



**Northington Partners**  
Investment Bankers

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## **Abano Healthcare Group Limited**

### POTENTIAL DIVESTITURE OF ELDERCARE NEW ZEALAND LIMITED

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Independent Assessment of the  
Proposed Divestiture of  
ElderCare New Zealand Limited  
for the Directors of Abano Healthcare Group Limited

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23 MAY 2005

23 May 2005

The Directors  
Abano Healthcare Group Limited  
PO Box 9507  
Newmarket  
Auckland

## INDEPENDENT ASSESSMENT REPORT

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In April 2005, Northington Partners Limited ("Northington Partners") was requested by the Board of Directors ("Board") of Abano Healthcare Group Limited ("Abano") to provide the Board with an independent assessment of the proposed sale of its 100% owned subsidiary, ElderCare New Zealand Limited and subsidiaries ("ElderCare"), expected to settle in late July 2005.

## BACKGROUND

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In late 2004, a strategic review was initiated by the Board because of ElderCare's continuing financial under-performance and the perceived business climate for the aged care industry.

During March and April 2005, as part of this strategic review, an Investment Bank ran a sale process for ElderCare which stimulated significant interest and resulted in a number of bids.

The Board requested this independent assessment of the proposed sale of ElderCare as it is a "major transaction" for Abano and will require shareholder approval.

The preferred bid for 100% of the shares of ElderCare and the related inter-company loan, derived from a contested bid process, is for a total cash consideration of NZ\$63.5 million.

We understand a copy of this report will be provided to shareholders with the notice of meeting to approve the transaction. Northington Partners' independent assessment, including schedules 1 and 2 of this report, should be read in conjunction with the notice of meeting.

## INDEPENDENT REVIEW

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The Board requested Northington Partners to comment on:

- 1) The strategic reasoning for the proposed divestiture of ElderCare
- 2) The preferred bid
- 3) The likely impact of the proposed divestiture of ElderCare on shareholder value.

This summary report has been based on our confidential detailed independent assessment prepared for the Board.

### 1) REASONING FOR PROPOSED DIVESTITURE OF AGED-CARE

#### Financial Performance

The financial performance of ElderCare has not provided an adequate return on Abano's invested capital.

The external environment for ElderCare, while anticipated to improve in the short term, is likely to be volatile for sometime, as successive governments deal with the significant potential funding and demand requirements of an ageing population.

Better returns may be achieved by Abano in the less capital-intensive sectors of the healthcare industry which are less constrained by government funding.

#### ElderCare's operations

The portfolio of thirteen properties utilise ElderCare's standardised operating and financial protocols.

The properties have a number of direct and indirect development opportunities associated with them.

However, for Abano, the aged care portfolio is wrong-sized. The less than optimal number of beds in some of its facilities, the mix of beds (rest home, dementia, and hospital), the geographic cover and the size and cost of the support and head offices to control the thirteen facilities all contribute to under-performance.

#### Alternatives examined for ElderCare

The Board examined three fundamental alternative strategies:

##### Enhance ElderCare's Efficiency

Management believes that ElderCare is running as efficiently as possible given the portfolio of properties and the external environment. However, sufficient operating Ebitda has not been achieved to recover support office costs, economic depreciation and meet or exceed ElderCare's cost of capital.

##### Grow ElderCare

Management's capital allocation scenarios indicate that better returns on capital employed are available in other healthcare sectors.

##### Sell ElderCare

Sell and reinvest some or all of the proceeds in potentially value accretive healthcare businesses.

In addition, financial "re-engineering" alternatives such as sale and lease-back, examined by the Board, were not considered to be viable because they did not address the basic operating issues associated with ElderCare.

The alternative strategies and pro-forma calculations prepared by Management were examined. We concur that these analyses support the Board's recommendation to sell ElderCare and reinvest some or all of the proceeds in potentially value accretive healthcare businesses.

### 2) THE PREFERRED BID

#### Strategic Significance of the aged care portfolio

While the aged care portfolio is wrong sized for Abano it does represent a branded collection of operating entities and related infrastructure that would be very time consuming and costly for a third party to assemble.

Portfolios such as this one, well maintained and with significant expansion potential, do not come onto the market that frequently.

This portfolio represents:

- 1) A strategic foothold for a non-cash constrained foreign party looking to enter the aged care industry in New Zealand; or
- 2) An opportunity for an existing operator in New Zealand to grow exponentially and synergistically.

Foreign investors are prepared to pay significant premiums for gaining a cornerstone investment in this growth industry in New Zealand, as evidenced by the purchase of Guardian Healthcare by Pacific Equity Partners Pty Limited in December 2004.

#### Sale Process

A well run, arms-length divestiture process will ultimately determine the value of an asset at any given time. The preferred bid of \$63.5M is the highest bid derived from such a contestable bid process.

#### Relative values

The preferred bid places a premium on our assessed fair market value of ElderCare.

Fair Market Value is defined as the highest price available in an open and unrestricted market between informed and prudent parties, acting at arms' length and under no compulsion to act, expressed in terms of cash.

Special interest purchasers are those who can, or believe they can, enjoy post-acquisition synergies or strategic advantages by acquiring a business interest.

The preferred bid confirms that ElderCare has a market value, due to its strategic significance, higher than its value-in-use to Abano and therefore should be sold.

#### Comparison of Bid Price and book value

Shareholders' endorsement of the preferred bid price for the shares and inter-company loan will yield an approximate accounting gain on sale, as shown below:

Aged-Care (\$M)	
Bid Price	63.5
Estimated costs	(1.0)
Net cash proceeds	62.5
Book value	52.0
Gain on sale	10.5
Gain per Abano Share (\$ per share)	0.39

#### 3) IMPACT OF PROPOSED DIVESTITURE OF ELDERCARE ON SHAREHOLDER VALUE

Abano's vision is to create an investment holding company in the healthcare industry.

