Acurity Health Group Limited

Target Company Statement

In Response to Connor Healthcare Limited's Full Takeover Offer
26 August 2014

This is an important document and requires your urgent attention. If you have any questions in respect of this document or the offer, you should seek advice from your financial or legal adviser.

Acurity
Health Group Limited

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Chairman's letter

26 August 2014

Dear Acurity Health Group Limited shareholder

Connor Healthcare Limited's Full Takeover Offer for Acurity Health Group Limited

Introduction

Connor Healthcare Limited ("**Connor**") has made a full takeover offer to acquire all of the fully paid ordinary shares in Acurity Health Group Limited ("**Acurity**") that it does not own. Connor, which as at the date of this Target Company Statement is wholly owned by Evolution Healthcare (NZ) Pty Ltd ("**Evolution**") (a member of the Australian based Evolution Healthcare group which owns private hospitals in Australia and New Zealand), owns 11.70% of the shares in Acurity.

This letter forms part of Acurity's Target Company Statement in response to Connor's offer. The Target Company Statement is required by the Takeovers Code and includes your Independent Directors' recommendation with respect to the offer, as well as an Independent Adviser's Report, prepared by the Independent Adviser, KordaMentha. You should read the Target Company Statement, including the Independent Adviser's Report, carefully and in full when considering whether to accept the offer.

Committee of Independent Directors

After receipt of Connor's takeover notice, your Board formed a Committee of Independent Directors (Directors not associated with Connor), comprising Alan Isaac, Rick Christie, Brian Martin and James Tyler, to consider the offer, and to oversee preparation of this Target Company Statement.

The Committee sought advice from KPMG, as financial adviser, and Harmos Horton Lusk Limited, as legal adviser.

Recommendation of the Committee

The Committee of Independent Directors' recommendation is set out in the "Recommendation" section of this Target Company Statement, which immediately follows this letter. In summary, while the decision to accept the offer is an individual one for shareholders, absent a higher value alternative proposal emerging:

- the Committee unanimously recommends acceptance of the offer; and
- Committee members intend to procure acceptances in respect of shares that they hold or control.

However, in view of the intended offer period (88 days from and including the date of the offer), and the addition of a new condition (relating to competition approvals by the Commerce Commission) the Committee notes that there is no advantage in early acceptance and recommends shareholders intending to accept the offer should do so closer to the closing date or when the likelihood of the conditions to the offer being satisfied becomes clearer.

The bidder and associated parties

Acurity did not encourage or solicit, and had no prior notice of Connor's intention to make, the offer.

Austron Limited ("**Austron**") (which owns 50.01% of Acurity's shares), Royston Hospital Trust Board ("**Royston**") (which owns 4.48% of Acurity's shares) and Medusa Limited ("**Medusa**") (which owns 4.48% of Acurity's shares) have agreed to accept the offer in respect of all of their shares. The shares that Austron, Royston and Medusa have agreed to sell to Connor, together with Connor's existing shareholding, represent 70.67% of Acurity's shares.

As noted above, Connor is currently wholly owned by Evolution. However, the arrangements between Austron, Royston, Medusa and Evolution which have been publicly disclosed provide that on completion of the offer (if completion occurs), Austron will subscribe for 75% of the shares in Connor, which will result in Austron owning 75% and Evolution owning 25% of that company.

Austron, a joint venture between Royston and Medusa, became the majority shareholder of Acurity through a successful partial takeover of Acurity in 2012. Prior to that partial takeover, Royston and Medusa had been major shareholders, with Board representation, in Acurity for some time and they (and therefore, Austron) continue to be well placed to form their own view of Acurity's future prospects.

Offer price

When Connor notified Acurity of its intention to make the offer, Connor proposed to make the offer at an offer price of $6.50. After discussions between Connor and the Independent Directors, Connor has increased the offer price to **$7.25** per Acurity share. The Independent Adviser's assessed value range is $6.69 to $7.75 per share.

Key features of the offer

The full terms of Connor's offer are set out in Connor's Offer Document which accompanies this Target Company Statement.

Other than the offer price (referred to above), the key features of the offer are as follows:

1. The offer is a full offer to acquire all of the fully paid ordinary shares in Acurity not already owned by Connor.
2. The offer will close at 5.00pm on 21 November 2014, unless the offer is extended.
3. The offer is conditional on acceptances being received in respect of the Acurity shares which, when taken together with the Acurity shares already held or controlled by Connor, confer on Connor 90% or more of the total voting rights in Acurity. <u>Connor cannot waive this condition.</u> This means that, if the 90% minimum acceptance condition is not satisfied, the offer will lapse and no shares will be acquired under the offer by Connor. As noted above, the shares that Austron, Royston and Medusa have agreed to sell to Connor under the offer, together with Connor's existing shareholding, represent 70.67% of Acurity's shares.
4. The offer is also conditional on:
   - all consents necessary under the Overseas Investment Act 2005 to complete the acquisition of all of the Acurity shares in accordance with the offer being obtained, on terms which are usual for the granting of such consents;
   - the Commerce Commission having given clearance or granting authorisation under the Commerce Act 1986 to the acquisition which will result from completion of the offer (if completion occurs). The Committee of Independent Directors consented to the insertion of this condition after Connor gave its takeover notice; and
   - other standard conditions, including that Acurity's business is carried on in the ordinary course.
5. The offer may be withdrawn in accordance with the Takeovers Code with the approval of the Takeovers Panel or if the offer conditions are not satisfied. If the offer is withdrawn or the conditions are not satisfied, no shares will be acquired by Connor under the offer.

On completion of the offer (if completion occurs), Connor will control at least 90% of Acurity's shares and, therefore, will be entitled to, and intends to, compulsorily acquire the remaining shares in Acurity in accordance with the Takeovers Code.

Independent Directors' intentions

Alan Isaac is the joint holder of 6,430 Acurity shares as the trustee of a trust. The trustees of that trust intend to accept the offer.

James Tyler, Brian Martin and others are the joint holders of 240,000 Acurity shares as trustees of a trust. The trustees of that trust intend to accept the offer.

Brian Martin holds 64,818 Acurity shares in his own name. Mr Martin intends to accept the offer.

The Independent Directors' intentions stated above are subject to no higher value alternative proposal emerging.

Acceptance of the offer

If you wish to accept the offer, please use the Acceptance and Transfer Form that accompanies Connor's Offer Document (and carefully follow the instructions on that form). Acceptances, once given, cannot be withdrawn.

If you decide not to accept the offer, you do not need to take any action.

Timing

The offer will close at 5.00pm on 21 November 2014, unless extended by Connor. You have until the end of the offer period to decide whether to accept the offer.

Connor is not required to pay you until seven days after the latest of:

- the date on which the offer becomes unconditional;
- the date on which your acceptance is received; and
- 21 November 2014, being the date that is 88 days from and including the date of the offer.

As acceptances are irrevocable, and the offer must remain open until at least 21 November 2014, there is no advantage to quick acceptance.

Conclusion

The Committee of Independent Directors will, as appropriate, advise shareholders of new information or changes in circumstances that it considers to be relevant to the offer.

You should, when deciding whether to accept Connor's offer, consider your own individual circumstances, views on value and the merits of the offer, and investment time horizon. You are encouraged to consider taking your own separate professional advice (e.g. from your lawyer or financial adviser) tailored to your circumstances.

On behalf of the Committee and the Board, I thank you for your support of Acurity.

Yours faithfully
Acurity Health Group Limited

Alan Isaac
Chairman of the Board and of the Committee of Independent Directors

Recommendation

The Board of Acurity formed a Committee of Independent Directors to consider, and oversee Acurity's response to, Connor's offer. The members of the Committee are Alan Isaac (Chairman), Rick Christie, Brian Martin and James Tyler.

Acurity Directors Mark Stewart, Warwick Webb and Jacqueline Gray are members of Connor's takeover committee, are Directors of Austron, which has agreed to sell its Acurity shares to Connor and to become a 75% shareholder in Connor on completion of the offer (if completion occurs), and have agreed to become Directors of Connor on completion of the offer (if completion occurs). Accordingly, those Directors are not members of the Committee and abstain from the recommendation set out below.

While the decision to accept the offer is an individual one for shareholders, absent a higher value alternative proposal emerging:

- the Committee unanimously recommends acceptance of the offer; and
- Committee members intend to procure acceptances in respect of shares that they hold or control.

However, in view of the intended offer period (88 days from and including the date of the offer), and the addition of a new condition (relating to competition approvals by the Commerce Commission) the Committee notes that there is no advantage in early acceptance and recommends shareholders intending to accept the offer should do so closer to the closing date or when the likelihood of the conditions to the offer being satisfied becomes clearer.

The Committee has not reviewed the materials submitted, or to be submitted, by Connor for regulatory approvals (from the Commerce Commission and the Overseas Investment Office) and, accordingly, is not in a position to provide any guidance as to the likelihood or timeliness of those approvals being granted.

The factors which influenced the Committee's considerations and recommendation to shareholders are addressed in more detail in the "Assessment of the Offer" section of this Target Company Statement and in the Independent Adviser's Report. **You are encouraged to read those factors carefully and in full.**

Assessment of the Offer

Options available to you

You have three options in response to Connor's offer. You can:

- Accept the offer for all of your Acurity shares.
- Accept the offer for some, but not all, of your Acurity shares.
- Choose to not accept the offer. If you choose this option, you do not need to take any action.

Set out below in this "Assessment of the Offer" section are key factors that the Committee of Independent Directors has considered in forming its recommendation.

The Committee strongly encourages you to take these factors, and the merits of the offer addressed in the Independent Adviser's Report, into account when considering which option to take in response to Connor's offer.

Offer price and Independent Adviser's assessed value range

When Connor gave takeover notice to Acurity, it proposed to make the offer at an offer price of $6.50. After discussions between Connor and the Independent Directors, Connor has increased the offer price to **$7.25** per Acurity share.

The $7.25 offer price is approximately equal to the mid-point of the Independent Adviser's assessed value range of **$6.69** to **$7.75** per share (being $7.22 per share).

Independent Directors' assessment of value

The Committee of Independent Directors notes that Connor's investment timeframe may differ from that adopted by the Board of Acurity when setting Acurity's strategic direction and that, if Connor was to acquire full ownership of Acurity as a result of the offer, Connor would be free to implement any strategy that it chose for the future of Acurity and its assets. The options available to Connor would include:

- Implementing Acurity's current strategic plan, which includes building a new facility at Wakefield Hospital (including a Medical Consultant Centre) for an estimated cost of $60 million.
- Choosing not to build a new facility at Wakefield Hospital.
- Choosing to "break up" or downsize Acurity, and sell all or some of Acurity's hospitals and other healthcare investments individually and/or combine others with Evolution's New Zealand healthcare assets. On this final option, the Independent Adviser notes "If Acurity were to be merged with Boulcott [Hospital] then it is likely that some synergies would be extracted".

In forming its own view on Acurity's value, and the merits of the offer, the Committee has considered not only Acurity's stand-alone value but has also had regard to its assessment of the value of Acurity to Connor, as a new owner (in other words, the value and opportunities that selling shareholders would be providing to Connor, including the cost savings that may arise by de-listing Acurity from the NZX Main Board following completion of the offer (if completion occurs), in accordance with Connor's stated intentions). Specifically, the Committee has considered each of the above scenarios.

In addition, the Committee has considered the price-earnings multiples paid in recent comparable New Zealand transactions, including acquisitions by Acurity, and notes the Independent Adviser's view that "The comparable New Zealand transactions are typically for individual hospitals and we consider a premium for Acurity's larger and more diversified business should be considered. In particular, there are likely to be shared service synergies between Wakefield and Bowen [hospitals] in the Wellington region and having a portfolio of investments makes Acurity larger and more diversified than the individual hospital transactions".

The Committee has also carefully considered the key assumptions that affect Acurity's underlying value, including:

- Projected hospital admissions.
- Ability to maintain and increase current pricing levels.
- Volume and pricing of procedures funded by insurers, Accident Compensation Corporation and District Health Boards.
- Government policies.
- Health sector trends and demographics, including trends in private medical insurance.
- Attracting and retaining medical specialists to utilise Acurity's facilities.
- Capital expenditure generally.

The Independent Directors believe Acurity has excellent medium to long term prospects. However, the Independent Directors also believe that Acurity faces a number of significant short to medium term challenges, including the substantial capital expenditure required at Wakefield Hospital. The Independent Adviser has a similar view of Acurity's future prospects, stating "Acurity operates in a sector that is currently impacted by weak conditions but has attractive long term growth prospects. Having undertaken significant capital expenditure and planning further redevelopment at Wakefield Hospital the Company will be poised for growth and a significant improvement in cash flows once Wakefield Hospital is complete".

On balance, having regard to the matters set out above, the Independent Directors believe that the offer adequately compensates shareholders for the current and future benefits of ownership of Acurity shares and, therefore (absent a higher value alternative proposal emerging), recommend that shareholders accept the offer.

Liquidity and historical share price

Historically, Acurity has had low volumes of trading of Acurity shares (share trading liquidity; meaning the ability to buy and sell shares in Acurity).

The offer represents an opportunity to sell shares in Acurity at a cash price per share above recent historical levels on the NZX Main Board and free of brokerage.

The offer price of $7.25 per Acurity share represents a premium of:

- 38.1% above the closing price of $5.25 per Acurity share on 25 July 2014 (the trading date prior to the day on which Connor gave notice of its intention to make the offer).
- 36.79% above the three month volume weighted average price (VWAP) per Acurity share prior to 25 July 2014.

The Independent Adviser notes "Key issues which have weighed on Acurity's share price include its relatively poor earnings performance, which is at least in part due to current economic conditions, and its high levels of capital expenditure incurred at Bowen Hospital and about to be incurred at Wakefield Hospital. The long-term outlook for Acurity is more positive with market commentators generally predicting uplift in demand for private health services as a result of New Zealand's aging population."

The offer price is approximately equal to the mid-point of the Independent Adviser's view of Acurity's underlying value and also provides the certainty of cash now at a level above the recent historical market price for Acurity shares.

The Independent Adviser believes that "the Offer provides some liquidity for Acurity's minority shareholders at a price approximately 38% above share trading levels observed on the day before the notice of intention to make an offer (28 July 2014)".

Post-offer share price

If Connor receives acceptances to the offer which will result in it holding or controlling 90% or more of the Acurity shares, Connor will become entitled to, and intends to, compulsorily acquire the remaining shares in Acurity in accordance with the Takeovers Code. If this occurs, Acurity will be de-listed by NZX and its shares will cease quotation on the NZX Main Board.

If Connor does not receive acceptances to the offer that will result in it holding or controlling 90% or more of the Acurity shares, the offer will lapse. If this occurs:

- Acurity will remain listed by NZX and its shares will continue to be quoted on, and traded through, the NZX Main Board. Acurity will continue to be entitled to request NZX for cancellation of its listing or quotation of its shares on the NZX Main Board, subject to any prior approval of shareholders required by NZX.
- Support for a share price at the offer level of $7.25 per share, or higher, may be achieved as a result of a stronger outlook for the financial performance of the business or if there is a belief that a further offer for 100% of the shares may be made. However, there is a significant risk that the share price may retreat to levels more closely in line with the historical prices before Connor gave notice of its intention to make the offer. In this regard, the Independent Adviser states "In the absence of any other factors, we consider there is a real prospect that Acurity's share price may recede from current levels, following the Offer".

Unlikely to be competing offers

As at the date of this Target Company Statement, no expressions of competing interest in Acurity have been made and the Independent Directors are unaware of any such competing interest in Acurity.

Given that Austron, Royston and Medusa have agreed to accept the offer, no competing offer can succeed until Connor's offer is concluded, whether successfully or otherwise. For this reason, the Independent Directors have not actively sought competing offers. The Independent Directors note that, while there has been significant publicity regarding the offer as a result of the Takeovers Code process, Acurity has not to date received any new expressions of interest. It is unlikely that another offer for the shares in Acurity would be made until after the current offer process is completed.

The Independent Adviser agrees that a competing offer is unlikely, stating "We consider it unlikely that an alternative offer would be made for Acurity, as any party wishing to acquire more than 20% would either require Austron to sell its existing shareholding or need approval from shareholders, which could be blocked by Austron".

Control of Acurity

Austron, which owns 50.01% of Acurity's shares, has agreed to accept Connor's offer for all of Austron's shares in Acurity. That acceptance on its own is insufficient to satisfy the 90% minimum acceptance condition to the offer. If the offer is successful, control of Acurity will pass from Austron to Connor (which will be entitled to, and intends to, compulsorily acquire the remaining shares in Acurity).

If the offer lapses, Austron will retain its shares and will continue to have legal control over Acurity (i.e. the ability to pass an ordinary resolution without reference to other shareholders). No change of control transaction (such as a further full takeover offer) could be successful unless that transaction was supported by Austron.

Imputation credits

A minimum ownership continuity of 66% is required for imputation credits to be carried forward. Acurity has taken advice from its taxation advisers on this matter. The transfer of Acurity shares by Austron, Medusa and Royston to Connor will not be a change in ownership for the purposes of assessing shareholding continuity as the ultimate beneficial owner is unchanged. The extent of ongoing ownership continuity will therefore be dependent on the extent to which shareholders other than Austron, Medusa and Royston accept the offer.

In combination with shareholding changes that have occurred in prior periods if the offer is successful it will result in some loss of continuity, with the loss of imputation credits earned prior to 6 September 2013 totalling $11.9 million (which means that Connor will not have the benefit of those credits).

Based on circumstances on the date of this Target Company Statement, the Board's current view (including that of the Independent Directors) is that the payment of a special dividend or the implementation of a taxable bonus issue in order to utilise imputation credits is not in the best interests of Acurity or shareholders as a whole.

Frequently Asked Questions

Who is behind the offer?

Connor Healthcare Limited is the company making the offer for your shares in Acurity Health Group Limited.

Connor is presently wholly owned by Evolution Healthcare (NZ) Pty Ltd, a member of the Australian based Evolution Healthcare group that owns private hospitals in Australia and New Zealand. Connor, Evolution and Austron have entered into a Takeover Implementation Deed, under which Austron will become the 75% shareholder, and Evolution will become the 25% shareholder, in Connor if the offer is successful.

Austron, which is currently the majority shareholder of Acurity, is owned by two other significant shareholders in Acurity, Medusa and Royston.

Three members of Connor's takeover committee, namely Jacqueline Gray, Warwick Webb and Mark Stewart, are Directors of Austron and are also Directors of Acurity. Another member of Connor's takeover committee, Stuart Signal, is a Director of Austron and also an Alternate Director of Acurity.

Was Acurity aware that an offer was going to be made?

No. Acurity did not encourage the making of the offer and was not aware that Connor proposed to make the offer.

What is the offer price?

The offer price is **$7.25** per Acurity share in cash.

How does the offer price compare to Acurity's share price?

The offer price of $7.25 per Acurity share represents a 38.1% premium to Acurity's closing share price of $5.25 per share on 25 July 2014 (the trading date prior to the day on which Connor gave notice of its intention to make the offer).

As at market close on 19 August 2014, Acurity's share price on the NZX Main Board was $6.55 per share.

What will happen to the market for Acurity shares following completion of the offer?

If Connor receives acceptances to the offer which will result in it holding or controlling 90% or more of the Acurity shares, Connor will become entitled to, and intends to, compulsorily acquire the remaining shares in Acurity in accordance with the Takeovers Code. In this case, Acurity will be de-listed by NZX and its shares will cease quotation on the NZX Main Board.

If Connor does not receive acceptances to the offer that will result in it holding or controlling 90% or more of the Acurity shares, the offer will lapse. If this occurs:

- Acurity will remain listed by NZX and its shares will continue to be quoted on, and traded through, the NZX Main Board. Acurity will continue to be entitled to request NZX for cancellation of its listing or quotation of its shares on the NZX Main Board, subject to any prior approval of shareholders required by NZX.
- Support for a share price at the offer level of $7.25 per share, or higher, may be achieved as a result of a stronger outlook for the financial performance of the business or there is a belief that a further offer for 100% of the shares may be made. However, there is a significant risk that the share price may retreat to levels more closely in line with the historical prices before Connor gave notice of its intention to make the offer. In this regard, the Independent Adviser states "In the absence of any other factors, we consider there is a real prospect that Acurity's share price may recede from current levels, following the Offer".

How does the offer price compare to the Independent Adviser's view of value?

The Independent Adviser appointed by Acurity to prepare a report on the merits of the offer has assessed the value of Acurity's shares in the range of **$6.69** to **$7.75** per share (with a mid-point of $7.22 per share).

Accordingly, the offer price is approximately equal to the mid-point of the assessed value range.

What is the Board's recommendation?

The Board has formed a Committee of Independent Directors to consider and respond to the offer.

The Committee's recommendation is set out in the "Recommendation" section of this Target Company Statement. Key factors that the Committee has taken into account in forming its recommendation are set out in the "Assessment of the Offer" section of this Target Company Statement.

Do Acurity's Independent Directors intend to accept the offer?

Alan Isaac is the joint holder of 6,430 Acurity shares as the trustee of a trust. The trustees of that trust intend to accept the offer.

James Tyler, Brian Martin and others are the joint holders of 240,000 Acurity shares as trustees of a trust. The trustees of that trust intend to accept the offer.

Brian Martin holds 64,818 Acurity shares in his own name. Mr Martin intends to accept the offer.

The Independent Directors' intentions stated above are subject to no higher value alternative proposal emerging.

When do I need to make a decision on Connor's offer?

Connor's offer will remain open until 5.00pm (New Zealand time) on 21 November 2014. If you wish to accept the offer, you should do so prior to that time, by following the instructions in Connor's Offer Document and Acceptance and Transfer Form.

Connor may extend the closing date for its offer, in accordance with the Takeovers Code. If it does so, it must give notice of the extended date to NZX.

How do I accept the offer?

If you wish to accept the offer, you should follow the acceptance instructions in Connor's Offer Document and Acceptance and Transfer Form.

If you have any questions as to whether or not to accept Connor's offer, or the process for acceptances, you should seek professional advice (e.g. from your lawyer or financial adviser) tailored to your circumstances.

What should I do if I do not want to accept the offer?

If you do not wish to accept Connor's offer, you do not need to take any action.

If I accept the offer, can I withdraw my acceptance?

No. Acceptances, once given, are irrevocable and cannot be withdrawn unless the offer lapses or Connor fails to pay you for your shares within the timeframe required by the Takeovers Code.

When will I be paid if I accept?

You will not be paid for your shares unless the offer becomes unconditional. Connor's offer states that it will pay you no later than seven days after the latest of:

- the date on which the offer becomes unconditional;
- the date on which your acceptance is received; and
- 21 November 2014, being the date that is 88 days from and including the date of the offer.

Do I need to accept the offer for all my shares?

No. You can accept the offer for all of your shares, or for some of them. If you wish to accept the offer for only some of your shareholding, you should follow the instructions in Connor's Offer Document and the Acceptance and Transfer Form.

If I do not accept the offer, can I be forced to sell my shares?

You are not required to accept Connor's offer.

However, if Connor receives acceptances to the offer which will result in it holding or controlling 90% or more of the Acurity shares, Connor will be entitled under the Takeovers Code to, and intends to, compulsorily acquire the remaining shares in Acurity from shareholders who did not accept the offer at the offer price.

Will the offer have implications for future control transactions?

Austron, which owns 50.01% of Acurity's shares, has agreed to accept Connor's offer for all of Austron's shares in Acurity. If the offer is successful, control of Acurity will pass from Austron to Connor (which will be entitled to, and intends to, compulsorily acquire the remaining shares in Acurity).

If the offer lapses, Austron will retain its shares and will continue to have legal control over Acurity (i.e. the ability to pass an ordinary resolution without reference to other shareholders). No change of control transaction (such as a further full takeover offer) could be successful unless that transaction was supported by Austron.

Will Acurity remain listed?

This depends on whether Connor's offer is successfully completed. See the answer to the above question "What will happen to the market for Acurity shares following completion of the offer?".

Target Company Statement (Takeovers Code Disclosures)

This Target Company Statement has been prepared by Acurity Health Group Limited (**"Acurity"**) pursuant to Rule 46 and Schedule 2 of the Takeovers Code in relation to a full takeover offer made by Connor Healthcare Limited (**"Connor"**).

1. Date

1.1 This Target Company Statement is dated 26 August 2014.

2. Offer

2.1 This Target Company Statement relates to a full takeover offer by Connor to purchase all of the fully paid ordinary shares (**"Shares"** or **"Acurity Shares"**) in Acurity, for a cash purchase price of $7.25 per Acurity Share (the **"Offer"**).

2.2 Connor is, at the date of this Target Company Statement, a wholly owned subsidiary of Evolution Healthcare (NZ) Pty Ltd (**"Evolution"**). Connor has disclosed that, on completion of the Offer (if completion occurs), Austron Limited (**"Austron"**) will subscribe for 75% of the shares in Connor, which will result in Austron owning 75% and Evolution owning 25% of Connor.

2.3 Connor has entered into arrangements with Austron, Royston Hospital Trust Board (**"Royston"**) and Medusa Limited (**"Medusa"**) under which Austron, Royston and Medusa have agreed to accept the Offer. For further information, see paragraph 7.

