13 April 2017
Australian Securities Exchange Limited

PULSE HEALTH LIMITED PROVIDES SUPPLEMENTARY SCHEME DISCLOSURE

Pulse Health Limited (ASX:PHG) (**Pulse**) has today released supplementary disclosure to update shareholders on recent events that may be relevant to their vote on the proposed acquisition for 100% of the shares in Pulse by Healthe Care Australia Pty Ltd (**Healthe Care**) at $0.47 cash per share via a scheme of arrangement (**Scheme**).

The supplementary disclosure relates to Healthe Care's agreement to acquire the entities owning two hospitals and one day surgery (**Facilities**) located in the Illawarra region of New South Wales from Evolution Healthcare Partners Pty Ltd (**Evolution**) as trustee of the EHPO Trust (**Evolution Trust**) for $53.0 million (subject to adjustments) (**Evolution Transaction**) and an undertaking given by Sante Capital Investments Nominees Pty Ltd (**Sante Capital**) as trustee of the Sante Capital No.1 Trust (**Sante Capital No.1 Trust**) to vote its shares in Pulse in favour of the Scheme (and not to dispose of those shares). There is some commonality between stakeholders in: (a) the Evolution Trust and the Sante Capital No.1 Trust and (b) Sante Capital and Evolution. Sante Capital as trustee of the Sante Capital No.1 Trust holds approximately 15.79% of the shares in Pulse, and Pulse believes Evolution and Sante Capital to be associates (which position Pulse understands is not accepted by either Evolution or Sante Capital). Pulse therefore considers it appropriate to ensure Pulse shareholders are adequately informed about the Evolution Transaction and has provided the supplementary disclosure accordingly.

A copy of the supplementary disclosure, including a report from Lonergan Edwards & Associates Limited stating that, in its view, neither Sante Capital nor Evolution is receiving a "net-benefit" with respect to the value, or the leasing arrangements, of the Facilities under the Evolution Transaction, and a supplementary letter from Leadenhall Corporate Advisory Pty Ltd (**Leadenhall**), is attached to this announcement in Appendix 1. Printed copies of the supplementary disclosure will be sent to Pulse shareholders (and those shareholders who have previously nominated an electronic means of notification will be able to access the materials electronically).

Leadenhall has maintained the conclusion that the Scheme is fair and reasonable, and therefore, is in the best interests of Pulse Shareholders, in the absence of a superior proposal.

The scheme meeting will now be held on 1 May 2017 at the Marra Room, The Grace Hotel, Level 2, 77 York Street, Sydney NSW 2000, commencing at 9.30am. The time for determining eligibility to vote at the scheme meeting is 9:30am (Sydney time) on Saturday 29 April 2017.

If you have already filed your proxy and after considering the supplementary disclosure you would like to change the way in which you have instructed your proxy how to vote, please follow the instructions set out in Appendix 1. New and replacement proxy forms must be received by 9.30am (Sydney time) on Saturday, 29 April 2017. If you have aleady lodged your proxy form or voted and do not wish to change your vote, you do not need to do anything.

The Pulse board continues to unanimously recommend that in the absence of a Superior Proposal, Pulse shareholders vote in favour of the Scheme. Pulse directors intend to vote all Pulse shares held or controlled by them in favour of the Scheme in the absence of a Superior Proposal. As at the date of this announcement no Superior Proposal has emerged.

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Appendix 1 – Pulse Health Limited: Scheme Booklet – Supplementary Disclosure

Key points:

- On 17 March 2017 Healthe Care and Evolution Healthcare Partners Pty Ltd (**Evolution**) as trustee of the EHPO Trust (**Evolution Trust**) entered into an agreement under which Healthe Care has committed to acquire from Evolution the entities owning two hospitals and one day surgery located in the Illawarra region of New South Wales (**Evolution Transaction**), as flagged in Pulse's ASX announcement on 20 March 2017. There is some commonality between stakeholders in: (a) Evolution and Sante Capital Investments Nominees Pty Ltd (**Sante Capital**) and (b) the Evolution Trust and the Sante Capital No.1 Trust (**Sante Capital No.1 Trust**). Sante Capital as trustee of the Sante Capital No.1 Trust holds approximately 15.79% of the shares in Pulse. Pulse also believes Evolution and Sante Capital to be associates (which position Pulse understands is not accepted by either Evolution or Sante Capital).
- Sante Capital as trustee of the Sante Capital No.1 Trust has also undertaken to Healthe Care that it will vote in favour of the Scheme and not to transfer its shares, subject to various qualifications.
- This document (**Supplementary Disclosure**) provides information Pulse believes its Shareholders should be aware of in relation to the Evolution Transaction and voting undertaking by Sante Capital. In particular, Lonergan Edwards & Associates Limited's report set out in Annexure A, which states that, in its view, the consideration to be received by Evolution under the Evolution Transaction will not result in the receipt of a "net-benefit" by Sante Capital or Evolution.
- There has been no change to your Directors' recommendation on the Scheme and no change to the Independent Expert's conclusion on the Scheme that the Scheme is fair and reasonable in the absence of a superior proposal, having regard to the Evolution Transaction. The Scheme is not conditional on the Evolution Transaction in any way, nor vice versa.
- The Scheme Meeting is to be held on Monday, 1 May 2017 at the Marra Room, The Grace Hotel, Level 2, 77 York Street, Sydney NSW 2000, commencing at 9:30am.
- New proxy votes and any change to existing proxy votes must be submitted by 9.30am (Sydney time) on Saturday 29 April 2017. If you have aleady lodged your proxy form or voted and do not wish to change your vote, you do not need to do anything.
- You should read scheme booklet announced by Pulse to the ASX on 1 February 2017 (**Scheme Booklet**) and this Supplementary Disclosure before voting on the Scheme.

1. Update on the Scheme

1.1. Background

This Supplementary Disclosure follows and supplements the Scheme Booklet relating to the proposal for the acquisition of all Pulse shares by Healthe Care, a subsidiary of Luye Investment Group, by way of scheme of arrangement for $0.47 cash per share (**Scheme**).

On 17 March 2017 Healthe Care and Evolution as trustee of the Evolution Trust entered into an agreement under which Healthe Care has committed to acquire from Evolution the entities owning two hospitals and one day surgery located in the Illawarra region of New South Wales for $53.0 million (subject to adjustments).

As explained in section 1.3, there is some commonality between stakeholders in: (a) the Evolution Trust and the Sante Capital No.1 Trust and (b) Sante Capital and Evolution. Sante Capital as trustee of the Sante Capital No.1 Trust holds approximately 15.79% of the shares in Pulse. Pulse also believes Evolution and Sante Capital to be associates (which position Pulse understands is not accepted by either Evolution or Sante Capital).

Sante Capital, in its capacity as trustee of the Sante Capital No.1 Trust, has also undertaken to Healthe Care that it will vote in favour of the Scheme and not to transfer its shares, subject to various qualifications summarised in section 1.4.

This Supplementary Disclosure provides information Pulse believes its Shareholders should be aware of and consider in relation to the Evolution Transaction and voting undertaking by Sante Capital before voting on the Scheme. It is intended to be read with the Scheme Booklet, together with the ASX announcements of Pulse dated 9 March 2017 and 20 March 2017.

The Supreme Court of New South Wales (**Court**) has reviewed and approved the despatch of this Supplementary Disclosure to Pulse shareholders. The fact that the Court has reviewed and approved this Supplementary Disclosure (which forms part of the Scheme Booklet) does not mean that the Court: (a) has formed any view as to the merits of the proposed Scheme or as to how Pulse shareholders should vote; or (b) has prepared or is responsible for the content of this Supplementary Disclosure or the Scheme Booklet. A copy of this Supplementary Disclosure has also been provided to ASIC and the ASX. Neither ASIC nor the ASX nor any of their respective officers take any responsibility for the contents of this Supplementary Disclosure.

1.2. Evolution Transaction

On 17 March 2017 Healthe Care and Evolution as trustee of the Evolution Trust entered into an agreement under which Healthe Care has agreed to acquire from Evolution the entities owning two hospitals and one day surgery (**Facilities**) located in the Illawarra region of New South Wales. Evolution will continue to own the properties from which the Facilities operate and has agreed to lease them to the entities operating the Facilities (**Leasing Arrangements**).

Further information regarding the Evolution Transaction that is known to Pulse is set out below for your information:

- The transaction relates to the sale of 100% of the shares in Illawarra Healthcare Pty Ltd (**Target Company**). Subsidiaries of the Target Company include:
  - (a) South Coast Private Pty Limited – the company operates a mental health hospital located in Wollongong, NSW;
  - (b) Shellharbour Private Hospital Pty Limited – the company operates a medical / surgical hospital located in Shellharbour in the Illawarra region of NSW; and
  - (c) Wollongong Day Surgery Pty Limited – the company operates a multi-disciplinary day surgery located in Wollongong, NSW.
- The seller to the transaction is Evolution as trustee of the Evolution Trust.

- The buyer is Healthe Care.
- The purchase price is $53 million, subject to the usual completion account adjustments set out in the sale agreement. Completion of the Evolution Transaction is subject to Healthe Care obtaining warranties and indemnities insurance on terms reasonably satisfactory to Evolution or Evolution waiving this condition.
- Completion of the Evolution Transaction is scheduled to occur on 13 April 2017.
- Evolution will continue to hold the properties from which the hospitals operate. Healthe Care and Evolution have agreed arrangements for the premises occupied by the hospitals under long term lease agreements.
- The Evolution Transaction is not conditional on the Scheme occurring and the Scheme is not conditional on the Evolution Transaction occurring.

1.3. Relationship between Evolution and Sante Capital

(a) Commonality of Evolution Trust and Sante Capital No.1 Trust Beneficiaries

The entities that will ultimately receive a benefit from the Evolution Transaction will be the beneficiaries of the Evolution Trust. There is some commonality between the beneficiaries of the Evolution Trust and beneficiaries of the Sante Capital No.1 Trust, who collectively have a beneficial interest in 15.79% of the shares in Pulse. Those entities which are beneficiaries in both the Sante Capital No.1 Trust and the Evolution Trust will receive a benefit from the Evolution Transaction that will not be available to other owners of shares in Pulse. The beneficiaries of each of the Evolution Trust and Sante Capital No.1 Trust are, as far as Pulse is aware, as set out in the table below.

Sante Capital No.1 Trust	**Evolution Trust**
Perpetual Corporate Trust Limited (ACN 000 341 533) (**Perpetual**) as custodian for ROC Capital Pty Ltd (ACN 167 858 764) (**ROC**) as trustee for ROC Private Equity (VicSuper) Fund	Perpetual as custodian for ROC as trustee for ROC Private Equity (VicSuper) Fund
Perpetual as custodian for ROC as trustee for ROC Cbus Private Equity Trust	Perpetual as custodian for ROC as trustee for ROC Cbus Private Equity Trust
Perpetual as custodian for ROC as trustee for ACT Private Equity No. 3 Fund	Perpetual as custodian for ROC as trustee for ACT Private Equity No. 3 Fund
	Perpetual as custodian for ROC as trustee for Q Private Equity Trust
	Perpetual as custodian for ROC as trustee for ROC Alternative Investment Trust VI
Entities connected to Andrew Savage or his family members	Entity connected to Andrew Savage or his family members
Entities connected to Ben Thynne or his family members	Entitiy connected to Ben Thynne or his family members

	Evolution (Singapore) Investment Holdings Pte. Ltd
	Lanterne Strategic Investor as trustee for the Evolution Friends & Family Trust
	Sante Capital Investments Pty Limited as trustee for the "Sante Capital Trust"*
Sante Capital Investments Pty Limited as trustee for certain employees and/or consultants of Sante Capital	
Sante Capital Investments Pty Limited as trustee for the "Sante Capital Trust"*	

*For the avoidance of doubt, this is not the Sante Capital No.1 Trust.

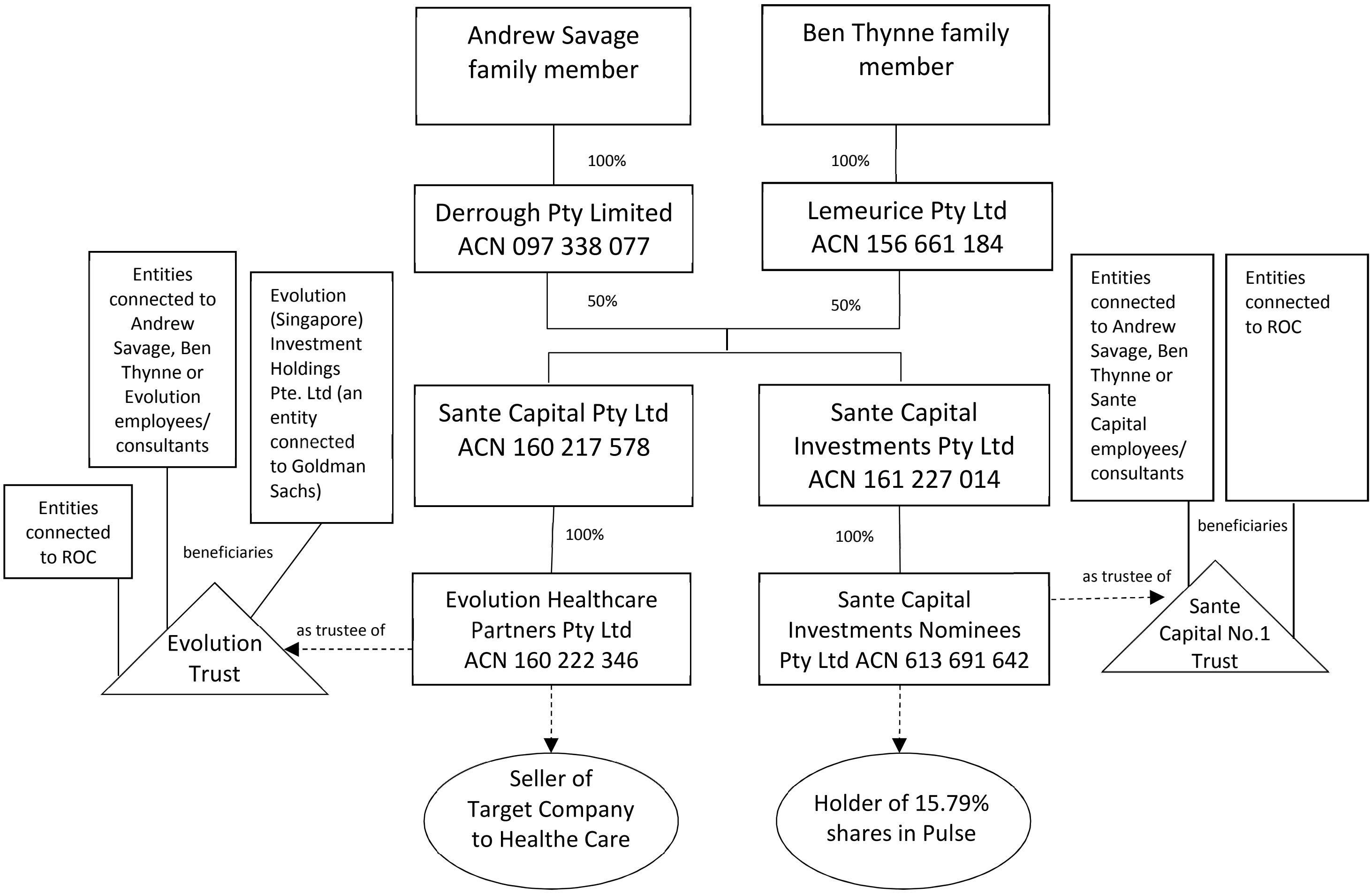
Pulse is not aware of the proportionate interests in the Sante Capital No.1 Trust or Evolution Trust held by each of the beneficiaries named above, or the identity of the beneficiaries of the trusts which are the beneficiaries in the Sante Capital No.1 Trust or Evolution Trust.

