also manifested in a trend away from comprehensive cover to elective surgical cover because of the latter's lower premiums. Research by the Health Funds Association predicts that total elective surgery demand is expected to increase by 39% over the next two decades. Data collected by the Association shows that private surgical hospitals performed 164,000 elective surgical procedures in the year to March 2010, compared with 138,400 in public hospitals.

Health insurance providers contributed approximately $825 million in healthcare costs in the year ended 31 December 2010. After peaking at 1,397,000 in December 2008, the number of New Zealanders covered by health insurance has declined by 20,000. This is thought to be due to the impact of the economic recession. Notwithstanding the decline in the number of people insured, claims paid out have increased steadily as the insured population ages and the costs of surgery increase at rates above the ratio of inflation. Claims paid in the year to March 2011 were up 6.3% on those paid for the March 2010 year. The trend away from comprehensive health insurance to elective surgical and specialist cover continues.

4.3 Overview of the Private Hospital Sector

Privately run hospitals provide patients with an alternative to state funded facilities. The key attraction of private hospitals is that they usually offer shorter waiting lists, provided the patient is prepared to pay for the operation. Some private hospitals also offer more attractive facilities and are generally smaller than public hospitals.

New Zealand's largest provider of private surgical services is Southern Cross Healthcare, which in addition to providing medical insurance services, operates nine wholly owned and five joint venture hospitals nationwide. Of the approximately 50 private hospitals nationwide a growing proportion are, in contrast to not-for-profit Southern Cross, profit driven businesses managed to maximise value for shareholders.

The key drivers for demand in the surgical hospital sector (both public and private) are considered to be:

- an ageing population and a consequent increase in the incidence of degenerative diseases in the elderly;
- technological advances, such as non-invasive surgery, which make it safer and faster to treat patients, particularly the elderly; and
- population growth in the non-geriatric age ranges.

The impact of these driving forces on demand for private hospitals is dependent on:

- public sector funding. It is expected that an increasing number of patients will choose private treatment if waiting lists at public hospitals continue to grow; and
- the range of services provided by public hospitals. Patients requiring procedures not available in public hospitals, such as cosmetic surgery, may have no other option other than to seek private treatment.

Private surgical services are funded by health insurance companies, the Accident Compensation Corporation, and increasingly by patients themselves. Recent increases in health insurance premiums have been driven by the significant price inflation in the provision of private surgical facilities.

The success of a private hospital is largely dependent on its ability to attract surgeons and specialists to use its facilities. Surgeons book theatre time in the hospital of their choice. In contrast to commercial businesses having fixed term tenancies, a hospital often has no certainty that a surgeon will continue to be a patron on an ongoing basis and is at risk of losing surgeon support if more attractive alternative facilities become available. To incentivise surgeons to continue to use a hospital regularly it is now common for surgeons to be offered a shareholding in the hospital business.

5. Profile of Norfolk

5.1 Overview

Norfolk is a single purpose company holding (through a wholly owned subsidiary company) a 60% shareholding in Grace Hospital in Tauranga. The remaining 40% of the shares in Grace Hospital are owned by Southern Cross Hospitals, which is affiliated with the major health insurance provider in New Zealand, Southern Cross Healthcare Group. Southern Cross Hospitals is the largest private hospital owner in the country. Norfolk was originally established in 1989 (as Norfolk Community Hospital Limited) being the owner of the Norfolk Community Hospital in Tauranga. Norfolk's shareholders comprised predominantly surgeons and specialists working at the hospital. Norfolk Community Hospital had competition from a Southern Cross owned hospital, with both facilities providing marginal returns from a market considered not large enough to support two full service private hospitals.

In 2001 the Norfolk and Southern Cross hospital businesses merged into a new partnership, Norfolk Southern Cross. Both hospitals continued operating but the merged business was able to achieve savings through using common services such as administration and purchasing. A decision to merge both hospital facilities onto a new site was subsequently made and the new Grace Hospital opened in 2008. The old hospital facilities were sold with a condition that they could not be used for medical surgery in competition with Grace Hospital. The relationship between the two shareholders has been good with Norfolk benefiting from Southern Cross' significant clinical experience.