2.4 The terms of the Offer are set out in the offer document dated 26 August 2014 (**"Offer Document"**).

3. Target Company

3.1 The name of the target company is Acurity Health Group Limited.

4. Directors of Acurity

4.1 The names of the Directors of Acurity are as follows:

(a) Alan Raymond Isaac (Chairman and Independent Director);

(b) Richard Gordon Maxwell Christie (Independent Director);

(c) Brian Joseph Martin (Independent Director);

(d) James Rowland Tyler (Independent Director);

(e) Jacqueline Antoinette Christina Gray (Director);

(f) Warwick Graham Webb (Director);

(g) Mark James Stewart (Director); and

(h) Stuart Geoffrey Signal (Alternate Director for Jacqueline Gray).

5. Ownership Of Acurity Shares

5.1 The number and the percentage of any Acurity Shares held or controlled by the Directors and Senior Officers of Acurity, and their associates, are set out in Schedule One of this Target Company Statement. For the purposes of this Target Company Statement, Acurity's Committee of Independent Directors has determined that the Senior Officers of Acurity are:

(a) Ian England (Chief Executive Officer);

(b) Matthew Kenny (Chief Financial Officer); and

(c) Paul Quayle (Chief Operating Officer).

5.2 Except as set out in Schedule One of this Target Company Statement, no Director or Senior Officer of Acurity, or their associates, holds or controls any Acurity Shares.

5.3 The number and the percentage of Acurity Shares held or controlled by any person known by Acurity to hold or control 5% or more of the Acurity Shares are set out in Schedule Two of this Target Company Statement.

5.4 No Director or Senior Officer of Acurity, or their associates, have, in the two year period ending on the date of this Target Company Statement:

(a) been issued any Acurity Shares; or

(b) obtained a beneficial interest in any Acurity Shares under any Acurity employee share scheme or other remuneration arrangement.

6. Trading In Acurity Shares

6.1 The total number of Acurity Shares acquired or disposed of by a Director or a Senior Officer of Acurity, or their associates, during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014, is as follows:

Person who has acquired or disposed of Acurity Shares	Relevant relationship	Total number of Acurity Shares acquired	Total number of Acurity Shares disposed of
Connor Healthcare Limited	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart)[1] Associate of an Alternate Director of Acurity (Stuart Signal)[2]	2,019,780	0
Evolution Healthcare (NZ) Pty Ltd	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart)[3] May be an associate of an Alternate Director of Acurity (Stuart Signal)[4]	2,019,780	2,019,780
Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart)[5] May be an associate of an Alternate Director of Acurity (Stuart Signal)[6]	95,615	2,019,780
Alan Raymond Isaac, Andrew John Dinsdale and Alasdair Donald McBeth as trustees of the Isaac Family Trust	Director of Acurity (Alan Isaac)	4,430	0

Note: The information in the above table was provided by or on behalf of the named persons in response to questionnaires circulated by Acurity after receipt of Connor's Takeover Notice.

6.2 The total number of Acurity Shares acquired or disposed of by persons holding or controlling 5% or more of Acurity Shares to Acurity's knowledge (other than a Director or a Senior Officer of Acurity, or their associates), during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014, is as follows:

Person who has acquired or disposed of Acurity Shares	Relevant relationship	Total number of Acurity Shares acquired	Total number of Acurity Shares disposed of
AMP Capital Investors (New Zealand) Limited ("**AMP**")	Holder or controller of 5% or more of Acurity Shares to Acurity's knowledge	228,650	0
New Zealand Central Securities Depository Limited ("**NZCSD**")	Holder or controller of 5% or more of Acurity Shares to Acurity's knowledge	510,787	360,035

Note: The information in the above table in respect of AMP was provided by AMP in response to a questionnaire circulated by Acurity after receipt of Connor's Takeover Notice, and was stated by AMP to be accurate as at 30 June 2014. AMP did not disclose to Acurity any share trading information for the period after 30 June 2014. The information in the above table in respect of NZCSD was taken from Acurity's share register on 8 August 2014.

1 Each of Jacqueline Gray, Warwick Webb and Mark Stewart is a Director of Acurity, is a Director of Austron (which will become a 75% shareholder in Connor on completion of the Offer (if completion occurs)), is a member of Connor's takeover committee, and has agreed to become a Director of Connor on completion of the Offer (if completion occurs). Connor is an associate of each of Ms Gray and Messrs Webb and Stewart for the purposes of the Takeovers Code.

2 Stuart Signal, who has been appointed by Jacqueline Gray as her Alternate Director in respect of Acurity's Board, is a Director of Austron (which will become a 75% shareholder in Connor on completion of the Offer (if completion occurs)), is a member of Connor's takeover committee, and has agreed to become a Director of Connor on completion of the Offer (if completion occurs). Connor is an associate of Mr Signal for the purposes of the Takeovers Code.

3 See footnote 1. Connor is presently wholly owned by Evolution, and Evolution may be an associate of each of Ms Gray and Messrs Webb and Stewart for the purposes of the Takeovers Code.

4 See footnote 2. Connor is presently wholly owned by Evolution, and Evolution may be an associate of Mr Signal for the purposes of the Takeovers Code.

5 Each of Jacqueline Gray, Warwick Webb and Mark Stewart may be an associate of Evolution (see footnote 3). Evolution Healthcare Partners No 1 Pty Ltd (trustee for the EHPP Trust) is the parent company of Evolution (and therefore Connor). Evolution Healthcare Partners No 1 Pty Ltd may be an associate of each of Ms Gray and Messrs Webb and Stewart for the purposes of the Takeovers Code.

6 Stuart Signal may be an associate of Evolution (see footnote 4). Evolution Healthcare Partners No 1 Pty Ltd (trustee for the EHPP Trust) is the parent company of Evolution (and therefore Connor). Evolution Healthcare Partners No 1 Pty Ltd may be an associate of Mr Signal for the purposes of the Takeovers Code.

6.3 Details of the number of Acurity Shares, the consideration per Acurity Share and the date of acquisition or disposal of Acurity Shares by persons listed in paragraph 6.1, during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014, are set out in Part A of Schedule Three of this Target Company Statement.

6.4 Details of the number of Acurity Shares, the consideration per Acurity Share and the date of acquisition or disposal of Acurity Shares by persons known by Acurity to hold or control 5% or more of the Acurity Shares (other than a Director or a Senior Officer of Acurity, or their associates) during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014, including:

(a) in the case of a single transaction in any week, the number of Acurity Shares, the consideration per Acurity Share and the week of each transaction; and

(b) in the case of multiple transactions in any week, the number of Acurity Shares acquired or disposed of in a week and the weighted average consideration per Acurity Share,[7]

are set out in Part B of Schedule Three of this Target Company Statement.

6.5 Other than as set out, or referred to, in this paragraph 6:

(a) no Director or a Senior Officer of Acurity, or their associates; and

(b) no other person holding or controlling 5% or more of Acurity Shares to Acurity's knowledge,

has acquired or disposed of any Acurity Shares during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014.

7. Acceptance of Offer

7.1 The name of every Director or Senior Officer of Acurity, or their associates, who has accepted or agreed to accept the Offer, and the number of Acurity Shares for which that person has accepted, or agreed to accept, the Offer are set out in the following table:

Person who has accepted or intends to accept the Offer	Relevant relationship	Acurity Shares subject to an agreement to accept	Description
Austron	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart)[8] Associate of an Alternate Director of Acurity (Stuart Signal)[9]	8,631,800	On 28 July 2014, Austron entered into a Lock-up Agreement pursuant to which, amongst other things, Austron agreed to accept the Offer in respect of all of the Acurity Shares held by Austron (which constitutes 50.01% of all Acurity Shares on issue).
Royston	Associate of a Director of Acurity (Jacqueline Gray)[10] Associate of an Alternate Director of Acurity (Stuart Signal)[11] May be an associate of a Director of Acurity (Each of Warwick Webb and Mark Stewart)[12]	773,168	On 28 July 2014, Royston entered into a Lock-up Agreement pursuant to which, amongst other things, Royston agreed to accept the Offer in respect of all of the Acurity Shares held by Royston (which constitutes 4.48% of all Acurity Shares on issue).
Medusa	Associate of a Director of Acurity (Each of Warwick Webb[13] and Mark Stewart[14]) May be an associate of a Director of Acurity (Jacqueline Gray)[15] May be an associate of an Alternate Director of Acurity (Stuart Signal)[16]	773,168	On 28 July 2014, Medusa entered into a Lock-up Agreement pursuant to which, amongst other things, Medusa agreed to accept the Offer in respect of all of the Acurity Shares held by Medusa (which constitutes 4.48% of all Acurity Shares on issue).

7 No person described in paragraph 6.2 or 6.3 (other than NZCSD) undertook multiple acquisitions or disposals of Acurity Shares in any week during the relevant period. With respect to each transaction involving NZCSD, nil consideration was payable by NZCSD. Accordingly, Part B of Schedule Three of this Target Company Statement does not disclose the weighted average consideration per Acurity Share.
8 Each of Jacqueline Gray, Warwick Webb and Mark Stewart is a Director of both Acurity and Austron. Austron is an associate of each of these Directors for the purposes of the Takeovers Code.
9 Stuart Signal, who has been appointed by Jacqueline Gray as Ms Gray's Alternate Director in respect of Acurity's Board, is a Director of Austron. Austron is an associate of Mr Signal for the purposes of the Takeovers Code.
10 Jacqueline Gray, a Director of Acurity, is the Chair of the Board of Trustees of Royston. Royston is an associate of Ms Gray for the purposes of the Takeovers Code.
11 Stuart Signal, an Alternate Director of Acurity, is a trustee of Royston. Royston is an associate of Mr Signal for the purposes of the Takeovers Code.
12 Royston is acting jointly or in concert with Connor, which is an associate of Warwick Webb and Mark Stewart (see footnote 1). Royston may be an associate of Messrs Webb and Stewart for the purposes of the Takeovers Code.
13 Warwick Webb, a Director of Acurity, is a joint shareholder in Anaconda Limited ("Anaconda"), the parent company of Medusa. Medusa is an associate of Mr Webb for the purposes of the Takeovers Code.
14 Mark Stewart, a Director of Acurity, is the sole Director of Medusa and Anaconda. Mr Stewart is also a joint shareholder in two trusts that together control Anaconda. Medusa is an associate of Mr Stewart for the purposes of the Takeovers Code.
15 Medusa is acting jointly or in concert with Connor, which is an associate of Jacqueline Gray (see footnote 1). Medusa may be an associate of Ms Gray for the purposes of the Takeovers Code.
16 Medusa is acting jointly or in concert with Connor, which is an associate of Stuart Signal (see footnote 1). Medusa may be an associate of Mr Signal for the purposes of the Takeovers Code.

7.2 Acurity Directors Alan Isaac, James Tyler and Brian Martin hold Acurity Shares:

(a) Alan Isaac is the joint holder of 6,430 Acurity shares as the trustee of a trust. The trustees of that trust intend to accept the offer.

(b) James Tyler, Brian Martin and others are the joint holders of 240,000 Acurity shares as trustees of a trust. The trustees of that trust intend to accept the offer.

(c) Brian Martin holds 64,818 Acurity shares in his own name. Mr Martin intends to accept the offer.

The Independent Directors' intentions stated above are subject to no higher value alternative proposal emerging. For further information on how these Directors hold Acurity Shares, see Schedule One of this Target Company Statement.

7.3 The Lock-up Agreement referred to in paragraph 7.1 above is summarised in paragraphs 12.12 and 12.13 of Connor's Offer Document.

8. Ownership of Equity Securities of Connor

8.1 Acurity does not hold or control any class of equity security of Connor ("**Connor Shares**").

8.2 As at the date of this Target Company Statement, no Director or Senior Officer of Acurity, or their associates, holds or controls any Connor Shares except as set out in paragraph 8.3.

8.3 Evolution may be an associate of each of Jacqueline Gray, Warwick Webb and Mark Stewart (who are Directors of Acurity) and Stuart Signal (who is an Alternate Director of Acurity), for the purposes of the Takeovers Code. As at the date of this Target Company Statement, Evolution is the holder of all of the issued share capital in Connor (being 800,000 shares). Pursuant to a Takeover Implementation Deed between Connor, Evolution and Austron dated 28 July 2014, Austron will subscribe for, and be issued, 75% of the shares in Connor contemporaneously with completion of the Offer (if completion occurs). Accordingly, upon completion of the Offer (if completion occurs), Austron's shareholding in Connor will be 75% and Evolution's shareholding in Connor will be 25%.

9. Trading in Equity Securities of Connor

9.1 Acurity has neither acquired nor disposed of any Connor Shares during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014.

9.2 No Director or Senior Officer of Acurity, or any of their associates, has acquired or disposed of any Connor Shares during the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014, except as set out in paragraph 9.3.

9.3 Evolution may be an associate of each of Jacqueline Gray, Warwick Webb and Mark Stewart (who are Directors of Acurity) and Stuart Signal (who is an Alternate Director of Acurity), for the purposes of the Takeovers Code. During the six month period before the latest practicable date before the date of this Target Company Statement, being 13 August 2014:

(a) 10 Connor Shares were issued to Evolution on incorporation for nil consideration on 8 May 2014;

(b) 800,000 Connor Shares were issued to Evolution for $1.00 per Connor Share on 28 July 2014; and

(c) 10 Connor Shares were repurchased by Connor from Evolution for nil consideration on 28 July 2014.

10. Arrangements between Connor and Acurity

10.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Connor or any associates of Connor, and Acurity or any related company of Acurity, in connection with, in anticipation of, or in response to, the Offer, other than:[17]

(a) a mutual confidentiality agreement dated 2 May 2014 between Austron (being a related company of Acurity) and Medusa (also being a related company of Acurity), Royston and Evolution Healthcare Partners No 1 Pty Ltd as trustee of for the EHPP Trust;

(b) a confidentiality letter agreement dated 6 May 2014 between Austron (being a related company of Acurity) and AMP Capital Investors (New Zealand) Limited and AMP Capital Investors Limited;

(c) the Takeover Implementation Deed dated 28 July 2014 between Austron (being a related company of Acurity) and Connor (as described in paragraphs 12.4 to 12.7 of Connor's Offer Document);

(d) a stapling agreement dated 28 July 2014 between Austron (being a related company of Acurity), Evolution and Connor, pursuant to which Austron and Evolution agree not to transfer:

(i) the legal or beneficial ownership to all or any of its shares in Connor without transferring to the same transferee a corresponding proportion of its shareholder loan(s); or

(ii) all or any part of its shareholder loan(s) without transferring to the same transferee a corresponding proportion of its shares in Connor;

(e) a multilateral lock-up agreement dated 28 July 2014 between Austron (being a related company of Acurity), Medusa (also being a related company of Acurity), Royston and Connor (as described in paragraph 12.12 of Connor's Offer Document); and

(f) a confidentiality agreement dated 16 August 2014 between Connor and Acurity under which Connor agreed to keep confidential certain information disclosed by Acurity to Connor in connection with the Offer.

10.2 After giving its Takeover Notice on 28 July 2014:

(a) Connor agreed to amend the condition in paragraph 6.3(r) of the Offer Document to read:

"Acurity not making any announcement or profit warning to the effect that its underlying earnings (as defined in Acurity's annual report for the year ended 31 March 2014) for the six month period ending 30 September 2014 or for the six month period ending 31 March 2015 will or may be less than its underlying earnings (as defined in Acurity's annual report for the year ended 31 March 2014) for the six month period ended 31 March 2014 by greater than 10%"

(b) Connor agreed, for the purposes of rule 46(1)(a)(i) of the Takeovers Code, to the receipt of Acurity's response documents after the default period stipulated by the Takeovers Code; and

(c) at Connor's request, the Committee of Independent Directors approved, for the purposes of rule 44(1)(b)(ii) of the Takeovers Code, the changes made to Connor's Offer Document from the terms and conditions contained in or accompanying Connor's Takeover Notice, which include the addition of a new condition relating to competition approvals by the Commerce Commission and extension of the offer period to the date that is 88 days from and including the date of the Offer.

17 This information (other than paragraph 10.1(f)) was provided by Connor in paragraph 12.18 of its Offer Document.

10.3 In relation to the condition in paragraph 6.3(d) of the Offer Document, Acurity advised Connor on 30 July 2014 that it is contemplating an investment during Connor's offer period, through the exercise of its call options to acquire a further 10% shareholding in each of Endoscopy Auckland Limited and Laparoscopy Auckland Limited. Connor gave its consent to these transactions on 5 August 2014.

10.4 In relation to the condition in paragraph 6.3(d) of the Offer Document, Acurity advised Connor on 30 July 2014 that it intended to incur capital expenditure to upgrade the Catheterisation Laboratory at Wakefield Hospital. Connor gave its consent to that capital expenditure on 8 August 2014.

10.5 In relation to the condition in paragraph 6.3(e) of the Offer Document, Acurity advised Connor on 30 July 2014 that at Acurity's annual meeting (which was held on 8 August 2014), shareholder approval would be sought to increase the pool of directors fees, payable by Acurity on an annual basis, to $467,250. Connor gave its consent to that increase on 14 August 2014.

10.6 In relation to the condition in paragraph 6.3(i) of the Offer Document, Acurity advised Connor on 30 July 2014 that completion of the Offer (if it occurs) may give rise to an event of review under Acurity's banking facilities. On 1 August 2014, Connor advised that it will consent, such that the condition is not breached by any event of review that is triggered by the Offer.

10.7 As at the date of this Target Company Statement, except as set out in paragraphs 10.1 to 10.6 above, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Connor or any of its associates and Acurity or any related company of Acurity, in connection with, in anticipation of, or in response to, the Offer.

11. Relationship between Connor, and Directors and Senior Officers of Acurity

Arrangements

11.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Connor or any associates of Connor, and any of the Directors or Senior Officers of Acurity or any related company of Acurity (including particulars of any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office), in connection with, in anticipation of, or in response to, the Offer, except that each of Jacqueline Gray, Mark Stewart and Warwick Webb (who are Directors of Acurity) and Stuart Signal (who is Ms Gray's Alternate Director of Acurity), have agreed:[18]

(a) to be appointed as a member of the takeover committee appointed by Connor pursuant to the Takeover Implementation Deed (as described in paragraphs 12.4 to 12.7 of Connor's Offer Document); and

(b) to be appointed as a Director of Connor contemporaneously with completion of the Offer (if completion occurs).

After receipt of Connor's Takeover Notice, the Independent Directors of Acurity sought confirmation from Connor that it would procure Acurity retain (and pay for) Directors' and Officers' insurance for any current Acurity Directors who leave the Board of Acurity in connection with completion of the Offer (if completion occurs). Connor confirmed on 20 August 2014 that it will procure that Acurity will retain (and pay for) Directors' and Officers' insurance for any current Acurity Directors who leave the Board of Acurity in connection with completion of the Offer (if completion occurs), on the condition that no such policy is entered into by Acurity (or its subsidiaries) without the prior consent of Connor.

Relationship with Connor

11.2 Jacqueline Gray, who is a Director of Acurity, is also a Director of Austron, the Chair of the Board of Trustees of Royston and a member of Connor's takeover committee. If the transactions contemplated by the Offer are completed, Ms Gray will also become a Director of Connor.[19]

11.3 Warwick Webb, who is a Director of Acurity, is also a Director of Austron and a member of Connor's takeover committee. If the transactions contemplated by the Offer are completed, Mr Webb will also become a Director of Connor.[20]

11.4 Mark Stewart, who is a Director of Acurity, is also a Director of Austron, the sole Director of Medusa and also a member of Connor's takeover committee. If the transactions contemplated by the Offer are completed, Mr Stewart will also become a Director of Connor.[21]

11.5 Stuart Signal, who is an Alternate Director of Acurity, is also a Director of Austron, a Trustee on the Board of Trustees of Royston and a member of Connor's takeover committee. If the transactions contemplated by the Offer are completed, Mr Signal will also become a Director of Connor.[22]

11.6 Except as set out in paragraphs 11.2 to 11.5 above, none of the Directors or Senior Officers of Acurity are also Directors or Senior Officers of Connor, or any related company of Connor.

12. Agreement between Acurity, and Directors and Officers of Acurity

12.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Acurity or any related company of Acurity, and any of the Directors or Senior Officers, or their associates, of Acurity or its related companies, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer, except that each of Jacqueline Gray, Mark Stewart and Warwick Webb, who are Directors of Acurity, and Stuart Signal, who is an Alternate Director of Acurity, have agreed:[23]

(a) to be appointed as a member of the takeover committee appointed by Connor pursuant to the Takeover Implementation Deed (as described in paragraphs 12.4 to 12.7 of Connor's Offer Document); and

(b) to be appointed as a Director of Connor contemporaneously with completion of the Offer (if completion occurs).

13. Interests of Directors and Officers of Acurity in Contracts of Connor (or a Related Company of Connor)

13.1 The names of the Directors and Senior Officers of Acurity, or their associates, that have an interest in any contract to which Connor, or a related company of Connor, is a party, and the nature, extent and (if capable of quantification) monetary value of that interest, are set out in Schedule Four of this Target Company Statement.

13.2 Except as set out in Schedule Four of this Target Company Statement, no Director or Senior Officer of Acurity, or their associates, has an interest in any contract to which Connor, or any related company of Connor, is a party.

18 This information was provided by Connor in paragraph 12.19 of its Offer Document.
19 Clause 7.4(a) of the Takeover Implementation Deed provides that on and from completion of the Offer (if completion occurs), Ms Gray and Messrs Signal, Webb and Stewart will be appointed as Directors of Connor (see footnote 1). On and from completion of the Offer (if completion occurs), Acurity will become a related company of Connor.
20 See footnote 19.
21 See footnote 19.
22 See footnote 19.
23 This information was provided by Connor in paragraph 12.19 of its Offer Document.

13A Interests of Acurity's Substantial Security Holders in Material Contracts of Connor (or a Related Company of Connor)

13A.1 The interests that Austron (which holds 50.01% of Acurity's Shares), Connor (which holds 11.70% of Acurity's Shares) and Evolution (which controls 11.70% of Acurity's Shares through Connor) have in a material contract to which Connor, or any related company of Connor, is a party, and the nature, extent and (if capable of quantification) monetary value of that interest, are set out in Schedule Four of this Target Company Statement (in respect of the disclosures that relate to Austron, Connor and Evolution).

13A.2 Except as referred to in paragraph 13A.1, no person, who, to the knowledge of the Directors or the Senior Officers of Acurity, holds or controls 5% or more of Acurity Shares, has an interest in any material contract to which Connor, or any related company of Connor, is a party.

14. Additional Information

14.1 In the opinion of the Directors of Acurity, there is no additional information, within the knowledge of Acurity, which is required to ensure that information in the Offer Document is correct or not misleading.

15. Recommendation

Committee of Independent Directors

15.1 The Acurity Board formed a Committee of Independent Directors (the Directors not associated with Connor) to consider, and oversee the response to, the Offer. The members of the Committee are Alan Isaac (Chairman), Rick Christie, Brian Martin and James Tyler.

Recommendation

15.2 The Committee of Independent Directors' recommendation is set out in the "Recommendation" section of this Target Company Statement. In summary, absent a higher value alternative proposal emerging, the Committee unanimously recommends that you accept the Offer. The factors which influenced the Committee's considerations and recommendation to shareholders are addressed in more detail in the "Assessment of the Offer" section of this Target Company Statement and in the Independent Adviser's Report. You are encouraged to read those factors carefully and in full.

Abstentions

15.3 Jacqueline Gray is not a member of the Committee of Independent Directors and abstains from making a recommendation in respect of the Offer, as she is a member of Connor's takeover committee, is a Director of Austron (which has agreed to accept the Offer for all of its Acurity Shares and which will become a 75% shareholder in Connor on completion of the Offer (if completion occurs)) and has agreed to become a Director of Connor on completion of the Offer (if completion occurs).

15.4 Warwick Webb is not a member of the Committee of Independent Directors and abstains from making a recommendation in respect of the Offer, as he is a member of Connor's takeover committee, is a Director of Austron (which has agreed to accept the Offer for all of its Acurity Shares and which will become a 75% shareholder in Connor on completion of the Offer (if completion occurs)) and has agreed to become a Director of Connor on completion of the Offer (if completion occurs).

15.5 Mark Stewart is not a member of the Committee of Independent Directors and abstains from making a recommendation in respect of the Offer, as he is a member of Connor's takeover committee, is a Director of Austron (which has agreed to accept the Offer for all of its Acurity Shares and which will become a 75% shareholder in Connor on completion of the Offer (if completion occurs)) and has agreed to become a Director of Connor on completion of the Offer (if completion occurs).

16. Actions by Acurity

16.1 Except for the arrangements summarised in paragraph 10 above, there are no material agreements or arrangements (whether legally enforceable or not) of Acurity or its related companies, entered into as a consequence of, in response to, or in connection with, the Offer.

16.2 There are no negotiations underway to which Acurity or any related company of Acurity is party, as a consequence of, or in response to, or in connection with, the Offer that relate to or could result in:

(a) an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving Acurity or any of its related companies; or

(b) the acquisition or disposition of material assets by Acurity or any of its related companies; or

(c) an acquisition of equity securities by, or of, Acurity or any related company of Acurity; or

(d) a material change in equity securities on issue, or policy related to distributions, of Acurity.