(b) Commonality of interests in the trustees of each of the Evolution Trust and Sante Capital No.1 Trust

While Pulse is informed that the trustees of the Evolution Trust, Evolution, and the Sante Capital No.1 Trust, Sante Capital, do not have personal or beneficial interests in the Evolution Transaction or shares in Pulse held by Sante Capital respectively, there is some commonality of interests and the individuals involved with the trustees (Evolution and Sante Capital). Based on publicly available information and ASIC records:

- Evolution (being the trustee of Evolution Trust) is a wholly-owned subsidiary of Sante Capital Pty Ltd ACN 160 217 578.
- Derrough Pty Limited ACN 097 338 077 (**Derrough**) and Lemeurice Pty Ltd ACN 156 661 184 (**Lemeurice**) each owns 50% of the shares in Sante Capital Pty Ltd.
- The shares in Derrough are 100% legally and beneficially held by a member of Mr Andrew Savage's family, who together with Mr Savage, are the two directors of Derrough.
- The shares in Lemeurice are 100% legally and beneficially held by a member of Mr Ben Thynne's family, who together with Mr Thynne, are the two directors of Lemeurice.
- Derrough and Lemeurice also each own 50% of the shares in Sante Capital Investments Pty Ltd ACN 161 227 014, which is the parent company of Sante Capital.
- Based on the Pulse share register and Form 604 (Notice of change in interests of substantial holder) dated 21 November 2016 in respect of Pulse filed by Sante Capital (**Substantial Shareholder Notice**), Sante Capital is the registered shareholder of approximately 15.66% of the issued shares in Pulse and holds those shares on trust as trustee of the Sante Capital No.1 Trust. Sante Capital has since increased its holding and now holds 15.79% of the issued shares in Pulse in its capacity as trustee of the Sante Capital No.1 Trust.

The relationship between Evolution and Sante Capital, to the extent it is understood by Pulse, is outlined in the diagram below:



Mr Ben Thynne and Mr Andrew Savage are the two directors of each of Sante Capital Investments Pty Ltd and Sante Capital Pty Ltd, as well as Evolution. However, the directors of Evolution (Andrew Savage and Ben Thynne) and the directors of Sante Capital (Peter Castle and Brad Mytton) comprise different persons. Pulse is also informed that the trust deed of the Evolution Trust restricts Andrew Savage and Ben Thynne from managing and/or operating any investment opportunity outside of the Evolution Trust.

Pulse also believes Sante Capital as trustee of the Sante Capital No.1 Trust and Evolution as trustee of the Evolution Trust are acting in concert in relation to the affairs of Pulse and are therefore associates for the purposes of Chapter 6 of the Corporations Act (which position Pulse understands is not accepted by either Evolution or Sante Capital).

1.4. Undertaking from Sante Capital as trustee of the Sante Capital No.1 Trust to vote in favour of the Scheme

Sante Capital in its capacity as trustee of the Sante Capital No.1 Trust has entered into a deed poll in favour of Healthe Care, in which Sante Capital undertakes to vote in favour of the Scheme and not dispose of its current shares in Pulse, subject to there being no superior proposal, the board of Pulse continuing to recommend the Scheme, the ACCC, New Zealand Overseas Investment Office, “no prescribed event”, shareholder and court approval conditions under the Scheme Implementation Deed being satisfied or waived, the Independent Expert not changing its opinion and the Scheme Implementation Deed not being terminated. This undertaking ceases to apply on and after 31 May 2017.

The Deed Poll causes Healthe Care to have a relevant interest in the Pulse Shares held by Sante Capital.

1.5. Net benefit

In the context of transactions involving the change of control of a public company (**target company**), a key principle of the provisions of the Corporations Act is that as far as practicable, the shareholders of the target company must all have a reasonable and equal opportunity to participate in any benefits (**Equality Principle**). A benefit received by one shareholder which is not available to other shareholders will not necessarily offend the Equality Principle if it is not a “net benefit”. A “net benefit” is assessed by reference to the commercial balance of advantages flowing to and from the shareholder.

1.6. Report by Lonergan Edwards & Associates Limited

In order to allow Pulse shareholders to better assess whether Sante Capital as trustee of the Sante Capital No.1 Trust or Evolution as trustee of the Evolution Trust is or will be receiving a “net benefit” pursuant to the Evolution Transaction, Healthe Care has at the request of Pulse commissioned Lonergan Edwards & Associates Limited (**LEA**) to prepare an report as to whether Healthe Care is providing Sante Capital or Evolution any net benefit as a result of the Evolution Transaction (**LEA Report**). A copy of the LEA Report is attached in Annexure A.

Under the LEA Report, LEA stated that it has considered the terms of the Evolution Transaction and formed the view that:

(a) the $53.0 million purchase price for the Target Company is consistent with LEA’s assessed value range of $49.0 million to $56.0 million and neither Sante Capital nor Evolution is receiving a “net benefit” with respect to the value of the Facilities as a result of the Evolution Transaction;

(b) the rent to be charged under the Leasing Arrangements appears consistent with market benchmarks and Evolution is not receiving a net benefit with respect to the Leasing Arrangements; and

(c) nothing has come to LEA’s attention to indicate that the Evolution Transaction was not negotiated at arm’s length.

1.7. No change to Leadenhall’s conclusion in relation to the Scheme

1.7.1. Original Leadenhall report

In the Independent Expert’s Report dated 26 January 2017 (contained in section 7 of the Scheme Booklet) (**IER**), Leadenhall considered whether the Scheme was fair and reasonable. The fairness assessment involved considering whether the consideration payable by Healthe Care is greater than or equal to the value of a Pulse share on a control basis. The Scheme would be reasonable if it is fair, or if despite not being fair, the advantages to shareholders outweigh the disadvantages.

On fairness, Leadenhall assessed the fair market value of a Pulse share to be in the range of $0.41-$0.47. The figures were reached by selecting a maintainable level of EBITDA of $17.5-$18 million, then applying an EBITDA multiple of 8.0x to 8.5x times (derived from an analysis of takeover transactions and share market trading prices of companies with similar businesses to Pulse), then deducting the debt balance of Pulse and an expected additional investment. Leadenhall found that the consideration of $0.47 for a Pulse share, compared with the fair market value of $0.41-$0.47, was therefore fair.

On reasonableness, Leadenhall commented that the advantages of the Scheme for Shareholders are: (a) the scheme consideration reflects a meaningful premium to Pulse's share price; (b) in the absence of any alternative takeover offer, the share price of Pulse would be below the scheme consideration; and (c) there was no superior offer. The disadvantages are: (a) shareholders would lose their exposure to potential future performance of Pulse; (b) while Healthe Care may be able to achieve synergies from the transaction, it is not paying a material amount for those synergies; and (c) there are tax implications and a break fee related to the scheme. However, Leadenhall concluded that because the transaction is fair, it is also reasonable.

1.7.2. Leadenhall consideration of Evolution Transaction

Pulse asked Leadenhall to consider the Evolution Transaction, the LEA Report, and other information outlined in sections 1.2 and 1.3 of this Supplementary Disclosure, and to assess whether the announcement of the Evolution Transaction has any impact on the conclusion in its IER.

Leadenhall has assessed these matters and concluded that the details of the Evolution Transaction do not lead it to change the opinion expressed in its IER. Leadenhall remains of the view that the Scheme is fair and reasonable and, therefore, is in the best interests of Pulse Shareholders, in the absence of a Superior Proposal.

Leadenhall stated that:

> *"In order to consider whether the terms of the Evolution Transaction changes our opinion on the Proposed Transaction, we have compared the FY17 EBITDA multiple implied by the Evolution Transaction to the FY17 EBITDA multiple implied by our valuation of Pulse.*
>
> *The FY17 EBITDA multiple implied by the Evolution Transaction is 11.0 times based on the proposed purchase price of $53.0 million divided by the aggregate EBITDA for FY17 of the acquired facilities of $4.8 million, as set out in the Lonergan Edwards & Associates Limited report prepared in respect of the Evolution Transaction.*
>
> *Our assessed valuation of Pulse on a consistent basis (i.e. compared to the projected EBITDA of Pulse for FY17) implies a multiple of 10.8 times to 12.0 times FY17 EBITDA.*
>
> *…*
>
> *Having considered the multiple implied by the Evolution Transaction and relative characteristics of the portfolios, we confirm that the details of the Evolution Transaction do not lead us to change the opinion expressed in our IER. Accordingly, we remain of the view that the Healthe Care offer is fair and reasonable and, therefore, is in the best interests of shareholders, in the absence of a superior proposal."*

A copy of Leadenhall's supplementary letter (**Leadenhall's Supplementary Letter**) is contained in Annexure B. You should read Leadenhall's Supplementary Letter, as well as the Independent Expert's report in their entirety as part of your assessment of the Scheme and before voting (or changing your vote) on the Scheme Resolution.

1.8. Recommendation from the Pulse Board

Pulse draws the following matters to the attention of Pulse Shareholders:

- The completion of the Scheme is not dependent or conditional on the completion of the Evolution Transaction, nor vice versa.
- Healthe Care has engaged Lonergan Edwards & Associates Limited to review the Evolution Transaction, who confirmed that in its view, neither Evolution nor Sante Capital is receiving a net benefit as a result of the Evolution Transaction.
- Leadenhall has also considered the Evolution Transaction and confirmed that it remains of the view that the Scheme is fair and reasonable and, therefore, in the best interests of Pulse Shareholders, in the absence of a Superior Proposal.

Based on the above, the Pulse Board formed the view that it will continue to **unanimously recommend that in the absence of a Superior Proposal, Pulse Shareholders vote in favour of the Scheme**. The Pulse Board notes that at the time of this Supplementary Disclosure no Superior Proposal has emerged.

Further, the Directors of Pulse intend to vote all of the Pulse Shares held or controlled by them in favour of the Scheme in the absence of a Superior Proposal.

1.9. Other considerations by the Pulse Shareholders

Despite:

- the Pulse Board's recommendation;
- Leadenhall's conclusion the Scheme remains fair and reasonable and, therefore, in the best interests of Pulse Shareholders, in the absence of a Superior Proposal; and
- LEA's view that neither Evolution nor Sante Capital is receiving a net benefit as a result of the Evolution Transaction,

you might consider it unfair that beneficiaries of the Evolution Trust who are also beneficiares of the Sante Capital No.1 Trust or Evolution in its capacity as trustee of the Evolution Trust (which Pulse believes to be an associate of Sante Capital (a position Pulse understands is not accepted by either Evolution or Sante Capital)) are obtaining a benefit from Healthe Care as a result of the Evolution Transaction that is not available to other Pulse shareholders under the Scheme, and you may consider this as a reason to vote against the Scheme. You might also disagree with LEA's view that neither Evolution or Sante Capital is receiving a "net benefit" as a result of the Evolution Transaction, because you may come to a different view as to the value of the assets being acquired in the Evolution Transaction or the appropriate rate of rent payable to Evolution going forward.

2. Scheme Meeting, Voting Details and Revised Timetable

2.1. Scheme Meeting

The Scheme Meeting will be held on Monday, 1 May 2017 at the Marra Room, The Grace Hotel, Level 2, 77 York Street, Sydney NSW 2000, commencing at 9.30am.

The terms of the Scheme Resolution to be considered at the Scheme Meeting are contained in the Notice of Scheme Meeting in Annexure C to the Scheme Booklet.

2.2. Voting Details

The Pulse Board reminds Pulse Shareholders that every vote is important and encourages you to vote.

2.2.1. If you have already voted and do not wish to change your vote

If you have already submitted your proxy form or voted and do not wish to change your vote, you **do not** need to take further action.

2.2.2. If you have not yet submitted your proxy vote or voted, or if you wish to change your vote

If you have not yet submitted your proxy form or voted, or have already submitted your proxy form or voted but wish to change the direction as to how your proxy is to vote, you may vote (or change your vote) either:

- in person, by attending the Scheme Meeting at the Marra Room, The Grace Hotel, Level 2, 77 York Street, Sydney NSW 2000, commencing at 9:30am on Monday 1 May 2017; or
- by appointing a proxy to attend and vote on your behalf using the personalised Proxy Form that accompanies this Supplementary Disclosure. New or replacement proxy forms must be **completed and received** by 9:30am (Sydney time) on Saturday, 29 April 2017 by:
    - appointing a proxy electronically:
        - if you are an individual shareholder - at Pulse's share registry website www.investorvote.com.au and logging in using the control number found on the front of your accompanying Proxy Form;
        - if you are a custodian or nominee subscribed to Intermediary Online go to www.intermediaryonline.com to lodge your proxy;
        - if you have elected to receive notices of Pulse meetings by email and provided your email address details to the Pulse Share Registry, appointing a proxy electronically via the direct personalised link which was sent to you via email;
    - mailing the Proxy Form to Computershare Investor Services Pty Limited, GPO Box 242 Melbourne Victoria 3001 Australia; or
    - faxing the Proxy Form to the Pulse Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia),

(and, if the Proxy Form is signed by an attorney, delivering with the Proxy Form the authority under which it was signed or a certified copy of the authority). Any replacement Proxy Form validly submitted before the proxy cut off time will automatically override any previous Proxy Form lodged.

2.3. Revised timetable

The proposed revised Scheme timetable is set out below. These dates may be subject to change.

Date	Event
Monday, 10 April 2017 at 2.00pm (Sydney time)	Court hearing to approve the issue of Supplementary Disclosure to Pulse shareholders
Thursday, 13 April 2017	Dispatch of Supplementary Disclosure

Saturday, 29 April 2017 at 9.30am (Sydney time)	Time for determining eligibility to vote at the Scheme Meeting
Saturday, 29 April 2017 9.30am (Sydney time)	Deadline for receipt of proxies
Monday, 1 May 2017 at 9.30am (Sydney time)	Scheme Meeting of Pulse Shareholders
Wednesday, 3 May 2017	Final Court hearing for approval of the Scheme
Thursday, 4 May 2017	Effective Date
Thursday, 11 May 2017 at 7:00pm (Sydney time)	Scheme Record Date – time and date for determining entitlements to Scheme Consideration under the Scheme
Tuesday, 16 May 2017	Implementation Date – transfer of Pulse Shares to Healthe Care
Tuesday, 16 May 2017	Dispatch of payment of Scheme Consideration to Pulse Shareholders

3. Additional information

3.1. No material changes to Pulse's financial position

Other than as disclosed in the Scheme Booklet, this Supplementary Disclosure or as otherwise disclosed to ASX by Pulse, within the knowledge of the Pulse Board, the financial position of Pulse has not materially changed since 28 February 2017, being the date of the Pulse Half Year (1H17) financial report.

3.2. No other material information

Except as set out in the Scheme Booklet, this Supplementary Disclosure and each of the ASX announcements listed in Annexure C, as far as the Pulse Directors are aware, there is no information material to the making of a decision by Pulse Shareholders in relation to the Scheme, being information that is, within the knowledge of any Director at the date of this Supplementary Disclosure, which has not been previously disclosed to Pulse Shareholders.

3.3. Consents

Lonergan Edwards & Associates Limited has given, and has not withdrawn before the date of this Supplementary Disclosure, its written consent to be named in this Supplementary Disclosure in the form and context it is so named and to the inclusion of its report as Annexure A to this Supplementary Disclosure. Lonergan Edwards & Associates Limited has not caused or authorised the issue of this Supplementary

Disclosure, does not make or purport to make any statement in this Supplementary Disclosure or any statement on which a statement in this Supplementary Disclosure is based and takes no responsibility for any part of this Supplementary Disclosure other than any reference to its name and the report in Annexure A.