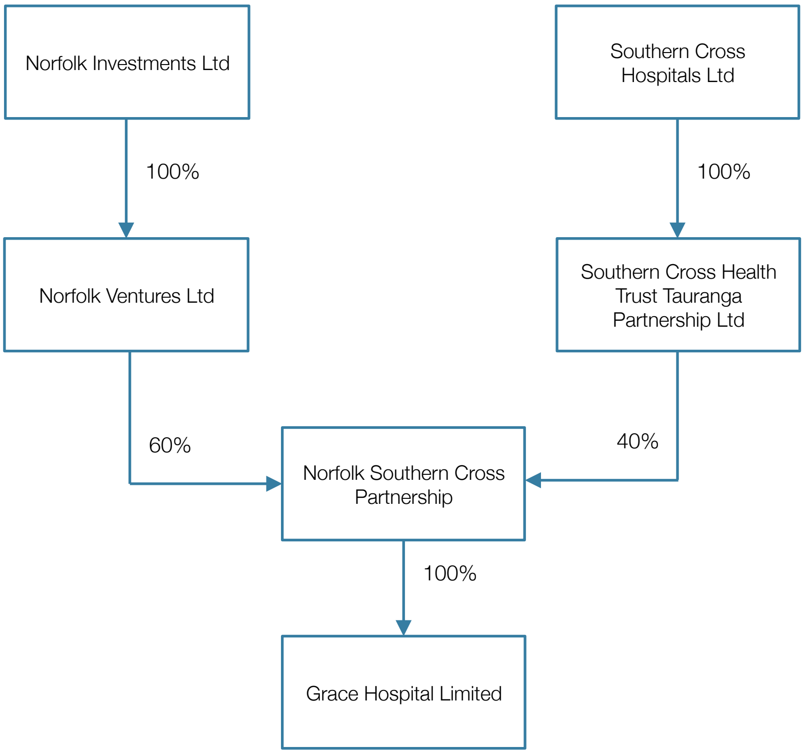
Grace Hospital has performed beyond the expectations of both shareholders and in particular has demonstrated significant labour productivity gains compared to the legacy hospitals. Management focus is now on growing patient numbers. The hospital was designed with expansion capacity and it holds resource consents for the addition of a third floor which could be constructed without significant increase of the facility's services infrastructure. There is sufficient allowance in the design template for the addition of a further six operating theatres in addition to the six existing theatres.

Grace Hospital is capable of undertaking most forms of surgery, with the major exceptions being neurosurgery and heart surgery. The demographics of the Tauranga and Bay of Plenty population, with a large proportion of persons 65 years or older means that orthopaedics is a major part of the surgical work undertaken and accounts for approximately 40% of revenue. Grace Hospital is the leader in New Zealand in installing robotic surgery equipment in a 50/50 joint venture with a prominent urology surgeon. Approximately 30% of patients operated on with this equipment are from outside the Bay of Plenty region. Other hospital facilities include MRI and CT scanning suites. The building housing these is owned by Grace Hospital and leased to Bay Radiology for a 15 year term.

Grace Hospital has no competition, as there are no other private surgical hospitals in the region. The closest private facilities are located in Hamilton and Rotorua. In order to preserve this strong market position the Norfolk Southern Cross board of directors is committed to a strategy of growing Grace Hospital's national reputation. It has support from the Tauranga City Council for the establishment of a "Health Park" in a campus like concept promoting a collegiate environment for health professionals, with the view of creating a centre of excellence for medical facilities in national terms. Norfolk Southern Cross is considering opening a day stay medical facility in Tauranga City and has had discussions with the Bay of Plenty District Health Board regarding co-location and facilities sharing at a proposed new hospital for the Whakatane district. Both of these initiatives would further enhance Grace Hospital's competitive position in the Bay of Plenty.

5.2 Ownership Structure

The ownership structure encompassing Grace Hospital is shown below:



Both Norfolk Investments Ltd and Norfolk Ventures Ltd are single purpose companies – they have no business interests other than the 60% interest in the Norfolk Southern Cross Partnership, which, in turn has no other business interests outside of ownership of Grace Hospital.

The Wakefield Offer is being made to the shareholders of Norfolk Investments Ltd only.

5.3 Financial Analysis

An analysis of Norfolk's financial statements on a standalone basis for the purpose of this report does not provide a meaningful picture of the company's underlying hospital business's financial performance or position. This is because Norfolk's accounts are not prepared on a group consolidated accounting basis as the investment in Grace Hospital is made through a partnership rather than by way of shares in a holding company. A pro forma consolidation of the financial statements presents difficulties due to Norfolk having a 31 March balance date and Norfolk Ventures and Norfolk Southern Cross Partnership having a 30 June balance date.

An analysis of the Norfolk Southern Cross Partnership financial statements provides the most meaningful view of Norfolk's prospects. The financial statements of Norfolk and its subsidiary Norfolk Ventures on their own reflect their respective status of being single purpose holding companies.

5.4 Financial Performance

Norfolk Investments

The historical financial performance for Norfolk is summarised below:

Norfolk Investments – Financial Performance ($000's)			
Year ended 31 March	**2009**	**2010**	**2011**
Interest received	257	246	249
Dividends received	-	574	-
Total income	**257**	**820**	**249**
Accounting fees	(19)	(25)	(33)
General expenses	(15)	(9)	(15)
Share sale expenses	-	(107)	(80)
Directors fees	(18)	(35)	(42)
Total expenses	**(52)**	**(176)**	**(170)**
Profit before tax	**205**	**644**	**79**

In analysing Norfolk's financial performance above the following should be noted:

- the financial statements are prepared on 31 March financial year-end. The 2011 financial statements are in draft format but Grant Samuel has been advised that they are not expected to change materially;
- interest received is from Norfolk's investment in Norfolk Ventures which, in additional to a nominal equity amount, is largely in the form of a shareholder loan;
- dividends received are from Norfolk Ventures and are inclusive of imputation credits. A dividend of $767,000 for the 2011 year has been declared after the 31 March balance date; and
- share sale expenses are attributable to professional and advisory fees in relation to the previous Wakefield Offer.