17. Acurity Shares

17.1 There are currently 17,259,959 Acurity Shares on issue. These are fully paid. Acurity Shareholders have in respect of each Acurity Share, subject to the NZX Main Board Listing Rules and Acurity's constitution:

(a) the right to an equal share in dividends authorised by the Acurity Board;

(b) the right to an equal share in distribution of surplus assets of Acurity;

(c) the right to participate in any further issues of Acurity Shares by Acurity; and

(d) the right to cast one vote on a show of hands or the right to cast one vote on a poll (for each Acurity Share held) on any resolution, including a resolution to:

(i) appoint or remove a Director or the auditor;

(ii) alter Acurity's constitution;

(iii) approve a major transaction by Acurity;

(iv) approve an amalgamation involving Acurity (other than an amalgamation of a wholly owned subsidiary); and

(v) put Acurity into liquidation.

17.2 There are no options, or rights to acquire, Acurity Shares.

18. Financial Information

Annual Report

18.1 Every person to whom the Offer is made is entitled to obtain from Acurity a copy of its most recent audited annual report (being the report for the year ended 31 March 2014) from Acurity's website at www.acurity.co.nz, or by making a written request to:

Acurity Health Group Limited
Private Bag 7909
Wellington 6242
New Zealand

Fax: + 64 4 381 8102
Email: admin@acurity.co.nz

18.2 No half-yearly report has been issued since the issue of Acurity's most recent audited annual report (being the report for the year ended 31 March 2014).

Changes in the financial position, trading position or prospects of Acurity since the audited annual report for the year ended 31 March 2014

18.3 Acurity's unaudited management accounts for the four months ended 31 July 2014 show:

(a) earnings before interest, tax, depreciation and amortisation (EBITDA) are up $0.58 million compared to the equivalent period in the prior financial year (note this does not include Acurity's 60% of Norfolk Southern Cross Partnership); and

(b) adjusted net profit after tax (being net profit after tax (NPAT) excluding interest rate swap revaluations and gain on disposal of investments) is up $1.05 million compared to the equivalent period in the prior financial year.

It is important to note that the period benefitted from a high volume one-off District Health Board contract which produced a result which will not be representative of the activity levels expected for the balance of the current financial year.

18.4 Acurity has reported previously that the nature of its business often means there are significant movements month-to-month and between current financial year periods versus similar periods for the prior financial year. This has certainly been the situation for the four month period to 31 July 2014 and it is not expected that the percentage increases in EBITDA and underlying net earnings will continue for the remainder of the financial year ending 31 March 2015.

18.5 While it is not Acurity's normal practice to provide guidance on forecast earnings, the Independent Adviser's Report sets out certain details of Acurity's forecast for the financial year ending 31 March 2015 (FY15) (the "**Forecast**"). In considering that information, shareholders should note that, while Board approved, the Forecast (as is normally the case with forecasts) was prepared for internal management purposes. Accordingly, the basis of preparation of the Forecast, while appropriate for internal management purposes, may differ from the basis that would be adopted when preparing prospective financial information for external reporting purposes.

18.6 In this regard, the Acurity Board currently expects that Acurity's full year EBITDA and adjusted net profit after tax for FY15 are likely to be a nominal improvement on the results for the prior financial year.

18.7 Other than as set out in this Target Company Statement (including the Independent Adviser's Report), there is no other information about the assets, liabilities, profitability and financial affairs of Acurity that could reasonably be expected to be material to the making of a decision by Shareholders to accept or reject the Offer. There have been no significant changes in Acurity's balance sheet since 31 March 2014.

19. Independent Advice on Merits of the Offer

19.1 KordaMentha, as Independent Adviser, has prepared a report under rule 21 of the Takeovers Code ("**Independent Adviser's Report**"). A full copy of the Independent Adviser's Report is set out in the Appendix to this Target Company Statement.

19.2 The Independent Adviser's Report includes:

(a) a statement of the qualifications and expertise of KordaMentha; and

(b) a statement that KordaMentha has no conflict of interest that could affect its ability to provide an unbiased report.

20. Asset Valuation

20.1 None of the information contained in this Target Company Statement refers to valuation of any asset.

20.2 The Independent Adviser's Report refers to the valuation of Acurity. The basis of computation and key assumptions on which that valuation is based is set out in that report.

21. Prospective Financial Information

21.1 The Independent Adviser's Report contains prospective financial information in relation to Acurity and the principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.

21.2 As noted in paragraph 18.5, while it is not Acurity's normal practice to provide guidance on forecast earnings, the Independent Adviser's Report sets out certain details of Acurity's FY15 Forecast. In considering that information, shareholders should note that, while Board approved, the Forecast (as is normally the case with forecasts) was prepared for internal management purposes only and was not prepared for, or with the intention of giving, public guidance as to Acurity's expected future financial performance. Accordingly, the basis of preparation of the Forecast, while appropriate for internal management purposes, may differ from the basis which would be adopted when preparing prospective financial information for external reporting purposes.

22. Sales of Unquoted Equity Securities under the Offer

22.1 The Acurity Shares, which are the subject of the Offer, are quoted on the NZX Main Board (NZX:ACY). As at the date of this Target Company Statement, Acurity has no unquoted equity securities on issue.

23. Market prices of Quoted Equity Securities under the Offer

23.1 The closing price on the NZX Main Board operated by NZX Limited of Acurity Shares on:

(a) 19 August 2014, being for the purposes of this paragraph 23.1(a) the latest practicable working day before the date on which this Target Company Statement is sent to Shareholders, was $6.55; and

(b) 25 July 2014, being the last day on which the NZX Main Board was open for business before the date on which Acurity received Connor's Takeover Notice in respect of the Offer, was $5.25.

23.2 The highest and lowest closing market price of Acurity Shares on the NZX Main Board and the relevant dates during the six months before the date on which Acurity received Connor's Takeover Notice (28 July 2014) were as follows:

(a) the highest closing market price was $5.70 on 26 February 2014; and

(b) the lowest closing market price was $5.05 on 28 January 2014.

23.3 There were, in the six month period prior to the date of this Target Company Statement, no issues of equity securities of Acurity or changes in the equity securities on issue or distributions that could have affected the market prices referred to in this paragraph 23.

24. Other Information

Wakefield Hospital redevelopment

24.1 The change in the seismic integrity standards for buildings following the Christchurch earthquakes resulted in some of the major buildings on the Wakefield Hospital site requiring strengthening. The new building standards require the affected buildings to be brought up to standard by 2022.

24.2 On 3 August 2012, Acurity announced its initial plans for the redevelopment of the Wakefield Hospital campus to address the seismic issues. This involved development of temporary accommodation, strengthening of some buildings and demolition of others. The total cost was expected to be between $20 million and $25 million.

24.3 Subsequently, Acurity's management conducted a cost benefit review looking at this cost of strengthening project versus a new build hospital on the current Wakefield Hospital site. Over the medium to long term the analysis showed that a new facility hospital would represent better value due to operational efficiencies and reduced disruption resulting in lower consequent revenue loss during the on-site works.

24.4 The Acurity Board has recognised the significant and unique strengths that Wakefield Hospital holds. The most important of these is the range of world class specialists, supported by first class nursing teams, health professionals and other personnel providing services across the full spectrum of health issues. The current Wakefield Hospital site comprises 2.2 hectares, with three street front entrances, and is an excellent location – in close proximity to the main public hospital and less than 4km from the centre of Wellington.

24.5 The Acurity Board resolved on 8 August 2014 to approve the redevelopment of a new "next phase" Wakefield Hospital facility along with the co-commitment of our specialists and finalisation of design and cost elements.

24.6 Planning has commenced on the re-development programme with a working group comprised of specialists, Acurity Board representatives and management appointed to define the high level requirements prior to a detailed design and cost establishment process.

24.7 A review of recent private hospital projects across New Zealand suggests that a new facility is likely to cost between $45 million and $50 million to develop. The concept design focus is on delivering a facility that will meet the private health needs of the greater Wellington region over the next 30 years. The new facility will be designed to facilitate the trends towards shorter stays, day care, efficient patient flows and design configurations to be able to better control costs to reflect the uneven flow in patient volumes. The design will be forward looking to accommodate the continuing emergence of new health treatments rather than simply replicating what Acurity already has.

24.8 As the design work is yet to be undertaken and plans prepared there are no definitive cost figures available. It is currently anticipated that the facility development would be funded from Acurity's strong operating cash flows and bank facilities. The cost numbers shown above do not include the cost of replacing the current Wakefield Medical Consultant Centre. That project is likely to be undertaken in parallel with the new facility. The likely cost of a centre of the current scale is around $10 million. There are a number of ownership models which could be adopted in funding such a development.

24.9 There is sufficient land at the Wakefield Hospital site to enable the new facility to be built without demolishing the core elements of the existing hospital. Following completion of the new facility it is intended that the current buildings be removed and the site cleared. This would create the capacity to accommodate complementary on-site health facilities or alternatively other developments or sub-division.

24.10 The overall project is expected to take four to six years from design to completion.

Rounding

24.11 All shareholding percentages in this Target Company Statement are rounded to two decimal places.

Reliance on information

24.12 In preparing this Target Company Statement, Acurity has relied on the completeness and accuracy of information provided to it by or on behalf of various persons, including Connor, Austron, Medusa, Royston, NZCSD, Evolution and AMP.

25. Approval of Acurity Target Company Statement

25.1 This Target Company Statement has been unanimously approved by the Committee of Independent Directors under delegated authority from the Acurity Board.

25.2 The Acurity Directors associated with Connor, Jacqueline Gray, Warwick Webb and Mark Stewart, are not members of the Committee and abstained from approving this Target Company Statement for the reasons set out in paragraphs 15.3 to 15.5.

26. Certificate

26.1 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Target Company Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by Acurity under the Takeovers Code.

SIGNED BY:

Alan Raymond Isaac
Director

Richard Gordon Maxwell Christie
Director

Ian England
Chief Executive Officer

Matt Kenny
Chief Financial Officer

Schedule One

Ownership of Acurity Shares by Directors or Senior Officers and their associates

Director or Senior Officer	Description	Number of Acurity Shares held or controlled by Director, Senior Officer or an associate	Designation of Acurity Shares	Percentage of total number of Acurity Shares
Alan Isaac[24]	Director	6,430	Ordinary	0.04%
James Tyler[25]	Director	240,000	Ordinary	1.39%
Brian Martin[26]	Director	304,818	Ordinary	1.77%
Warwick Webb[27]	Director	12,197,916	Ordinary	70.67%
Mark Stewart[28]	Director	12,197,916	Ordinary	70.67%
Jacqueline Gray[29]	Director	12,197,916	Ordinary	70.67%
Stuart Signal[30]	Alternate Director	12,197,916	Ordinary	70.67%

This information was provided by or on behalf of the named persons in response to questionnaires circulated by Acurity after receipt of Connor's Takeover Notice.

24 Alan Isaac holds these shares jointly with Andrew Dinsdale and Alasdair McBeth as trustees of the Isaac Family Trust.
25 James Tyler holds these shares jointly with Brian Martin, Carol Tyler and Torquil Featherston Johnston as trustees of the Tyler Trust 1.
26 Brian Martin holds (i) 64,818 Acurity Shares (representing 0.37% of the total issued share capital of Acurity) in his own name, and (ii) 240,000 Acurity Shares (representing 1.39% of the total issued share capital of Acurity) jointly with James Tyler, Carol Tyler and Torquil Featherston Johnston as trustees of the Tyler Trust 1.
27 Warwick Webb, a Director of Acurity, is an associate of Austron, Medusa and Connor (see footnotes 1, 8 and 13) and may also be an associate of Evolution (which presently owns all of the shares in Connor – see footnote 3) and Royston. Austron holds 8,631,800 Acurity Shares (representing 50.01% of the total issued share capital of Acurity), Medusa holds 773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity), Connor holds 2,019,780 Acurity Shares (representing 11.702% of the total issued share capital of Acurity) and Royston holds 773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity). In aggregate, Austron, Medusa, Connor and Royston hold 12,197,916 Acurity Shares (representing 70.67% of the total issued share capital of Acurity).
28 Mark Stewart, a Director of Acurity, is an associate of Austron, Medusa and Connor (see footnotes 1, 8 and 14) and may also be an associate of Evolution (which presently owns all of the shares in Connor – see footnote 3) and Roytson. Austron holds 8,631,800 Acurity Shares (representing 50.01% of the total issued share capital of Acurity), Medusa holds 3,450,266 Acurity Shares (representing 19.99% of the total issued share capital of Acurity). Connor holds 2,019,780 Acurity Shares (representing 11.702% of the total issued share capital of Acurity) and Royston holds 773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity). In aggregate, Austron, Medusa, Connor and Royston hold 12,197,916 Acurity Shares (representing 70.67% of the total issued share capital of Acurity).
29 Jacqueline Gray, a Director of Acurity, is an associate of Austron, Royston and Connor (see footnotes 1, 8 and 10) and may also be an associate of Evolution (which presently owns all of the shares in Connor – see footnote 3) and Medusa. Austron holds 8,631,800 Acurity Shares (representing 50.01% of the total issued share capital of Acurity), Royston holds 773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity), Connor holds 2,019,780 Acurity Shares (representing 11.702% of the total issued share capital of Acurity) and Medusa holds 3773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity). In aggregate, Austron, Royston, Connor and Medusa hold 12,197,916 Acurity Shares (representing 70.67% of the total issued share capital of Acurity).
30 Stuart Signal, who has been appointed by Jacqueline Gray as Ms Gray's Alternate Director on the Acurity Board, is an associate of Austron, Royston and Connor (see footnotes 2, 9 and 11) and may also be an associate of Evolution (which presently owns all of the shares in Connor – see footnote 4) and Medusa. Austron holds 8,631,800 Acurity Shares (representing 50.01% of the total issued share capital of Acurity), Royston holds 773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity), Connor holds 2,019,780 Acurity Shares (representing 11.702% of the total issued share capital of Acurity) and Medusa holds 773,168 Acurity Shares (representing 4.48% of the total issued share capital of Acurity). In aggregate, Austron, Royston, Connor and Medusa hold 12,197,916 Acurity Shares (representing 70.67% of the total issued share capital of Acurity).

Schedule Two

Holders or controllers of 5% or more of Acurity Shares

Name of holder(s) or controller(s) of Acurity Shares	Number of Acurity Shares held or controlled	Designation of Acurity Shares	Percentage of total number of Acurity Shares
Austron Limited	8,631,800	Ordinary	50.01%
Connor Healthcare Limited	2,019,780	Ordinary	11.70%
Evolution Healthcare (NZ) Pty Ltd	2,019,780	Ordinary	11.70%
Evolution Healthcare Partners Pty Ltd	2,019,780	Ordinary	11.70%
New Zealand Central Securities Depository (“**NZCSD**”)	1,790,936	Ordinary	10.38%
AMP Capital Investors (New Zealand) Limited (“**AMP**”)	1,013,683	Ordinary	5.87%

The information in this table (except in respect of AMP and NZCSD) is taken from the table under paragraph 12.8 of Connor’s Offer Document.

The information in respect of AMP was provided by AMP in response to a questionnaire circulated by Acurity after receipt of Connor’s Takeover Notice, and was stated by AMP to be accurate as at 30 June 2014.

The information in respect of NZCSD was taken from Acurity’s share register on 8 August 2014.

*Note that Medusa Limited holds 58.77% shares in Austron, Anaconda Limited (“**Anaconda**”) owns 100% of the shares in Medusa and Mark Stewart is the joint holder of 87.5% of the shares in Anaconda. Accordingly, it is possible that those persons may indirectly control Austron’s Acurity Shares.*

Note that Evolution Healthcare (NZ) Pty Ltd is Connor’s direct parent company and that Evolution Healthcare Partners Pty Ltd is Connor’s indirect parent company and, accordingly, those companies may indirectly control Connor’s Acurity Shares.

Schedule Three

Part A: Trading of Acurity Shares by Director or Senior Officer or their associates during the previous six months

Name of Director or Senior Officer or Associate	Relevant relationship	Date of transaction	Number of Acurity Shares	Designation of Acurity Shares	Acquisition Or disposal	Price per Acurity Share
Connor Healthcare Limited	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	28 July 2014	2,019,780	Ordinary	Acquisition from Evolution Healthcare (NZ) Pty Ltd	$5.49
Evolution Healthcare (NZ) Pty Ltd	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	28 July 2014	2,019,780	Ordinary	Disposition to Connor Healthcare Limited	$5.49
Alan Raymond Isaac, Andrew John Dinsdale and Alasdair Donald McBeth as trustees of the Isaac Family Trust	Director of Acurity (Alan Isaac)	26 May 2014	1,700	Ordinary	On market acquisition	$5.35
Alan Raymond Isaac, Andrew John Dinsdale and Alasdair Donald McBeth as trustees of the Isaac Family Trust	Director of Acurity (Alan Isaac)	26 May 2014	1,300	Ordinary	On market acquisition	$5.34
Evolution Healthcare (NZ) Pty Ltd	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	21 May 2014	2,019,780	Ordinary	Acquisition from Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	$5.49
Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	21 May 2014	2,019,780	Ordinary	Disposition to Evolution Healthcare (NZ) Pty Ltd	$5.49
Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	28 April 2014	45,588	Ordinary	On market acquisition	$5.39
Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	11 April 2014	7,175	Ordinary	On market acquisition	$5.49

Name of Director or Senior Officer or Associate	Relevant relationship	Date of transaction	Number of Acurity Shares	Designation of Acurity Shares	Acquisition Or disposal	Price per Acurity Share
Alan Raymond Isaac, Andrew John Dinsdale and Alasdair Donald McBeth as trustees of the Isaac Family Trust	Director of Acurity (Alan Isaac)	31 March 2014	1,430	Ordinary	On market acquisition	$5.50
Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	31 March 2014	11,456	Ordinary	On market acquisition	$5.46
Evolution Healthcare Partners No 1 Pty Ltd as trustee for the EHPP Trust	May be an associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	25 March 2014	31,396	Ordinary	On market acquisition	$5.39

The information relating to Alan Isaac above is taken from a response to a questionnaire circulated to him by Acurity after receipt of Connor's Takeover Notice. The remainder of the information above is taken from the table under paragraph 12.10 of Connor's Offer Document.

Part B: Trading of Acurity Shares by holders or controllers of 5% or more of Acurity Shares during the previous six months

Holder or controller of 5% or more of Acurity Shares	Acquisition or disposal	Number of Acurity Shares	Designation of Acurity Shares	Week of acquisition or disposal	Price per Acurity Share
AMP Capital Investors (New Zealand) Limited (**"AMP"**)	Disposal	38,427	Ordinary	Week commencing 3 March 2014	$5.57
AMP	Disposal	16,736	Ordinary	Week commencing 17 March 2014	$5.39
AMP	Disposal	11,412	Ordinary	Week commencing 24 March 2014	$5.30
AMP	Disposal	8,248	Ordinary	Week commencing 31 March 2014	$5.43
AMP	Disposal	5,403	Ordinary	Week commencing 14 April 2014	$5.43
AMP	Disposal	107,117	Ordinary	Week commencing 28 April 2014	$5.35
AMP	Disposal	41,307	Ordinary	Week commencing 5 May 2014	$5.36
New Zealand Central Securities Depository Limited (**"NZCSD"**)	Acquisition	10,000	Ordinary	Week commencing 10 February 2014	Nil
NZCSD	Acquisition	10,000	Ordinary	Week commencing 17 February 2014	Nil
NZCSD	Acquisition	10,070	Ordinary	Week commencing 24 February 2014	Nil
NZCSD	Acquisition	5,773	Ordinary	Week commencing 3 March 2014	Nil
NZCSD	Acquisition	1,200	Ordinary	Week commencing 10 March 2014	Nil
NZCSD	Disposal	38,427	Ordinary	Week commencing 10 March 2014	Nil

Holder or controller of 5% or more of Acurity Shares	Acquisition or disposal	Number of Acurity Shares	Designation of Acurity Shares	Week of acquisition or disposal	Price per Acurity Share
NZCSD	Acquisition	6,000	Ordinary	Week commencing 17 March 2014	Nil
NZCSD	Acquisition	30,000	Ordinary	Week commencing 24 March 2014	Nil
NZCSD	Disposal	28,148	Ordinary	Week commencing 24 March 2014	Nil
NZCSD	Disposal	8,248	Ordinary	Week commencing 31 March 2014	Nil
NZCSD	Disposal	5,403	Ordinary	Week commencing 21 April 2014	Nil
NZCSD	Disposal	82,117	Ordinary	Week commencing 28 April 2014	Nil
NZCSD	Acquisition	10,000	Ordinary	Week commencing 2 June 2014	Nil
NZCSD	Disposal	889	Ordinary	Week commencing 2 June 2014	Nil
NZCSD	Disposal	500	Ordinary	Week commencing 9 June 2014	Nil
NZCSD	Acquisition	6,448	Ordinary	Week commencing 16 June 2014	Nil
NZCSD	Acquisition	7,500	Ordinary	Week commencing 23 June 2014	Nil
NZCSD	Acquisition	5,938	Ordinary	Week commencing 7 July 2014	Nil
NZCSD	Acquisition	9,067	Ordinary	Week commencing 14 July 2014	Nil
NZCSD	Disposal	9,442	Ordinary	Week commencing 14 July 2014	Nil
NZCSD	Acquisition	33,439	Ordinary	Week commencing 21 July 2014	Nil
NZCSD	Disposal	20,000	Ordinary	Week commencing 21 July 2014	Nil
NZCSD	Acquisition	287,832	Ordinary	Week commencing 28 July 2014	Nil
NZCSD	Disposal	130,948	Ordinary	Week commencing 28 July 2014	Nil
NZCSD	Acquisition	77,520	Ordinary	Week commencing 4 August 2014	Nil
NZCSD	Disposal	35,913	Ordinary	Week commencing 4 August 2014	Nil

The information relating to AMP above is taken from a response to a questionnaire circulated to AMP by Acurity after receipt of Connor's Takeover Notice, as well as the substantial security holder notices filed by AMP to NZX and Acurity on 24 March 2014 and 6 May 2014. AMP did not disclose to Acurity any share trading information for the period after 30 June 2014.

The information relating to NZCSD above is taken from Acurity's share register on 8 August 2014 and a response to a questionnaire circulated to NZCSD by Acurity after receipt of Connor's Takeover Notice. Please note that NZCSD is custodian trustee and its sole role is to act as legal owner of securities registered in its name and held on behalf of members of the NZClear system. The "Nil" price per Acurity Share noted in the above table means that NZCSD did not make any payments or receive any consideration for the acquisition or disposal of Acurity Shares described in the above table.

Schedule Four

Interests of Directors and Senior Officers of Acurity and persons who hold or control 5% or more of Acurity's Shares in contracts of Connor or related company

Party to the contract to which Connor or a related company of Connor is a party	Relevant relationship	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Austron	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	Austron, Connor and Evolution are parties to the Takeover Implementation Deed, the key terms of which are set out in paragraphs 12.4 to 12.6 of Connor's Offer Document. As noted in paragraph 12.7 of Connor's Offer Document, a copy of the Takeover Implementation Deed was filed with NZX and Acurity on 28 July 2014. Under the Takeover Implementation Deed, each of the persons listed in the previous column: • was appointed as a member of Connor's takeover committee; and • will be appointed as a director of Connor contemporaneously with completion of the Offer (if completion occurs).	Not quantified by Austron. Acurity does not have sufficient information to calculate the monetary value of the interest described in the previous column.
Austron	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	Austron, Connor and others are parties to the Lock-up Agreement, as described in paragraph 12.13 of Connor's Offer Document. Under the Lock-up Agreement, Austron has agreed to accept the Offer for all of its Shares. As at the date of this Target Company Statement, Austron holds 8,631,800 Shares. As noted in paragraph 12.14 of Connor's Offer Document, a copy of the Lock-up Agreement was filed with NZX and Acurity on 28 July 2014.	Not quantified by Austron. However, at the date of this Target Company Statement the Offer price is $7.25 per Share. At this Offer price, on completion of the Offer (if completion occurs), Connor must pay Austron $62,580,550 for Austron's Shares (clause 7.3 of the Takeover Implementation Deed filed with NZX and Acurity on 28 July 2014 provides that Connor and Austron will enter into a Payment Directions Deed under which the Offer price will be applied towards the subscription by Austron for 75% of the shares in Connor).
Austron	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	Austron, Evolution Healthcare Partners No 1 Pty Limited as trustee for the EHPP Trust (which may be a related company of Connor) and others are parties to a Mutual Confidentiality Agreement, as described in paragraph 12.18 of Connor's Offer Document.	Not quantified by Austron.
Austron	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	Austron, Connor and Evolution are parties to a Stapling Agreement setting out restrictions on the transfer of shares in Connor and loans advanced to Connor, as described in paragraph 12.18 of Connor's Offer Document.	Not quantified by Austron.