Leadenhall has given, and has not withdrawn before the date of this Supplementary Disclosure, its written consent to be named in this Supplementary Disclosure in the form and context it is so named and to the inclusion of Leadenhall's Supplementary Letter as Annexure B to this Supplementary Disclosure. Leadenhallhas not caused or authorised the issue of this Supplementary Disclosure, does not make or purport to make any statement in this Supplementary Disclosure or any statement on which a statement in this Supplementary Disclosure is based and takes no responsibility for any part of this Supplementary Disclosure other than any reference to its name and Leadenhall's Supplementary Letter in Annexure B.

3.4. Glossary

Unless otherwise defined in this Supplementary Disclosure, capitalised terms have the meanings given to those terms in the Scheme Booklet (section 11).

Annexure A – Report by Lonergan Edwards & Associates Limited

LONERGAN EDWARDS
& ASSOCIATES LIMITED

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The Directors
Pulse Health Limited
Suite 6, Level 22
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Sydney NSW 2000

31 March 2017

Subject: Independent Expert's Report | Acquisition of Hospital Assets

Dear Directors

Introduction

1 On 17 March 2017, Healthe Care Australia Pty Ltd (Healthe Care) entered into an agreement with Evolution Healthcare Partners Pty Ltd (Evolution) as trustee of the EHPO Trust (Evolution Trust) to acquire all the shares in Illawarra Healthcare Pty Ltd (Illawarra Healthcare) for $53.0 million (the Transaction)[1]. Subsidiaries of Illawarra Healthcare operate two hospitals and one day surgery (the Hospital Assets) located in the Illawarra region of New South Wales (NSW).

2 We understand that there is some commonality (although not complete commonality) between stakeholders (or their associates) of:

(a) Evolution and the Evolution Trust; and

(b) Sante Capital Investments Nominees Pty Ltd (Sante Capital) and the Sante Capital No. 1 Trust (Sante Capital Trust).

3 As per the substantial shareholder notice lodged on 20 March 2017[2], Sante Capital as trustee of the Sante Capital Trust holds a substantial interest of approximately 15.79%[3] in Pulse Health Limited (Pulse).

4 Pulse and Healthe Care have entered into a Scheme Implementation Deed for the proposed acquisition by Healthe Care of 100% of the shares in Pulse via a scheme of arrangement (the Scheme).

5 Sante Capital has also entered into a Deed Poll in favour of Healthe Care whereby Sante Capital has undertaken that it will vote in favour of the Scheme in the absence of a superior proposal.

1 The purchase price is on a cash and debt free basis and subject to working capital adjustments.
2 Lodged by Healthe Care on 20 March 2017.
3 Being the second largest shareholding in Pulse.

Purpose of our report

6 We understand that the existence of the proposed Transaction in the context of the Scheme may be a matter that should be disclosed to Pulse shareholders in advance of the Pulse shareholders' meeting to vote on the Scheme, and may also be a matter to be taken into account in respect of voting by Pulse shareholders on the Scheme.

7 Given the circumstances outlined above, the Directors of Healthe Care and Pulse have requested that Lonergan Edwards & Associates Limited (LEA) prepare a report stating whether, in our view:

(a) the consideration to be received by Evolution for the sale of the Hospital Assets, and/or

(b) the leases to be entered into by Evolution and the subsidiaries of Illawarra Healthcare (to be acquired by Healthe Care) for the premises occupied by the Hospital Assets,

constitute the receipt of a "net benefit" by Sante Capital within the meaning of the Takeovers Panel Guidance Note 21: *Collateral Benefits* (TPGN 21). For the purposes of this report we have assumed that any net benefit received by Evolution would also be received by Sante Capital.

8 The purpose of our opinion with respect to the Transaction is to provide an opinion to Pulse shareholders as to whether Healthe Care is providing Evolution or Sante Capital with a net benefit.

Basis of assessment

9 In determining whether Evolution or Sante Capital are receiving a net benefit we have considered:

(a) the market value of the Hospital Assets that are the subject of the Transaction

(b) the value of the consideration offered for the Hospital Assets

(c) the extent to which (a) and (b) differ (in order to assess whether, prima facie, a net benefit is being provided)

(d) the rent being charged to the subsidiaries of Illawarra Healthcare (to be acquired by Healthe Care under the Transaction) by Evolution for lease of the hospital premises (the Leasing Arrangements)

(e) other qualitative and strategic issues associated with the Transaction.

10 In addition, in determining whether Evolution or Sante Capital are receiving a net benefit (consistent with our understanding of the principles outlined in the TPGN 21 requiring an overall view (collectively) of the Transaction), we have considered:

(a) the process undertaken in negotiating the Transaction and the financial terms of the Transaction

(b) the timing of the Transaction in the context of the Scheme

(c) any other relevant considerations.

Conclusion

11 Based on the matters and analysis set out in this report we have concluded that:

(a) the $53.0 million purchase price for the Hospital Assets is consistent with our assessed value range of $49.0 million to $56.0 million. Thus, neither Evolution (nor Sante Capital[4]) is receiving a net benefit with respect to the value of the Hospital Assets as a result of the Transaction

(b) the rent to be charged under the Leasing Arrangements appears consistent with market benchmarks. Accordingly, Evolution (nor Sante Capital[5]) is not receiving a net benefit with respect to the Leasing Arrangements

(c) nothing has come to our attention to indicate that either the Transaction or the Leasing Arrangements were not negotiated at arm's length.

12 For our full opinion on whether any net benefit arises from the Transaction and the reasoning behind our opinion, we recommend that Pulse shareholders read the remainder of our report.

Yours faithfully

Craig Edwards	Julie Planinic
Authorised Representative	Authorised Representative

4 We note that Sante Capital is not party to the Transaction.

5 We note that Sante Capital is not a party to the Leasing Arrangements.

LONERGAN EDWARDS & ASSOCIATES LIMITED

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Appendices

I Outline of the Transaction

13 Healthe Care and Evolution have reached agreement for the sale of all of the shares in Illawarra Healthcare to Healthe Care for $53.0 million. Subsidiaries of Illawarra Healthcare operate three hospital facilities located in the Illawarra region of NSW (the Hospital Assets).

14 The purchase price is on a cash and debt free basis, and assumes a target working capital level of $1.15 million at completion. An adjustment to the purchase price will be made if the working capital at completion varies from this amount.

15 The Hospital Assets will be acquired by Healthe Care purchasing the shares in Illawarra Healthcare, which owns:

(a) South Coast Private Pty Limited (SCP) – the company operates a mental health hospital located in Wollongong, NSW

(b) Shellharbour Private Hospital Pty Limited (SPH) – the company operates a medical / surgical hospital located in Shellharbour in the Illawarra region of NSW

(c) Wollongong Day Surgery Pty Limited (WDS) – the company operates a multi-disciplinary day surgery located in Wollongong, NSW.

16 Healthe Care currently operates 18 hospitals and, if the Scheme is successful, will hold a total of 30 hospitals. The acquisition of the Hospital Assets will increase Healthe Care's facilities, post-Scheme, to 34.

17 We understand that Evolution will continue (at least in the short-term) to hold the properties from which the hospitals (i.e. those comprising the Hospital Assets) operate. Healthe Care and Evolution have agreed on market rental rates for the premises occupied by the hospitals under long-term lease agreements.

Evolution

18 Evolution is a provider of healthcare services in Australia and New Zealand. It holds an interest in five Australian hospitals and five hospitals in New Zealand.

19 We understand that there is some commonality (although not complete commonality) between stakeholders (or their associates) of:

(a) Evolution and the Evolution Trust; and

(b) Sante Capital and the Sante Capital Trust.

20 As per the substantial shareholder notice lodged on 20 March 2017[6], Sante Capital as trustee of the Sante Capital Trust holds a substantial interest of approximately 15.79%[7] of the shares in Pulse.

6 Lodged by Healthe Care on 20 March 2017.

7 Being the second largest shareholding in Pulse.

21 Mr Thynne founded Healthe Care in 2005 and in 2011 left the company. Mr Savage was a director of Healthe Care. Messrs Thynne and Savage founded Evolution in 2011.

Pulse

22 On 26 July 2016 Pulse made an announcement on the Australian Securities Exchange (ASX) in relation to the acquisition by Sante Capital as trustee of the Sante Capital Trust of a substantial interest in Pulse. This was subsequent to Pulse's announcement on 25 July 2016 that it had received confidential, highly conditional, indicative proposals and expressions of interest from other parties relating to the potential acquisition of Pulse. However, as at that date, none of the proposals had been pursued.

23 On 20 October 2016, Pulse announced that it had received a preliminary, non-binding and indicative proposal from Healthe Care to acquire 100% of the outstanding shares in Pulse for $0.47 per share under a scheme of arrangement (being the Scheme).

24 An announcement that Pulse had entered into a binding scheme implementation deed with Healthe Care was made on 30 November 2016. The Scheme Booklet was registered by the Australian Securities and Investments Commission (ASIC) on 1 February 2017. The Scheme meeting was to be held on 22 March 2017 but, in light of the announcement of the Transaction, the Scheme Meeting has been postponed until 1 May 2017.

Deed Poll

25 Sante Capital has entered into a Deed Poll in favour of Healthe Care to vote in favour of the Scheme, in the absence of a superior proposal.

II Scope of our report

Purpose

26 The Directors of Healthe Care and Pulse have requested LEA prepare a report stating whether, in our view:

(a) the consideration to be received by Evolution for the sale of the Hospital Assets, and/or

(b) the leases to be entered into by Evolution and the subsidiaries of Illawarra Healthcare (to be acquired by Healthe Care) for the premises occupied by the Hospital Assets,

constitute the receipt of a "net benefit" by Evolution or Sante Capital within the meaning of TPGN 21.

27 The purpose of our opinion with respect to the Transaction and the Leasing Arrangements is to provide an opinion to Pulse shareholders as to whether Healthe Care is providing Evolution or Sante Capital with a net benefit.

Basis of assessment

28 We have had regard to TPGN 21 in assessing whether anything has come to our attention to cause us to believe that the consideration payable under the Transaction and the Leasing Arrangements constitute the receipt by Evolution or Sante Capital of a net benefit.

29 TPGN 21 sets out the Takeovers Panel's approach to assessing whether there are collateral benefits that give rise to a net benefit and, therefore, the occurrence of unacceptable circumstances. The Takeovers Panel considers that unacceptable circumstances are likely to exist whenever a bidder provides a securityholder something of value (i.e. benefit) which it does not offer to other securityholders.

30 Whilst (in the applicable circumstances) it is ultimately a matter for the Takeovers Panel, TPGN 21 sets out a number of ways that a person might seek to establish that there is no net benefit being provided to a particular securityholder. One of those ways is to provide an expert's opinion about whether there is a net benefit provided by a bidder to a securityholder that is not offered to other securityholders.

31 An expert's opinion about whether there is a net benefit may incorporate a valuation by the expert (or another person). The independent valuation should establish the price that might be negotiated in an open, unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length (market value).

32 We note that TPGN 21 states that the expert's valuation should meet the standards in ASIC's Regulatory Guide 111 – *Content of expert's reports* (RG 111) and Regulatory Guide 112 – *Independence of experts*.

33 Consistent with our understanding of the principles outlined in TPGN 21 requiring an overall view of the Transaction, we have undertaken both a quantitative and a qualitative analysis of the Transaction. In particular, our report has considered:

(a) the market value of the Hospital Assets that are the subject of the Transaction

(b) the value of the consideration offered for the Hospital Assets

(c) the extent to which (a) and (b) differ (in order to assess whether, prima facie, a net benefit is being provided)

(d) the Leasing Arrangements

(e) other qualitative and strategic issues associated with the Transaction.

Limitations and reliance on information

34 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

35 Our report is also based upon financial and other information provided by Healthe Care and its advisers[8]. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

36 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming our opinion. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an independent expert's report (IER).

37 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

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

39 In forming our opinion, we have also assumed that if the Transaction proceeds, it will be implemented in accordance with the terms set out in this report.

8 We have been provided with the following information with respect to the Hospital Assets:
(a) Vendor Due Diligence Report prepared by Ernst & Young dated 10 March 2017.
(b) Due Diligence Report prepared for Healthe Care by PricewaterhouseCoopers dated 15 March 2017.
(c) SCP growth projections post FY17 prepared by Healthe Care.

III The Hospital Assets

40 The Hospital Assets comprise three facilities located in the Illawarra region of NSW. The recent aggregate[9] financial performance of the Hospital Assets is summarised below:

Hospital Assets – historical financial performance			
12 months ended	**30 Jun 15 $000**	**30 Jun 16 $000**	**31 Dec 16 $000**
Total patient revenue	26,758	33,004	33,803
Other income	302	268	555
Total revenue	27,060	33,272	34,358
Personnel Costs	(14,583)	(18,472)	(19,164)
Medical supplies	(2,895)	(3,742)	(3,670)
Other costs	(4,391)	(4,725)	(4,603)
Reported EBITDAR(1)	5,191	6,333	6,921(2)

Note:
1 Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR).
2 The reported EBITDAR for the six months to 31 December 2016 is some $4.1 million.
Source: Management accounts.
Rounding differences exist.

41 A more detailed discussion of the individual hospital facilities is set out below.

South Coast Private

42 SCP is a mental health hospital located in Wollongong. The facility is operated by SCP and is the only private mental health hospital in the Illawarra region. It is located close to SPH, WDS (the other facilities comprising the Hospital Assets) and Wollongong Public Hospital.

43 The facility commenced operation in May 2013 after Evolution acquired and refitted a building previously used as a hotel.

44 SCP currently offers a large range of mental health services and treatments including general psychiatry (with clinic facilities comprising 12 consulting suites), post-traumatic stress disorder (PTSD), veteran services, anxiety management, depression management, anger management, chronic pain management, substance withdrawal and addiction recovery programs.

45 The hospital has 90 beds (across 70 rooms, 20 of which are double) however, the occupancy is currently all single rooms. The hospital also has six group rooms, a gymnasium, art room, outdoor area and clinic suites. The facility is accredited against ISO 9001:2008; the National Safety and Quality Health Service Standards and National Health Standards for Mental Health Services.

Financial performance

46 The recent key performance metrics of the hospital are summarised below:

9 We have been requested not to disclose the separate performance of each individual hospital as this is commercially sensitive.

SCP – historical performance metrics[1]			
12 months ended	**30 Jun 15 $000**	**30 Jun 16 $000**	**31 Dec 16 $000**
Inpatient days[2]	15,857	18,989	18,750
Day patient days[3]	752	395	813
Total patient days	16,609	19,384	19,563
Average inpatient occupancy	62.1%	74.2%	73.2%
Full time equivalent (FTE) staff nos.	59	75	72
Personnel costs / patient revenue	57.4%	58.0%	57.3%

Note:
1 Due to commercial sensitivity we have been asked not to disclose EBITDAR and patient revenue per day.
2 Inpatients are patients admitted to the hospital and staying overnight(s) while under treatment.
3 A patient who attends a hospital for treatment without staying overnight.
Source: Management accounts.

47 In respect of SCP's financial performance, we note the following:

(a) FY16 saw an increase in patient revenue due to increased total patient numbers, new PTSD programs and indexation of private health insurance contracts. Total patient revenue continued to increase in the 12 months ended 31 December 2016

(b) whilst inpatient occupancy rates are increasing, occupancy is below target levels as the hospital is still in the growth phase

(c) day patient numbers are variable however, plans are in place to expand current and implement new day programs to increase day patient numbers (and revenue)

(d) patient revenue per day is steadily increasing

(e) personnel costs are the most significant cost of the business and have increased in FY16 due to increased patient numbers and rollout of PTSD programmes. Personnel costs have remained relatively constant as a percentage of patient revenue.