Norfolk Southern Cross

A more meaningful analysis of Norfolk's underlying performance is gained from an examination of the Norfolk Southern Cross Partnership patient statistics and financial statements.

Patient numbers and average revenue and operating profit per patient are shown below:

Norfolk Southern Cross – Patient Statistics					
Year ending 30 June	**2009**	**2010**	**2011**	**2012(B)**	**2013(P)**
Patient numbers	6,883	7,027	6,992	7,103	7,245
Average revenue per patient	$2,808	$2,987	$3,175	$3,239	$3,303
Operating profit per patient	**$765**	**$836**	**$883**	**$872**	**$902**

The decline in patient numbers in 2011 is due to a combination of the recessionary economic environment (leading to postponement of non-insured elective surgery) and a situation where a number of specialists took extended leave.

Norfolk Southern Cross has relatively high fixed cost base and consequently profit per patient increases as patient volumes expand. The hospital is also benefiting from increases in labour productivity as systems and management become more efficient over time.

Summary financial performance is shown below:

Norfolk Southern Cross – Financial Performances ($000's)					
Year ending 30 June	**2009**	**2010**	**2011**	**2012(B)**	**2013 (P)**
Revenue	19,327	20,992	22,202	23,004	23,933
Gross profit	7,064	8,067	7,991	8,401	8,804
Gross profit %	*36.6%*	*38.4%*	*36.0%*	*36.5%*	*36.8%*
Other income	58	102	326	213	213
Indirect expenses	(1,854)	(2,292)	(2,143)	(2,422)	(2,471)
EBITDA[1]	**5,268**	**5,877**	**6,174**	**6,192**	**6,546**
Depreciation	(2,343)	(2,480)	(2,458)	(2,605)	(2,733)
EBIT[2]	**2,925**	**3,397**	**3,716**	**3,587**	**3,813**
Net interest expense	(1,573)	(951)	(1,116)	(1,082)	(998)
Share of profit/(loss) from Da Vinci Robot JV	(39)	(33)	(40)	n/a	n/a
Profit attributable to Partners	**1,313**	**2,413**	**2,560**	**2,505**	**2,815**
Share of profit attributable to Norfolk	**788**	**1,448**	**1,537**	**1,503**	**1,689**

In analysing the summary, the following points should be noted:

- The 2009 financial year was the first full operating year for Grace Hospital;
- other income consists primarily of rental income from rooms and facilities rented to surgeons and specialists. The amount for 2011 includes an insurance recovery of $89,500;
- net interest expense for 2009 includes an amount of $174,000, being a fair value adjustment for financial derivatives;
- Da Vinci Robot is a 50/50 joint venture that commenced operations in the 2009 year. It provides robotic surgery facilities. Da Vinci Robot produces a profit at the operating level but a substantial depreciation expense reduces this to a loss. Management has not prepared detailed projections but it is expected to operate in 2012 at approximately the same levels as 2011;
- earnings for 2011 excludes a write-off of $803,000 being preliminary expenses incurred in relation to the proposed construction of consulting suites that is now not proceeding. The amount will be included in the statutory accounts; and
- the 2012 budget and 2013 projections are based on management's estimates of volume growth (measured by patient numbers) of 1.6% and 2% per annum respectively and a 2% inflation factor for both income and expenses. Actual volume growth was 7.45% for 2009, 2.8% for 2010 and a 0.5% decrease for 2011.

[1] EBITDA is earnings before interest, taxation and depreciation.

[2] EBIT is earnings before interest and taxation.

5.5 Cash Flow

The historical cash flows for Norfolk Southern Cross are summarised below:

Norfolk Southern Cross – Cash Flow ($000's)			
Year ending 30 June	**2009**	**2010**	**2011**
EBITDA	5,268	5,877	6,135
Movement in working capital	(51)	30	(431)
Net interest paid	(1,573)	(951)	(1,116)
Capital expenditure	(1,158)	(1,787)	(1,914)
Free cash flow	**2,486**	**3,169**	**2,674**
Increase/(decrease) bank debt	(1,000)	(2,200)	(3,000)
Net cash inflow/(outflow)	**1,486**	**969**	**(326)**

In analysing the table above, the following points should be noted:

- because Norfolk Southern Cross is a partnership, taxation is paid at the partner holding company level; and
- capital expenditure is significant in 2010 and 2011 because of the building programme described in section 5.1.