Party to the contract to which Connor or a related company of Connor is a party	Relevant relationship	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Austron	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	Austron, and through it Royston Hospital Trust Board and Medusa Limited, may have an interest in contracts to which Connor is party by virtue of Austron's right under the Takeover Implementation Deed to subscribe for 75% of the shares in Connor on completion of the Offer (if completion occurs).	Not quantified by Austron, Royston Hospital Trust Board or Medusa Limited.
Royston	Associate of a Director of Acurity (Jacqueline Gray) Associate of an Alternate Director of Acurity (Stuart Signal) May be an associate of a Director of Acurity (each of Warwick Webb and Mark Stewart)	Royston, Connor and others are parties to the Lock-up Agreement, as described in paragraph 12.13 of Connor's Offer Document. Under the Lock-up Agreement, Royston has agreed to accept the Offer for all of its Shares. As at the date of this Target Company Statement, Royston holds 773,168 Shares. As noted in paragraph 12.14 of Connor's Offer Document, a copy of the Lock-up Agreement was filed with NZX and Acurity on 28 July 2014.	Not quantified by Royston. However, at the date of this Target Company Statement the Offer price is $7.25 per Share. At this Offer price, on completion of the Offer (if completion occurs), Connor must pay Royston $5,605,458 for Royston's Shares.
Medusa	Associate of a Director of Acurity (each of Warwick Webb and Mark Stewart) May be an associate of a Director of Acurity (Jacqueline Gray) May be an associate of an Alternate Director of Acurity (Stuart Signal)	Medusa, Connor and others are parties to the Lock-up Agreement, as described in paragraph 12.13 of Connor's Offer Document. Under the Lock-up Agreement, Medusa has agreed to accept the Offer for all of its Shares. As at the date of this Target Company Statement, Medusa holds 773,168 Shares. As noted in paragraph 12.14 of Connor's Offer Document, a copy of the Lock-up Agreement was filed with NZX and Acurity on 28 July 2014.	Not quantified by Medusa. However, at the date of this Target Company Statement the Offer price is $7.25 per Share. At this Offer price, on completion of the Offer (if completion occurs), Connor must pay Medusa $5,605,458 for Medusa's Shares.

Party to the contract to which Connor or a related company of Connor is a party	Relevant relationship	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Connor	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director of Acurity (Stuart Signal)	Connor is a party to the Takeover Implementation Deed, the key terms of which are set out in paragraphs 12.4 to 12.6 of Connor's Offer Document. As noted in paragraph 12.7 of Connor's Offer Document, a copy of the Takeover Implementation Deed was filed with NZX and Acurity on 28 July 2014. Under the Takeover Implementation Deed, each of the persons listed in the previous column: • was appointed as a member of Connor's takeover committee; and • will be appointed as a director of Connor contemporaneously with completion of the Offer (if completion occurs).	Not quantified by Connor. Acurity does not have sufficient information to calculate the monetary value of the interest described in the previous column.
Connor	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director (Stuart Signal)	Connor is party to the Lock-up Agreement, as described in paragraph 12.13 of Connor's Offer Document. As noted in paragraph 12.14 of Connor's Offer Document, a copy of the Lock-up Agreement was filed with NZX and Acurity on 28 July 2014.	Not quantified by Connor.
Connor	Associate of a Director of Acurity (Each of Jacqueline Gray, Warwick Webb and Mark Stewart) Associate of an Alternate Director (Stuart Signal)	Connor is a party to a Stapling Agreement setting out restrictions on the transfer of shares in Connor and loans advanced to Connor, as described in paragraph 12.18 of Connor's Offer Document.	Not quantified by Connor.
Connor	Associate of a Director of Acurity (Warwick Webb)	Mr Webb is the joint shareholder of 1,000,000 of the 10,000,000 shares in Anaconda Limited ("**Anaconda**"), the holding company of Medusa Limited. Mr Webb holds those shares as trustee of a trust, in relation to which Mr Webb is also a beneficiary. Medusa Limited owns 58.77% of the shares in Austron. Accordingly, to the extent that Medusa Limited or Austron has an interest in any contract to which Connor, or a related company of Connor, is a party, Mr Webb may have a proportionate interest through his shareholding in Anaconda.	Not quantified by Mr Webb.

Party to the contract to which Connor or a related company of Connor is a party	Relevant relationship	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Connor	Associate of a Director of Acurity (Mark Stewart)	Mr Stewart is the joint shareholder of: • 5,384,575 of the 10,000,000 shares; and • 3,365,425 of the 10,000,000 shares, in Anaconda (the holding company of Medusa). Mr Stewart holds those shares as trustee of two trusts, in relation to which Mr Stewart is also a beneficiary. Medusa Limited owns 58.77% of the shares in Austron. Accordingly, to the extent that Medusa Limited or Austron has an interest in any contract to which Connor, or a related company of Connor, is a party, Mr Stewart may have a proportionate interest through his shareholdings in Anaconda.	Not quantified by Mr Stewart.
Evolution	May be an associate of a Director of Acurity (each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	Connor is a party to the Takeover Implementation Deed, the key terms of which are set out in paragraphs 12.4 to 12.6 of Connor's Offer Document. As noted in paragraph 12.7 of Connor's Offer Document, a copy of the Takeover Implementation Deed was filed with NZX and Acurity on 28 July 2014. Under the Takeover Implementation Deed, each of the persons listed in the previous column: • was appointed as a member of Connor's takeover committee; and • will be appointed as a director of Connor contemporaneously with completion of the Offer (if completion occurs).	Acurity does not have sufficient information to calculate the monetary value of the interest described in the previous column.
Evolution	May be an associate of a Director of Acurity (each of Jacqueline Gray, Warwick Webb and Mark Stewart) May be an associate of an Alternate Director of Acurity (Stuart Signal)	Evolution is at the date of this Target Company Statement the parent company (and, therefore, a related company) of Connor and: • is interested in all contracts to which Evolution is a party; and • may be interested in all contracts to which its subsidiary, Connor, is a party.	Not quantified.

This information was provided by or on behalf of the named persons in response to questionnaires circulated by Acurity after receipt of Connor's Takeover Notice.

Appendix

KordaMentha

Full takeover offer for Acurity Health Group Limited

Independent Adviser's Report

August 2014

KordaMentha confirms that it:

(a) has no conflict of interest that could affect its ability to provide an unbiased report; and

(b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

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

Contents

KordaMentha

Glossary of key definitions

Acurity or the Company	Acurity Health Group Limited
Acurity Shares	17,259,959 ordinary shares in Acurity
ACC	Accident Compensation Corporation
AMP	AMP Capital Investors (New Zealand) Limited
APS	Affiliated Provider Scheme
Budget	Acurity's budget for the year ending 31 March 2015
Connor	Connor Healthcare Limited
DCF	Discounted cash flow
DHB	District Health Board
EA and LA	Endoscopy Auckland and Laparoscopy Auckland
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Evolution	Evolution Healthcare (NZ) Pty Limited
FY15 Forecast	Forecast for the year ending 31 March 2015 prepared in July 2014
FY[xx]	Financial year ending 31 March 20[xx]
GFC	Global financial crisis
HFA	Health Funds Association of New Zealand
IPDE	In Patient Days Equivalent
Medusa	Medusa Limited
NTA	Net tangible assets
NZX	NZX Main Board operated by NZX Limited
the Offer	Connor is offering to acquire 100% of Acurity's shares listed on the NZX for $7.25 per share
the Report	This independent adviser's report on the Offer in accordance with Rule 21 of the Takeovers Code
Royston	Royston Hospital Trust Board
WACC	Weighted Average Cost of Capital
Wakefield Rebuild	Planned redevelopment of Wakefield Hospital facility
YTD15	Financial year-to-date for the four months ended 31 July 2014

1 Introduction

Acurity Health Group Limited ('Acurity' or 'the Company') is a significant owner of private hospitals in New Zealand and specialises in the provision of surgical facilities and post-operative care.

On 28 July 2014, Connor Healthcare Limited ('Connor' or 'the Bidder') announced its intention to make a full takeover offer for 100% of the fully paid ordinary shares of Acurity ('Acurity Shares') that Connor does not own at an offer price of $6.50 cash per Acurity Share.

The Independent Directors of Acurity then appointed KordaMentha to prepare an independent adviser's report in accordance with Rule 21 of the Takeovers Code ('the Report'). Our appointment was subsequently approved by the Takeovers Panel.

After we completed a draft of the Report, Connor revised the offer price to $7.25 cash per Acurity Share ('the Offer').

The Report has been prepared to assist Acurity shareholders to consider the merits of the Offer.

1.1 Background to the Offer

On 28 July 2014, Connor announced its intention to make a cash offer for 100% of Acurity Shares that Connor does not own.

Connor is expected to dispatch the Offer to Acurity's shareholders on or about 26 August 2014.

Connor was incorporated on 8 May 2014 and is presently wholly owned by Evolution Healthcare (NZ) Pty Limited ('Evolution'). However, as part of the proposed transaction Austron Limited ('Austron') will subscribe for a 75% shareholding in Connor.

Austron and its shareholders Royston Hospital Trust Board ('Royston') and Medusa Limited ('Medusa') currently own Acurity Shares and have entered into lock-up agreements to accept the Offer for all of their respective Acurity Shares.

Prior to the Offer, Connor had an 11.70% shareholding in Acurity. As a result of the lock-up agreements Connor has commitments to accept the Offer from:

- Austron, which holds 50.01% of Acurity Shares;
- Royston, which holds 4.48% of Acurity Shares; and
- Medusa, which holds 4.48% of Acurity Shares.

Royston is a charitable trust that acquired its shareholding in Acurity in January 2006, when Royston Hospital (based in Hawke's Bay) merged with Acurity.

Medusa is ultimately owned by Masthead Limited, which is controlled by the Stewart family, a high net worth family based in New Zealand which has invested in a number of New Zealand businesses, including EBOS Group Limited and PDL Holdings Limited.

The Acurity Shares that Austron, Medusa and Royston have agreed to sell to Connor under the lock-up agreement, together with Connor's existing shareholding, represent 70.67% of the Acurity Shares.

1.2 Offer terms and conditions

Connor is offering to acquire 100% of Acurity's Shares that Connor does not own for $7.25 per share. Acurity Shares are quoted on the NZX Main Board operated by NZX Limited ('NZX').

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The Offer is conditional on Connor receiving sufficient acceptances to take its stake in Acurity to 90% or more. This condition cannot be waived by Connor.

The Offer is conditional on Connor obtaining regulatory consents required under the:

- Overseas Investment Act 2005; and
- Commerce Act 1986.

The Offer is also subject to a range of other conditions that have become relatively standard in takeover offers. These conditions preclude Acurity from paying a dividend or other distribution during the Offer period or making any significant purchases or disposals, other than in the ordinary course of business.

These other conditions are for the benefit of the Bidder and may be waived by Connor at its discretion.

1.3 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this report.

This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of this report.

References are to New Zealand dollars, unless specified otherwise. References to years, financial years or "FY" mean Acurity's financial year end 31 March unless specified otherwise.

Please note tables may not add due to rounding.

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2 Merits of the Offer

The Takeovers Code requires the independent adviser to form an opinion as to the merits of the Offer and in doing so to take into consideration issues wider than just our valuation. In this section we consider the fundamentals of Acurity; pricing and valuation; potential outcomes of the Offer; and the likelihood of alternative offers.

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 'merit', it suggests that merits include both positives and negatives in respect of an offer.

2.1 Acurity fundamentals

Key drivers of Acurity's financial performance include:

- demand for healthcare services and hospital admissions;
- economic conditions which influence private demand for elective surgery;
- the public's perception of District Health Board's ('DHB's') performance in providing elective surgery; and
- the Company's ability to attract and retain successful specialists to utilise Acurity's facilities.

Market commentators expect that an aging population will underpin an increased demand for private healthcare services in New Zealand in the long-term. However, the recent and short to medium term projected growth for private elective surgery is low. In addition, the proportion of the New Zealand population covered by private health insurance has declined recently, which has affected patients' ability to fund private elective surgery.

Expansion at the Southern Cross Hospital in Wellington (including the Regional Vascular Centre) and a recent upgrade of the public hospital in Wellington has increased the supply of both theatre space and the number of beds in the Wellington region, which has impacted Acurity's ability to grow. This has been coupled with more aggressive pricing for facilities and increased competition for specialists, particularly from Southern Cross Wellington. Overall, this has limited the ability for Acurity to grow its earnings but should not be expected to impact the business indefinitely.

Acurity has a relatively new management team, which has implemented some operational improvements, particularly at Wakefield Hospital, which has offset the flat revenue performance. There have been significant improvements in hospital employee costs over the last two years. This helped drive an 11% increase in earnings before interest, tax, depreciation and amortisation ('EBITDA') in FY14.

Acurity's partially owned hospitals and medical centres have performed in line with expectations and have shown consistent but modest growth.

For valuation purposes, we have relied on management's full year FY15 Forecast EBITDA of $15.4 million with an adjustment for expected synergies for wholly owned hospitals. For partially owned hospitals and medical centres we have relied on management's FY15 Forecast EBITDA of $5.7 million (based on Acurity's share of earnings).

Acurity management estimate the elimination of public company costs such as registry fees, NZX charges, annual reports and shareholder communications would save $0.35 million per annum in the event the Company is taken private. We have allowed for this saving in our valuation analysis.

In the medium to longer term, Acurity management expect increasing latent demand for health services (due to an aging population and increased health costs) and constraints on public funding to generate growth in revenue and profitability for Acurity.

In relation to investment, Acurity has incurred high levels of capital expenditure in recent years. One of the main reasons for the high level of capital expenditure was the redevelopment of Bowen Hospital. Total capital expenditure on Bowen Hospital was approximately $34 million between FY10 and FY13.

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As announced to the NZX on 8 August 2014, Acurity is planning to redevelop Wakefield Hospital facility.

There are risks to building a new hospital at the existing site, including potential cost over-runs and the high level of capital that needs to be incurred upfront whilst uncertain investment returns are expected to accrue over a long time period. However, this option is expected to result in the best long-term return to Acurity.

At this stage, the design work is yet to be undertaken and Acurity does not have detailed costings for building a new Wakefield Hospital. However, based on the level of expenditure incurred on recent new private hospital constructions in New Zealand, and expected building cost inflation, management estimate that the build and fit-out of a new facility will likely cost between $45 million and $50 million to develop over a time frame of approximately four to six years (including allowance for design, consents, construction, fit-out and testing). A breakdown of projected capital expenditure, including the cost of replacing the current Wakefield Medical Consultant Centre (an additional $10 million) is set out in Table 2.1 below.

Table 2.1: Wakefield Rebuild Capital Expenditure

Capital Expenditure	$ million
New Facility	45.0
Contingency	5.0
Replacement Wakefield Medical Consultant Centre	10.0
Total	**60.0**

Source: Management information

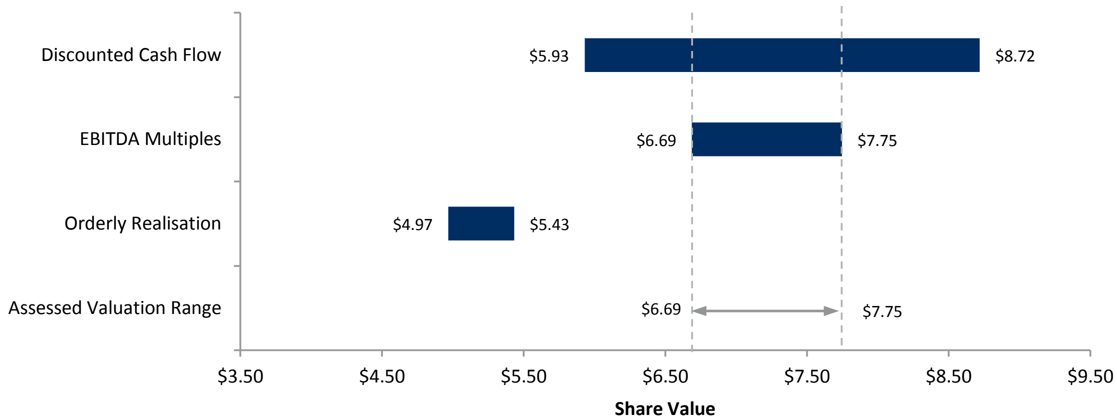
The building programme proposed for Wakefield Hospital is very material for Acurity. By way of context, the planned capital expenditure of $60 million is equivalent to $3.48 per Acurity Share.

Acurity management considers upon completion of the Wakefield Hospital redevelopment the Company should be able to avoid incurring further capital expenditure of this magnitude across its wholly owned hospitals (unless growth opportunities are identified) for a decade or more. The expected benefits of this expenditure are not yet fully reflected in the Company's earnings, which we have considered in our valuation analysis.

2.2 Pricing and valuation

Our valuation results are summarised in Figure 2.1.

Figure 2.1: Valuation summary



Source: Management accounts, Budget and forecast, KordaMentha analysis

For the purpose of the Report, we have assessed a valuation range for Acurity's equity between $6.69 and $7.75 per share, with a mid-point of $7.22 per share. We note that this range represents our estimate of value for 100% of the Company and we would not expect minority parcels to trade at this level (in the absence of a takeover offer).

Our range has been determined based on our capitalisation of earnings valuation approach. We have assessed an appropriate forecast EBITDA multiple for Acurity's wholly owned hospitals in a range of 8.0x to 8.75x, after taking into account comparable transactions and that Acurity has a portfolio of hospitals whereas many of the transactions are for individual hospitals only.

The discounted cash flow ('DCF') valuation results are extremely sensitive to small changes in key variables such as admissions growth because the forecasts have short-dated negative cash flows due to the Wakefield capital expenditure programme and the positive cash flows, which underpin value, are very long-dated. For example, a 0.5% increase in revenue growth per annum (compounding each year) results in a change of approximately $1.50 to the value per share. This means it is difficult to rely on the DCF results.

Our low-case DCF scenario assumes management projections with an adjustment in the terminal year so that depreciation is set equal to capital expenditure.

Our high-case DCF scenario includes the adjustment to set depreciation equal to capital expenditure in the terminal year as well as the following adjustments to management's projections for hospital admissions growth:

- an additional 1.5% per annum of admissions growth above the forecast provided by management for Wakefield, Royston, and Grace Hospital. Acurity's projections are based solely on projected demographic growth in the relevant region. 'Health Projections and Policy Options' (released by Treasury in July 2013) estimates that, in addition, healthcare is expected to have non-demographic real demand growth of 1.5% per annum. This growth is expected to be achieved as a result of growth in real incomes and historical trends which have shown that as people's income grows they tend to spend more on health care;
- no growth (demographic or non-demographic) at Wakefield Hospital for six years from 2016 to 2021 where it is possible that the rebuild at Wakefield Hospital may cause some disruption; and
- management estimates for Bowen Hospital with no change for non-demographic growth.

Acurity's net tangible assets ('NTA') value as at 31 July 2014 was $5.45 per share. We have assessed the value of Acurity based on undertaking an orderly realisation of assets between $4.97 and $5.43. This analysis is used as a broad cross-check only. The earnings based valuation approaches that we have adopted for Acurity are in excess of the value assessed using an orderly realisation of assets approach. We consider this reasonable given the intangible assets inherent in Acurity's business as a result of relationships with funders (Accident Compensation Corporation ('ACC'), DHBs and insurers), specialists and private customers as well as its brand and goodwill.

Connor's revised Offer price of $7.25 per share is approximately equal to the mid-point of our valuation range.

Back in mid-2010, Acurity Shares were trading at around $6.50. However, following subdued earnings announcements the share price tracked down to $4.40 on 26 April 2012.

The partial takeover offer from Austron for 50.01% of the Acurity Shares on 25 July 2012 for $6.00 pushed the share price into the $5.50 to $6.00 range until November 2012, from which time the share price trended down to reach a low of $3.93 on 11th October 2013. Subsequently, the acquisition of an 11% stake by Evolution, on 25 October 2013, pushed the share price up to $5.50. The Evolution entry price was $5.50 and the sellers included AMP Capital Investors (New Zealand) Ltd ('AMP'), ACC and Milford Asset Management.

The shares have been trading within a tight range of $5.15 to $5.50 (with a VWAP[1] of $5.30) over the last three months prior to 28 July 2014. Subsequent to Connor's announcement of its intention make a takeover offer (at $6.50) the Acurity Share price has traded in a range of $6.50 to $6.58.

Key issues which have weighed on Acurity's share price include its relatively poor earnings performance, which is at least in part due to current economic conditions, and its high levels of capital expenditure incurred at Bowen Hospital and about to be incurred at Wakefield Hospital. The long-term outlook for Acurity is more

[1] Volume Weighted Average Price

positive with market commentators generally predicting uplift in demand for private health services as a result of New Zealand's aging population. There are risks to this outlook, including the observed recent decline in private health insurance and uncertainty around funding and pricing of elective surgical procedures in private hospitals.

Connor's Offer represents a premium of 37% to the VWAP per Acurity share in the three months prior to the Offer.

As at 19 August 2014, 384,650 Acurity Shares have traded since 28 July 2014 at closing share prices between \$6.50 and \$6.58. As at 19 August 2014, the Acurity Share price is \$6.55.

2.3 Connor's intentions

KordaMentha has had a meeting with representatives of Connor concerning the Offer. Key comments from that meeting are set out in Table 2.2.

Table 2.2: Connor's intentions

Request for comment from Connor	Connor's response
Why is Connor making the Offer	Connor considers it inappropriate for Acurity to continue to be listed given the relatively high costs involved, the lack of liquidity in any event and in its view the impending capital expenditure at Wakefield Hospital would be better managed and funded by a private company. Connor's representatives noted that it considers share price performance has been poor and the only positive movements to the share price over the last few years have been the result of takeover activity. Connor's representatives also noted that returns from the Wakefield Hospital capital expenditure are uncertain and long-dated and it is not convinced those investments are best owned by a listed entity.
What strategic changes Connor intends to make to the business	Connor says it has no present intentions to make any material strategic changes. It considers the key issue facing the business at this time is the redevelopment of Wakefield Hospital. Connor has not identified any new material revenue streams or cost cutting initiatives, although anticipates that if the Offer is successful, it will undertake a review of the Acurity business to identify cost efficiencies and new revenue streams (leveraging off its shareholders' expertise and connections).
Connor's intentions with the Wakefield Hospital proposed capital expenditure	Connor supports Acurity's proposed Wakefield Hospital capital expenditure.
Whether Connor has identified any future or potential synergies or strategic benefits to Acurity from having Connor as 100% shareholder	No material synergies or strategic benefits have been identified by Connor, but see response above. In response to the question put by us, Connor says there has been no discussion about potentially merging Acurity with Boulcott Hospital and whether any synergies would result from such a merger.
Other issues	Other issues raised by Connor include: • The returns expected from the Wakefield Hospital redevelopment are uncertain. The capital expenditure incurred at Bowen Hospital is yet to generate the returns that were expected by Austron and Evolution. • The market environment for Acurity is currently challenging given the reduced number of people covered by private insurance and key health insurers seeking to minimise cost and risk by agreeing fixed prices for surgical procedures (discussed later in the Report).

2.4 Potential outcomes of the Offer

2.4.1 The Offer is successful

The Offer is conditional on Connor receiving sufficient acceptances that would result in it holding or controlling 90% or more of the voting rights in Acurity. This condition cannot be waived by Connor.

Connor already has acceptances from shareholders, which control 70.67% of Acurity Shares via its existing shareholding and lock-up agreements. Therefore, for the Offer to be successful, Connor requires acceptances from a further 19.33% of Acurity Shares out of an available 29.33%.

In the event that Connor receives acceptances for 90% of the Acurity Shares, the Offer will be successful (unless the Offer is withdrawn with the consent of the Takeover Panel) and as a result Connor will be able to enact the compulsory acquisition provisions under the Takeovers Code.

2.4.2 The Offer fails

If the Offer fails, Austron will continue to be the majority shareholder in Acurity and have effective control of its business direction and dividend policy.

Management consider it likely it will be able to meet the Wakefield Hospital capital expenditure requirements from bank funding. However, Acurity's modelling suggests very little headroom and if Acurity suffers any adverse trading conditions it would have to consider alternatives including renegotiating its arrangements with lenders, temporarily halting dividend payments, or raising additional equity capital.

In the absence of actual and potential takeover speculation, the Acurity Share price is likely to be lower than the current share price. This is broadly to be expected given share prices reflect prices for small parcels of minority shares whereas takeover offers typically include a premium for control.

In the absence of any other factors, we consider there is a real prospect that Acurity's share price may recede from current levels, following the Offer, in the event it fails.

2.5 Liquidity

Acurity Shares have historically been illiquid. Trading in the three months prior to 28 July 2014 is summarised in Table 2.3 and shows that approximately 2.81% of Acurity Shares were traded over this period.

Table 2.3: Share trading prior to 28 July 2014

Period	Share Price Low	Share Price High	Volume Weighted Avg Price	Cumulative Volume	% of Issued Capital
1 week	5.25	5.30	5.25	62,980	0.36%
1 month	5.15	5.30	5.25	136,980	0.79%
3 months	5.15	5.50	5.30	484,520	2.81%

Source: Capital IQ

In the event the Offer fails, Acurity Shares will continue to be illiquid.

2.6 Likelihood of Connor increasing its Offer price

Connor has already increased its proposed offer price of $6.50 to $7.25. It is possible that Connor will further increase its Offer price if there are very few acceptances or it gets close to a 90% shareholding and an increased Offer price is required to reach the 90% threshold. However, given Austron (who will become a majority shareholder of Connor) already has effective control of Acurity, Connor may decide to not increase the Offer price.