Outlook

48 In the six months to 30 June 2017, the facility is expected to introduce a new treatment option (transcranial magnetic therapy) for patients with chronic depression, delivering increased patient days and incremental revenue. Further expansion in day programs is also expected to contribute additional revenue in this period. Projected increases in patient numbers in FY17 and FY18 are not expected to result in an increase in FTE, thereby improving the projected EBITDAR margin.

49 Growth in FY18 is expected to continue as a result of the above initiatives with inpatient occupancy rising to 80% and day patients rising by approximately 23%. The renegotiation of private health insurance contracts, indexation of hospital charges and increasing visiting medical officer referrals to SCP are also expected to increase revenue. Staff numbers are not forecast to increase, however the average cost per hour worked is expected to rise by 3.0%.

50 The financial forecasts provided by Evolution have not included the utilisation of the 20 double rooms which are currently being used as individual rooms. Healthe Care estimates that utilisation of these double rooms will increase occupancy to in excess of 80% and ultimately increase day patient attendances.

Shellharbour Private Hospital

51 SPH is a private hospital providing medical, surgical and rehabilitation services. The hospital was opened in 1975 and purchased by Evolution in January 2012. Post-acquisition, Evolution has undertaken redevelopment of the facility including a new 22 bed ward, specialist centre and pathology suite.

52 The facility is operated by SPH and has 70 beds, two operating theatres and one endoscopy[10] suite. Illawarra District Health administers 18 of the beds (known as the Kiama ward) with SPH providing access to the beds, linen and food service for the payment of rent. Services offered at the hospital include day and inpatient rehabilitation programs, surgical procedures (e.g. orthopaedic, oral, ear nose and throat, general, colorectal, plastic), gynaecology, pathology, radiology and pain management.

53 The facility is accredited against ISO 9001:2008 and the National Safety and Quality Health Service Standards.

Financial performance

54 The recent key performance metrics of SPH are summarised below:

SPH – historical performance metrics(1)			
12 months ended	**30 Jun 15 $000**	**30 Jun 16 $000**	**31 Dec 16 $000**
Inpatient days	7,721	10,679	9,566
Day patient days	4,907	7,177	7,987
Total patient days	12,628	17,856	17,553
Average inpatient occupancy	48.2%	51.3%	54.2%
FTE staff nos.	53	84	84
Personnel costs / patient revenue	58.7%	59.1%	60.9%

Note:
1 Due to commercial sensitivity we have been asked not to disclose EBITDAR and patient revenue per day.
Source: Management accounts.

55 In respect of SPH's financial performance, we note the following:

(a) total patient revenue increased significantly in FY16 due to increased patient numbers (both inpatient and day patient). The increase in patient numbers was predominantly in rehabilitation which has a large component of day patients. Inpatient numbers have decreased in the 12 months ended 31 December 2016 as a result of 15 beds being unavailable due to the Kiama ward reconfiguration, as well as disruption caused by development works in the 12 month period

(b) FY15 and FY16 patient revenue was impacted by redevelopment works during the period May 2014 to September 2015

(c) other income in the year ended 31 December 2016 includes the Kiama ward rental from Illawarra Health District

10 Endoscopy is a medical procedure that allows a doctor to inspect and observe the inside of the body without performing major surgery.

(d) operating costs (principally personnel and medical supplies) have increased with increased patient numbers however, personnel costs are projected to remain under 60% of patient revenue.

Outlook

56 New doctors using the surgical facilities in the six months to 30 June 2017 are expected to increase throughput. Increased referrals to visiting surgeons and new equipment is also expected to increase day surgery revenue.

57 Inpatient days are expected to increase due to increased referrals from medical facilities in the area. FY18 impatient occupancy is forecast to grow to 65% as the hospital continues to attract additional visiting medical officers and the referral base is increased. Rehabilitation throughput, principally for day patients, is also forecast to increase as a result of providing additional weekly sessions and from an increase in joint replacement procedures.

58 Personnel numbers are forecast to increase to support the growth in patient fees and wage rates are expected to increase by 3.0% in FY18. However, personnel costs as a percentage of patient revenue are forecast to remain at some 59%.

Wollongong Day Surgery

59 WDS was established in 1990 and was purchased by Evolution in September 2016. The facility is operated by WDS and has two operating theatres, seven licensed first stage recovery beds[11] and four recovery chairs. The day surgery is located in Wollongong's "Health Hub" directly between Wollongong Public Hospital and Wollongong Private Hospital.

60 Evolution currently owns undeveloped land adjacent to the facility (which forms part of the site) available for future expansion. Whilst the land will not be acquired by Healthe Care, it is part of the lease and Healthe Care can construct additional theatre facilities.

61 Procedures performed at the day surgery include ophthalmology, oral, gastrology and orthopaedics.

Financial performance

62 The recent key performance metrics of WDS are summarised below:

WDS – historical performance metrics[(1)]			
12 months ended	**30 Jun 15 $000**	**30 Jun 16 $000**	**31 Dec 16 $000**
EBITDAR margin	20.1%	15.1%	18.5%
Total patient days	6,600	6,205	5,963
Personnel costs / patient revenue	45.3%	46.8%	48.0%
Staff numbers			
Casual and part-time			37
Full-time			13

11 From the operating theatre, patients are transferred to the first stage recovery area, the services, facilities and equipment of which are the same as the recovery area in an acute bed hospital.

Note:
1 Due to commercial sensitivity we have been asked not to disclose EBITDAR and patient revenue per day.
Source: Management accounts.

63 In respect of WDS' financial performance, we note the following:

(a) patient days and total patient revenue declined in FY16 due to competition from the newly opened Wollongong Private Hospital and the retirement of two visiting surgeons

(b) the decline in patient days is also reflected in the year ended 31 December 2016 however, higher fees per admission and more profitable specialties have contributed to revenue growth

(c) personnel costs have increased as a percentage of patient revenue and are expected to continue to increase as patient days grow (however, the percentage of costs to patient revenue is expected to hold at around 50%)

(d) medical supply costs rose in FY16 due to the mix of procedures performed. Medical costs have reduced in the year ended 31 December 2016

(e) financial accounts prior to Evolution's ownership (September 2016) were prepared on a cash basis. Since acquisition, Evolution has implemented accrual accounting.

Outlook

64 WDS is expected to consistently operate at above 90% utilisation. Only three theatre sessions remain unused and it is forecast that these sessions will be filled with the day surgery operating at near 100% utilisation. The forecast patient days in FY18 are lower than historical levels prior to the opening of Wollongong Private Hospital which resulted in a temporary decline in patient numbers. We understand that doctors tried the private hospital's day surgery facilities but prefer the format of WDS.

65 Personnel numbers are expected to increase to 36 by the end of FY18 however, personnel costs are expected to be maintained at around 50% of patient revenue.

IV Valuation methodology

Valuation approaches

66 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

67 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

68 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

69 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

70 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies adopted

71 Given that the SCP facilities are currently in the "ramp-up" phase (i.e. with utilisation / occupancy below target levels), in our opinion, the DCF method is the most appropriate valuation methodology. The DCF method allows the increases in utilisation / occupancy and the resultant impact on earnings to be explicitly modelled until target utilisation / occupancy levels are reached. Whilst SPH and WDS are more mature, we have modelled their EBITDA and future cash flows over the same forecast period for SCP.

72 In order to cross-check the valuation we have also considered the EBITDA multiples implied by our valuation in comparison with the multiples implied by recent transaction evidence in the sector.

V Valuation of the Hospital Assets

73 As discussed in Section IV, we have assessed the value of the Hospital Assets using the DCF and capitalisation of EBITDA approaches.

DCF valuation

74 Our DCF valuation is based on earnings projections for the Hospital Assets prepared by each of Evolution and Healthe Care management, which we have adjusted where considered necessary.

75 It should be noted that in respect of these projections:

(a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions

(b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) the achievability of these projections is not warranted or guaranteed by Healthe Care or LEA, as they are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Healthe Care and its management; and

(e) actual results may be significantly more or less favourable.

76 Our DCF value reflects the present value of the future free cash flows expected to be generated from the Hospital Assets. Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[12], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.

77 The free cash flow projections cover the period to 30 June 2019. This period reflects the time period over which SCP and SHP are forecast to reach target utilisation. A terminal value has also been adopted at the end of the forecast period.

78 As the detailed cash flow projections, EBITDA margins, forecast earnings and values of each hospital are commercially sensitive we have been asked not to set them out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections:

SCP

(a) inpatient occupancy rates increase from 73.2% for the year ended 31 December 2016 to between 80% to 85% by the end of the forecast period (i.e. in FY19). These occupancy rates are expected to be driven by developing relationships with psychiatrists in the

12 Also calculated on an ungeared basis.

region, and are comparable to occupancy rates achieved in other mental health hospitals operated by Healthe Care

(b) day patients increase from 813 in the year ended 31 December 2016 to between 1,690 and 4,172 at the end of the forecast period. The number of day patients at the high end assumes that Healthe Care's existing day programs are implemented at SCP and represents a 15% conversion rate of inpatients to day programs. Whilst the increase in day patients is significant at the high end of the range, the increase is driven by the conversion rate of inpatients to day patients. The conversion rate adopted is consistent with that experienced in other mental health hospitals operated by Healthe Care

(c) the combination of (a) and (b) significantly increases the profitability of SCP due to the relatively large fixed cost base of the hospital. The EBITDA margin (whilst commercially sensitive) is consistent with other mental health facilities operated by Healthe Care

(d) annual rental costs are $2.4 million, which are assumed to escalate annually at 2.5% per annum consistent with the terms of the lease. Rent costs represent 38% to 44% of EBITDAR in FY19 (a lease coverage of 2.3 times), which we understand is broadly consistent with industry benchmarks[13]

SPH

(e) inpatient occupancy rates increase from 54.2% in the year ended 31 December 2016 to 64.7% in FY18 due to an increase in visiting medical officers and increased urology inpatient treatments. We note that the inpatient occupancy achieved in October 2016 and November 2016 was 66.2% and 62.3% respectively

(f) surgical day patients increase from 4,149 in the year ended 31 December 2016 to 4,809 in FY18 (high case) or in FY19 (low case) as a result of the growth in (inter alia) ophthalmology and urology services which were introduced in late 2015 and endoscopy throughput

(g) rehabilitation day patients increase from 3,909 in the year ended 31 December 2016 to 4,809 in FY18 as driven by the introduction of more day rehabilitation sessions per day and additional patients per session

(h) the EBITDA margin (after rent costs) increases to levels consistent with other private hospital facilities operated by Healthe Care

(i) annual rental costs are $1.1 million, which are assumed to escalate annually at 2.5% per annum consistent with the terms of the lease. Rent costs represent some 41% of EBITDAR in FY19 (a lease coverage of 2.4 times), which we understand is broadly consistent with industry benchmarks

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[13] We have confirmed this benchmark by:

(a) confirmation from managers of Australian healthcare real estate investment trusts (REITs) that the general industry rule of thumb is between 40% and 50% of EBITDAR

(b) a review of American healthcare REITs' presentations, which indicate this is reasonable for an inpatient rehabilitation facility

(c) reviewing rental expense / EBITDAR reported by Pulse in FY13 to FY16 and HY17 in respect of its established hospital businesses (which ranges from some 41% to 46%).

WDS

(j) in the low case total patient days are maintained at levels which are broadly consistent with those achieved in the year ended 31 December 2016

(k) in the high case total patient days increase from 5,963 for the year ended 31 December 2016 to 6,020 in FY18 as a result of utilisation of the three remaining unused sessions

(l) annual rental costs are $0.7 million, which are assumed to escalate annually at 2.5% per annum consistent with the terms of the lease. Rent costs represent 39% to 41% of EBITDAR in FY19 (a lease coverage of 2.5 times), which we understand is broadly consistent with industry benchmarks.

79 The other key assumptions adopted are summarised below:

(a) a discount rate of 7.5% per annum (after tax) has been applied, for the reasons set out in Appendix C

(b) a terminal value (TV) multiple of 8.5 times has been applied at the end of FY19. This TV multiple is consistent with the multiples paid for mature hospital assets in recent industry transactions.

Sensitivity analysis

80 There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. As a result we have modelled a low and high case as detailed in the assumptions above.

81 In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations. However, due to the relatively short period until the hospitals reach maturity, the valuation is not sensitive to changes in the discount rate (in the range of +1% or -1%).

82 Having regard to the above, we have adopted a DCF value for the Hospital Assets (on a cash and debt free basis) of $49 million to $56 million.

Cross-check to implied EBITDA multiple

83 The EBITDA multiple implied by our DCF valuation is as follows:

	Low	High
Assessed DCF value ($m)	49.0	56.0
Aggregate EBITDA FY17 ($m)[1]	4.8	4.8
Implied FY17 EBITDA multiple	10.2	11.7

Note:

1 Aggregate FY17 earnings reflect HY17 actual performance and forecast for the six months to 30 June 2017.

84 As stated above we have been asked not to disclose individual earnings or values as they are commercially sensitive. However, we note that our DCF value implies:

(a) an EBITDA multiple of 11.2 to 13.9 times FY17 earnings for SCP. Whilst, prima facie, this appears to be a high multiple, significant EBITDA growth is forecast from FY17 to FY19 as a result of increased inpatient occupancy and day patient attendances

(b) an EBITDA multiple of 9.8 to 10.2 times FY17 earnings for SPH reflecting the growth in earnings from SPH from FY17 to FY19 as a result of the completion of the Kiama ward and the increase in day patient attendances

(c) an EBITDA multiple of 8.8 to 9.2 times FY17 earnings for WDS.

85 The evaluation of the reasonableness of the implied EBITA multiple is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- The stability and quality of earnings
- The quality of the management and the likely continuity of management
- The nature and size of the business
- The spread and financial standing of customers
- The financial structure of the company and gearing level
- The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors
- The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors
- The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- The cyclical nature of the industry
- Expected changes in interest rates
- The asset backing of the underlying business of the company and the quality of the assets
- The extent to which a premium for control is appropriate
- Whether the assessment is consistent with historical and prospective earnings

86 We discuss below specific factors taken into consideration when assessing whether the implied EBITA multiple range for the Hospital Assets is reasonable.

Listed company multiples

87 The multiples for listed companies operating in the Australian private hospital sector are set out in Appendix D. FY17 EBITDA multiples for the hospital operators range from 11.5 to 12.7 times.

88 The listed companies in the healthcare sector that operate hospitals and medical centres are significantly larger and more diversified than the combined operations of the Hospital Assets. The FY17 EBITDA multiples of the listed companies are therefore not necessarily reflective of the EBITDA multiple that would be applicable to the Hospital Assets and should only be considered as a broad indicator of value. Due to the material size differences, in our view, more regard should be had to recent transaction evidence when cross-checking our assessed value of the Hospital Assets.