5.6 Financial Position

The financial position of Norfolk reflects its holding company nature:

Norfolk Investments - Financial Position ($000's)		
As at 31 March	**2010**	**2011**
Cash	876	551
Current account – Loan to Norfolk Ventures	9,820	9,423
Other current assets	16	88
Total Current Assets	**10,712**	**10,062**
Shares in Norfolk Ventures	10	10
Total Assets	**10,722**	**10,072**
Current liabilities	32	5
Total Liabilities	**32**	**5**
Net Assets	**10,690**	**10,067**

Again, the Norfolk Southern Cross Partnership's balance sheet is a more meaningful indicator of the entity's financial position:

Norfolk Southern Cross Partnership – Financial Position ($000)		
As at 30 June	**2010**	**2011**
Cash and cash equivalents	2,872	1,525
Debtors inventories and prepayments	2,377	2,461
Total current assets	**5,249**	**3,986**
Property plant & equipment	33,184	31,853
Investment in da Vinci Robot	200	200
Other fixed assets	155	155
Total non-current assets	**33,539**	**32,208**
Total assets	**38,788**	**36,194**
Current liabilities	3,140	2,154
Term liabilities	15,500	13,608
Total liabilities	**18,640**	**15,762**
Net assets attributable to partners	**20,148**	**20,432**

6. Profile of Wakefield

6.1 Profile of Wakefield

Wakefield provides private surgical and medical services in the New Zealand health services market. Its origins go back to 1989 when a consortium of private investors, including a number of medical specialists, purchased the Calvary Hospital in Wellington. The facility was renamed Wakefield Hospital.

In September 2001, Wakefield was listed on the New Zealand Stock Exchange, raising $7.75 million through the issue of new shares. The proceeds were in part used to as new facilities to the hospital in 2002 and to acquire another Wellington hospital, Bowen, in April 2003.

Wakefield Hospital Limited changed its name to Wakefield Health Limited in 2005. In January 2005 Wakefield merged with Royston Hospital Limited in Hastings, the largest provider of private surgical and medical services in the Hawkes Bay region.

Wakefield now employs over 600 people at the three hospitals under its control, treating approximately 18,000 patients annually. The company opened New Zealand's first fully integrated high definition digital operating theatre at Wakefield Hospital in March 2009.

Wakefield has recently completed in a redevelopment of the Bowen Hospital which included the construction of additional specialist consulting rooms, a new endoscopy suite, expanded radiology services and greater car parking capacity. A second stage underway includes the construction of a new theatre suite.

Wakefield has a current market capitalisation of approximately $75.1 million.

6.2 Financial Profile

A brief financial profile of Wakefield is outlined below:

Wakefield Financial Profile (NZ$ 000's)			
Year end 31 March	**2009**	**2010**	**2011**
Revenue	86,075	76,803	75,872
EBITDA	**22,070**	**16,316**	**14,784**
EBIT	**16,434**	**9,726**	**8,173**
Net operating profit after tax	10,133	6,196	582
Operating Cash Flow	19,245	12,584	12,042
Total Assets	124,196	126,947	123,526
Total Equity	32,640	96,448	88,432

Source: Wakefield Financial Reports.

Wakefield's revenue and earnings declined in 2010 due to a combination of the impact of the recession and reductions in payments from ACC and District Health Boards.

Earnings in 2011 were impacted by suppressed levels of demand for private healthcare due to recessionary conditions. Net operating profit after tax also includes a one-off cost negative adjustment of $4.3 million to deferred tax as a result of changes in tax legislation.

7. Valuation of Norfolk

7.1 Summary

Grant Samuel's valuation of the equity in Norfolk of $3.25 to $3.83 per share is summarised below:

Norfolk – Valuation Summary ($000's)		
$000's except where otherwise stated	**Low**	**High**
Value of Norfolk Southern Cross attributable to Norfolk	20,352	24,050
Cash on hand at Norfolk	350	350
Norfolk Equity value	**20,702**	**24,400**
Shares on issue (000's)	6,376	6,376
Value per share	**$3.25**	**$3.83**

The valuation of Norfolk reflects the strengths and weaknesses of the Norfolk Southern Cross Partnership and takes into account factors such as:

- Grace Hospital's strong position in the Bay of Plenty region private hospital market with no significant competition, an advantageous population demographic, and modern state-of-the-art facilities;
- Southern Cross Hospitals' participation in the Partnership provides a depth of clinical knowledge and experience to Grace Hospital synonymous with being New Zealand's private hospital operator;
- the design of Grace Hospital and the size of the site mean that future growth is not physically constrained;
- The Da Vinci Robot surgical facility is ground breaking in New Zealand and is attracting surgical specialists and patients from outside the Bay of Plenty region;
- Norfolk's limited ability to contribute new capital to the Norfolk Southern Cross Partnership may act as a restraint on the speed of growth of the hospital business; and
- trends in the New Zealand health sector, and in particular constraints on public sector funding, are likely to see a greater utilisation of private healthcare facilities.

7.2 Value of Norfolk Southern Cross

The key component of Norfolk's value is its share of the equity in the Norfolk Southern Cross Partnership which is summarised below:

Norfolk Southern Cross Partnership – Valuation Summary ($000's)		
	Low	**High**
Enterprise value	45,000	51,000
Net debt for valuation purposes	(11,575)	(11,575)
Other assets	496	658
Equity value	33,921	40,083
Norfolk share (60%)	**20,352**	**24,050**

The valuation represents the estimated full underlying value of the Norfolk Southern Cross Partnership assuming 100% of the business could be acquired and includes a premium for control.