AMP has 5.51% of Acurity Shares (prior to the Offer). No other non-associated shareholder has a holding above 1.4%. We consider that the AMP shareholding represents a strategic parcel of shares (albeit the Offer could succeed without AMP accepting), which would be attractive to Connor in order to achieve its goal of a full takeover.

If AMP does not accept the Offer or intimates that would accept at a higher price, then it is more likely that either the Offer will fail or Connor would increase its Offer price. However, AMP could still choose to accept the Offer or it is possible that the Offer will succeed even without AMP accepting.

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2.7 Prospect of alternative takeover offers

Due to Austron's existing majority shareholding in Acurity, any future takeover offer needs the support of Austron to succeed.

We consider it unlikely that an alternative offer would be made for Acurity, as any party wishing to acquire more than 20% would either require Austron to sell its existing shareholding or need approval from shareholders, which could be blocked by Austron.

There is no need for shareholders to accept the Offer early and shareholders do not need to do anything in relation to the Connor Offer until close to its closing date. Importantly, shareholders who have accepted the Connor Offer will not be able to accept any subsequent offer if the Connor Offer is still open.

2.8 Prospect of an investor acquiring a strategic shareholding less than 20%

It is possible that an investor could acquire a strategic shareholding of less than 20% of Acurity. A shareholding of greater than 10% could be considered a blocking stake because it would prevent Connor or any other shareholder from achieving the 90% shareholding necessary to compulsorily acquire the Company under the Takeovers Code. It is possible that any acquisition of a strategic shareholding could be made at a strategic premium to underlying value or the Offer price of $7.25.

2.9 Summary

Key issues to be considered when assessing the merits of the Offer include:

- Acurity operates in a sector that is currently impacted by weak conditions but has attractive long term growth prospects. Having undertaken significant capital expenditure and planning further redevelopment at Wakefield Hospital the Company will be poised for growth and a significant improvement in cash flows once Wakefield Hospital is complete;
- Connor's Offer price of $7.25 per share is approximately equal to the mid-point of our range. We note that this range represents our estimate of value for 100% of the Company and we would not expect minority parcels to trade at this level (in the absence of a takeover offer);
- the Offer is 11% above the Acurity closing price on 19 August 2014 of $6.55 per share. In the absence of any other factors, we consider there is a real prospect that Acurity's share price may recede from current levels, following the Offer;
- the Offer provides some liquidity for Acurity's minority shareholders at a price approximately 38% above share trading levels observed on the day before the notice of intention to make an offer (28 July 2014); and
- Acurity's shares are closely held and there is a lack of trading volume. This limits the liquidity available to shareholders and their ability to sell shares. There may not be a better exit opportunity for Acurity's minority shareholders in the short term.

We consider it unlikely that an alternative offer would be made for Acurity, as any party wishing to acquire more than 20% would either require Austron to sell its existing shareholding or need approval from shareholders, which could be blocked by Austron.

Acceptance or rejection of the Offer

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

3 Industry profile

3.1 New Zealand health sector overview

The health industry in New Zealand is broadly made up of three tiers:

- Primary Sector: professional healthcare received in the community, e.g. General Practitioners;
- Secondary Sector: provided by medical specialists and other health professionals who generally do not have first contact with patients, e.g. cardiologists, urologists, psychiatrists and dermatologists. Secondary services are often provided in hospitals; and
- Tertiary Sector: highly specialised consultative healthcare, which is usually on referral from the primary and secondary sectors, in a facility that has personnel and facilities for advanced medical investigations and treatment. Examples include neurosurgery and cardiac surgery.

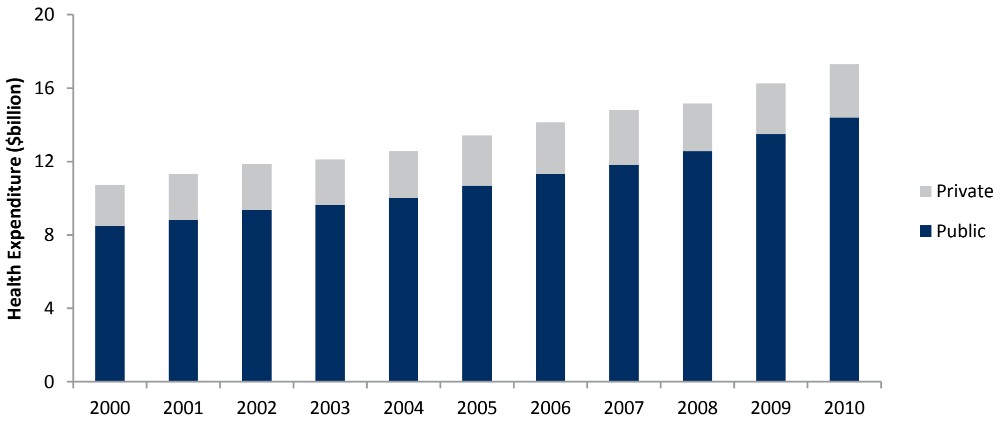
Acurity is focused on secondary and tertiary care.

The New Zealand health sector can be further split into two parts, public and private. The public sector is overseen by the Ministry of Health and its business units. The day-to-day operations of the public health sector are administered by DHB's, which plan, manage and provide health services for the population of their respective districts.

Prior to World War II, private funding dominated the New Zealand healthcare market. However, this gradually reversed over time and the percentage of funding from public sources is now around 80% of total funding, which has persisted since the mid-1990s.

Figure 3.1 below shows, while health expenditure has been progressively increasing since 2000, the proportion of private expenditure has remained relatively steady around 20%. Recent years have seen a decline to around 17% of total health expenditure being privately funded.

Figure 3.1: Total health expenditure (June year-end)



Source: Health Expenditure Trends in New Zealand 2000-2010, Ministry of Health

Statistics released by the World Bank show that New Zealand is near the average of health spending as a proportion of Gross Domestic Product ('GDP') (10.1% for both New Zealand and the global average). However, where New Zealand materially differs from the rest of the world is in the proportion of health funding that comes from public resources. At 83% publically funded, New Zealand is significantly more reliant on public funding than the global average of 60%. They key question this evokes is whether this level of public health expenditure is sustainable. If not, this would underpin increasing latent demand for private healthcare services.

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One of the key criteria, on which DHBs are measured, is time taken for patient access to elective surgery. Consequences of reduced waiting lists for Acurity include:

- a disincentive for New Zealanders to privately fund health care (e.g. through health insurance); offset by
- opportunities for private health providers (like Acurity) to provide services to DHBs. Particularly, given limits on capital investment in new public health facilities.

There is some commentary to suggest that reported waiting lists understate the underlying need for elective surgery and in addition to those actually on the waiting list are a large number of people yet to get a place on the waiting list. If this is the case, it reinforces an underlying need for private healthcare services.

3.2 Demographics

Much continues to be written about the aging of New Zealand's population and the impact that this will have on the provision of aged care and healthcare services. It is expected that an aging population, as well as a growing population, will underpin increased demand for healthcare services.

The proportion of the population aged 65+ is estimated by Treasury to be 12%, but accounts for 40% of health funding. By 2050, the proportion of population 65+ is expected to be approximately 24%, with the share of total health spending increasing to 63%. While this would support growth in healthcare services it is not clear that those most affected (i.e. the oldest members of the population) would be strong consumers for private healthcare services given limited discretionary income and historically low levels of private health insurance amongst the elderly. However, to the extent the ageing population creates a strain on public resources, this would be expected to indirectly generate growth in private healthcare services.

Acurity's hospitals are focussed on Wellington with additional exposure to Bay of Plenty and Hawke's Bay. While these areas have ageing populations, like elsewhere in New Zealand, overall population growth is slower than other regions. Statistics NZ forecast population growth for selected regions between 2011 and 2031 as set out in Table 3.1.

Table 3.1: Regional population growth (000)

Region	2011	2031	Growth
Wellington	488	540	10.7%
Bay of Plenty	277	317	14.4%
Hawkes Bay	155	161	3.9%
Auckland	1,485	1,968	32.5%
New Zealand	4,405	5,195	17.9%

Source: Statistics NZ

3.3 Surgical and post-operative care

Acurity offers surgical and post-operative care.

Research by the Health Funds Association of New Zealand ('HFA') predicts that total elective surgery demand is expected to increase by 39% over the next two decades.

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 on-going basis and is at risk of losing surgeon support if more attractive alternatives become available.

Another driver of the economic environment in which Acurity operates is the basis on which it bills health insurers for elective surgery procedures. Historically, the hospital provides one bill to the health insurer for its services and the specialist provided another bill separately.

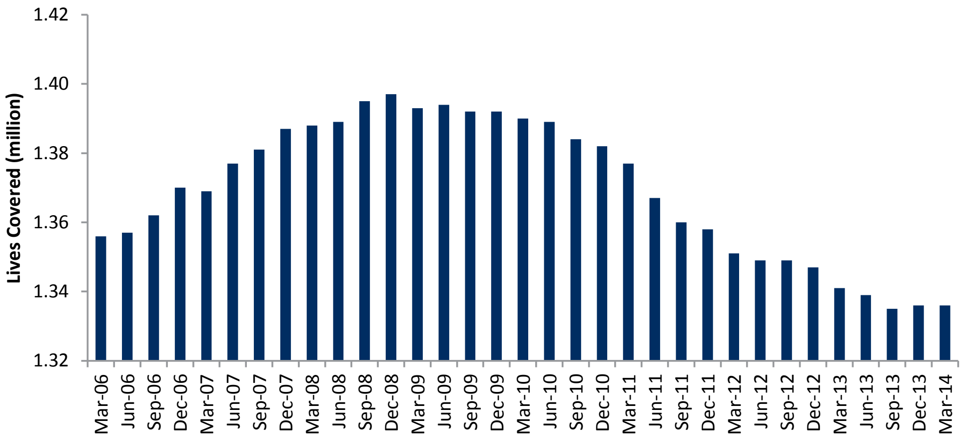
Southern Cross Healthcare Group, which has approximately 65% of the New Zealand private health insurance market, has recently pushed for contracted payments it calls it's Affiliated Provider Scheme ('APS'). Under APS a fixed price is paid for a procedure and then the hospital negotiates with the specialist involved. This effectively transfers risks of cost overruns or benefits of savings to the hospital.

The APS is now in place for many of Acurity's procedures. Management estimate that APS accounted for approximately 20% of Acurity's revenue in FY14. This is also how both DHBs and ACC contracts work (albeit at a lower rate).

3.4 Insurance

The number of New Zealanders with health insurance has shown several consecutive quarters of decline, according to figures released by the HFA. There has also been a trend for on-going erosion in the quality of plans, with greater excesses and restrictions being taken on to minimise premium increases. Figure 3.2 below shows the decline of health insurance cover since the beginning of 2009, coinciding with the global financial crisis ('GFC').

Figure 3.2: Quarterly health insurance cover from March 2006 to March 2014



Source: Health Funds Association of New Zealand

Health insurance cover has historically varied along with economic conditions, therefore health insurance cover is generally expected to increase as the New Zealand economy improves.

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 rate of inflation. Claims paid in the year to March 2014 were up 9.4% on those paid for the previous period.

3.5 Summary

Private health expenditure has recently been subdued. In addition, the proportion of the New Zealand population covered by private health insurance is declining. The combined effect of these drivers is to create a challenging current economic environment for Acurity with limited growth potential in the short to medium term. Balancing this trend is the positive medium to long term outlook for private health providers due to an ageing population and the likely inability of public resources to continue to fund growing health needs.

4 Company overview

4.1 Overview

Acurity is one of New Zealand's leading providers of private surgical healthcare services. The Company owns and operates three wholly owned private hospitals, Wakefield Hospital and Bowen Hospital in Wellington; and Royston Hospital in Hastings.

Acurity also invests in part-owned private hospitals and medical centres, Grace Hospital (60% owned) in Tauranga; and Endoscopy Auckland and Laparoscopy Auckland ('EA and LA') (currently 30%[2] owned) in Auckland.

4.2 History

There has been a hospital on the present Wakefield Hospital site in the Wellington suburb of Newtown for over 80 years. Wakefield Hospital's origins trace back to Lewisham Hospital, which was opened in 1929.

Since 1929, there has been constant upgrading and expansion of facilities at Wakefield Hospital, with major projects including the addition of new theatres and other modern facilities.

In order to access new capital for continued redevelopment and to allow for a broader investor base, Wakefield Hospital Limited listed on the NZX in September 2001.

In April 2003, Wakefield Hospital Limited acquired Bowen Hospital from the Bowen Hospital Trust Board. Bowen Hospital has operated on its present site since the early 1970s, having moved from a smaller facility in Bowen Street, from which its name is derived.

Wakefield Hospital Limited changed its name to Wakefield Health Limited in 2005 to reflect the broadening of its activities, which at that time also included an investment in a clinical trials company, which was subsequently sold in 2008.

In 2006, Wakefield merged with Royston Hospital Limited, the owner of Royston Hospital in Hastings. Royston Hospital opened in 1924 and shifted to its present site in 1931 following the Hawkes Bay earthquake. It was wholly owned and operated by a charitable trust, until 1993 when Royston Hospital Limited was formed as a joint venture company with local medical specialists to own and operate it.

Bowen Hospital undertook a major redevelopment of its site, which commenced in late 2009. This involved the construction of the "Bowen Centre", housing new consulting, radiology and endoscopy facilities, followed by the construction of new operating theatres and related facilities and a new day stay admissions unit. The next phase, completed in January 2012, included a new five theatre digital operating suite (of which three theatres have been fitted out to date). The last phase, completed in August 2013, provides for second stage recovery, a patient admit area and related facilities.

In August and September 2011, Acurity acquired Norfolk Investments Limited, which owns 60% of Tauranga's Grace Hospital through a joint venture partnership with Southern Cross Hospitals. Grace Hospital opened in 2007 and caters for a broad range of specialties.

Also in September 2011, Acurity acquired 30% shareholdings in EA and LA. As part of the purchase agreement, Acurity's stake in these businesses is likely to increase to 50% by 2016. These businesses share modern, purpose-built facilities in Epsom, Auckland. Endoscopy Auckland is the leading private provider of endoscopy

[2] EA and LA are subject to back-to-back put and call options for 10% shareholdings exercisable at each of September 2014 and September 2016 respectively. The exercise price is set at 6.0 times historical EBITDA. Acurity management say that it expects the options in September 2014 to be exercised to acquire an additional 10% shareholding in EA and LA. Management have forecast a cost of approximately $3.0 million in FY15. It is also highly likely that Acurity's shareholding will increase to 50% by September 2016.

services in the Auckland region. Laparoscopy Auckland is a private hospital that specialises in a focused range of laparoscopic surgical procedures.

On 6 August 2012, Acurity changed its name from Wakefield Health Limited to Acurity Health Group Limited.

4.3 Summary of operations

Acurity's core business is private healthcare – primarily the provision of surgical facilities and post-operative care, as well as the provision of facilities and patient care for other specialist medical procedures such as endoscopy and cardiology.

Acurity develops, owns and operates private hospital facilities. It also leases space on its hospital campus to specialists for consulting rooms and to other independent providers of services that are compatible with those that Acurity itself provides (such as radiology and physiotherapy).

The specialists who treat their patients in Acurity's hospitals are independent practitioners who book their patients into the Company's hospitals. Acurity supplies the operating facilities, equipment, medical supplies, nursing staff and other related services while the specialist is responsible for directing the patient's care.

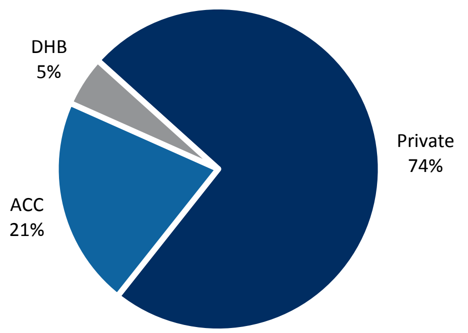
The ability to attract and retain successful specialists to utilise Acurity's facilities is a key driver of the Company's success.

4.3.1 Sources of revenue

Acurity's revenue is funded from three primary sources as set out in Figure 4.1:

- private patients (funded either via the patient's insurance or by the patient themselves);
- surgery contracted by ACC; and
- surgery contracted by DHBs.

Figure 4.1: Acurity's revenue by source in FY14



Source: Management accounts

4.3.2 Private patients

Private patients make up the majority of Acurity's business. We understand that the key drivers for patients to choose treatment in private as opposed to a public care are:

- Choice: the ability to choose the specialist, the facility and the treatment or technique that is performed;
- Timeliness: the ability to gain access to treatments as and when required;
- Availability of treatments not provided by the public system: for example obesity surgery, cosmetic procedures and innovative/high technology procedures; and
- Quality of experience: more individual attention and more comfortable facilities.

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Private patients are funded through either insurance or self-funding.

As discussed above, in recent years there has been a decline in the number of people with private health insurance and erosion in the quality of private health insurance plans. As a result of these combined effects, Acurity has observed constrained demand for services from insured private patients.

4.3.3 Accident Compensation Corporation

ACC purchases surgical services from private and public providers in order to provide treatment and rehabilitation for patients who have suffered injury as a result of accidents. Acurity performs a range of surgical procedures for ACC under rolling contracts with prices set according to a national pricing schedule and where ACC provides a total budget for work in the coming year, though there are no committed volumes. In general, pricing is at a discount to Acurity's private patient charges.

We understand that ACC has been focussed on reducing purchasing costs and has itself admitted that its focus on declining surgery over 2010 and 2011 went too far. Acurity has experienced small increases in ACC funded surgery over the three years ended 2014, however funding is still constrained.

4.3.4 District Health Boards

DHB work is contracted from DHBs who either lack the capacity to complete the work themselves or do not have the capability to provide specialised procedures in-house. This is a smaller work stream and has historically been unpredictable in nature and timing. Given the fixed cost nature of Acurity's business, relatively small increases in work from DHBs can have a material impact on Acurity's profitability. Between FY12 and FY14 DHB work decreased as a proportion of Acurity's total revenue from 7% to 5%.

4.4 Overview of facilities

Table 4.1 summarises Acurity's wholly owned and operated hospitals as well as its part owned hospitals and medical facilities.

Table 4.1: Acurity's hospitals and medical facilities

	Ownership	Location	Operating theatres	Beds
Wholly owned facilities				
Wakefield Hospital	100%	Wellington	7	~70
Bowen Hospital	100%	Wellington	3	~40
Royston Hospital	100%	Hastings	4	~30
Partially owned facilities				
Grace Hospital	60%	Tauranga	6	~50
EA and LA	30%[3]	Auckland	1	~10

Source: Management information

4.4.1 Wakefield Hospital

Wakefield Hospital (Wellington) is the largest private hospital in central New Zealand, located in Newtown, Wellington near the public hospital.

Wakefield Hospital performs a range of diagnostic, interventional and surgical procedures, including cardiac surgery. The hospital includes seven operating theatres, a cardiac catheterisation lab and approximately 70 patient beds, including five intensive care beds and three endoscopy beds. Wakefield Hospital also leases

[3] Refer footnote 2.

space to key tenants including: specialists, Wakefield Sports Medicine Clinic, Wakefield Heart Centre and Wakefield Gastroenterology Centre.

Acurity has already signalled to shareholders a planned redevelopment of Wakefield Hospital ('Wakefield Rebuild'). The driver for the redevelopment is the need to strengthen or demolish some of the existing buildings, which do not meet the required levels of seismic compliance.

Council regulations provide the Company with 10 years to complete this work, the earliest of which expires in July 2022.

Acurity has considered a number of options for how best to deal with this issue. Four options, which were analysed in detail, are:

- close Wakefield Hospital and migrate as much work as possible to Bowen Hospital;
- rectify the existing buildings;
- build a new facility on the existing site; and
- build a new facility with no tertiary element.

As announced to the NZX on 8 August 2014, Acurity's current view is that building a new Wakefield facility on the existing site is the best option because:

- while closing the hospital may be favourable in the short term (due to capital expenditure avoided), Acurity's long-term business would be expected to materially decline;
- rectifying the existing buildings would result in a high level of disruption to existing services and the core of the building would still be the original structure built in 1929;
- a new facility with no tertiary facilities would be constrained in its ability to meet expected demand in the Wellington region; and
- building a new facility in an unused area of the existing site allows current services to continue uninterrupted during the build process and the end-result will be a modern fit-for-purpose facility best able to meet long-term demand for private healthcare services in Wellington.

There are risks to building a new facility at the existing site, including potential cost over-runs and the high level of capital that needs to be incurred upfront whilst uncertain investment returns are expected to accrue over a long time period. However, this option is expected to result in the best long-term return to Acurity.

At this stage, the design work is yet to be undertaken and Acurity does not have detailed costings for building a new Wakefield facility. However, based on the level of expenditure incurred on recent new private hospital constructions in New Zealand, and expected building cost inflation, management estimate that the build and fit-out of a new facility will likely cost between $45 million and $50 million to develop over a time frame of approximately four to six years (including allowance for design, consents, construction, fit-out and testing). A breakdown of projected capital expenditure, including the cost of replacing the current Wakefield Medical Consultant Centre (an additional $10 million) is set out in Table 4.2 below.

Table 4.2: Wakefield Rebuild Capital Expenditure

Capital Expenditure	$ million
New Facility	45.0
Contingency	5.0
Replacement Wakefield Medical Consultant Centre	10.0
Total	**60.0**

Source: Management information

The building programme proposed for Wakefield Hospital is a very important value driver for Acurity. By way of context, the planned capital expenditure of $60 million is equivalent to $3.48 per Acurity Share. The impact of the Wakefield Rebuild is further explained in the valuation section.

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4.4.2 Bowen Hospital

Bowen Hospital (Wellington) offers a range of surgical services. Bowen Hospital's operating suite comprises three theatres and a gastroenterology unit with a single procedure room.

Acurity completed a major redevelopment of Bowen Hospital in August 2013 for a total cost incurred between 2009 and 2013 of $34 million.

The development provided three digital operating theatres with provision for two further theatres in the complex to allow for anticipated future growth. This followed the completion of the first phase of the project, which was the construction of the Bowen Centre to provide expanded on-site consulting, radiology and endoscopy facilities (including provision for a second procedure room as and when demand requires it). Key tenants include Wellington Orthopaedic Sport Surgeons; Bowen Breast Centre; and Pacific Radiology. The centre is now 71% occupied, with remaining space available to accommodate new opportunities.

4.4.3 Royston Hospital

Royston Hospital (Hastings) joined Acurity Health in 2006. Royston Hospital has four operating theatres; an endoscopy procedure room; and an 8-bed recovery unit. These allow the provision of surgical services including; general, gastrointestinal, gynaecology, ophthalmology, orthopaedic, oral and maxillofacial, otolaryngology, plastic and reconstructive surgery and urology.

The Royston Centre, adjoining the hospital, provides specialist consulting rooms as well as physiotherapy and radiology facilities.

4.4.4 Grace Hospital

Grace Hospital (Tauranga) was opened in August 2007. It was initially established as a joint venture between Southern Cross Hospitals and Norfolk Investments (a group of approximately 30 surgeons and anaesthetists). The facility incorporates six operating theatres, a procedure room, High Dependency Unit, a large day stay unit and has a total of 50 in-patient beds. Grace Hospital is currently developing an upgraded day stay unit to cater for increased demand for these procedures.

Acurity obtained its 60% stake in Grace Hospital during FY12 through acquiring Norfolk Investments. Grace Hospital is the only private surgical hospital in the Tauranga and eastern Bay of Plenty region. Grace Hospital is owned via a partnership agreement. Although Acurity is the majority partner, control is effectively shared between Acurity and Southern Cross by virtue of the agreement.

4.4.5 Endoscopy Auckland and Laparoscopy Auckland

During FY12, Acurity also acquired 30% of EA and LA (together with options that are expected to result in Acurity's ownership in these businesses increasing to 50% by 2016). EA and LA are two businesses operating from the same site in the Auckland market. These investments have established a presence for Acurity in Auckland.

Endoscopy Auckland is a stand-alone facility focused on the investigation and treatment of problems related to the gastrointestinal tract. More specifically, the main procedure undertaken is bowel cancer screening.

Laparoscopy Auckland is a laparoscopic surgical unit where both day-stay and overnight procedures are performed. It is unique in being a specialised hospital dedicated to laparoscopic general surgery and bariatric procedures (less invasive obesity surgery). The one operating theatre is typically used four days a week by Laparoscopy Auckland. Therefore, the facility has some capacity to meet further demand.

4.4.6 Corporate office

In addition to the hospitals, the Company has a corporate office comprising executive management and the group-wide finance and IT functions.

4.5 Competitors

While not a direct competitor in the strictest sense, public hospitals provide an alternative treatment pathway for patients and the extent to which timely treatment is available in the public sector is one of the determining factors of private demand. Some public hospitals also perform work under contract with ACC, so compete with the private sector (which is a major supplier of surgical services to ACC) in this respect.

Acurity faces competition from other private health providers on a regional basis.

4.5.1 Wellington region

As well as Acurity, there are two major providers of private healthcare services in the Wellington region, Southern Cross Wellington and Boulcott Hospital.

Southern Cross Wellington is located in Newtown, close to the Public Hospital and Wakefield Hospital. This facility accommodates most specialties, although currently no interventional cardiology, cardiac surgery or neurosurgery is done there. Southern Cross has extensively expanded and upgraded facilities over recent years, including the addition of a day surgery. Many of the specialists who work at Wakefield or Bowen Hospitals also work at Southern Cross.