Transaction evidence

89 There have been a number of transactions in the Australian and New Zealand hospital and day surgery sector in recent years. The related implied EBITDA multiples (where available) are set out in Appendix E. A summary of the EBITDA multiples implied by recent transactions is set out below:

Transaction multiples

Date[(1)]	Target	Acquirer	EV[(2)] millions	Number of hospitals	EBITDA Multiple[(3)] x
Feb 17	Cura Day Hospitals	Fresenius	A$425.0	19	13.7H
Oct 16	Pulse Health	Healthe Care	A$153.3	13	8.6F[(4)]
Dec 15	Boulcott Hospital	Pulse Health	A$19.0	1	8.0F
Dec 15	Healthwoods & Hobson	Pulse Health	A$21.5	4	8.4F
Dec 15	Healthe Care	Luye Medical	A$938.0	17	13.4H
Nov 15	Hunter Valley Private	Healthscope	A$71.6	1	11.0H
Aug 15	Vision Eye Institute	Jangho Group	A$205.4	14	7.9F[(4)]
Apr 15	The Hills Clinic	Pulse Health	A$33.3	1	8.3F
Jul 14	Acurity Health Group	Evolution Healthcare	A$175.0	3	8.3F[(4)]
Jan 14	Cura Day Hospitals	ICG	A$200.0	12	8.5F
Jul 12	Acurity Health Group	Austron	NZ$155.6	3	6.9F[(4)]
Apr 12	Eden Rehabilitation	Pulse Health	A$6.3	1	6.6F
Jul 11	Norfolk Investments	Wakefield Health	A$30.8	1	8.3F[(4)]
Jun 11	Healthe Care	Archer Capital	A$240.0	12	9.0H

Note:
1 Date of announcement.
2 Enterprise value on a 100% basis.
3 H – historic, F – forecast.
4 Based on maintainable EBITDA as assessed by the independent expert.
Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports / financial statements.

90 In relation to the transaction evidence it should be noted:

(a) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control

(b) the targets acquired differ materially in terms of their size and scale of operations

(c) the forecast EBITDA multiple for the Pulse acquisition is based on the earnings assessed by the independent expert. We note that the independent expert assumed that the Gold Coast and Mackay hospitals (which are currently in ramp up[14]) would achieve profitability once they reach maturity. Adopting FY17 forecast earnings (i.e. on a consistent basis with our assessment of the implied EBITDA multiple in the Transaction), the forecast earnings multiple is in the range of 10.8 to 12.0 times EBITDA

(d) the implied EBITDA multiple for Vision Eye Institute reflects the combined ophthalmic consulting and surgical business and the day surgery operations (which represented 37% of FY15 revenues). We note that the independent expert applied an EBITDA multiple of 8.5 to 9.5 to the day surgery operations

14 With the Gold Coast hospital currently incurring significant losses.

(e) whilst not publicly available, we have also had regard to the multiples paid by Healthe Care in recent acquisitions of individual private hospital assets.

Conclusion on the reasonableness of the implied EBITDA multiple

91 Having regard to the above and, in particular, the projected earnings growth of the hospitals over the forecast period, we consider the implied EBITDA multiples set out and discussed in paragraphs 83 to 84 to be reasonable and appropriate.

VI Evaluation of the Transaction

Approach

92 Consistent with our understanding of the principles outlined in TPGN 21 requiring an overall view of the transactions, we have undertaken both a quantitative and a qualitative analysis of the Transaction. In particular, our report has considered:

(a) the market value of the Hospital Assets that are the subject of the Transaction

(b) the value of the consideration offered for the Hospital Assets

(c) the extent to which (a) and (b) differ (in order to assess whether, prima facie, a net benefit is being provided)

(d) the Leasing Arrangements

(e) other qualitative and strategic issues associated with the Transaction including the process undertaken in negotiating the Transaction.

93 Our assessment of these factors is set out below.

Market value of the Hospital Assets

94 We have assessed the market value of the Hospital Assets (on a cash and debt free basis) to be in the range of $49 million to $56 million as detailed in Section V of our report.

Value of the consideration

95 The consideration to be received by Evolution for the Hospital Assets is $53.0 million, subject to certain adjustments set out in the share sale agreement for the Transaction (including a post-completion adjustment relating to working capital and net debt).

Assessment

96 This comparison is shown below:

	Low $000	High $000
Value of the Transaction consideration	53.0	53.0
Value of the Hospital Assets	49.0	56.0
Extent to which the Transaction consideration exceeds (or is less than) the value of the Hospital Assets	4.0	(3.0)

97 As the consideration offered by Healthe Care for the Hospital Assets is consistent with our assessed value range of the Hospital Assets, in our opinion, there is no net benefit being provided to Evolution or Sante Capital.

Leasing Arrangements

98 Evolution and the subsidiaries of Illawarra Healthcare (to be acquired by Healthe Care under the Transaction) have entered into long-term leases for the premises occupied by SCP, SHP and WDS. The rental expense included in the forecasts provided to LEA appears consistent with industry benchmarks.

Qualitative considerations

99 In addition to the quantitative analysis above, we have also considered other qualitative and strategic issues associated with the Transaction, including the process leading to the announcement of the Transaction.

100 On 22 July 2016, an article appeared in the *Australian Financial Review* in relation to the acquisition by Sante Capital as trustee of the Sante Capital Trust of between 10% and 15% of the shares in Pulse. This acquisition came at a time when Pulse had already received confidential, highly conditional, indicative proposals and expressions of interest from other parties (which may have included Evolution) relating to control transactions.

101 On 20 October 2016, Pulse announced that it had received a preliminary, non-binding and indicative proposal from Healthe Care to acquire 100% of the outstanding shares in Pulse for $0.47 per share in cash via a scheme of arrangement (being the Scheme).

102 On 30 November 2016, Pulse announced that it had entered into a binding scheme implementation deed with Healthe Care for the acquisition of 100% of Pulse.

103 With respect to the Transaction, we have been advised that:

(a) the parties commenced preliminary discussions in January 2017, after Healthe Care approached Pulse in connection with the Scheme

(b) the parties sought respective external advisers at various stages to assist in the discussions and evaluation of the Transaction

(c) the Transaction is a strategic acquisition by Healthe Care to consolidate its position as a large unlisted Australian private hospital and day surgery operator. In contrast, Evolution only has a small number of hospitals in the Australian market

(d) Evolution will continue to hold the properties from which the Hospital Assets operate (at least in the short term). Healthe Care management have satisfied themselves that the rental to be paid for the use of the properties represents a market rental based on industry benchmarks

(e) the Transaction will proceed regardless of the outcome of the vote at the Scheme meeting

(f) the Transaction reflects the combined negotiated outcome of the process undertaken.

104 Whilst the Transaction provides Evolution with a liquidity event with respect to the Hospital Assets:

(a) as Evolution owns 100% of Illawarra Healthcare there are no impediments to Evolution selling the Hospital Assets

(b) the transactions outlined at paragraph 89 demonstrate there is a market for private hospital operations.

Conclusion

105 Based on the matters and analysis set out in this report we have concluded that:

(a) the $53.0 million purchase price for the Hospital Assets is consistent with our assessed value range of $49.0 million to $56.0 million. Thus, neither Evolution (nor Sante Capital[15]) is receiving a net benefit with respect to the value of the Hospital Assets as a result of the Transaction

(b) the rent to be charged under the Leasing Arrangements appears consistent with market benchmarks. Accordingly, Evolution (nor Sante Capital[16]) is not receiving a net benefit with respect to the Leasing Arrangements

(c) nothing has come to our attention to indicate that either the Transaction or the Leasing Arrangements were not negotiated at arm's length.

15 We note that Sante Capital is not party to the Transaction.

16 We note that Sante Capital is not party to the Leasing Arrangements.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001* (Cth) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to be sent to Pulse shareholders in connection with the Scheme and the Transaction.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $50,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the *Corporations Act 2001* (Cth). LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.

2 This report was prepared by Mr Craig Edwards and Ms Julie Planinic, who are each authorised representatives of LEA. Mr Edwards and Ms Planinic have over 23 years' and 19 years' experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Directors of Healthe Care to accompany the update letter to be sent from Pulse to Pulse shareholders in relation to the Scheme. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not a net benefit is being provided to Evolution or Sante Capital.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Ms Planinic have any interest in the outcome of the Transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 LEA has had no prior business or professional relationship with Healthe Care or Evolution prior to the preparation of this report.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Healthe Care agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Healthe Care which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to this report accompanying the update letter to be sent from Pulse to Pulse shareholders relating to the Scheme, in the form and context in which this report accompanies such update letter.

Appendix C

Assessment of appropriate discount rate

1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.

2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.

3 Businesses are normally funded by a mix of debt and equity. The weighted average cost of capital (WACC) is a widely used and accepted basis to calculate the "representative" rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.

4 Consequently, we set out below an explanation of:

(a) the WACC and its elements (including the CAPM, its application in determining the cost of equity, the cost of debt and debt equity mix)

(b) our assessment of the appropriate parameters to be used in determining the discount rate to apply.

Weighted average cost of capital

5 The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation[17] as shown below:

WACC formula

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

where:

R_e = expected equity investment return or cost of equity in nominal terms
R_d = interest rate on debt (pre-tax)
t = corporate tax rate
E = market value of equity
D = market value of debt
V = market value of debt plus equity

[17] Given free capital flows between developed countries and the small size of the Australian stock market (as a percentage of global markets), the cost of capital of listed companies (other than perhaps regulated infrastructure assets) should be assessed in a global context ignoring Australian imputation. This is the approach generally adopted by independent experts.

Appendix C

CAPM and the cost of equity

6 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, rational investors are risk adverse and demand higher returns for accepting higher levels of risk.

7 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Cost of equity calculation		
$R_e = R_f + \beta_e[E(R_m) - R_f]$		
where:		
R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

8 The individual components of the CAPM are discussed below.

Risk-free rate

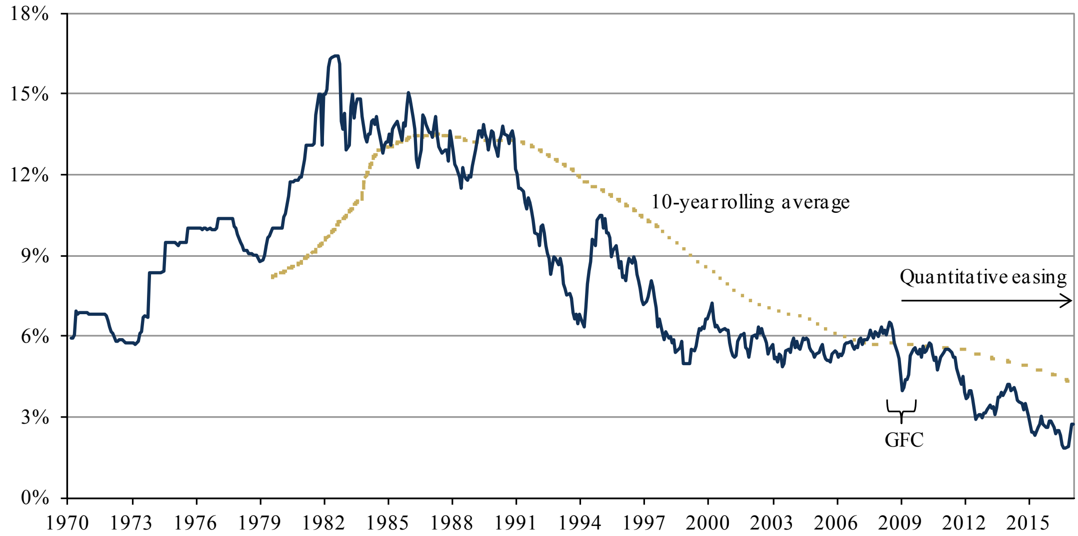
9 The risk-free rate is the theoretical rate of return on an investment with no risk of financial loss. It represents the interest that an investor would expect to receive from a completely risk-free investment over a given period of time.

10 The risk-free rate is normally approximated by reference to a long-term government bond with a maturity equivalent to the timeframe over which the returns from the assets being valued are expected to be received. Typically in the Australian context, the yields on long-term Commonwealth Government bonds (CGBs) are used as a proxy for the long-term risk-free rate.

11 However, when assessing the appropriate long-term risk-free rate for the purposes of calculating the cost of equity capital it should be noted that the yields currently prevailing on long-term CGBs are well below historical levels (as shown in the chart below) due to, inter-alia, the weak outlook for global economic growth (and its impact on the outlook for the Australian economy) and the effect of quantitative easing measures by major overseas central banks, which has reduced interest rates on overseas government bonds to, in our view, unsustainably low levels.

Appendix C

Australian 10 year government bond yield – nominal
January 1970 to January 2017



Source: Bloomberg.

12 Our view that current capital market yields are abnormally low is consistent with debt markets where credit spreads have generally increased to offset the impact of the lower risk-free rate.

13 Accordingly, in our view, the risk-free rate and the MRP should be assessed in conjunction with each other and the application of the current (very low) CGB yields and long-term average MRP is inappropriate in the context of determining long-term required equity rates of return (discount rates).

14 Two approaches that are commonly considered in regulatory pricing and commercial valuations are:

(a) calculate WACC using the current CGB yield and an implied MRP that is higher than that derived from the long-term average of historical excess returns (i.e. the rate of return over and above the risk-free rate estimated by the CGB yields[18])

(b) calculate WACC using a "normalised" risk-free rate based on a long-term historical average and an MRP that is based on the observed long-term average of historical excess returns.

[18] Given the very long-term nature of the measurement, the impact of quantitative easing and other post-GFC type government stimulus measures is significantly "averaged out".

15 The first approach recognises the fact that current abnormally low interest rates coincide with heightened economic uncertainties[19] and/or increased investor risk aversion. However, the approach is difficult to apply in practice because it is difficult to reliably measure short-term changes in the ex-ante MRP.

16 We have therefore adopted the second approach, and have adopted a long-term risk-free rate in Australia of 4.0% per annum.

17 Whilst our adopted rate is higher than the yield on 30-year CGBs of approximately 3.7% as at 28 February 2017, our adoption of a risk-free rate that is higher than the current historically low CGB yields in assessing the CAPM rate of return for long-lived assets is consistent with:

(a) the approach recommended by Duff & Phelps of normalising the risk-free rate by reference to long-term average yields on government-issued bonds[20]

(b) the work of Pablo Fernandez and colleagues[21] who reviewed valuation reports by 156 analysts from 35 different companies published in 2015 about companies with headquarters in six countries (France, Germany, Italy, Spain, the United Kingdom and the United States of America) and found that most of the analysts used a risk-free rate higher than the yield on domestic 10-year government bonds.

18 Whilst regulatory bodies in Australia generally favour the use of current CGB yields for the risk-free rate (rather than longer term averages or adjusted risk-free rates), it should be noted that these regulatory bodies are not assessing the appropriate risk-free rate in the context of the long-term rate of return required by debt and equity investors (but rather the risk-free rate likely to prevail over a relatively short five-year period, which is then subject to change depending on market conditions at that time). As a result, the risk-free rates adopted by regulatory authorities in Australia are therefore not necessarily the appropriate risk-free rates to adopt when determining the appropriate discount rate for a business.

Market risk premium

19 The MRP represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities (i.e. the equity market as a whole). Strictly speaking, the MRP is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the MRP is to average realised (ex-post) returns over a long period.

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[19] This is particularly the case in Australia at the present time given that Australia's economic growth is linked with China's growth as it has been the engine of growth for Australia and the world during the post-GFC period. As the expectation of economic growth in China tapers off and the associated mining boom in Australia ceases, there are uncertainties as to what will drive domestic growth in Australia going forward. The ongoing uncertainty in regard to the Australian economy and the global economy, and highly expansionary monetary policy adopted in other developed economies has contributed to both the Reserve Bank of Australia (RBA) maintaining the cash rate at record lows and the observed low CGB yields.

[20] Source: Duff & Phelps (2016) *Valuation handbook: guide to cost of capital.*

[21] Fernandez, Pizarro and Acin (2015) *Huge dispersion of the risk-free rate and market risk premium used by analysts in USA and Europe in 2015.*

Appendix C

20 In assessing the MRP, it is necessary to recognise that the MRP is a forward-looking concept. It is an expectation, which cannot be directly observed and needs to be estimated. We have had regard to the MRP adopted by Australian Regulators, as discussed below.

MRP – Historic excess returns

21 Various academic studies put the historical MRP of the Australian equity market in a wide range from 4% to 7% depending on the historical period chosen, whether the MRP is measured relative to bills or bonds, and whether an arithmetic or geometric mean is used.