Norfolk Southern Cross - Net debt for valuation purposes

Grant Samuel has used the Partnership's net debt position at 30 June 2011 for valuation purposes. This is made up as follows:

Norfolk Southern Cross – Net debt ($000's)	
Cash on hand	1,525
Bank term loans	(13,100)
Net debt for valuation purposes	**(11,575)**

Norfolk Southern Cross - Other assets

Other assets at 30 April 2011 consist of:

Norfolk Southern Cross – Other Assets ($000's)		
	Low	**High**
Loan to Orthopaedic Services Ltd	155	155
Investment in Da Vinci Robot Ltd	341	503
Other assets	**496**	**658**

The loan to Orthopaedic Services Ltd is an interest free loan provided by the Partnership in respect of the purchase of land adjoining the Grace Hospital site.

Da Vinci Robot Limited is a joint venture between Norfolk Southern Cross Partnership and Robotic Holdings Limited, each holding equal interests. The company owns and operates a robotic surgical machine used primarily in urology procedures. Grant Samuel has been supplied with cash flow projections for Da Vinci Robot and has valued the business on a capitalisation of ungeared cash flow. Grant Samuel's valuation of Da Vinci Robot Ltd is shown below:

Da Vinci Robot – Valuation Summary ($000's)		
	Low	**High**
Enterprise value	1,950	2,275
Net debt	(1,269)	(1,269)
Equity value	681	1,006
Norfolk Southern Cross Partnership share (50%)	**341**	**503**

7.3 Methodology

Overview

Grant Samuel's valuation of Norfolk Southern Cross has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Norfolk Southern Cross is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;

- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

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

Capitalisation of Earnings

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

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

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

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

Discounted Cash Flow (DCF)

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

Realisation of Assets

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

Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value Norfolk. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Preferred Approach

Grant Samuel has valued Norfolk Southern Cross using the capitalisation of earnings methodology. This methodology is suitable for valuing mature businesses with stable earnings and cash flows. The underlying hospital business has shown reasonably constant growth and enjoys a strong competitive position in the Bay of Plenty market. The outlook for the business is for continuing earnings growth.

A DCF valuation has been prepared as a cross check.

7.4 Earnings Multiples Analysis

Grant Samuel estimates the value of Norfolk Southern Cross on an ungeared basis to be in the range of $45 million to $51 million. This range implies the following multiples:

Norfolk Southern Cross - Implied Multiples

	Valuation Range	
	Low	**High**
Multiple of EBITDA – year ended 30 June 2011	7.6	8.7
Multiple of EBITDA – year ended 30 June 2012	7.3	8.2
Multiple of EBIT – year ended 30 June 2011	13.2	15.0
Multiple of EBIT – year ended 30 June 2012	12.5	14.2

Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling the interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- the company's own performance and growth trajectory;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time, and
- the number of competing buyers for a business;

▪ acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;

▪ acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;

▪ while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

  - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
  - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

7.5 Assessment of Implied Multiples

Transactions in Healthcare Sector

The valuation of Norfolk Southern Cross has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. A selection of relevant transactions is set out below:

Recent Transaction Evidence

Date	Target	Acquirer	Price (millions)	EBITDA Multiple[3] (times)	EBIT Multiple[4] (times)
June 2011	Healthe Care	Archer Capital	AUD240	9.0	n/a
May 2011	Long-Term Acute Care Hospitals	LifeCare Holdings	USD120	6.9	n/a
May 2011	Conmed Healthcare	Levine Leichtmann Capital Partners	USD49	11.7	16.1
Mar 2011	Qualitas Medical Group	Qualitas Healthcare Holdings	SGD47	7.3	8.5
Dec 2010	Prasit Patana	Bangkok Dusit Medical Services	THB4,329	7.6	9.9
May 2010	Healthscape	Carlyle Group	AUD1,918	10.0	13.7
Mar 2010	Care UK	Bridgepoint Capital	GBP 491	7.4	13.9
May 2009	Group Benefit	Hong Kong Health Check	HKD 29	n/a	16.0
Oct 2008	GHC Medical	Quality Healthcare Asia	HKD 33	4.8	n/a
Dec 2007	Abano Healthcare (11%)	Crescent Capital Partners	NZD 13	7.9	10.2
Dec 2007	Community Private Healthcare	Pulse Health	AUD 21	11.1	n/a
Nov 2007	Symbion Health	Primary Healthcare	AUD 2,727	12.8	16.5
Sept 2006	DCA Group	CVC Capital Partners	AUD 2,623	11.9	16.7
Nov 2005	Royston Hospital	Wakefield	NZD 31	9.6	n/a
Sept 2005	Ex Affinity Hospitals	Healthscope	AUD 40	8.6	n/a
Apr 2005	Affinity	Ramsay	AUD 1,428	8.8	12.1
Oct 2004	Gribbles Group	Healthscope	AUD 284	13.6	n/a
July 2002	Bowen Hospital	Wakefield	NZD 5	9.6	
Minimum				***4.8***	***12.1***
Maximum				***13.6***	***16.5***
Average				***9.3***	***13.4***

Source: Media reports, company announcements, annual reports and presentations.