The book value of Abano's net assets at 28 February 2005, after adjusting for the proposed sale of ElderCare for net proceeds of \$62.5 million would be \$2.00 per share, compared to the book value per share of \$1.61 at 28 February 2005.

If the proposed sale of ElderCare is approved by shareholders, Abano will have a significant holding of cash, after repayment of all debt and a proposed return of a portion of the proceeds of the sale, being an amount up to the gain over book value. While it has a number of investment opportunities in healthcare in the pipeline, prudent and timely re-investment of the surplus cash will be imperative to creating further shareholder value.

If the proposed investments in the new healthcare sectors are well managed and made at Ebitda multiples lower than the Ebitda multiple at which Abano's shares will trade, then the investments will be value accretive. Reinvestment of proceeds into potentially higher returning healthcare sectors per Management's scenarios in the 2005 strategic plan (F2005 through F2009) is projected to improve Ebitda, Returns on Invested Capital and Economic Value.

If ElderCare is divested, Abano will no longer own real estate. A number of the proposed acquisitions contemplated in the re-investment strategy are of professional practices which, by their nature, predominately will be acquisitions of goodwill. As a result, Abano's cost of capital may increase.

After initial recognition of the ElderCare divestiture and a proposed part return of the sale proceeds to the shareholders, a period of price volatility may follow until Abano's cash reserves are fully re-invested.

Signed on behalf of Northington Partners Limited



Charles H P Tapper



Robert L Challinor

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## SCHEDULE 1

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### Scope of review

The following were reviewed and/or relied on by Northington Partners:

- Board Reports, Annual Reports and interim financial statements for Abano and ElderCare;
- The 2005 Strategic Plan and supporting detailed financial model containing projections for F2006 to F2009;
- Industry Information;
- Analysts' reports and share trading data;
- Prior valuations of the properties performed by real estate appraisers;
- Discussions with management;
- Tour of three of the Auckland facilities;
- Information Memorandum and Management Presentation on ElderCare; and
- Letter of Representation from Abano.

### Major Assumptions

Major assumptions relied upon include:

- The interim financial statements of Eldercare at 28 February 2005, the latest available at the time of undertaking the mandate, would not be materially different if subject to an audit;
- Forecast F2005 and budget F2006 financial information for ElderCare represents management's best estimate of the most likely result;
- At 28 February 2005, Eldercare had no material contingent liabilities, known environment issues, unusual contractual obligations, litigation pending or threatened, or substantial commitments, other than as disclosed to us;
- There have been no offers, written or verbal, to purchase the shares or any of the assets of Eldercare during the 12 months preceding the valuation date;
- All licences are in good standing and ElderCare has adhered to all government regulations;
- The properties will continue to be used as aged care facilities and will not be redeveloped for residential purposes; and
- No material normalising adjustments are required to the operating results for F2003 through F2006.

Should any of the above major assumptions not be accurate or should any of the information provided to us not be factual or correct, our opinion of value and conclusions could be significantly different.

## SCHEDULE 2

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### Qualifications, Declarations and Disclaimers

#### Purpose of Report

Northington Partners' report to the Board and this summary report, which has been prepared under a mandate letter dated 6 April 2005, are solely for the purpose of assisting Abano's Directors form a view as to the divestiture of ElderCare.

Shareholders should seek their own professional advice as to the merits of the proposed divestiture of ElderCare.

#### Qualifications

Northington Partners is an Auckland based investment bank providing a range of corporate advisory services in respect of valuations, mergers and acquisitions, capital raising and related strategic advice activities.

The personnel of Northington Partners involved in preparing this report are Charles Tapper, BCom (Auckland), CA (Canada), CBV (Chartered Business Valuator – Canada) and Robert Challinor, BCom (Auckland), FCA, FCIS, CMA, FinstD. Messrs, Tapper and Challinor have significant experience in valuations and relevant corporate advisory matters.

#### Independence

Northington Partners has no economic interest in the proposed divestiture of ElderCare, has no prior relationship with Abano (with the exception of a valuation of Abano prepared in 2003) and has no conflict of interest that could affect Northington Partners' ability to provide an unbiased report.

Northington Partners will receive a fee based on the hours required to prepare this report. The fee is not contingent on the outcome of the proposed transaction.

#### Limitations and Reliance on Information

In forming its conclusions, Northington Partners has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources and from all information furnished to us by Abano or otherwise reviewed by us. Northington Partners believes that the information provided is reliable, complete and not misleading, and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry and review for the purposes of forming our conclusions. However, Northington Partners does not warrant that its enquiries have identified or verified all the matters which an audit, extensive examination or "due diligence" investigation might disclose. In particular, Northington Partners has not undertaken a due diligence investigation of Abano and/or ElderCare and its subsidiaries / associates.

#### Declarations

Northington Partners has prepared this report at the request of the Board of Abano and under the terms of engagement agreed with them.

Northington Partners provided a draft of its report and summary thereof to Abano. There were no alterations to its methodology or conclusion as a result of issuing the draft report.

### **Limitation of Liability**

Except for liability that by law cannot be excluded, no liability is accepted including for any loss or damage, or consequential loss or damage arising from or in connection with the contents of this report, or any act, omission or error (including negligence) of Northington Partners.

Northington Partners has obtained from Abano a cap on the liability of Northington Partners to Abano and an indemnity as part of the engagement terms with Abano.

### **Consents**

Northington Partners consents to this report being attached to the notice of meeting of shareholders. This report, either in whole or in part, may not be otherwise distributed, reproduced or included in any other document, or quoted, without the prior written consent, including as to content, terms and context, of Northington Partners.