22 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or MRP. Consequently the MRP should be measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard error of the mean where a shorter period is used. This supports more reliance being placed on the average MRP calculated over the longer term. However, some authors have raised concerns regarding the poor quality of the data available for periods prior to 1958.

23 A recent study of the MRP in Australia by Brailsford, Handley and Maheswaran, analysed data for the period from 1883 to 2005 (inclusive). The following table reports the MRP in nominal terms as measured by this data set, for different time periods up to 2005:

Australia's MRP - Historical excess returns

Time period[1]	Years	Arithmetic mean %	Geometric mean %	Standard deviation %
Relative to bills[2]				
1883 – 2005	123	6.6	5.3	16.0
1937 – 2005	69	6.4	4.6	19.1
1958 – 2005	48	6.8	4.5	22.1
1980 – 2005	26	6.2	3.9	21.9
1988 – 2005	18	5.2	4.2	15.2
1883 – 1987	105	6.8	5.5	16.2
Relative to bonds[3]				
1883 – 2005	123	6.2	4.9	16.0
1937 – 2005	69	5.8	4.0	19.1
1958 – 2005	48	6.3	4.0	22.0
1980 – 2005	26	6.0	3.8	21.7
1988 – 2005	18	5.1	4.0	15.0
1883 – 1987	105	6.4	5.1	16.2

Note:
1 The first four periods have increasing data quality but decreasing sample size. The fifth period begins from the introduction of the imputation tax system in Australia.
2 Various types of bill returns were used due to the lack of a continuous government bill issue covering the study period. The majority of the bill return data is the yield on three month CGBs.
3 Historical bond returns were also collected from a number of sources. Most of the bond returns are CGB yields with a maturity of 10 years or more.

Source: Brailsford et al. (2008) *Re-examination of the historical equity risk premium in Australia* Accounting and Finance 48:73-97, Table 4.

Appendix C

24 Prior to the 2008 global financial crisis (GFC), independent experts in Australia generally adopted an MRP of around 6.0%. Whilst the MRPs adopted by valuation practitioners (and regulatory bodies) generally increased in for a relatively short period following the GFC they have subsequently returned to long-term historical averages of around 6.0%.

25 In October 2015, the Australian Competition and Consumer Commission (ACCC) released their final decision regarding the prices that other operators pay to use Telstra's copper network to provide telecommunication services to consumers. In this final decision the ACCC adopted an MRP of 6.0%[22], having regard to empirical evidence on long-term average of historical excess returns and survey evidence by market practitioners. The empirical evidence relied on by the ACCC was compiled by the Australian Energy Regulator (AER) and has since been updated to the end of the 2015 calendar year shown below:

Australia's MRP - Historical excess returns		
Sampling period	Arithmetic average %	Geometric average %
1883 – 2015	6.1	4.8
1937 – 2015	5.7	3.9
1958 – 2015	6.2	3.8
1980 – 2015	5.9	3.5
1988 – 2015	5.2	3.6

Source: AER (May 2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214.

26 Although the AER provides both arithmetic and geometric averages it notes that:

"... we consider there may be evidence of bias in the geometric averages. Therefore, our range for historical returns is based on arithmetic averages."

MRP – Survey data

27 Survey estimates explore investor expectations about the MRP. They achieve this by directly asking investors and market practitioners what their expectations are and/or what they apply in practice. The AER in its 2013 *Rate of Return Guideline* report, reviewed evidence from relevant surveys and this review was updated in its 2015 final decision for Jemena Gas Networks[23].

28 We have updated the AER's review of surveys to include those released in 2016. The mean and median MRP across a number of surveys is supportive of an MRP of 6.0% as indicated in the table below:

22 Source: ACCC (October 2015) *Public inquiry into final access determinations for fixed line services - Final Decision* pages 75-76.

23 Source: AER (2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214.

Australia's MRP – Survey results				
Survey	**Survey date**	**Number of responses**	**Mean %**	**Median %**
Fernandez et al. (2013)	May–Jun 12	73	5.9	6.0
Fernandez et al. (2013)	May–Jun 13	17	6.8	5.8
Asher and Hickling (2013)	Sep 13	46	4.8	5.0
Fernandez et al. (2014)	May–Jun 14	93	5.9	6.0
Asher and Hickling (2015)	Dec 14	27	4.4	4.6
Fernandez et al. (2015)	Mar–Apr 15	40	6.0	5.1
Asher and Carruthers (2016)	Dec 15	29	4.9	n/a
Fernandez et al. (2016)	Apr 16	87	6.0	6.0

Source: AER (2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214; Fernandez et al. (2016) *Market risk premium used in 71 countries in 2016*; Asher and Carruthers (May 2016) *Equity risk premium survey 2016* Actuaries pages 7-8.
n/a – not applicable.

29 Having regard to all of the above and, in particular, the more stable equity market conditions and values currently prevailing in Australia, we have adopted a long-term MRP of 6.0%.

Equity beta

Description

30 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1.0 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1.0 suggests that future returns will be less volatile and risky.

31 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.

32 In determining the appropriate equity beta for the Hospital Assets we have considered:

(a) the risks faced by Australian private hospital companies generally

(b) the risks associated with the businesses of the Hospital Assets; and

(c) the beta estimates for comparable companies and the relevant sector.

Risk of private hospital operations in Australia and the Hospital Assets

33 In assessing the appropriate beta attributable to companies with private hospital operations in Australia the following risks and factors are relevant:

(a) the sector is heavily regulated

(b) revenue is primarily derived from private health insurance funds through negotiated schedules of fees, therefore profitability depends on the business' ability to reach ongoing commercial agreement with private health insurance funds[24]

(c) the sector is experiencing strong growth in demand due to[25]

   (i) the aging population

   (ii) population growth

   (iii) increased prevalence of chronic health conditions

   (iv) new technologies / therapeutic innovations

(d) private health insurance coverage for hospital treatment has grown steadily since the introduction on 1 July 2000 of Life Time Health Cover, a Government initiative designed to encourage people to take out hospital insurance earlier in life and to maintain their cover

(e) current government policies continue to support uptake of private health insurance.

34 In summary, considering the above factors, in our opinion, the level of systematic risk associated with private hospital operations in Australia is lower than the level of systematic risk of the market as a whole (implying an equity beta lower than 1).

Betas of comparable companies

35 In order to assess the appropriate equity beta for the Hospital Assets, we have also had regard to the equity betas of companies listed on the ASX as shown below:

Listed company betas

Company	Principal activities	Market cap(1) $m	Beta(2)	R-squared(3)
Pulse	Australian hospital operations	105	0.47	0.01
Primary Health Care	Australian medical centre operations; pathology; imaging	1,721	0.69	0.06
Healthscope	Australian hospital operations; overseas pathology	3,904	1.11	0.21
Ramsay Health Care	Australian and overseas hospital operations	14,310	0.95	0.27
Mean			0.81	
Industry beta(4)				
Health Care Equipment & Services			0.71	0.36

24 Source: Healthscope IPO prospectus 2014.

25 Source: Ramsay Health Care AGM presentation November 2016.

Note:

1 Market capitalisation as at 28 February 2017, except for Pulse Health which is based on the 28 November 2016 share price, being the day prior to the announcement of a takeover bid.
2 The OLS beta as at 31 December 2016, being the most current data available as at the date of this report. The betas are based on 48 monthly returns, except for Healthscope, which is based on 29 months as it first listed in July 2014.
3 Companies with an r-squared value close to 1.0 have a low level of company-specific risk, and companies with an r-squared value close to zero have a high level of company-specific risk. Therefore, companies with a low r-squared value are less indicative of the risk of the sector overall.
4 SIRCA Class.

Source: Bloomberg and SIRCA.

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36 The above comparable company betas vary widely which reflects differences in size, leverage, stage of development and operational risks. None of the listed companies are directly comparable to the Hospital Assets. However, we note that the betas of these companies are close to or less than the average market beta of 1.0, indicating a lower level of systematic risk for the Hospital Assets' operations generally.

37 As the r-squared values for Pulse and Primary Health Care are very low we have given greater weight to the betas of Healthscope, Ramsay Health Care and the Health Care Equipment & Services sector.

38 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long run. In addition, gearing ratios typically change over time. Further, the practice of adjusting equity betas for the difference in financial leverage also gives a misleading impression that the process provides precise comparable beta estimates.

39 Nevertheless, we have considered the following in determining the appropriate equity beta for the Hospital Assets:

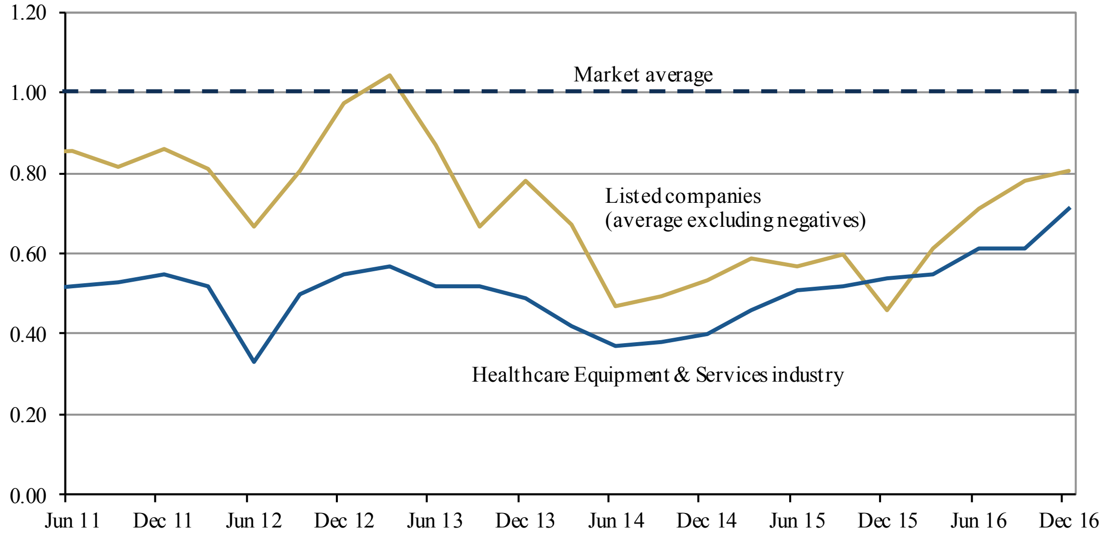
(a) the difference in gearing levels of comparable companies where these levels differ significantly

(b) the current gearing levels of the Hospital Assets and the long-term gearing levels that we consider appropriate.

Historical betas

40 The chart below shows the historical beta estimates of the comparable companies (average) and the Health Care Equipment & Services sector, which have remained significantly below the market average over time:

Historical betas[1]



Note:
1 Listed companies as per paragraph 35 of this Appendix.
Source: SIRCA.

Conclusion

41 Having regard to the above, and in particular the reliability of beta estimates and the long-term beta estimates of the sector in which the Hospital Assets operate, we have adopted an equity beta of 0.70 for the Hospital Assets.

Gearing

42 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the "optimum" level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:

(a) the variability in earnings stream

(b) working capital requirements

(c) the level of investment in tangible assets

(d) the nature and risk profile of the tangible assets.

43 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then, in theory, the equity beta would need to be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to

considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of "comparable" listed companies over the period over which the beta estimates were calculated.

44 The Hospital Assets are expected to be able to support a reasonable level of gearing due to the relatively stable nature of its revenue stream. However, because the hospital buildings are leased rather than owned, we have adopted a gearing level less than the sector average.

Debt to EV ratios (based on market capitalisation of equity				
As at	**30 Jun 14**	**30 Jun 15**	**30 Jun 16**	**28 Feb 16(1)**
Ramsay Health Care	12%	19%	18%	17%
Primary Health Care	32%	30%	29%	32%
Healthscope	na(2)	17%	21%	28%
Pulse	cash positive	18%	19%	21%(3)
Mean	22%	21%	22%	25%

Note:
1 Net debt is based on 31 December 2016 statements of financial position.
2 Healthscope first listed on 28 July 2014.
3 Based on the share price for 28 November 2016, being the day prior to the announcement of a takeover offer.
na – not available.

45 Accordingly we have adopted a gearing ratio of 20% debt to 80% equity for the Hospital Assets, which we consider appropriate. This gearing ratio also recognises the debt servicing capacity of the business.

Cost of debt

46 A long-term cost of debt of 6.5% per annum has been adopted. This reflects a borrowing margin of around 2.5% above the long-term risk-free rate.

47 The yields on 10-year BBB- rated bonds issued by Australian non-financial companies have averaged 2.8% above the yield on CGBs over the last five years, and averaged 2.3% above the yield on CGBs for January 2017[26].

48 Having regard to the above, we consider a long-term debt margin of 2.5% above the long-term risk-free rate for the Hospital Assets is appropriate.

Calculation of nominal WACC

49 Based on the above we have adopted a discount rate of 7.5% per annum (after tax) for the Hospital Assets:

[26] Source: RBA Table F03 *Aggregate Measures of Australian Corporate Bond Spreads And Yields.*

Appendix C

Calculation of WACC	
Parameters	
Beta	0.70
MRP	6.0%
Risk-free rate	4.0%
Cost of equity	8.2%
Debt margin	2.5%
Cost of pre-tax debt	6.5%
Tax rate	30.0%
Cost of post-tax debt	4.6%
Gearing	20.0%
After tax nominal WACC	7.5%

Appendix D

Listed company multiples

1 The following table summarises the key trading metrics as at 31 December 2016 and forecasts for ASX-listed companies operating in the private hospital sector.

Listed multiples summary[1]

				EBITDA Multiple			EBIT Multiple		
	Market capitalisation	Enterprise value	Gearing	Actual CY16	Forecast FY17	Forecast FY18	Actual CY16	Forecast FY17	Forecast FY18
	$m	$m	%	×	×	×	×	×	×
Ramsay Health Care	14,251	17,312	17	13.7	12.7	11.8	19.8	16.3	15.1
Healthscope	3,904	5,417	28	13.0	11.5	10.2	17.4	17.2	15.9
Primary Health Care	1,721	2,548	32	7.8	8.1	7.6	13.9	14.2	12.9
Average				**11.5**	**10.8**	**9.9**	**17.0**	**15.9**	**14.6**

Note:
1 Enterprise value, market capitalisation and gearing calculated as at 28 February 2017.
2 Forecast earnings are based on averages of broker forecasts, sourced from Bloomberg.
3 Gearing equals net debt divided by enterprise value.
Source: Bloomberg, latest full year and interim company accounts, company announcements, LEA analysis.

Appendix D

Comparable company descriptions

Ramsay Health Care

2 Ramsay Health Care is an Australia-based global hospital group operating over 220 hospitals and day surgery facilities across Australia, France, the United Kingdom, Indonesia and Malaysia. It is one of the top five private hospital operators in the world.

3 Ramsay Health Care facilities cater for a broad range of health care needs from day surgery procedures to highly complex surgery, as well as psychiatric care and rehabilitation. With circa 25,000 beds, the company treats almost 3 million patients each year.

Healthscope

4 Healthscope is primarily a private hospital owner and operator in Australia. The company also provides human pathology services in New Zealand, Malaysia, Singapore and Vietnam, and veterinary pathology services in New Zealand.

5 Concentrated in large metropolitan centres, across all states and territories, the company’s 45 hospitals provide a wide range of acute, medical, maternity, rehabilitation and mental health services, treating over 900,000 patients per year. As at February 2017, the company had a further nine hospitals under construction which on completion will provide a total of 792 additional beds.

6 Healthscope also operates in the disability support sector, providing accommodation, attendant care and in-home services to individuals with acquired brain injuries, disabilities, complex conditions and those who have left hospital and require additional support at home.