Brief descriptions of the transactions included above are provided in Appendix A. Each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions.

Sharemarket Evidence

The valuation of Norfolk Southern Cross has been considered in the context of the sharemarket ratings of listed Australasian companies with operations in the healthcare sector. While none of these companies is directly comparable to Norfolk Southern Cross, the sharemarket data provides a framework within which to assess the valuation of Norfolk Southern Cross.

3 Represents implied enterprise value divided by historical EBITDA.

4 Represents implied enterprise value divided by historical EBIT.

Sharemarket Ratings of Selected Listed Companies[5]					
Company	Market Capitalisaton (NZ$ millions)	EBITDA Multiple[6] (times)		EBIT Multiple[7] (times)	
		Historic	Forecast	Historic	Forecast
Wakefield Health	75.1	6.1	5.5	11.3	9.9
Abano Healthcare	70.4	4.2	4.4	6.1	6.6
Ramsay Healthcare	4,506.8	10.6	9.2	15.0	12.3
Pulse Health	16.9	14.9	n/a	30.3	n/a
Primary Healthcare	2,156.5	8.3	8.6	10.7	11.6
Minimum		***4.2***	***4.4***	***6.1***	***6.6***
Maximum		***14.9***	***9.2***	***30.3***	***12.3***
Average		***8.8***	***6.9***	***14.7***	***10.1***
Weighted Average		***9.8***	***8.9***	***13.5***	***11.9***

Source: Grant Samuel analysis[8]

A description of each of the companies above is set out in Appendix B. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 21 July 2011. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year; and
- there are considerable differences between the operations and scale of the comparable companies when compared with Norfolk Southern Cross. In addition, care needs to be exercised when comparing multiples of New Zealand companies with Australian listed companies. Differences in regulatory environments, sharemarket and broader economic conditions, taxation systems and accounting standards hinder comparisons.

Analysis and Conclusions

The multiples implied by the valuation of Norfolk Southern Cross have been assessed having regard to the above market evidence and the particular attributes of the Norfolk Southern Cross business, including its historical performance, market position and the growth outlook for the Grace Hospital. In this context the Grace Hospital holds a unique position in the Bay of Plenty market, given its modern facilities, ability to attract surgeons and specialists, and lack of any competing facilities.

5 The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

6 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, impairment adjustments and significant items.

7 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, , investment income, impairment adjustments and significant items.

8 Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

7.6 DCF Analysis

Grant Samuel carried out a cross check against the primary capitalisation of earnings methodology using the discounted cash flow methodology. The management of Norfolk Southern Cross supplied forecasts for the nine years to 30 June 2020. Key assumptions used by management were price and cost inflation of 2% per annum and patient volume growth of 2% per annum. Grant Samuel constructed a base case by using the budget figures for 2012, patient volume growth of 1% for 2013 to 2017 and 0.5% per annum thereafter. A terminal growth factor of 2% was applied with price and cost inflation of 2% per annum and 3% per annum respectively. A weighted average cost of capital in the range of 10% to 10.5% was used to discount the cash flows. A downside case with constant 0.5% annual volume growth was also constructed. The table below sets out the value ranges calculated for Norfolk under the different scenarios:

Norfolk – DCF Equity Value per Share

	Valuation Range	
	Low	**High**
Grant Samuel base case – growth tapering from 1% to 0.5% per annum	\$3.49	\$3.78
Management case – 2% annual volume growth	\$4.07	\$4.41
Downside case – 0.5% annual volume growth	\$3.35	\$3.63

The valuation range derived under Grant Samuel's base case supports the valuation range of \$3.25 to \$3.83 derived from the capitalisation of earnings methodology.

8. Qualifications, Declarations & Consents

8.1 Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally), property advisory services and manages private equity and property development funds. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer BCA, and John Mandeno BCom. Each has a significant number of years of experience in relevant corporate advisory matters.

8.2 Limitations and Reliance on Information

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

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

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

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

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cashflows of Norfolk prepared by the management of Norfolk. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

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

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

- the title to all such assets, properties, or business interests purportedly owned by Norfolk is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Norfolk other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Norfolk, other than as publicly disclosed.

8.3 Disclaimers

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

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

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

8.4 Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Norfolk or Wakefield that could affect its ability to provide an unbiased opinion in relation to the Wakefield Offer. Grant Samuel had no part in the formulation of the Wakefield Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Wakefield Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

8.5 Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Wakefield and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Norfolk and contained within this report is sufficient to enable Norfolk security holders to understand all relevant factors and make an informed decision in respect of the Wakefield Offer. The following information was used and relied upon in preparing this report:

Publicly Available Information

- the offer documentation from Wakefield to Norfolk shareholders;
- the Target Company Statement to Norfolk shareholders of which this report forms part;
- annual reports for Wakefield, Norfolk, Norfolk Ventures and Norfolk Southern Cross Partnership for the financial years 2008, 2009 and 2010;
- the draft financial statements for Norfolk, Norfolk Ventures and Norfolk Southern Cross Partnership for the 2011 financial year;
- information from the Wakefield and Southern Cross Healthcare websites;
- other information on the healthcare sector and publicly listed companies with operations broadly comparable to Norfolk Southern Cross, including annual reports, interim financial results, press reports, industry studies, brokers' research and information regarding the prospective financial performance of such companies; and
- research papers and media releases on the healthcare sector issued by the Health Funds Association of New Zealand.