Boulcott Hospital is owned by Evolution (a shareholder of Connor). It is located directly adjacent to Hutt Hospital (a public hospital operated by the Hutt Valley DHB) in Lower Hutt. Its primary catchment is Hutt Valley. Only a small number of specialists who work at Wakefield or Bowen Hospitals also work at Boulcott. We understand that Boulcott has plans to expand its theatres and beds.

There is also an emerging trend for medical specialists to establish their own facilities. This is generally more attractive for low cost, high volume and low risk procedures. To date there is one specialist owned procedure room adjacent to Wellington Hospital and specialist-owned eye surgeries in the Wellington CBD.

Outside the Wellington region, there are also private hospitals in Palmerston North, Masterton, Wanganui, Nelson and Blenheim that compete with the Wellington hospitals to a limited degree.

There are three main public hospitals in the greater Wellington region, Wellington Hospital; Kenepuru Hospital; and Hutt Hospital. Wellington Hospital is the region’s tertiary level facility, providing publicly funded cardiac and neurosurgical and other high complexity surgical services to the lower North Island. A significant number of the specialists who work at Wakefield and Bowen Hospitals split their time between private practice and a public appointment at one of the DHBs.

4.5.2 Hawke’s Bay region

Royston Hospital, located in Hastings, is currently the only private hospital in the Hawkes Bay region. The nearest other private hospitals are Aorangi and Southern Cross in Palmerston North and Chelsea Hospital in Gisborne.

A specialist-owned day surgery has recently opened in the Hawkes Bay region, with an emphasis on eye surgery and minor procedures.

The Hawkes Bay is also served by Hawkes Bay Hospital, which is located close to Royston Hospital.

4.5.3 Bay of Plenty region

Grace Hospital is the only private hospital in Tauranga and the Eastern Bay of Plenty region.

There are a small number of small-scale private clinics that perform a narrow range of day stay procedures in Tauranga.

A private oncology centre is currently in development and planning consent has been granted for a health facility, although very limited detail is currently available.

The Bay of Plenty is also served by two public hospitals, Tauranga Hospital and Whakatane Hospital.

4.5.4 Auckland region

EA and LA are niche businesses performing a high volume of a narrow range of procedures.

Endoscopy Auckland competes with endoscopy units operated by several of the larger private hospitals, as well as two other specialty endoscopy clinics (one in Epsom and one on the North Shore).

Laparoscopy Auckland competes with other larger private hospitals in Auckland.

There are a large number of private surgical providers in Auckland. The two largest providers are the Mercy Ascot Group and Southern Cross.

Mercy Ascot Group has a strong position in private tertiary care in Auckland. It operates Mercy Hospital in Epsom, Ascot Hospital in Remuera and an endoscopy clinic on the North Shore. Mercy Ascot Group is owned by private investors.

Southern Cross operates a number of hospitals across New Zealand (with two in Auckland and one on the North Shore).

Acurity management's view is that the Auckland market is New Zealand's most competitive environment with a high number of minor procedures now being performed by doctor-owned day surgeries and procedure rooms.

4.6 Shareholders

Acurity currently has 17,259,959 fully paid ordinary shares. The 20 largest ordinary shareholders, by beneficial interest, as at 28 July 2014 are listed in Table 4.3.

Table 4.3: Acurity's share register prior to takeover offer

Beneficial holder	Shares	% Shareholding
Austron Limited	8,631,800	50.01%
Connor Healthcare Limited	2,019,780	11.70%
AMP Capital Investors (New Zealand) Limited	951,505	5.51%
Medusa Limited	773,168	4.48%
Royston Hospital Trust Board	773,168	4.48%
J Tyler & B Martin & C Tyler & T Quentin & F Johnston	240,000	1.39%
New Zealand Superannuation Fund Nominees Limited	189,529	1.10%
Police Health Plan Limited	172,556	1.00%
Accident Compensation Corporation	145,000	0.84%
Michael John Knapton & Mary Margaret Knapton & Independent Trustees Limited	120,000	0.70%
J L & G C Talbot Family Trust	110,000	0.64%
Citibank Nominees (NZ) Ltd - EQFD	100,000	0.58%
Allister John Mora & Christine Elizabeth Mora	100,000	0.58%
Kenneth Benjamin Waller & Dorothy Ann Waller	66,780	0.39%
Brian Joseph Martin	64,818	0.38%
Ian Gerald Arnot	61,501	0.36%
Bryan John Thorn & Ian Andrew Thorn & CLM Trustees Limited	55,800	0.32%
Elevation Capital Value Fund	50,000	0.29%
Bank Of New York Brussels Branch	49,070	0.28%
John Stuart Wakeman & Christopher John Wakeman & Andrew Mclean Morrison	47,959	0.28%
Top 20	**14,722,434**	**85.30%**
Remaining shareholders	2,537,525	14.70%
Total	**17,259,959**	**100.00%**

Source: Acurity management

Acurity's substantial security holders are Austron; Connor; and AMP. We note that Medusa and Royston are also substantial security holders in Acurity by virtue of their interest in Austron.

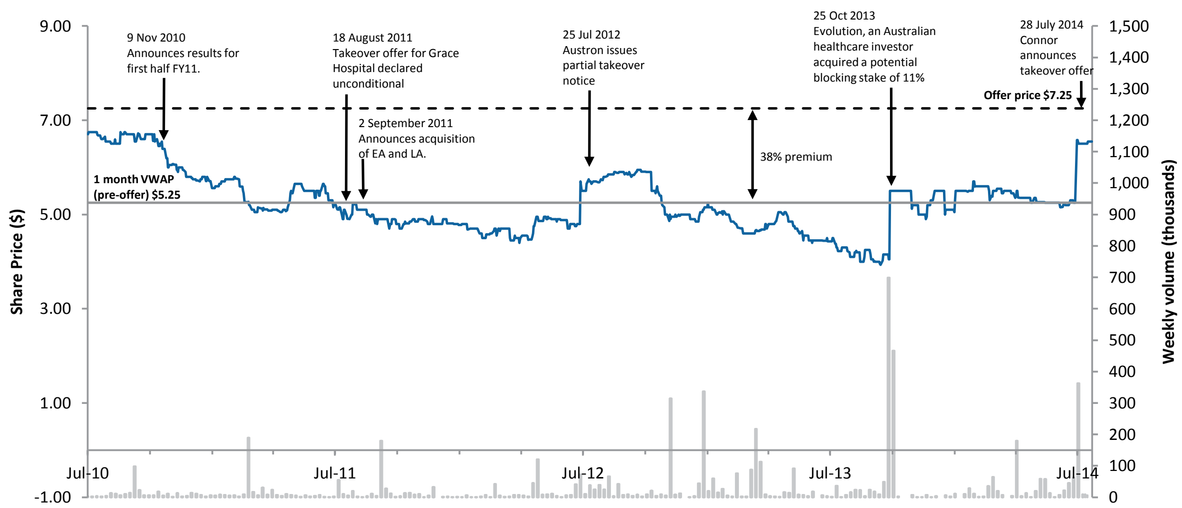
Table 4.3 shows Acurity Shares are relatively closely held. 20 shareholders control 85.3% of Acurity Shares and the remaining 14.7% of shares are held by small shareholders.

Trading of Acurity Shares over the three months prior to 28 July 2014 is summarised in Table 4.4 further below and shows that approximately 2.8% of Acurity Shares were traded over this period. This highlights relatively low liquidity in the market for Acurity Shares.

4.7 Share price performance

Acurity's ordinary shares are traded on the NZX. Figure 4.2 illustrates the share price of Acurity and the volume of share trades since July 2010.

Figure 4.2: Acurity's share price performance



Source: Capital IQ

In mid-2010, Acurity Shares were trading at around $6.50. However, following subdued earnings announcements the share price tracked down to $4.40 on 26 April 2012. The partial takeover offer from Austron for 50.01% of the Acurity Shares on 25 July 2012 for $6.00 pushed the share price into the $5.50 to $6.00 range until November 2012, from which time the share price trended down to reach a low of $3.93 on 11 October 2013. Subsequently, the acquisition of an 11% stake by Evolution, on 25 October 2013, pushed the share price up to $5.50. The Evolution entry price was $5.50 and the sellers included AMP, ACC and Milford Asset Management.

The shares have been trading within a tight range of $5.15 to $5.50 (with a VWAP of $5.30) over the last three months prior to the Offer. Table 4.4 shows Acurity's share trading in the three months prior to 28 July 2014.

Table 4.4: Share trading prior to 28 July 2014

Period	Share Price Low	Share Price High	Volume Weighted Avg. Price	Cumulative Volume	% of Issued Capital
1 week	5.25	5.30	5.25	62,980	0.36%
1 month	5.15	5.30	5.25	136,980	0.79%
3 months	5.15	5.50	5.30	484,520	2.81%

Source: Capital IQ

As at 19 August 2014, 384,650 Acurity Shares have traded since 28 July 2014 at closing Acurity Share prices between $6.50 and $6.58. As at 19 August 2014, the share price is $6.55.The Offer price of $7.25 per share represents a:

- premium of 38% to the closing price of $5.25 on the day before the Offer;
- premium of 38% to the VWAP in the week prior to the Offer of $5.25; and
- premium of 37% to the VWAP in the three months prior to the Offer of $5.30.

5 Financial analysis

5.1 Group overview

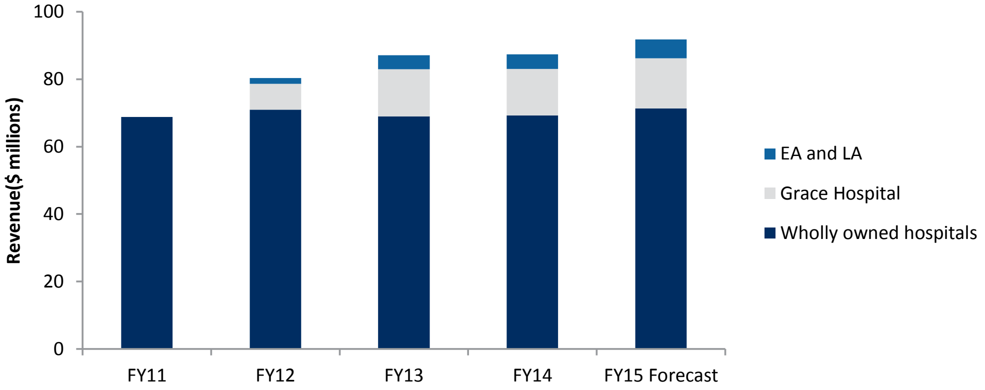
Acurity consolidates the financial performance of its wholly owned hospitals and its corporate overheads in the Company's financial statements. It proportionately accounts for its 60% shareholding in Grace Hospital in its Statutory Accounts. However, for management accounts Grace Hospital is equity accounted and its results are not consolidated with the wholly owned hospitals.

In this report we take the approach set out in Acurity's management accounts and Grace Hospital, EA and LA are equity accounted. This means that revenue and expenses for these investments are not consolidated into the group accounts and are instead accounted for as a single line in Acurity's statement of financial performance (share of profit in associates and joint venture partnership). This approach does not affect any of our valuation conclusions but it does affect the presentation of results.

During the FY13 and FY14 periods, Acurity received distributions for its 12% shareholding in Boulcott Hospital amounting to $2.93 million.

Figure 5.1 illustrates the historical and FY15 Forecast revenue of Acurity since FY11.

Figure 5.1: Summary of Acurity's revenue (including associates and joint venture partnership in proportion to ownership)



Source: Management accounts

We have excluded specialist contract revenue from Figure 5.1 and our analysis as it has no impact on EBITDA. Specialist contract revenue is a pass through revenue to surgeons and anaesthetists. Specialist contract revenue is included in statutory reporting and has been increasing steadily.

Once specialist contract revenue is excluded, revenue from wholly owned hospitals has been relatively flat over the five year period shown above. The two Wellington based hospitals (Wakefield Hospital and Bowen Hospital) represent 72% of the wholly owned hospital revenue. Over the five year period Wakefield Hospital revenue has shown a decline of 1.4% per annum. Bowen Hospital, which experienced a modest increase in the FY11 to FY13 period following an upgrade in facilities has declined in FY14 and is expected to decline further in FY15. Royston Hospital (based in the Hawke's Bay) revenue is increasing steadily at a compound annual growth rate ('CAGR') of 5%.

In September 2011, Acurity acquired its stakes in Grace Hospital and EA and LA. Therefore FY12 shows the impact of one half year of results for those businesses.

Acurity is expected to increase its share of ownership in EA and LA from 30% to 40% in September 2014.

Grace, EA and LA are showing underlying revenue CAGRs in excess of the wholly owned hospitals and represent earnings diversification away from the Wellington market.

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5.1.1 Year-to-date July 2014

Year-to-date 2015 ('YTD15') Acurity has performed slightly above Budget (at EBITDA level) and also above the previous year's YTD period. Table 5.1 compares the performance of YTD15 to Budget.

Table 5.1: Acurity's Year to date July 2014 to Budget

$ million	Actual	Budget	Variance
Revenue	25.1	24.2	0.9
EBITDA	5.6	5.4	0.2
EBITDA Margin (%)	22.3%	22.3%	
Associate earnings	1.1	1.0	0.2

Source: Management accounts

YTD15 EBITDA is $0.2 million above Budget. While YTD revenue has exceeded Budget it is important to note that the period benefitted from a high volume one-off DHB contract which will not be representative of the activity levels expected for the balance of the year.

5.1.2 Financial projections

KordaMentha's valuation analysis is based on Acurity's Board approved Forecast for FY15 and 17 years of financial projections to FY32. The principal assumptions underlying these projections (including the FY15 Forecast) are set out later in this section.

Acurity's FY15 Forecast was Board approved in August 2014. Projections for FY16 to FY32 were subsequently compiled by Acurity management based on this Forecast.

Actual financial results for the four months ended 31 July 2014 have been tracking slightly above the Budget, as noted above. Management note that the favourable YTD performance against Budget has been partly due to one off DHB work. The FY15 Forecast represents an update of FY15 Budget based on actual results to July 2014. Projections for FY16 to FY32 were subsequently compiled based on this reforecast.

For valuation purposes, we have made some adjustments to the financial projections, which we discuss later in the Report. Acurity's FY15 Forecast has been approved by the Board and while financial projections for subsequent years are included in our valuation assessment they are not Board approved and therefore have not been disclosed in the Report.

5.2 Wholly owned hospitals

Table 5.2 shows the financial performance for the three wholly owned hospitals and corporate overheads over the FY11 to FY15 Forecast period.

Table 5.2: Acurity's wholly owned hospitals (including corporate) financial performance

$ millions	FY11	FY12	FY13	FY14	FY15 Forecast
Revenue	68.9	71.1	68.9	69.3	71.4
Medical Supplies	(18.4)	(19.4)	(18.7)	(18.5)	(19.4)
Employee costs	(26.2)	(26.0)	(26.2)	(25.6)	(26.0)
Other Expenses	(9.6)	(9.5)	(10.3)	(10.0)	(10.7)
Normalised EBITDA	**14.7**	**16.2**	**13.6**	**15.1**	**15.4**
Boulcott Dividend	0.0	0.0	0.6	0.2	0.0
EBITDA	**14.7**	**16.2**	**14.3**	**15.3**	**15.4**
EBITDA Margin	*21.4%*	*22.8%*	*20.7%*	*22.0%*	*21.5%*

Source: Management accounts

Recent performance

Boulcott dividends received in FY13 and FY14 have been excluded from normalised EBITDA as this business has since been sold to Evolution.

Normalised EBITDA was relatively flat for the wholly owned hospitals during the FY11 to FY14 period with a range of $13.6 million to $16.2 million (excluding Boulcott dividends).

Expansion at the Southern Cross Hospital in Wellington (including the Regional Vascular Centre) and a recent upgrade of the public hospital in Wellington has increased the supply of both theatre space and the number of beds in the Wellington region, which has impacted Acurity's ability to grow. This has been coupled with more aggressive pricing for facilities and increased competition for specialists, particularly from Southern Cross Wellington. Overall, this has limited the ability for Acurity to grow its earnings in the short term but should not be expected to impact the business indefinitely.

Acurity has a relatively new management team, which has implemented some operational improvements, particularly at Wakefield Hospital which has offset the flat revenue performance. There have been significant improvements in hospital employee costs over the last two years. This helped drive an 11% increase in EBITDA in FY14 (excluding Boulcott dividends).

Financial projections

FY15 Forecast

Acurity has forecasted FY15 EBITDA of $15.4 million for wholly owned hospitals, which is an improvement of $0.3 million compared to FY14. The key changes to the FY15 Forecast from FY14 are highlighted in Figure 5.2.

Figure 5.2: Key changes between FY14 and FY15 Forecast for wholly owned hospitals

Source: Management accounts

Overall the FY15 Forecast assumes 3% growth in revenue and 2% growth in EBITDA. Wakefield Hospital and Royston Hospital are assumed to deliver EBITDA growth whilst Bowen Hospital is expected to decline.

Principal assumptions underpinning the FY15 Forecast are:

- the expectation that private demand will remain at similar levels to FY14 with average price increases of 2% across all sites;
- overall admissions to increase;
- an expectation that ACC funded surgery will continue at a similar level to FY14, with no funding policy changes;
- the expectation that revenue from DHBs will be higher in FY15 compared to FY14 levels with increased outsourcing in May and June 2014;

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- no change in government policies;
- modest growth at Wakefield Hospital with active business development to attract new consultants;
- modest growth through expanded facilities in the Hawke's Bay contributing to earnings growth for Royston Hospital;
- decline at Bowen Hospital is contained;
- no loss of key consultants; and
- a relatively stable labour market keeping costs in check.

Management consider that there are some risks to the FY15 Forecast for wholly owned hospitals. Specific issues include:

- increased competition with Southern Cross Wellington, which could result in the loss of key consultants/procedures at Wakefield Hospital and Bowen Hospital due to new facilities and specialist incentives; and
- a further slowing in private demand particularly in the Wellington market. The declining number of New Zealanders with health insurance (given the perception of a better public health system and shorter wait lists) could result in a decline in private demand.

The management team are mitigating these risks through a proactive business development programme and making tactical upgrades to services such as the catheterisation lab at the Wakefield Heart Centre.

On balance, given the relatively strong YTD performance, we have used the FY15 Forecast EBITDA of $15.4 million with an adjustment for expected synergies, which is discussed later in the report.

FY16 to FY32

In the medium to longer term, Acurity management expects moderate increases in demand for its hospitals, which leads to year-on-year growth in revenue of approximately 3%.

Principal assumptions underlying the FY16 to FY32 financial projections are:

- one of the most important assumptions in the financial projections is the level of admissions as this drives many of Acurity's revenues and expenses. Management's financial projections include growth of between 0.5% and 1.5% each year across the hospitals. This growth estimate is based entirely on demographic changes by relevant region;
- theatre hours per admission and IPDE[4] per admission are assumed to remain constant;
- long term price growth of 2.3% per annum. Based on projected Consumer Price Index ('CPI'). This is below the long run historical trend, where medical inflation has significantly outstripped general inflation due to an imbalance in the supply and demand for qualified clinical staff and the increasing impact of technology and regulation;
- labour cost increases in the health sector have been more restrained in recent years. However, the level of labour rates is expected to increase approximately 3.1% per annum. This is based on historical long run average wage increases in New Zealand over the last 20 years;
- staff numbers are assumed to remain around current levels except for efficiency gains in 2022 when the new Wakefield Hospital is complete as well as other cost savings; and
- the new Wakefield Hospital is built and operational by FY22. Furthermore, no decline (or reduction in growth) is forecast over the period of the building works.

For valuation purposes, we have made some amendments to the projections. This is discussed in more detail in the Valuation section of the Report.

[4] In Patient Day Equivalent ('IPDE') is used to measure the utilisation of a hospital facility. An overnight stay counts as one IPDE and a day only stay counts as a half a IPDE.

5.3 Partially owned hospitals and medical centres

Acurity's partially owned hospitals and medical centres represent an expected area of growth for the Company.

Table 5.3 shows Acurity's share of EBITDA for Grace Hospital and EA and LA subsequent to them being acquired during FY12.

Table 5.3: Partially owned hospitals and medical centre EBITDA

EBITDA $ million	FY12	FY13	FY14	FY15 Forecast
Grace Hospital	2.93	3.63	3.86	4.02
EA and LA	1.33	1.41	1.44	1.71
Total	**4.26**	**5.04**	**5.30**	**5.73**

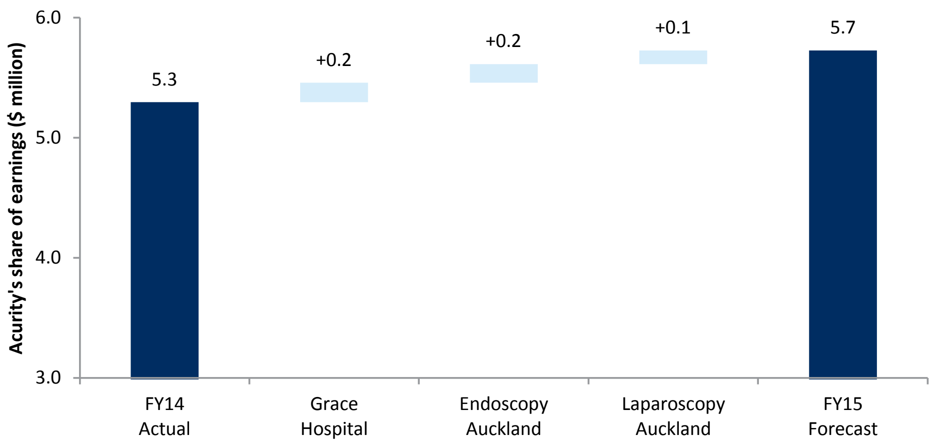
Source: Management accounts

Principal assumptions underpinning the FY15 Forecast are:

- modest admissions growth at Grace Hospital, with Grace Hospital being the sole private hospital in Tauranga;
- the expectation that private demand will remain at similar levels to FY14 with average price increases of 2% across all sites;
- an expectation that ACC funded surgery will continue at a similar level to FY14, with no funding policy changes;
- the expectation that revenue from DHBs will be higher in FY15 compared to FY14 levels with increased outsourcing in May and June 2014;
- increase ownership in EA and LA in September 2014;
- no loss of key consultants or hours; and
- relatively stable labour market keeping costs in check.

Figure 5.3 shows key changes to Acurity's share of profit in partially owned hospitals and medical centres between FY15 Forecast and FY14 results.

Figure 5.3: Key changes in Acurity's share of EBITDA between FY14 and FY15 Forecast for partially owned hospitals and medical centres



Source: Management accounts

5.3.1 Grace Hospital

Acurity owns 60% of Grace Hospital through the Norfolk Southern Cross Partnership, a joint venture with Southern Cross Hospitals.

Recent performance

Acurity management notes that Grace Hospital has performed in line with expectations since it was purchased in September 2011 partly due to favourable demographics in the Bay of Plenty and being the sole private hospital in Tauranga.

Grace Hospital has achieved steadily increasing revenue and EBITDA from FY11 to FY14. The FY15 Forecast represents a small year on year EBITDA increase of $0.2 million.

5.3.2 Endoscopy Auckland and Laparoscopy Auckland

Acurity currently owns 30% of EA and LA. Acurity is expected to increase its' share of ownership in EA and LA from 30% to 40% in September 2014 and this is reflected in the financial projections, along with an associated capital cost of approximately $3.0 million.

FY15 Forecast assumes Acurity's share of EBITDA at $1.7 million from EA and LA.

Recent performance

Combined EA and LA revenue and earnings has been increasing and are expected to increase further in FY15. There can be some volatility given the relatively small size of the health centres (e.g. in FY14 EBITDA for LA decreased by $0.09 million due to a consultant being away for part of the year).

The FY15 Forecast represents a year on year EBITDA increase of $0.16 million for EA and $0.11 million for LA.

5.4 Financial position

The Acurity balance sheet is presented at both the Group and Parent level in Table 5.4 below. The Group accounts include proportional accounting for the 60% of Grace Hospital's assets and liabilities beneficially owned by Acurity. The Parent accounts represent the assets and liabilities of wholly owned hospitals only and equity accounting for partially owned investments (e.g. the stake in Grace Hospital is included under investments).

Table 5.4 summarises the balance sheet for Acurity as at 31 July 2014 and 31 March 2014.