Primary Health Care

7 Primary Health Care operates a network of multi-disciplinary day surgeries, medical centres, pathology laboratories and diagnostic imaging centres in Australia. Over 8 million general practitioner consults per year take place in the company’s medical centres and the company conducts around 3 million radiography examinations per year.

8 Procedures performed at Primary Health Care’s day surgeries include, laser vision correction, cataract surgery, cosmetic surgery, removal of skin cancers, carpel tunnel surgery, hernia repairs, colonoscopies, gastroscopies, gynaecological examinations and other surgical procedures that require short or local anaesthesia.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Transaction evidence – hospitals and day surgeries

1 The following table sets out the implied EBITDA and EBIT multiples for recent transactions in the private hospital and day surgery sector, with a brief description of the company's activities at the time of the acquisition following:

Private hospital and day surgery transactions

Date[1]	Target	Acquirer	Description	Enterprise value[2] (millions)	EBITDA multiple Historical x	EBITDA multiple Forecast x	EBIT multiple Historical x	EBIT multiple Forecast x
Feb 17	Cura Day Hospitals Group	Fresenius	Day hospitals	A$425.0[3]	13.7[4]	na	16.1	na
Oct 16	Pulse	Healthe Care	Hospitals / day surgeries	A$153.3	nm	8.6 – 10.6[5]	nm	10.8 – 14.2[5]
Dec 15	Boulcott Hospital	Pulse	Surgical hospital	A$19.0	11.0	8.0	na	na
Dec 15	Healthwoods and Hobson	Pulse	Day surgeries	A$21.5	8.4	na	na	na
Dec 15	Healthe Care	Luye Medical	Hospitals	A$938.0	13.4	na	na	na
Nov 15	Hunter Valley Private Hospital	Healthscope	Hospital	A$71.6	11.0	na	14.1	na
Aug 15	Vision Eye Institute	Jangho Group	Day surgeries	A$205.4	7.8	7.9[6]	9.5	10.1[6]
Apr 15	The Hills Clinic	Pulse	Mental health facility	A$33.3	10.4	8.3[7]	na	na
Jul 14	Acurity Health Group	Evolution Healthcare	Hospitals	NZ$175.0	8.6	8.3[6]	na	na
Jan 14	Cura Day Hospitals Group	ICG	Day hospitals	A$200.0	14.2	8.5[9]	16.5	9.6[9]
Jul 12	Acurity Health Group	Austron	Hospitals	NZ$155.6[8]	7.6	6.9[6]	na	na
Apr 12	Eden Rehabilitation Hospital	Pulse	Rehabilitation hospital	A$6.3	8.3	6.6[10]	na	na
Jul 11	Norfolk Investments	Wakefield Health	Hospital	NZ$30.8	8.3	8.3	13.8	14.3
Jun 11	Healthe Care	Archer Capital	Hospitals	A$240.0	9.0	na	na	na
				Average	**10.1**	**8.2**	**14.0**	**11.8**
				Median	**9.0**	**8.3**	**14.1**	**10.8**

Appendix E

Note:

1 Date of announcement.
2 On a 100% basis.
3 Transaction was for a 70% interest in the company. Enterprise value is based on 100% of the mid-point of the reported value of Cura Day Hospitals Group.
4 Historical results do not allow for three recent acquisitions, as well as other refurbishments and expansions. On a pro-forma basis, including allowance for earnings from the acquisitions / refurbishments would result in materially lower EBIT and EBITDA multiples.
5 Lower forecast multiples are based on future maintainable earnings (FME) assessed by the independent expert opining on the transaction and includes an estimate of the potential earnings from Gold Coast Surgical Hospital and Mackay Rehabilitation Hospital once they reach maturity. Higher forecast multiples are based on an average of broker forecasts and company guidance and are adjusted for expected additional investment at Gold Coast Surgical Hospital.
6 Multiples are based on FME assessed by the independent expert opining on the transaction.
7 Multiple is based on annualised month of May 2015 plus synergies captured to May 2015.
8 Transaction was for a 50.01% interest in the company.
9 Multiples are based on actual financial results for the year ended 30 June 2014.
10 Multiple includes synergies of $0.2 million expected to be achieved by Pulse.

Source: LEA analysis using data from ASX announcements, media articles, broker reports and company annual reports.
na – not available. nm – not meaningful.

Appendix E

Target company descriptions

Cura Day Hospitals Group (February 2017)

1 Cura Day Hospitals Group was founded in 2008 and has grown to become the largest independent day hospital operator in Australia. It provides a variety of specialised medical services, such as ophthalmology and orthopaedic surgery, in an outpatient setting. As of February 2017 (the date of the Fresenius acquisition), the group operated 19 day hospitals across most states and territories in Australia, with three of these hospitals only recently acquired. In addition, the company completed a refurbishment of its Sydney Day Surgery - Prince Alfred facility in September 2016, and relocated and expanded its Dee Why Endoscopy Unit in January 2017.

Pulse (October 2016)

2 Pulse is a leading operator of specialist hospitals in Australia and New Zealand. As of January 2017, the company operated a total of 13 facilities in NSW, Victoria, Queensland and New Zealand, comprising five day surgeries and eight hospitals. Medical services provided at the company's facilities include specialist rehabilitation and mental health services, regional medical and surgical services and specialist surgical services. The company's Gold Coast Surgical Hospital is currently in the operational ramp-up phase, with an additional investment (predominantly operating losses) of between $1.5 million and $3.5 million anticipated for FY17.

Boulcott Hospital (December 2015)

3 Boulcott Hospital is a specialist surgical hospital located in New Zealand's Hutt Valley which provides inpatient and day-patient surgery. At the date of Pulse's acquisition, the hospital had four operating theatres, 29 inpatient beds, a nine bed day-suite and was supported by approximately 45 specialists. Boulcott Hospital is co-located with the 300-bed public Hutt Hospital.

Healthwoods and Hobson (December 2015)

4 The Healthwoods Specialist Centre is a day surgery with two theatres and nine medical practitioners as at 30 June 2015. The facility is located at Granville, NSW and is the only specialised endoscopy centre within Sydney's inner west suburbs.

5 Hobson Healthcare (Hobson) is comprised of three day surgeries in Victoria which had 28 medical practitioners specialising in endoscopy procedures as at 30 June 2015. The three facilities are all located within 30 kilometres of Melbourne's central business district at Altona, Werribee and Sydenham.

Healthe Care (December 2015)

6 As at the date of Luye Medical's acquisition, Healthe Care was one of Australia's largest private hospital operators. It had a portfolio of 17 hospitals located in major metropolitan and key regional areas across Australia which provide a range of inpatient, outpatient and community based health care services. The company's facilities had approximately 1,800 beds, 50 operating theatres and 4,500 employees. Luye Medical's acquisition of Healthe Care in 2015 marked its entry into the Australian healthcare market.

Appendix E

Hunter Valley Private Hospital (November 2015)

7 Hunter Valley Private Hospital is an 83 bed private hospital located in Shortland, NSW. The hospital provides a range of clinical services including rehabilitative care, day and inpatient surgery, acute medical care as well as palliative care. Established in 1965, the hospital is the oldest working private hospital in the Hunter Valley area.

Vision Eye Institute (August 2015)

8 Vision Eye Institute is Australia's largest provider of ophthalmic care, diagnosing and treating people with eye disorders and diseases. As at August 2015, the company operated 14 consulting clinics, six refractive and laser eye surgery centres and nine day surgeries across the east coast of Australia. The company's services include specialist eye care in the areas of corneal surgery, refractive surgery, cataract surgery, ocular plastics, glaucoma treatment and surgery, vitreoretinal surgery and treatment for macular degeneration.

The Hills Clinic (April 2015)

9 The Hills Clinic is a purpose built private hospital with 59 beds and seven consulting rooms, including a young adult ward for patients aged 16 to 25 known as "YA@theloft". The hospital is located in north-west Sydney and provides inpatient and day patient mental health programs, specialising in treating mood and anxiety, addiction and depression related issues. At the time of Pulse's acquisition of the hospital, the facility had a team of 13 admitting psychiatrists.

Acurity Health Group (July 2014)

10 At the time of Evolution's acquisition, Acurity Health Group (formerly Wakefield Health) was one of New Zealand's leading providers of private surgical healthcare services. It owned and operated three wholly owned private hospitals, being the Wakefield Hospital and Bowen Hospital in Wellington, and Royston Hospital in Hastings. The company's hospitals provided a range of medical services, primarily surgical procedures and post-operative care. In addition, Acurity Health Group owned a 60% interest in Grace Hospital (which it obtained through the acquisition of Norfolk Investments in 2011) and a 30% interest in Endoscopy Auckland and Laparoscopy Auckland.

Cura Day Hospitals Group (January 2014)

11 At the time of the acquisition by Intermediate Capital Group, Cura Day Hospitals Group owned a total of 12 day hospitals specialising in medical services, such as ophthalmology and orthopaedic surgery, in an outpatient setting. In the year prior to the acquisition, Cura Day Hospitals Group acquired the Launceston-based Eye Hospital in August 2013, which was the company's largest acquisition to date, and the Victoria Parade Surgery Centre in December 2013.

Acurity Health Group (July 2012)

12 At the time of Austron's acquisition of a 50.01% interest in Acurity Health Group (formerly Wakefield Health), Acurity Health Group was one of New Zealand's leading providers of private surgical healthcare services. It owned and operated three wholly owned private hospitals, being the Wakefield Hospital and Bowen Hospital in Wellington, and Royston Hospital in Hastings. The company's hospitals provide a range of medical services, primarily surgical procedures and post-operative care. In addition, Acurity Health Group owned a 60%

interest in Grace Hospital (which it obtained through the acquisition of Norfolk Investments in 2011), a 30% interest in Endoscopy Auckland and Laparoscopy Auckland and a 12% interest in Boulcott Hospital.

Eden Rehabilitation Hospital (April 2012)

13 Eden Rehabilitation Hospital is a specialised rehabilitation hospital located in Cooroy, Queensland. At the time of Pulse's acquisition, the facility had 36 inpatient rehabilitation and sub-acute medical beds and was supported by specialist rehabilitation consultants.

Norfolk Investments (July 2011)

14 Norfolk Investments owned a 60% interest in Grace Hospital in Tauranga, New Zealand. Grace Hospital was established as a joint venture between Southern Cross Hospitals and Norfolk Investments by a group of some 30 surgeons and anaesthetists and was opened in August 2007. Around the time of Wakefield Health's acquisition, the hospital comprised six operating theatres, a procedure room, a high dependency unit and approximately 50 inpatient beds. There was also limited competition in the region as there were no private hospitals in the area.

Healthe Care (June 2011)

15 At the time of Archer Capital's acquisition, Healthe Care was Australia's third largest private hospital operator, with 12 hospitals located across major metropolitan and regional centres in NSW, Victoria, Queensland and Tasmania. The company's facilities had in total approximately 1,000 beds and 36 operating theatres. In addition, the company offered a range of community nursing and workplace health services.

Appendix F

Glossary

Abbreviation	Definition
ACCC	Australian Competition and Consumer Commission
AER	Australian Energy Regulator
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
CAPM	Capital asset pricing model
CGB	Commonwealth Government Bonds
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rent
Evolution	Evolution Healthcare Partners Pty Ltd
Evolution Trust	EHPO Trust
FME	Future maintainable earnings
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FTE	Full time equivalent
FY	Financial year
GFC	Global financial crisis
Healthe Care	Healthe Care Australia Pty Ltd
Hospital Assets	SCP, SPH and WDS
IER	Independent expert's report
Illawarra Healthcare	Illawarra Healthcare Pty Ltd
LEA	Lonergan Edwards & Associates Limited
Lease Arrangements	The rent being charged to Healthe Care by Evolution for lease of the hospital premises
MRP	Market risk premium
NPV	Net present value
NSW	New South Wales
PTSD	Post-traumatic stress disorder
Pulse	Pulse Health Limited
RBA	Reserve Bank of Australia
REIT	Real estate investment trust
RG 111	Regulatory Guide 111 – *Content of expert reports*
Sante Capital	Sante Capital Investments Nominees Pty Ltd
Sante Capital Trust	Sante Capital No. 1 Trust
Scheme	Healthe Care's proposed acquisition of 100% of the shares in Pulse
SCP	South Coast Private Pty Limited
SPH	Shellharbour Private Hospital Pty Limited
TPGN 21	Takeovers Panel Guidance Note 21 – *Collateral Benefits*
Transaction	Healthe Care's proposed acquisition of all of the shares in Illawarra Healthcare for $53.0 million
TV	Terminal value
WACC	Weighted average cost of capital
WDS	Wollongong Day Surgery Pty Limited

Annexure B – Leadenhall's Supplementary Letter

Now you know
LEADENHALL

31 March 2017

The Directors
Pulse Health Limited
Suite 6, Level 22
227 Elizabeth Street
Sydney NSW 2000

Dear Directors,

Update on independent expert's report

We refer to our independent expert's report ("IER") dated 26 January 2017 in relation to the proposal from Healthe Care Australia Pty Ltd ("Healthe Care") to acquire 100% of the shares in Pulse Health Limited ("Pulse"), by way of a scheme of arrangement ("Proposed Transaction").

On 17 March 2017 Healthe Care and Evolution Healthcare Partners Pty Ltd ("Evolution"), as trustee of the EHPO Trust, entered into an agreement under which Healthe Care has committed to acquire two hospitals and one day surgery from Evolution for $53.0 million ("Evolution Transaction").

In order to consider whether the terms of the Evolution Transaction changes our opinion on the Proposed Transaction, we have compared the FY17 EBITDA multiple implied by the Evolution Transaction to the FY17 EBITDA multiple implied by our valuation of Pulse.

The FY17 EBITDA multiple implied by the Evolution Transaction is 11.0 times based on the proposed purchase price of $53.0 million divided by the aggregate EBITDA for FY17 of the acquired facilities of $4.8 million, as set out in the Lonergan Edwards & Associates Limited report prepared in respect of the Evolution Transaction.

Our assessed valuation of Pulse on a consistent basis (i.e. compared to the projected EBITDA of Pulse for FY17) implies a multiple of 10.8 times to 12.0 times FY17 EBITDA as set out in the table below:

EBITDA	Low	High
Maintainable earnings	17.5	18.0
Selected multiple	8.0	8.5
Enterprise value	**140.0**	**153.0**
Less gold coast losses	(3.5)	(1.5)
Adjusted enterprise value	**136.5**	**151.5**
FY17 forecast	12.7	12.7
Implied FY17 EBITDA multiple	**10.8**	**12.0**

Having considered the multiple implied by the Evolution Transaction and relative characteristics of the portfolios, we confirm that the details of the Evolution Transaction do not lead us to change the opinion expressed in our IER. Accordingly, we remain of the view that the Healthe Care offer is fair and reasonable and, therefore, is in the best interests of shareholders, in the absence of a superior proposal.

Yours faithfully

Richard Norris
Director

Dave Pearson
Director

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Annexure C – Announcements relating to the Scheme

29 March 2017
Australian Securities Exchange Limited

NEW ZEALAND OVERSEAS INVESTMENT OFFICE APPROVAL RECEIVED

Pulse Health Limited (ASX:PHG) (**"Pulse"**) is pleased to announce that the Overseas Investment Office ("**OIO**") has provided consent under the *Overseas Investment Act 2005* (New Zealand) (and associated regulations) in connection with the previously announced scheme of arrangement under which Healthe Care Australia Pty Ltd is proposed to acquire 100% of the outstanding shares in Pulse for a cash consideration of $0.47 per share ("**Scheme**"). Accordingly, the condition to implementation of the Scheme that OIO approval be obtained has been satisfied.

The Scheme remains subject to certain other conditions, including shareholder approval and approval from the Supreme Court of New South Wales at the Final Court Hearing.