Non Public Information

- board papers and minutes of board meetings for Norfolk Southern Cross for the last three years;
- correspondence relating to the special meeting of Norfolk shareholders held on 15 June 2011; and
- other confidential correspondence and reports provided by Norfolk management and advisers.

8.6 Declarations

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

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

8.7 Consents

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

GRANT SAMUEL & ASSOCIATES LIMITED

3 August 2011

Grant Samuel + Associates

Appendix A
Recent Transaction Evidence

A brief description of each of the transactions listed in Section 7.4 is outlined below:

Healthe Care/Archer Capital

Archer Capital acquired Healthe Care, the third largest private hospital operator in Australia in June 2011. Healthe Care operates 12 hospitals spread across the eastern states and Tasmania. It also operates a range of outpatient services including community nursing and workplace health.

Long-Term Acute Care Hospitals/LifeCare Holdings

In May 2011 LifeCare Holdings, a United States based operator of long-term acute hospitals entered into an agreement to acquire Long-Term Acute Hospitals from HealthSouth Corporation for total consideration of USD120 million. Seven hospitals with a total of 414 beds. LifeCare Holdings operates 19 hospitals in nine states with a total of 1,059 licensed beds.

Conmed Healthcare/Levine Leichtman Capital Partners

Levine Leichtman Capital Partners, a Californian based private equity and venture capital firm, entered into partnership with James Desnick to acquire the 90.6% of the shares in Conmed Healthcare Management that it did not already own in May 2011, valuing Conmed at USD54 million. Conmed provides healthcare services to correctional facilities in the United States. It has facilities in 38 counties in seven states. The transaction is conditional upon completion of due diligence.

Qualitas Medical Group/Qualitas Healthcare Holdings

Qualitas Healthcare Holdings completed the acquisition of Qualitas Medical Group in May 2011 for a total price of SGD47 million. Both companies are domiciled in Singapore. Qualitas Medical Group operates a network of primary healthcare clinics offering a full range of medical services with annual revenue of approximately SGD40 million.

Prasit Patana/Bangkok Dusit Medical Services

Bangkok Dusit Medical Services Public Co Limited, listed on the Bangkok Stock Exchange acquired a 49% stake in Prasit Patana Public Co Limited in December 2010 to take its stake to 68.6%. The deal valued Prasit Patayna at approximately THB48 billion (NZD1.9 billion). Prasit Patana owns and operates hospitals covering all specialities throughout main centres in Thailand.

Healthscape/Carlyle Group

Carlyle Group and TGP Capital made a successful offer to acquire Healthscape Limited for AUD1.7 billion in May 2010. At the time Healthscape was the second largest private hospital operator in Australia with annual revenue of approximately AUD1.9 billion. It operates 43 medical/surgical, rehabilitation, and psychiatric private hospitals as well as 45 medical centres. It also provides pathology services in Australia, New Zealand, Singapore and Malaysia.

Care UK/Bridgepoint Capital

On 3 March 2010 European Private Equity Fund, managed by Bridgepoint Capital made an offer to acquire Care UK for GBP 491 million. Care UK offers residential care, community care, specialist care and health care services directed at the aged and young people markets. It generates annual revenues of approximately GBP 400 million.

Group Benefit/Hong Kong Health Check

Hong Kong Health Check and Laboratory Holdings Company acquired a 49.66% stake in Group Benefit Development Limited for HKD 29 million on 11 May 2009. Group Benefit offers diagnostic scanning and laboratory services, and owns and operates four health check centres. It has annual revenues of approximately HKD 110 million.

GHC Medical/Quality Healthcare Asia

Quality Healthcare Asia, listed on the Hong Kong Stock Exchange acquired the GHC Medical Centre for HKD 32.6 million in October 2008. HC operates integrated medical centres serving the general public and corporate clients. It also provides specialist services including cardiology, obstetrics and gynaecology, and orthopaedic surgery. Annual turnover is approximately HKD 55 million.

Abano Healthcare/Crescent Capital Partners

Crescent Capital Partners, a private equity firm, acquired a 10.9% stake in Abano Healthcare Group from Rotorua Trust Perpetual Capital Fund in December 2007 for a purchase price of NZD12.9 million. Abano Healthcare operates as a medical and healthcare services provider in New Zealand and Australia. It has four divisions: Audiology, Dental, Diagnostics and Rehabilitation.

Community Private Healthcare/Pulse Health

Pulse Health entered into an agreement to acquire the operating businesses of Community Private Healthcare for AUD 20.5 million in December 2007. Pulse operates a network of private hospitals, day surgeries and community home care services. Community Private Healthcare owns and operates hospitals with annual revenue of approximately $20 million.