Table 5.4: Acurity financial position as at July 2014 and March 2014

Financial position	Group		Parent	
$ million	**31-Jul-14**	**31-Mar-14**	**31-Jul-14**	**31-Mar-14**
Inventories	2.2	2.1	1.8	1.7
Debtors	9.8	9.5	8.3	9.0
Creditors, other payables and accruals	(10.9)	(12.1)	(9.1)	(10.5)
Net working capital	**1.0**	**(0.5)**	**1.0**	**0.2**
Property plant and equipment	128.6	127.8	102.6	103.7
Intangible assets	29.1	29.3	21.3	21.6
Deferred tax liability	(11.0)	(11.3)	(9.8)	(10.0)
Net other operating assets	**146.6**	**145.8**	**114.0**	**115.3**
Investment in associates (EA and LA)	7.3	7.2	7.0	7.0
Investment in joint venture partnership (Grace Hospital)	(0.0)	(0.0)	24.2	24.2
Investments	**7.3**	**7.2**	**31.2**	**31.2**
Cash and cash equivalents	(5.0)	1.8	(5.7)	0.3
Borrowings	(26.3)	(31.9)	(20.1)	(27.0)
Net debt	**(31.4)**	**(30.1)**	**(25.9)**	**(26.7)**
Derivative financial instruments	(0.4)	(0.4)	(0.4)	(0.4)
Total Equity	**123.2**	**122.1**	**120.0**	**119.6**
Net Tangible assets	94.3	93.1	98.9	98.5
Net Tangible assets per share	5.45	5.37	5.72	5.68

Source: Statutory accounts for March 2014, Management accounts for July 2014

Key points to note on Acurity's balance sheet include:

- Investment in Grace Hospital is revalued in the Group accounts at 60% of the current value including revaluation movements. The book value reported in the Parent accounts is the acquisition price adjusted for subsequent profits and distributions;
- Acurity has relatively low levels of net working capital requirements;
- Acurity's property, plant and equipment from wholly owned hospitals totalled $102.6 million (and $128.6 million including 60% of Grace Hospital) at 31 July 2014, and is discussed further below;
- Acurity (Group) had net debt of $31.4 million at 31 July 2014 (excluding derivative financial instruments). We understand that Acurity's net debt has fluctuated within a narrow band of $27 million to $34 million over the last 12 months. We have used net debt of $31.4 million for valuation purposes; and
- Acurity had NTA of $94.3 million (or $5.45 per share) as at 31 July 2014.

5.4.1 Property, plant and equipment

Table 5.5 shows a breakdown of Acurity's property, plant and equipment.

Table 5.5: Property, plant and equipment as at July 2014 and March 2014

Property plant and equipment	Group		Parent	
$ million	**31-Jul-14**	**31-Mar-14**	**31-Jul-14**	**31-Mar-14**
Land and buildings	118.2	114.1	92.0	93.0
Plant and equipment	8.3	11.8	10.3	9.8
Capital work in progress	2.0	1.8	0.3	0.8
Total	**128.6**	**127.8**	**102.6**	**103.7**

Source: Management accounts

Acurity's land and buildings are valued annually for financial reporting purposes.

5.4.2 Debt Funding

At 31 March 2014, Acurity's group accounts showed net debt of $30.1 million (and for covenant purposes EBITDA of $20.4 million; earnings before interest and tax ('EBIT') of $12.2 million; and interest on term loans of $2.4 million).

The redevelopment of Wakefield Hospital is expected to add significantly to Acurity's net debt levels over the build period.

The two financial covenants with Acurity's current lender (which relate to the Group) are:

- The ratio of EBIT to Interest will be greater than or equal to 2.5 times; and
- The ratio of Total Debt to EBITDA will be less than 3.0 times (or 3.5 times in the immediate six months following an acquisition).

The analysis above shows that there is approximately $30 million of additional borrowing capacity assuming the current level of EBITDA against the second covenant. Based on assumed growth in earnings, management consider it likely it will be able to meet the Wakefield Hospital capital expenditure requirements from bank funding. However, Acurity's modelling suggests very little headroom and if Acurity suffers any adverse trading conditions it would have to consider alternatives including renegotiating its arrangements with lenders, temporarily halting dividend payments, or raising additional equity capital.

5.4.3 Dividend Policy

Acurity has a history of stable dividend payments, as shown in Table 5.6.

Table 5.6: Dividend history

Year	FY10	FY11	FY12	FY13	FY14
Net Dividends Paid (cps)	0.18	0.15	0.17	0.14	0.17
Special Dividend (cps)					0.06
Total Dividend	**0.18**	**0.15**	**0.17**	**0.14**	**0.23**

Source: Capital IQ, Acurity Annual Report 2014

The FY14 net dividend of 17 cents per Acurity Share (excluding the special dividend) is equivalent to a net dividend yield of 2.3% on the Offer price. The net dividend yield including the special dividend is 3.2%.

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5.4.4 Capital expenditure

Table 5.7: Capital expenditure and depreciation

$ million	FY11	FY12	FY13	FY14	FY15 Forecast
Wholly owned hospitals					
Capital expenditure	17.6	15.9	6.2	4.9	9.4
Depreciation	6.7	6.6	7.3	6.8	6.4
60% share of Grace Hospital					
Capital expenditure	0.0	0.3	1.0	1.3	5.0
Depreciation	0.0	1.5	1.5	1.4	1.7
Group (including 60% share of Grace)					
Capital expenditure	17.6	16.2	7.2	6.2	14.3
Depreciation	6.7	8.1	8.8	8.2	8.1

Source: Annual report and management accounts

Table 5.7 shows Acurity has had significant variability in its capital expenditure over recent years. It completed the Bowen Hospital redevelopment over FY10 to FY13 at a cost of $34 million. Subsequently, capital expenditure has been constrained with only necessary maintenance capital expenditure being incurred in FY14.

The FY15 Forecast capital expenditure for wholly owned hospitals is $9.4 million, which includes an estimated investment of $3.75 million for an upgrade of the catheterisation lab at Wakefield Hospital. Grace Hospital is expecting to upgrade facilities and increase capacity with a capital spend of $8.3 million in FY15 ($5 million for Acurity's 60% share).

As discussed, Acurity has plans for an extensive redevelopment of Wakefield Hospital. That capital expenditure is expected to be incurred post-FY15 Forecast. The building programme proposed for Wakefield Hospital is an important value driver for Acurity.

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6 Valuation

6.1 Valuation methodologies

There are four methodologies commonly used for valuing businesses:

- DCF analysis;
- capitalisation of earnings;
- estimate of proceeds from an orderly realisation of assets; and
- industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

6.1.1 Discounted cash flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions.

6.1.2 Capitalisation of earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

Three commonly used approaches to the capitalisation of earnings methodology are the capitalisation of:

- EBITDA by an appropriate EBITDA multiple to obtain an enterprise value (which comprises the value of the enterprise's debt and equity);
- EBIT by an appropriate EBIT multiple to obtain an enterprise value; or
- Tax-paid profits at an appropriate price earnings ('PE') multiple to obtain the value of the subject business' equity.

PE multiples are commonly used in the context of the share market, however EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes. The choice between EBITDA and EBIT multiples is usually not critical and typically gives broadly similar results. Given Acurity's recent capital expenditure programme has affected its depreciation charges we have based our analysis on an EBITDA multiple.

6.1.3 Realisation of assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. This methodology is more commonly applied to businesses that are not going concerns. The valuation result reflects liquidation values and typically attributes no value to any goodwill associated with on-going trading.

6.1.4 Industry rules of thumb

In some industries, businesses are valued using well established ‘rules of thumb’. Generally these rules of thumb are used as a cross-check for other valuation methodologies.

6.1.5 Our valuation approach

KordaMentha has adopted the DCF and capitalisation of earnings as our valuation methodologies. We have also considered the realisation of assets methodology as an additional cross-check. We are not aware of any industry rules of thumb appropriate for valuing Acurity.

Where a company is operating in a mature industry and has relatively stable earnings, the capitalisation of earnings methodology can provide a reliable means of valuing the company. Acurity operates in a fairly mature industry and there are some broadly comparable companies and transactions in Australasia, although there are no directly comparable listed hospital operators in New Zealand.

Although Acurity operates in a fairly mature industry, its value is affected by the impending capital expenditure at Wakefield Hospital. Because Acurity is forecasting short-dated negative cash flows due to the capital expenditure programme and positive cash flows which underpin value are long-dated then the DCF results for Acurity are extremely sensitive to small changes in key variables, such as the admissions growth rate. This makes it difficult to rely on the DCF valuation results and therefore capitalisation of earnings is our primary valuation methodology.

Any valuation by its very nature must attribute a current value that reflects the expected future financial performance of the subject business. Consequently, information regarding the expected future performance such as financial projections is vital to the valuation exercise. We have relied on budgets and projections prepared by Acurity management.

6.2 Capitalisation of earnings

To apply the capitalisation of earnings methodology it is necessary to determine an appropriate EBITDA multiple as well as an estimate of EBITDA to which the multiple is applied.

6.2.1 EBITDA multiple

Comparable multiples are generally derived by using two sources of information: (1) earnings multiples based on the current share price of comparable trading companies; and (2) earnings multiples based upon recent transactions involving acquisitions of comparable companies.

6.2.2 Trading multiples

Our preference was to benchmark Acurity against listed hospital operators. However, there is a small set of listed private hospitals in Australasia. Apart from Acurity, there are no listed New Zealand companies that operate private hospitals. As a result, we have also reviewed a range of diversified healthcare operators. These companies are involved in various aspects of the health industry, including medical centres, dental, pathology, rehabilitation and ophthalmic services.

The only New Zealand listed company that is even broadly comparable to Acurity is Abano Healthcare Group Limited (‘Abano’). Abano is not an operator of hospitals. Instead it operates medical and healthcare services primarily in New Zealand and Australia. Key subsidiaries include a network of dental practices and diagnostics laboratories. Abano is influenced by the state of the health sector in New Zealand which makes it broadly comparable to Acurity. However, given the fundamental differences in their operating model and Abano’s focus on lower value medical procedures we have placed limited reliance on Abano’s trading multiples.

Due to the lack of New Zealand listed companies comparable to Acurity we have also reviewed Australian listed private hospital companies. There are three Australian companies that operate hospitals and are broadly comparable to Acurity:

- Ramsay Health Limited ('Ramsay') which operates 117 hospitals and day surgery facilities. 66 of those are in Australia, 38 in the United Kingdom, 10 in France and three in Indonesia;
- Pulse Health Limited ('Pulse'), which operates private hospitals, day surgeries and community home care across Australia; and
- Healthscope Limited ('Healthscope'), which successfully IPO'd on the ASX in July 2014. Healthscope owns and manages 43 hospitals and 45 medical centres in Australia. It also provides pathology services in Australia, New Zealand, Singapore and Malaysia.

Ramsay and Healthscope are both much larger than Acurity and all three of the Australian hospital companies operate in a very different market environment to Acurity with different economic and competitive forces. As a result, only broad conclusions can be drawn from the Australian private hospitals trading multiples.

Given the lack of comparable listed private hospitals in Australasia we have also reviewed the trading multiples of diversified health care operators.

Observed trading multiples should be adjusted for various factors such as relative size, growth, profitability, risk and return on investment. It is also important to note that trading multiples are based upon trading in small parcels of shares, and exclude a control premium.

Appendix 3 shows EBITDA trading multiples for listed companies that are broadly comparable to Acurity. Key results of our analysis at Appendix 3 include that the median:

- historical EBITDA multiple for the entire sample is 13.5x (based on the last twelve months);
- forecast EBITDA multiple for the sample is 12.3x (based on next twelve months);
- historical EBITDA multiple for the Australian listed private hospital is 17.9x; and
- forecast EBITDA multiple for the Australian listed private hospital is 14.0x.

There are a number of fundamental differences between Acurity and many of the comparable companies, including country of operation; segments in which they operate; whether land and buildings are owned or leased; current earnings performance; growth prospects; and size (as evidenced by market capitalisation).

We consider that Ramsay, Pulse and Healthscope have the most comparable businesses to Acurity. However, they operate in a different geographical area, within a different health system and Ramsay and Healthscope are considerably larger. As a result, we would expect them to trade at a significant premium to Acurity.

On balance, we consider that the trading multiples provide limited evidence of valuation benchmarks for Acurity. The companies in the sample are at best broadly comparable to Acurity and as a result we have preferred to rely on transaction multiples, as discussed below.

6.2.3 Transaction multiples

Appendix 4 shows the Enterprise Value to EBITDA multiples derived from our sample of comparable transactions. The details of the transactions are also set out in Appendix 4.

The comparable transactions (for shareholdings of more than 50%) have been executed in a range of 7.6x to 11.1x historical EBITDA. The median of all of the transactions is 8.7x historical EBITDA and the median of the New Zealand transactions is 8.3x historical EBITDA.

The comparable transactions (for shareholdings of more than 50%) have forecast EBITDA multiples in a range of 7.0x to 11.3x. The median of all of the transactions is 8.4x forecast EBITDA and the median of the New Zealand transactions is 7.2x forecast EBITDA. The comparable New Zealand transactions are typically for individual hospitals and we consider a premium for Acurity's larger and more diversified business should be considered. In particular, there are likely to be shared services synergies between Wakefield and Bowen in the Wellington region and having a portfolio of investments makes Acurity larger and more diversified than the individual hospital transactions.

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Particularly relevant transactions include:

- Evolution's acquisition of Boulcott Hospital in December 2012. Prior to this transaction, Acurity owned a 12% shareholding in Boulcott. That was priced at 7.3x forecast EBITDA. We would expect Acurity to trade at a premium to that transaction because it related to one hospital only whereas Acurity has a more diversified portfolio of hospitals and is a considerably larger business;
- Acurity's acquisition of a 60% shareholding in Grace Hospital (via Norfolk Investments) at a forecast EBITDA multiple of 8.2x; and
- Acurity's acquisition of Royston Hospital was at a forecast EBITDA multiple of 8.6x, albeit that was undertaken in 2006 so we have placed less reliance on that transaction.

We consider that the comparable transactions provide reasonable evidence of pricing for private hospitals in Australasia.

Transaction multiples typically include a premium for control, which usually reflects expected synergies, as well as the prevailing economic environment and other non-quantifiable factors.

6.2.4 Capitalisation of earnings valuation

Interpretation of the trading and transaction multiples is inherently subjective. In determining the appropriate multiple to apply to Acurity's wholly owned hospitals and partially owned hospitals and health care facilities we have made allowances for the following factors:

- observed trading multiples should be adjusted for various factors such as relative size, growth, profitability, risk and return on investment;
- trading multiples are based upon trading in small parcels of shares, and exclude a control premium; and
- transaction multiples typically include a premium for control, which usually reflects expected synergies, the prevailing economic climate and other non-quantifiable factors.

Wholly owned hospitals

We have assessed an appropriate forecast EBITDA multiple for Acurity's wholly owned hospitals in a range of 8.0x to 8.75x, after taking into account the:

- median EBITDA multiple (based on current year forecasts) of the comparable listed companies is 12.3x. However, as noted we have placed limited reliance on the comparable listed companies because none are directly comparable to Acurity with most being considerably larger more diversified businesses;
- comparable transactions are typically in the range of 7.0x to 11.3x forecast EBITDA, with a median of 8.4x across all transactions and 7.2x for New Zealand transactions. These transactions were undertaken over a long period of time with the last New Zealand transaction in December 2012. We note that over the last two years the NZX All Index has increased by approximately 40%. However, that is based on an increase in equity value not enterprise value;
- Acurity encompasses three wholly owned hospitals whilst most transactions are for individual hospitals;
- relative size of Acurity to the comparable listed companies and transactions; and
- control premium that would apply to a 100% shareholding in Acurity.

Partially owned facilities

We have assessed Grace Hospital (60% shareholding) and EA and LA (30% shareholding) separately.

Grace Hospital

We have assessed an appropriate EBITDA multiple for Grace Hospital in the range of 8.0x to 8.5x, after taking into account:

- Grace Hospital is currently the sole private hospital in Tauranga, which is a region with exposure to a favourable demographic mix;

- Grace Hospital was acquired at a historical EBITDA multiple of 8.4x and forecast EBITDA multiple of 8.2x in 2011; and
- the assessed EBITDA multiple range for Acurity's wholly owned hospitals of 8.0x to 8.75x.

EA and LA

We have assessed an appropriate EBITDA multiple for EA and LA in the range of 6.0x to 7.0x, after taking into account:

- Acurity has non-controlling interests in its partially owned facilities with a 30% shareholding in EA and LA (although that is expected to increase to 50%);
- EA and LA were acquired at a historical EBITDA multiple of 6.0x in 2011 and options to acquire additional shares are priced on a formula using a multiple of 6.0x historical EBITDA; and
- the assessed EBITDA multiple range for Acurity's wholly owned hospitals of 8.0x to 8.75x.

6.2.5 Wholly owned hospitals

Adjusted earnings

For the purposes of our valuation analysis, we have used an EBITDA estimate of $15.4 million which is the latest management Forecast for FY15 (as at July 2014). In addition, the elimination of public company costs such as registry fees, NZX charges, annual reports and shareholder communications is estimated to save $0.35 million per annum. Therefore, FY15 EBITDA has been adjusted to $15.7 million.

Capitalisation of earnings

Applying our assessed EBITDA multiple range of 8.0x to 8.75x to the EBITDA forecast results in an equity value range for wholly owned hospitals of $79.8 million to $94.6 million, as shown in Table 6.1.

Table 6.1: Wholly owned hospitals' multiple based valuation summary

$ million	Low	High
EBITDA	15.7	15.7
EBITDA Multiple	8.00	8.75
Enterprise Value	**125.6**	**137.4**
Less: Net Debt	25.8	25.8
Less: Wakefield Capex	20.0	17.0
Equity Value	**79.8**	**94.6**

Source: Management accounts, KordaMentha analysis

Other important elements of our valuation include:

- **Net debt:** we have deducted net debt of $25.8 million, based on Acurity's net debt balance at 31 July 2014.
- **Adjustment for Wakefield Hospital capital expenditure:** As discussed, due to the need to meet seismic compliance at Wakefield Hospital, significant capital expenditure is planned over the period FY16 to FY21. The level and timing of this capital expenditure is extraordinary and therefore we have treated part of this capital expenditure as a surplus liability. Only part of this capital expenditure is deducted as a liability because it offsets future maintenance capital expenditure and is expected to generate some incremental earnings for Acurity. In order to assess the component of the capital expenditure that is a surplus liability we have considered:
    - **Low-end of the valuation range:** is based on the difference between the net present value of undertaking the proposed capital expenditure to rebuild Wakefield Hospital in FY16 to FY21 period ($60 million including the Medical Centre) and undertaking the same build but approximately 15 years later. This approach effectively values the impost on Wakefield Hospital from having to bring forward its redevelopment plans in order to meet seismic compliance. This

analysis arrives at a net present value of $20.7 million, which given the uncertainty we have rounded to $20 million in our analysis;

- **High-end of the valuation range:** is based on the difference between the net present value of the estimates made by advisors to Acurity, of the capital expenditure required to strengthen Wakefield Hospital only (i.e. no redevelopment) in the FY16 to FY18 period (at $24 million) and assuming that 10% of this spend relates to future maintenance capex which could then be deferred. This approach effectively values the impost on Wakefield Hospital from having to undertake building strengthening plans in order to meet seismic compliance offset by small savings in future maintenance capital expenditure. This analysis arrives at a net present value of $17.2 million, which given the uncertainty we have rounded to $17 million in our analysis.

Given the uncertainty involved we have adopted a surplus liability relating to Wakefield Hospital capital expenditure of $20 million at the low-end of our capitalisation of earnings valuation range and have adopted a surplus liability of $17 million at the high-end of our capitalisation of earnings valuation range. We note that both of these estimates are based on indicative guidance provided by management on the cost of redeveloping and the cost of strengthening Wakefield Hospital.

6.2.6 Partially owned hospitals and health care facilities

Earnings

For the purposes of our valuation analysis we have relied on EBITDA projections set out in Acurity's FY15 Forecast for the partially owned hospitals and healthcare facilities. Our valuation is based on ownership in LA and EA at 30%, which is the case at the date of the valuation.

Capitalisation of earnings

Applying our assessed EBITDA multiple range of 8.0x to 8.5x to the FY15 Forecast for Grace Hospital results in an equity value range of $26.5 million to $28.5 million, as shown at Table 6.2. We have deducted Acurity's share of net debt for Grace Hospital of $5.6 million based on the latest available balance sheet.

Table 6.2: Grace hospital multiple based valuation summary ($ million)

$ million	Low	High
EBITDA	4.0	4.0
EBITDA Multiple	8.0	8.5
Enterprise Value	**32.2**	**34.2**
Less: Net Debt	5.6	5.6
Equity Value	**26.5**	**28.5**

Source: Management accounts, KordaMentha analysis

Applying our assessed EBITDA multiple range of 6.0x to 7.0x to the FY15 Forecast for EA and LA (at a 30% shareholding) results in an equity value range of $9.0 million to $10.6 million, as shown at Table 6.3.

Table 6.3: EA and LA hospital multiple based valuation summary ($ million)

$ million	Low	High
EBITDA	1.5	1.5
EBITDA Multiple	6.0	7.0
Enterprise Value	**9.0**	**10.6**
Less: Net Debt	0.0	0.0
Equity Value	**9.0**	**10.6**

Source: Management accounts, KordaMentha analysis

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6.2.7 Capitalisation of earnings valuation summary

Our capitalisation of earnings valuation approach results in a valuation range of $6.69 to $7.75, with a mid-point of $7.22 per share, as shown in Table 6.4.

Table 6.4: Summary of multiple based valuation of Acurity ($ million)

$ million	Low	High
Enterprise Value (Wholly owned)	125.6	137.4
Enterprise Value (Grace Hospital)	32.2	34.2
Enterprise Value (EA and LA)	9.0	10.6
Enterprise Value	**166.8**	**182.1**
Less: Net Debt	31.4	31.4
Less: Wakefield Capex	20.0	17.0
Equity Value	**115.4**	**133.7**
Shares on issue (million)	17.3	
Value per share	**6.69**	**7.75**

Source: Management accounts, KordaMentha analysis

6.3 Discounted cash flow

Key valuation parameters that we have used in our DCF valuation are set out below.

Forecast period: The DCF valuation is based on Acurity's latest financial Forecast for FY15 (undertaken at the end of July) and financial projections from FY16 to FY32 (the principal assumptions underpinning the projections are discussed above). The FY17 to FY21 period represents years with negative cash flows due to the redevelopment at Wakefield Hospital.

Capital expenditure: Capital expenditure is based on Acurity's financial projections, except in the terminal year of cash flows where depreciation is set equal to capital expenditure.

Terminal value assumptions: Terminal value is calculated by assuming terminal year unlevered free cash flows grow in perpetuity at the terminal growth rate. We have adopted a terminal growth rate of 2.0%, which is in line with current inflation forecasts. We have also set depreciation equal to capital expenditure during the final year.

Valuation date: 14 August 2014

Weighted Average Cost of Capital: We have estimated Acurity's post-tax, nominal Weighted Average Cost of Capital ('WACC') at 9%. The WACC has been determined as follows:

$$WACC = R_d(1-T_c)\frac{D}{D+E} + R_e\frac{E}{D+E}$$

where:

- R_d = Pre-tax cost of debt = 7.5%, based on management's assessment of Acurity's long term borrowing costs
- T_c = Marginal corporate tax rate = 28%
- D / (D + E) = Target gearing (where E represents market capitalisation) = 20%
- R_e = Cost of equity = 9.6% to 10.1%

We have determined the cost of equity using the Brennan-Lally specification of the Capital Asset Pricing Model, which uses the following formula:

$$R_e = R_f(1-T_i) + \beta_e[R_m - R_f(1-T_i)]$$

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where:

- R_f = Risk free rate = 4.3%, based on long term government bond yields
- T_i = Investors' effective tax rate on interest, dividends and capital gains = 28%
- β_a = Asset Beta = 0.70 to 0.75 (based upon a review of the betas of comparable companies and Acurity's reliance on privately funded revenues, which tend to be affected by economic conditions)
- β_e = Equity Beta = β_a (1+D/E) = 0.88 to 0.94
- R_m- R_f (1- T_i) = Expected excess return, after investor taxes, on the market portfolio of equity investments = 7.5%

6.3.1 DCF valuation summary

As noted earlier, the DCF valuation results are very sensitive to small changes in key inputs. As a result, our DCF valuation approach results in a wide valuation range of $5.93 to $8.72, with a mid-point of $7.32 per share, as summarised in Table 6.5

Table 6.5: Summary of DCF based valuation of Acurity ($ million)

$ million	Low	High
Enterprise Value	**133.7**	**182.0**
Net Debt	31.4	31.4
Acurity equity value	**102.3**	**150.6**
Shares on issue (millions)	17.3	
Value per share	**5.93**	**8.72**

Source: Management accounts, KordaMentha analysis

Because Acurity management is forecasting negative cash flows from FY17 to FY21 due to the capital expenditure programme at Wakefield Hospital and the positive cash flows which underpin value are long-dated, the DCF results for Acurity are extremely sensitive to small changes in key variables. For example, a 0.5% increase in revenue growth per annum (compounding each year) results in a change of approximately $1.50 to the value per share. This means it is difficult to rely on the DCF results.

Our low-case scenario assumes management projections with an adjustment in the terminal year so that depreciation is set equal to capital expenditure. This adjustment is appropriate because without it the assumption is the capital employed in Acurity's business would continue to erode in perpetuity.