Symbion Health/Primary Healthcare

Primary Healthcare acquired the remaining 80% of the shares in Symbion Health that it did not own in November 2007 for a purchase price of AUD2.12 billion. Symbion was formerly known as Mayne Group and provides pathology services, diagnostic imaging, and engages in the wholesale distribution of pharmaceutical and over-the-counter medicines to pharmacies and hospitals in Australia. Revenue is approximately AUD4 billion per annum.

DCA Group/CVC Capital Partners

CVC Capital Partners made a successful takeover offer for Australian listed DCA Group in September 2006. The offer valued DCA at AUD2.6 billion. DCA Group, with a turnover of AUD950 million per annum, engages in the ownership and operation of diagnostic imaging and ages care businesses in Australia and New Zealand.

Royston Hospital/Wakefield Health

Wakefield Health and Royston Hospital merged by way of an amalgamation in November 2005, valuing Royston at approximately NZD 31 million. Royston operated out of a single facility in Napier with three operating theatres, an endoscopy suite, a high dependency unit and consulting rooms for more than 20 specialists. At the time of the acquisition it had annual revenues of NZD 16.6 million.

Ex-Affinity Hospitals/Healthscope

On 5 September 2005, Healthscope announced an agreement with Ramsay under which Healthscope would acquire 14 private hospitals for AUD 490 million. The hospitals were previously acquired by Ramsay under its takeover of Affinity Healthcare Limited (Affinity) (see transaction below) and were required to be divested in accordance with an undertaken given to the Australian Competition and Consumer Commission (ACCC) to address competition issues associated with the takeover. The agreement also carries an exclusive option to acquire the other 5 ex-Affinity hospitals that the ACCC requires Ramsay to divest.

Affinity/Ramsay

On 14 April 2005 Ramsay announced the acquisition of Affinity for total consideration of AUD 1,428 million, or AUD 1,499 million including transaction costs. At the time, Affinity operated 48 hospitals in metropolitan and regional Australia and 3 hospitals in Indonesia. Affinity had annual revenue of approximately AUD 1.3 billion and was the largest private hospital operator in Australia. Simultaneous with the acquisition, Ramsay agreed to divest 14 of the acquired hospitals to address competition issues of the ACCC (see transaction above).

Gribbles Group/Healthscope

On 30 March 2005 the boards of Healthscope and Nova Health Limited (**Nova**) announced a proposal for the two companies to merger, to be effected by way of a takeover offer by Healthscope for all of the outstanding shares in Nova for cash consideration of AUD 0.30 per share. Nova operates five private hospitals and a day surgery in the states of Queensland and New South Wales through which it provides surgery services including orthopaedics, cardiology, neurosurgery, ophthalmology, plastic surgery and oncology. Combined, the hospital facilities have over 420 beds. The offer valued the equity in Nova at AUD 72 million. The offer was unanimously recommended by the directors of Nova and was completed on 25 May 2005.

Bowen Hospital/Wakefield

On 26 July 2002 Wakefield announced an in-principle agreement with the Bowen Hospital Trust to acquire the Bowen Hospital and site in Crofton Downs, Wellington for $5 million. Bowen Hospital had three surgical theatres and 45 beds. The hospital offered general and specialist surgery and operated a sleep disorders unit in conjunction with the Otago University Wellington School of Medicine. The transaction was completed on 1 April 2003.

Appendix B
Comparable Listed Companies

A brief description of each of the companies listed in Section 7.4 is outlined below:

Wakefield Health

Wakefield Health provides private surgical and medical services in the New Zealand health services market. It employs over 600 people at three hospitals treating approximately 18,000 patients annually. The hospitals provide surgical, post-operative care, and a range of diagnostic and ancillary services. The company also offers specialist consulting room facilities at its hospital campuses. Revenue for the year ending 31 March 2011 was $75.9 million.

Abano Healthcare

Abano Healthcare is an active investor in and operator of healthcare and medical services businesses located in New Zealand, Australia and Asia. It offers services in audiology, dentistry, diagnostics and rehabilitation. Operating revenue for the year ended 31 May 2011 was $175 million to $177 million. Following the sale of Bay Audiology, the Dental Division has become the main revenue earner.

Ramsay Health Care

Ramsay Health Care is the largest private hospital operator in Australia with a 26% market share and is the fourth largest operator in the United Kingdom with 11% market share. It has recently entered into the French market with the purchase of Proclif, which owns 9 hospitals. Revenues of approximately A$3.9 billion are forecast for the year ending 30 June 2011.

Pulse Health

Pulse Health provides a network of private hospitals and day surgeries to Australian regional communities. The company also offers community home care services, which include nursing care for diabetes and incontinence; case management; respite care; and allied health services, such as podiatry, physiotherapy, occupational therapy, speech pathology, and dietetics. In addition, it provides personnel and human resources services in the areas of nursing, allied health, and medical services to healthcare providers in the private, public, and aged care sectors. Revenue is approximately A$35 million per annum.

Primary Health Care

Primary Health Care is the largest provider of medical centres in Australia, the second largest pathology provider and the third largest diagnostic imaging provider. The company has 31 large-scale medical centres in operation. Annual turnover for the year ended 30 June 2011 is forecast to be approximately A$1.4 million.