Our high-case scenario includes the adjustment to set depreciation equal to capital expenditure in the terminal year as well as the following adjustments to management's projections for hospital admissions growth:

- an additional 1.5% per annum of admissions growth above the forecast provided by management for Wakefield, Royston, and Grace Hospital. Acurity's projections are based solely on projected demographic growth in the relevant region. 'Health Projections and Policy Options' (released by Treasury in July 2013) estimates that, in addition, healthcare is expected to have non-demographic real demand growth of 1.5% per annum. This growth is expected to be achieved as a result of growth in real incomes and historical trends which have shown that as people's income grows they tend to spend more on health care. Assuming that the public and private share of health care spend remains constant then this is equivalent to an additional 1.5% of growth in private healthcare services above that projected by Acurity;

- no growth (demographic or non-demographic) at Wakefield Hospital for six years from 2016 to 2021 where it is possible that the rebuild at Wakefield Hospital may cause some disruption; and

- management estimates for Bowen Hospital with no change for non-demographic growth.

The low-end of our DCF valuation uses management estimates, which show a small decline in EBITDA margins in the FY22 to FY32 period due to cost increases outpacing price and admission growth. The high-end admissions assumptions result in a small increase in EBITDA margins in the FY22 to FY32 period.

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6.3.2 Orderly Realisation of Assets

Acurity has a high level of fixed assets (mainly land and buildings), which are required to generate its earnings. There are limited alternative uses for Acurity's buildings given the specialised nature of hospitals.

If Acurity were to sell any of these assets it would need to lease them back in order to continue its existing operations. This approach could potentially create an opportunity for Acurity to unlock capital employed in the business. We understand that this has been considered by Acurity in the past but is not something that is currently being pursued by the Company.

At 31 July 2014, Acurity's NTA per share was $5.45 (for the Group), which is 25% lower than the Offer price of $7.25.

Although we do not consider the orderly realisation of assets approach to be appropriate for valuing Acurity, we have considered this approach as a broad cross-check only.

The following realisation assumptions were made:

- net tangible assets are realised at the end of FY16;
- net proceeds from the sale of assets (including the costs of winding up the business and any related expenses) are between 90% and 100% of the book value of net tangible assets;
- net tangible assets would continue to generate profits to the end of FY16; and
- proceeds are discounted at our assessed discount rate.

Table 6.6 – Price per share for orderly realisation of assets

Realisation %	90%	100%
Price per share	$4.97	$5.43

Source: Management accounts, KordaMentha analysis

Table 6.6 shows, on the assumption that Acurity is able to realise its assets (net of costs) for between 90% and 100% of book value, the value per share of Acurity would be between $4.97 and $5.43.

The earnings based valuation approaches that we have adopted for Acurity are in excess of the value assessed using an orderly realisation of assets approach. We consider this reasonable given the intangible assets inherent in Acurity's business as result of relationships with funders (ACC, DHBs and insurers), specialists and private customers as well as its brand and goodwill.

6.4 Broker valuations

Acurity is covered by Forsyth Barr. Forsyth Barr's latest research note before the Offer (26 May 2014) and after the Offer are summarised in Table 6.7.

Table 6.7 Broker recommendations on Acurity's Shares

Date	Guidance	WACC	DCF	Multiple/M&A based valuation	EBITDA ($ million) FY15	EBITDA ($ million) FY16
May-14	Neutral	9.1%	$5.50	$5.50	20.7	21.5
Aug-14	Neutral	9.1%	$5.50	$7.30	20.7	21.5

Source: Forsyth Barr broker reports

Note: EBITDA is adjusted to include income from business not wholly owned

Forsyth Barr's DCF valuation is $5.50 per share, which has not been updated following the Offer. Forsyth Barr's August note included an M&A premium in its valuation to reflect its estimate of what the mid-point of the valuation range in this Independent Adviser's Report might be.

6.5 Synergies and strategic benefits

Connor is an investment vehicle with no trading history. Connor says it has not identified any synergies or strategic benefits which could be extracted as part of the proposed transaction. However, we do note that potential synergies include:

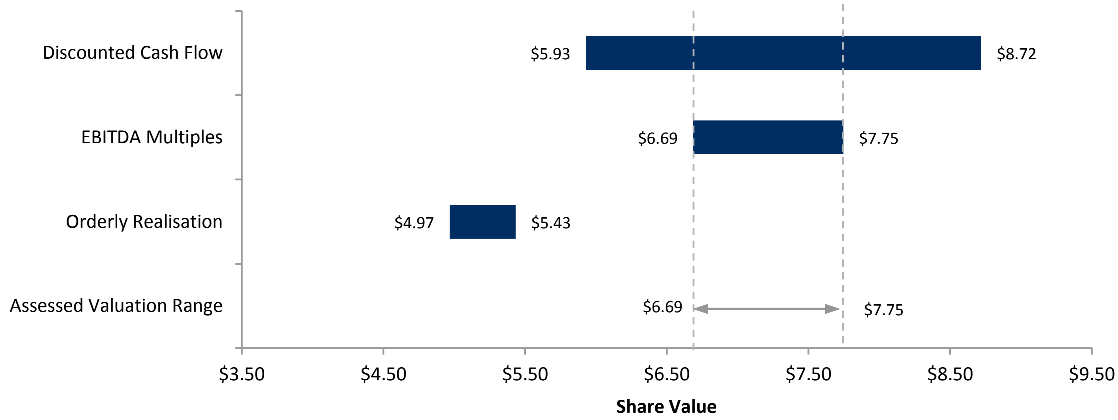
- the elimination of public company costs such as registry fees, NZX charges, annual reports and shareholder communications. We estimate that these costs would be approximately $0.35 million per annum. Capitalised using an EBITDA multiple of say 8x, this saving represents approximately 16 cents per share and has been included in our DCF and capitalisation of earnings approaches.
- Evolution (a shareholder of Connor) already has hospital interests in New Zealand and owns 100% of Boulcott Hospital in Lower Hutt, Wellington. If Acurity were to be merged with Boulcott then it is likely that some synergies would be extracted. Connor says it currently has no intention to merge Acurity with Boulcott. However, even without a merger it is possible that having common ownership of Acurity and Boulcott would enable some sharing of information which could help better inform operating decisions. On balance, we consider it reasonable to assume that Connor has made its bid bearing in mind the potential to extract some synergies. We have been unable to quantify any potential synergy benefits from combining the businesses and at this stage the quantum, if any, would be highly uncertain.

We also note that Pulse Health Limited, which recently acquired several private hospitals in Australia, reported an EBITDA lift of 20% across the whole business, which management attributed to centralisation of shared services and brownfield expansion.

6.6 Acurity valuation summary

Our valuation results are summarised in Figure 6.2.

Figure 6.2: Valuation summary



Source: Management accounts, Budget and forecast, KordaMentha analysis

For the purpose of the Report, we have assessed a valuation range for Acurity's equity between $6.69 and $7.75 per share, with a mid-point of $7.22 per share. Our range has been determined based on our capitalisation of earnings valuation approach.

The DCF valuation results are extremely sensitive to small changes in key variables such as admissions growth because the forecasts have short-dated negative cash flows due to the Wakefield capital expenditure programme and the positive cash flows, which underpin value, are very long-dated.

Acurity's NTA value as at 31 July 2014 was $5.45 per share. We have assessed the value of Acurity based on undertaking an orderly realisation of assets between $4.97 and $5.43. This analysis is used as a broad cross-check only. The earnings based valuation approaches that we have adopted for Acurity are in excess of the value assessed using an orderly realisation of assets approach. We consider this reasonable given the intangible assets inherent in Acurity's business as a result of relationships with funders (ACC, DHBs and insurers), specialists and private customers as well as its brand and goodwill.

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Appendix 1: Sources of information

Documents relied upon

Documents relied upon include, but are not limited to, the following:

- Acurity's FY15 Budget;
- Acurity's FY15 Forecast;
- Acurity's FY16 to FY32 annual projections;
- Acurity Management Accounts;
- Acurity Annual Report 2011,2012, 2013 and 2014;
- Acurity shareholder notices;
- Acurity website: http://www.acurity.co.nz/;
- Acurity Board papers;
- Broker reports on Acurity by Forsyth Barr;
- Capital IQ website: http://www.capitaliq.com;
- Financial statements of the comparable companies set out in Appendix 3;
- Health Projections and Policy Options for the 2013 Long-term Fiscal Statement, website: www.treasury.govt.nz
- Health Funds Association of New Zealand website: http://www.healthfunds.org.nz/;
- NZX website: http://www.nzx.com;
- Statistics NZ Populations Projections and Population by Region 2013, website: http://www.stats.govt.nz; and
- Other publically available information.

We have also had discussion with some of Acurity's management executives in relation to the nature of the business operations, and Acurity's specific risks and opportunities for the foreseeable future.

Reliance upon information

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Acurity and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Acurity. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

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Appendix 2: Qualifications and declarations

Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA); Shane Bongard (BCom (Hons)); and Suresh Yahanpath (MAppFin, BCom, BSc). All three have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion as to merits of the proposed transaction. KordaMentha expressly disclaims any liability to any Acurity equity security holder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha 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 KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

Indemnity

Acurity has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Acurity has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with Acurity that could affect its ability to provide an unbiased opinion in relation to this transaction.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the Offer or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to Acurity and its legal advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Acurity shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

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Appendix 3: Comparable companies

Table A3.1: Comparable companies

Company	Primary Industry	Primary location of operation	Market Cap (NZ$m)	Historical EBITDA multiple (last 12 months)	Forecast EBITDA multiple (next 12 months)
Hospitals and Healthcare Centers					
Ramsay Health Care	Private Hospitals	Australia	10,388	18.1x	13.2x
Healthscope Limited	Private Hospitals	Australia	4,281	na	15.5x
Pulse Health Limited	Private hospitals	Australia	101	17.9x	14.0x
Other Healthcare Services and Facilities					
Sonic Healthcare	Diagnostic	Australia	7,865	13.7x	11.9x
Primary Health Care	Medical centres/Diagnostic	Australia	2,648	9.4x	8.5x
Virtus Health Limited	Surgical Clinics	Australia	674	13.4x	10.7x
Capitol Health	Diagnostic	Australia	268	22.5x	15.6x
1300 Smiles	Dental	Australia	158	15.3x	12.8x
Vision Eye Institute	Ophthalmic	Australia	143	6.6x	6.2x
Abano	Dental/Diagnostic/Rehabilitation	New Zealand	130	8.0x	6.5x
Median	**Private hospitals**			**17.9x**	**14.0x**
Median	**All healthcare**			**13.5x**	**12.3x**

Source: Capital IQ (last 12 months and next 12 months for multiples), company financial statements and company announcements.

Ramsay

Ramsay engages in the ownership and operation of private hospitals. It operates 117 hospitals and day surgery facilities, including 66 in Australia, 38 in the United Kingdom, 10 in France and three in Indonesia with approximately 9,000 beds.

Ramsay is headquartered in Australia.

Healthscope

Healthscope is involved in the ownership and management of hospitals and medical centres, as well as providing diagnostic services (pathology). Healthscope operates 43 medical/surgical, rehabilitation and psychiatric private hospitals as well as approximately 45 medical centres within Australia. It provides pathology services in Australia, New Zealand, Singapore and Malaysia.

In July 2014, Healthscope re-listed on the ASX. Its private equity owners raised A$2.25 billion (NZD 2.45 billion) in an initial public offering. Healthscope is headquartered in Australia.

Pulse Health

Pulse Health engages in the acquisition and operation of private hospitals and related health care focused organisations in Australia. It operates private hospitals, day surgeries and community home care and recruitment agencies. Pulse recently raised $30 million of capital following to fund the acquisition of a private hospital. Pulse Health latest earnings update announcement states that both the recently completed centralisation of shared services and the brownfields expansions at Westmead and Eden should deliver an EBITDA benefit of at least $1 million in FY15.

Pulse Health is headquartered in Australia.

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Sonic Healthcare

Sonic Healthcare Limited ('Sonic Healthcare') provides medical diagnostic services and administrative services and facilities to medical practitioners. It offers laboratory services and radiology and diagnostic imaging services to medical practitioners, hospitals, community health services and their collective patients. It has operations in Australia, New Zealand, the United Kingdom, the United States, Germany, Switzerland, Belgium and Ireland.

Sonic Healthcare is headquartered in Australia.

Primary Health Care

Primary Health Care Limited ('Primary Health Care') provides various medical services and facilities to general practitioners, specialists, and other health care providers in Australia. It offers diagnostic imaging services, such as general X-ray and pathology services in various disciplines. It operates medical centres, which provide radiology, chemist, pathology collection, physiotherapy and other support services. It also operates specialist skin cancer, occupational health care, cosmetic, dental, eye, ear, nose and throat clinics. Primary Health care operates 87 medical centres, 87 pathology labs, 782 collection centres and 161 diagnostic imaging sites.

Primary Health Care is headquartered in Australia.

Virtus Health

Virtus Health Limited ('Virtus Health') provides assisted reproductive services in Australia and Ireland. It offers reproductive health care and in vitro fertilisation services and plastic surgery, urology, gynaecology, ophthalmology, dental surgery, laparoscopic, orthopaedic, male infertility, cosmetic surgery, orthopaedic, endoscopy, paediatric, and hand surgery services. The company also provides specialist diagnostics and embryology services, such as fertility related pathology, andrology, embryology, preimplantation genetic diagnosis, and prenatal and adult genetics; and international consultancy services. The company offers its services through operating 33 integrated fertility clinics, 17 embryology laboratories, 18 andrology laboratories, 6 specialized diagnostics laboratories, and 6 day hospitals in New South Wales, Queensland, and Victoria.

Virtus Health Limited was founded in 2008 and is headquartered in Australia.

Capitol Health

Capitol Health Limited ('Capitol Health') provides medical diagnostic imaging services in Australia. It operates 33 radiology clinics in Victoria. Capitol Health is based in Australia.

1300 Smiles

1300 Smiles Limited ('1300 Smiles') provides dental services in Australia. It owns and operates dental facilities at 21 sites located in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, Caloundra, Brisbane, Tweed Heads, and Toowoomba. 1300 Smiles is based in Townsville, Australia.

Vision Eye Institute

Vision Eye Institute Limited ('Vision Eye Institute') provides private ophthalmic services in Australia. It offers services in the areas of cataract, refractive, glaucoma, cornea, medical and surgical retina, and oculoplastics. It owns and manages 18 consulting clinics, nine day surgeries, and seven refractive surgery facilities in Victoria, New South Wales, and Queensland. Vision Eye Institute is headquartered in Australia.

Abano

Abano operates as a medical and healthcare services provider primarily in New Zealand, Australia, Hong Kong, Malaysia, Singapore, and Taiwan. The Dental segment provides a range of general dental work, including complex restorative and cosmetic dental services. The Diagnostics segment operates in two areas, pathology and radiology. The Rehabilitation segment operates in the brain injury rehabilitation sector. The Orthotics segment provides a range of clinical orthotic services and specialist products.

Abano is based in New Zealand.

Appendix 4: Comparable transactions

Table A4.1: Comparable private hospital transactions

Target	Acquirer	Primary location of target	Date	% Acquired	Enterprise Value (Local, $m)	Historical EBITDA multiple	Forecast EBITDA multiple
Brisbane Waters Private Hospital Ltd	Australian Unity Investments Healthcare Property Trust	Australia	Jul-14	100%	A$16	n/a	10.8x
Cura Day Hospitals Group Pty Ltd	Intermediate Capital Group PLC (LSE:ICP)	Australia	Jan-14	100%	A$195	n/a	n/a
Westmead Rehabilitation Hospital Pty Ltd	Pulse Health Limited	Australia	Apr-13	100%	A$10	n/a	11.0x
Peel Health Campus	Ramsay Health Care Limited	Australia	Apr-13	100%	A$73	n/a	n/a
Boulcott Hospital	Evolution Healthcare	New Zealand	Dec-12	100%	NZ$30	7.6x	7.3x
Healthcare Holdings	Waterman Capital	New Zealand	Aug-11	22%	n/a	n/a	n/a
EA and LA	Acurity Health	New Zealand	Sep-11	30%	NZ$22	6.0x	5.8x
Norfolk Investments	Acurity Health	New Zealand	Sep-11	60%	NZ$23.5	8.4x	8.2x
Healthe Care	Archer Capital	Australia	Jun-11	100%	A$230	n/a	n/a
Healthscope	TPG Capital; The Carlyle Group	Australia	Jul-10	100%	A$2,646	10.1x	9.6x
Bay Audiology	Crescent Capital Partners	New Zealand	Aug-09	100%	NZ$118	8.0x	7.0x
Community Private Health Care	Pulse Health	Australia	Dec-07	100%	A$21	11.1x	n/a
Royston Hospital	Acurity Health	New Zealand	Jan-06	100%	NZ$31	9.1x	8.6x
Ex-Affinity Hospitals	Healthscope	Australia	Sep-05	100%	A$490	8.6x	n/a
Ascot Hospital & Clinics	Integrated Hospitals	New Zealand	Apr-05	100%	NZ$65	8.2x	7.0x
Affinity	Ramsay	Australia	Apr-05	100%	A$1428	8.8x	n/a
Nova Health	Healthscope	Australia	Mar-05	100%	A$85	n/a	11.3x
Benchmark Group	Ramsay	Australia	Jul-04	100%	A$125	n/a	7.0x
Bowen Hospital	Acurity Health	New Zealand	Oct-02	100%	NZ$5	9.6x	n/a
Median (greater than 50% control)						**8.7x**	**8.4x**
Median (New Zealand transactions, greater than 50% control)						**8.3x**	**7.2x**

Source: Capital IQ, company financial statements, independent advisors' reports, company announcements and other publically available information.

Brisbane Waters Private Hospital Ltd

Brisbane Waters Private Hospital is a two-level, 78-bed general hospital complex in Woy Woy, Brisbane. Australian Unity Healthcare Property Trust acquired Brisbane Waters Private Hospital for A$16.2 million in July 2014. This transaction was for the property assets only.

Cura Day Hospitals Group Pty Ltd

Cura Day Hospitals is a group of thirteen day hospitals and high quality day surgery facilities located across Australia. Management of Cura Day Hospitals Group have teamed up with London-listed debt funder Intermediate Capital Group to purchase the business from Archer Capital's growth fund in a A$195 million deal. No financial details are readily available for the transaction.

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Westmead Rehabilitation Hospital Pty Ltd

Westmead Rehabilitation Hospital is a purpose built 60 bed private hospital located in the epicentre of Sydney, 3 kilometres west of Parramatta and within close proximity of Westmead Public and Westmead Private Hospitals.

In May 2013, Pulse Health Group Limited acquired the operating assets of Westmead Rehabilitation Hospital currently the subject of a 30 year operating assets lease from St Andrews Healthcare ('St Andrews').

Peel Health Campus

Peel Health Campus is a 152-bed facility with an emergency department, four operating theatres and revenues of A$100 -120 million located in Mandurah, Western Australia (70kms south of Perth).

Ramsay Healthcare acquired the rights to operate the Peel Health Campus from Health Solutions in April 2013. No financial details are readily available for the transaction.

Boulcott Hospital

Boulcott Hospital in Lower Hutt, Wellington was bought by Evolution for NZD 28 million. Boulcott, which is beside Hutt Hospital, opened in 1984 as a small clinic. It now employs more than 100 staff, including 44 practising surgeons treating about 4500 patients a year. The hospital has a 29-bed inpatient ward, three operating theatres and a nine-bed day surgery unit. It provides orthopaedic, plastic and reconstructive surgery, gynaecology, cardiology, gastroenterology, ophthalmology, fertility services and general surgery.

Acurity held a 12% stake in the hospital prior to the sale to Evolution.

Healthcare Holdings

Waterman Capital acquired a 22% stake in Healthcare Holdings (Mercy Ascot Group) from Emerald Group Holdings in August 2011.

Healthcare Holdings owns and operates the Mercy Ascot hospitals in Auckland and is a shareholder in Kensington Hospital (Whangarei) and Boulcott Hospital. It also holds interests in a number of complementary joint ventures in the areas of cancer care, angiography, radiology, endoscopy, laparoscopy and other day surgery operations.

EA and LA

Acurity acquired 30% of EA and LA during September 2011. EA and LA are specialist surgical businesses operating from the same site.

Norfolk Investments

Acurity completed the acquisition of Norfolk Investments Limited on 1 September 2011. This resulted in Acurity gaining its 60% shareholding in Grace Hospital.

Healthe Care

Healthe Care operates a network of hospitals in Australia. It offers health care services, which include inpatient, outpatient, home nursing and domestic, workplace health, occupational rehabilitation as well as community based health care. Healthe Care was founded in 2005.

Archer Capital and Healthe Care senior management team won a competitive process to acquire Healthe Care for A$230 million on 7 June 2011. The acquisition was completed on 24 June 2011.

Healthscope

Healthscope is involved in the ownership and management of hospitals and medical centres, as well as providing diagnostic services (pathology). Healthscope operates 43 medical/surgical, rehabilitation, and psychiatric private hospitals, as well as approximately 45 medical centres within Australia; and provides pathology services in Australia, New Zealand, Singapore, and Malaysia.

The Carlyle Group and TPG Partners completed the acquisition of Healthscope on 12 October 2010.

Bay Audiology

Bay Audiology offers a range of hearing aids, and hearing testing services.

Crescent Capital Partners completed the acquisition of Bay Audiology on 3 November 2009.

Community Private Health Care

Pulse Health entered into an agreement to acquire the operating businesses of Community Private Health Care for A$20.5 million on 12 December 2007. Pulse Health completed the acquisition of operating businesses and assets of Community Private Health Care on 7 April 2008.

Royston Hospital

Acurity entered into an agreement to acquire Royston Hospital for $21.5 million in shares on 13 September 2005. Acurity issued new shares to Royston shareholders to effect the merger. The number of shares to be issued was determined based on a formula reflecting valuations of the companies agreed for the purpose of the merger. The deal was unanimously approved by the boards of both companies. Acurity completed the acquisition of Royston Hospital on 31 January 2006.

Ex-Affinity Hospitals

On 5 September 2005, Healthscope announced an agreement with Ramsay under which Healthscope acquired 14 private hospitals for A$490 million. The hospitals were previously acquired by Ramsay under its takeover of Affinity Healthcare (see transaction below) and were required to be divested in accordance with an undertaking given to the Australian Competition and Consumer Commission (ACCC) to address competition issues associated with the takeover.

Ascot Hospital & Clinics

Ascot Hospital is a purpose built private healthcare facility in Auckland. On 14 April 2005, Integrated Hospitals Limited announced a full takeover offer of $1.53 per ordinary share for Ascot Hospital. Integrated Hospitals Limited held 76.7% prior to the offer.

Affinity Healthcare

On 14 April 2005 Ramsay announced the acquisition of Affinity Healthcare for total consideration of A$1.4 billion (A$1.5 billion including transaction costs). At the time, Affinity Healthcare operated 48 hospitals in metropolitan and regional Australia and 3 hospitals in Indonesia. Affinity Healthcare had annual revenue of approximately A$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.

Nova Health

Nova Health operates approximately nine private hospitals and provides healthcare services in Victoria and New South Wales.

On 30 March 2005 the boards of Healthscope and Nova Health announced a proposal for the two companies to merge, to be effected by way of a takeover offer by Healthscope for all of the outstanding shares in Nova Health for cash consideration of AUD$0.30 per share. The offer was unanimously recommended by the directors of Nova and was completed on 25 May 2005.

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Benchmark Group

In May 2004, Ramsay announced an agreement to acquire all of the shares in Benchmark Healthcare for cash consideration of A$125 million. Benchmark Healthcare operates and manages 10 hospitals in Victoria and South Australia, comprising 980 hospital beds and 68 aged care beds. Of the 10 hospitals, four are owned, five are leased and one is managed under contract whereby the owner retains all operational risk.

At the time of the acquisition Benchmark Healthcare had annual revenue of approximately A$200 million.

The transaction was settled in July 2004.

Bowen Hospital

In July 2002, Acurity announced an in-principle agreement with the Bowen Hospital Trust to acquire the Bowen Hospital and the site in, Wellington for $5 million. At the time, Bowen Hospital had three surgical theatres and 45 beds. The transaction was completed 1 April 2003.

Glossary

Acurity	Acurity Health Group Limited
Acurity Share or **Share**	A fully paid ordinary share in Acurity
AMP	AMP Capital Investors (New Zealand) Limited
Austron	Austron Limited
Connor	Connor Healthcare Limited
Evolution	Evolution Healthcare (NZ) Pty Ltd
Lock-up Agreement	Multilateral lock-up agreement relating to a full takeover offer dated 28 July 2014 between Austron, Royston, Medusa and Connor
Medusa	Medusa Limited
Offer	Connor's full takeover offer for all of the Shares in Acurity
Offer Document	The offer document setting out the terms of Connor's Offer, dated 26 August 2014
Royston	Royston Hospital Trust Board
Takeover Implementation Deed	Takeover implementation deed relating to Acurity dated 28 July 2014 between Austron, Evolution and Connor
Takeover Notice	Connor's notice of intention to make the Offer dated 28 July 2014

Directory

Board of Directors	Alan Raymond Isaac (Chairman and Independent Director) Richard Gordon Maxwell Christie (Independent Director) Brian Joseph Martin (Independent Director) James Rowland Tyler (Independent Director) Jacqueline Antoinette Christina Gray (Director) Mark James Stewart (Director) Warwick Graham Webb (Director) Stuart Geoffrey Signal (Alternate Director for Jacqueline Gray)
Independent Adviser	KordaMentha (New Zealand) Limited
Financial Adviser	KPMG
Legal Adviser	Harmos Horton Lusk Limited
Share Registry	Link Market Services Limited
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