The indicative timetable remains as follows.

Event	Expected date*
Court Hearing to approve the despatch of supplementary disclosure	2pm, Monday, 10 April 2017
Despatch of supplementary disclosure to Pulse shareholders	Thursday, 13 April 2017
Scheme meeting to vote on the Scheme	9:30am, Monday, 1 May 2017
Final Court Date for approval of the Scheme	Wednesday, 3 May 2017
Effective date of the Scheme	Thursday, 4 May 2017
Scheme record date	Thursday, 11 May 2017
Implementation date and despatch of payment of Scheme Consideration to Pulse Shareholders	Tuesday, 16 May 2017

**all dates are indicative only and are subject to change*

For media enquiries contact:
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For investor enquiries contact:
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23 March 2017
Australian Securities Exchange Limited

ACCC WILL NOT OPPOSE SCHEME WITH HEALTHE CARE

Pulse Health Limited (ASX:PHG) (**"Pulse"**) confirms that the Australian Competition and Consumer Commission ("**ACCC"**) has today released its decision, that it will not oppose the previously announced scheme of arrangement under which Healthe Care Australia Pty Ltd is proposed to acquire 100% of the outstanding shares in Pulse for a cash consideration of $0.47 per share (**"Scheme"**).

The Scheme remains subject to certain conditions, including shareholder approval, approval from the New Zealand Overseas Investment Office, and the Supreme Court of New South Wales at the Final Court Hearing which is expected to be held on 3 May 2017.

The indicative timetable remains as follows.

Indicative timetable (all dates are indicative only and are subject to change)

Event	Expected date
Court Hearing to approve the despatch of supplementary disclosure	2pm, Monday, 10 April 2017
Despatch of supplementary disclosure to Pulse shareholders	Thursday, 13 April 2017
Scheme meeting to vote on the Scheme	9:30am, Monday, 1 May 2017
Final Court Date for approval of the Scheme	Wednesday, 3 May 2017
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21 March 2017
Australian Securities Exchange Limited

PULSE HEALTH LIMITED SCHEME MEETING POSTPONED UNTIL 1 MAY 2017

Pulse Health Limited (ASX:PHG) (**"Pulse"**) confirms that the Supreme Court of New South Wales (the "**Court**") has postpone its scheme meeting relating to the proposed acquisition of 100% of the shares in Pulse by Healthe Care Australia Pty Ltd ("**Healthe Care**") at $0.47 cash per share via a scheme of arrangement (the "**Scheme**") to 9.30am on 1 May 2017.

Pulse, with the agreement of Healthe Care, applied to the Court on 21 March 2017seeking a postponement of the scheme meeting. The Court has granted this postponement to allow sufficient time for Pulse to provide, and shareholders to consider and assess the implications of the transaction detailed in the ASX announcement on 20 March 2017. Pulse will make a further announcement providing the necessary supplementary disclosure and despatch it to shareholders as soon as possible.

The scheme meeting will now be held at 9:30am on Monday, 1 May 2017 at The Grace Hotel (The Marra Room), Level 2, 77 York Street, Sydney NSW 2000. Signed and completed proxy forms must be received by 9:30am on Saturday 29 April 2017.

Pulse will continue to keep shareholders updated of any further development in accordance with its continuous disclosure obligations. Any development could include a further postponement of the scheme meeting.

The Pulse board continues to unanimously recommend that in the absence of a superior proposal, Pulse shareholders vote in favour of the Scheme. As at the date of this announcement, no superior proposal has emerged, accordingly the Pulse directors intend to vote all Pulse shares held or controlled by them in favour of the Scheme.

Set out as Annexure A is an updated timetable for the remainder of the Scheme process.

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Annexure A: Update Timetable

	[1]
Court Hearing to approve the despatch of supplementary Scheme disclosure	2pm, Monday, 10 April 2017
Despatch of supplementary disclosure to Pulse shareholders	Thursday, 13 April 2017
Scheme meeting to vote of the Scheme	9:30am, Monday, 1 May 2017
Final Court Hearing for approval of the Scheme	Wednesday, 3 May 2017
Effective date of the Scheme	Thursday, 4 May 2017
Scheme record date	Thursday, 11 May 2017
Implementation date Despatch of payment of Scheme Consideration to Pulse Shareholders	Tuesday, 16 May 2017 Tuesday, 16 May 2017

[1] All dates are indicative only and subject to change.

20 March 2017
Australian Securities Exchange Limited

PULSE HEALTH LIMITED APPLIES TO POSTPONE SCHEME MEETING PENDING DISCLOSURE RELATING TO HEALTHE CARE TRANSACTION WITH EVOLUTION

Pulse Health Limited (ASX:PHG) (**"Pulse"**) will tomorrow make an application to the Supreme Court of New South Wales to postpone its scheme meeting to consider a resolution to approve the acquisition of 100% of the shares in Pulse by Healthe Care Australia Pty Limited ("**Healthe Care**") at $0.47 cash per share via a scheme of arrangement (**"Scheme"**). Pulse will apply for the scheme meeting currently scheduled on Wednesday, 22 March 2017, to be postponed to Monday, 1 May 2017 to allow adequate time for Pulse to provide, and shareholders to consider, information about recent developments before the scheme meeting.

Healthe Care Transaction with Evolution

Pulse has been informed by Healthe Care that on 17 March 2017 Healthe Care and Evolution Healthcare Partners Pty Ltd ("**Evolution**") as trustee of the EHPO Trust (**"Evolution Trust"**) entered into an agreement under which Healthe Care has committed to acquire from Evolution the entities owning two hospitals and one day surgery located in the Illawarra region of New South Wales for $53.0m, subject to adjustments ("**Evolution Transaction**").

Pulse understands that there is some commonality between stakeholders in: (a) Evolution and the Evolution Trust; and (b) Sante Capital Investments Nominees Pty Ltd (**"Sante Capital"**) and the Sante Capital No. 1 Trust ("**Sante Capital Trust**"). Sante Capital has voting power in Pulse of approximately 15.79%. Given this commonality, Pulse considers it is appropriate to ensure Pulse shareholders are adequately informed about the Evolution Transaction, and therefore will prepare supplementary disclosure to be sent to Pulse shareholders in relation to the Evolution Transaction.

Lonergan Edwards & Associates Limited has been commissioned as an independent expert and will provide Pulse with a report stating whether, in its view, the consideration to be received by Evolution under the Evolution Transaction will result in the receipt of a net-benefit by Sante Capital. The report of Lonergan Edwards & Associates Limited will be provided to Pulse shareholders.

Scheme Update

Pulse has closely monitored the receipts of proxy votes received to date and note the overwhelming support in favour of the Scheme by shareholders. Sante Capital has also undertaken to Healthe Care that it will vote in favour of the Scheme and will not transfer its shares, subject to there being no superior proposal, the board of Pulse continuing to recommend the Scheme, the ACCC, New Zealand Overseas Investment Office (**NZ OIO**), "no prescribed event", shareholder and court approval conditions under the Scheme Implementation Deed being satisfied or waived, the independent expert not changing its opinion and the Scheme Implementation Deed not being terminated. Sante Capital's undertaking ceases to apply on 31 May 2017.

The ACCC continues to review the transaction and has nominated 30 March 2017 as the provisional date by which it intends to make a decision.

Pulse confirms the trading update that it provided at its half year briefing on 28 February. Healthe Care has re-iterated its intention to proceed with the Scheme on the terms set out in the Scheme Implementation Deed.

Next steps

Pulse will provide an update and confirm the revised transaction timetable after the Court hearing on Tuesday, 21 March 2017.

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For investor enquiries contact:

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9 March 2017

Australian Securities Exchange Limited

1 Introduction

This announcement provides Pulse Health Limited (ASX: **PHG**) (**Pulse**) Shareholders with updated information concerning the proposed acquisition of Pulse by Healthe Care Australia Pty Ltd by scheme of arrangement. In particular:

- the results of the Independent Expert's consideration of Pulse's financial statements for the half year ended 31 December 2016; and
- the status of regulatory approvals that are required to satisfy the Conditions Precedent.

2 Independent Expert's consideration of Pulse's financial statements for the half year ended 31 December 2016

2.1 Announcement of half year report

On 28 February 2017, Pulse released its financial statements for the half year ended 31 December 2016 to ASX (**1H Results**). Pulse Shareholders are strongly encouraged to read those financial statements in respect of their decision as to how to vote at the Scheme Meeting.

2.2 Independent Expert's opinion

The Independent Expert, Leadenhall Corporate Advisory Pty Ltd, has considered the 1H Results and confirmed that its opinion, namely that the Scheme is fair and reasonable and in the best interests of Pulse Shareholders, has not changed.

2.3 Healthe Care confirmation

Following its review of the Company's 1H Results and based solely on the information contained in the 1H Results announcement, Healthe Care has confirmed to Pulse that the 1H Results do not alter its intention to proceed with the Scheme on the terms set out in the Scheme Implementation Deed.

3 Update on regulatory approvals

3.1 ACCC and NZ OIO Conditions Precedent

As set out in the Scheme Booklet dated 1 February 2017, the Scheme is subject to Healthe Care receiving before 8.00am on the Second Court Date:

(1) Informal merger clearance from the ACCC to the effect that ACCC does not propose to intervene or seek to prevent the acquisition of Pulse Shares by Healthe Care; and

(2) from NZ OIO any approval required under the New Zealand Overseas Investment Act 2005 and its regulations in respect of the acquisition of Pulse Shares by Healthe Care.

As at the date of this announcement, the ACCC's public consultation and review of the proposed transaction is continuing, as is the NZ OIO full review and assessment phase.

3.2 Timing

The ACCC had specified 16 March 2017 as the provisional date by which it intends to make a decision.

Pulse is hopeful of Healthe Care obtaining the NZ OIO approval prior to the date of the Scheme Meeting scheduled for 22 March 2017.

While the ACCC and NZ OIO are progressing with their assessment of the application, it is unlikely that the ACCC will have completed its review and made its decision before the Scheme Meeting.

If these Conditions have not been satisfied, the Scheme Meeting will proceed on the scheduled date but the Implementation Date may be delayed until after they are satisfied.

4 Directors' maintain recommendation

4.1 Pulse Directors recommend the Scheme

The Pulse Directors maintain their unanimous recommendation that Pulse Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best of the Pulse Shareholders.

5 Additional information

5.1 Scheme Meeting

The Pulse Shareholder meeting to consider the Scheme will be held at 9:30am (Sydney time) on Wednesday 22 March 2017 at The Grace Hotel (The Marra Room), Level 2, 77 York Street, Sydney NSW 2000.

5.2 Consents

The Independent Expert consents to be named in this announcement in the form and context in which it is named. The Independent Expert:

(1) has not authorised or caused the issue of this announcement;

(2) does not make, or purport to make, any statement in this announcement or any statement on which a statement in this announcement is based other than as specified in section 2.2; and

(3) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this announcement, other than a reference to its name and a statement included in section 2.2.

5.3 Voting at the Scheme Meeting

If you are a Pulse Shareholder and have already submitted a valid proxy for the Scheme Meeting and you want to change the way in which you have voted, then you may change your vote online by visiting www.investorvote.com.au and follow the prompts or you can call Pulse's share registry, Computershare, during business hours in Sydney on 1800 783

447 (within Australia) or +61 3 9473 2555 (outside Australia) and request a new proxy form. Any subsequent proxy form that you lodge will revoke any earlier proxy form that you have lodged with Pulse. All proxy forms are required to be received by 9:30am (Sydney time) on Monday, 20 March 2017.

If you are a Pulse Shareholder you should read the Scheme Booklet and this announcement in its entirety in respect of your decision as to how to vote on the resolution to be considered at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser

5.4 Captalised terms

Unless otherwise defined in this document or the context otherwise requires, terms defined in Section 11 of the Scheme Booklet have the same meaning when used in this document.

Phillipa Blakey

Chief Executive Officer & Managing Director

For more information, contact:

Geoff Elliott
GRA Cosway
Tel: +612 8353 0420

1 February 2017

Australian Securities Exchange

PULSE SCHEME BOOKLET REGISTERED WITH ASIC

- ***Australian Securities and Investments Commission ("ASIC") has registered the Scheme Booklet attached to this announcement.***
- ***The Independent Expert has concluded that the Scheme is "fair and reasonable" and therefore in the best interests of Pulse shareholders, in the absence of a superior proposal***
- ***Pulse Directors unanimously recommend that Pulse shareholders vote in favour of the the Scheme in the absence of a superior proposal and subject to the Independent Expert continuing to opine that the Scheme is in the best interest of Pulse Shareholders***

Wednesday, 1 February 2017: Pulse Health Limited (ASX:PHG) ("**Pulse**") is pleased to announce that ASIC has registered the scheme booklet ("**Scheme Booklet**") in relation to the previously announced proposed acquisition of all of the shares in Pulse by Healthe Care Australia Pty Ltd ("**Healthe Care**") via a scheme of arrangement ("**Scheme**"). This follows the issuance of orders by the Supreme Court of New South Wales ("the **Court**") yesterday convening a meeting of Pulse shareholders to consider and vote on the Scheme.

A copy of the Scheme Booklet, including the Independent Expert's report and a notice of Scheme meeting, is attached to this announcement and will be sent to Pulse shareholders on or about Wednesday, 8 February 2017.

The Independent Expert, Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**"), has concluded that the Scheme is "fair and reasonable" and, therefore, in the best interest of Pulse shareholders, in the absence of a superior proposal. Leadenhall's conclusion should be read in context with the full Independent Expert's report and the Scheme Booklet attached to this announcement.

Scheme Meeting

Pulse shareholders will be asked to approve the Scheme at the Scheme Meeting to be held on Wednesday, 22 March 2017 in the Marra Room, The Grace Hotel, Level 2, 77 York Street, Sydney NSW 2000 commencing at 9:30 am (Sydney time).

All Pulse shareholders are encouraged to vote either by attending the Scheme Meeting in person, or by lodging a proxy vote by 9:30 am (Sydney time) by Monday, 20 March 2017. Details of how to lodge a proxy vote are included in the Scheme Booklet.

If the Scheme is approved by the requisite majority of Pulse shareholders and all other conditions precedent are satisfied or waived (where capable of waiver), each Pulse shareholder will (in respect of each of their Pulse shares held on the Scheme record date (currently expected to be on or about Monday, 3 April 2017)) receive a cash payment of $0.47 per Pulse share on the implementation date (currently expected to be on or about Thursday, 6 April 2017).

The Board of Directors of Pulse continues to unanimously recommend that Pulse shareholders vote in favour of the Scheme at the upcoming Scheme Meeting to be held on Wednesday, 22 March 2017, in the absence of a superior proposal and subject to the Independent Expert continuing to opine that the Scheme is in the best interest of Pulse Shareholders.

For more information, contact:

Geoff Elliott

GRA Cosway

Tel: +612 8353 0420

ABOUT PULSE HEALTH

Pulse Health was established in 2007 as an ASX listed private hospital operator. It is a leading operator of specialist private hospitals. Our hospitals, as key members of their communities, partner with local specialist doctors to provide high quality specialist care for local patients.

ABOUT HEALTHE CARE

Healthe Care is a subsidiary of Luye Medical International, part of the Luye Group. Healthe Care is the third largest private hospital operator in Australia and one of the country's largest privately-owned healthcare organisations. Healthe Care employs 5,000 people and operates a portfolio of 17 hospitals located in major cities and key regional areas across Australia. These include around 2,000 beds, 50 operating theatres and eight catheterisation labs. The company also provides a range of out-patient services including workplace rehabilitation and community nursing which offer patients flexibility and continuity of care beyond their hospital stay.

31 January 2017
Australian Securities Exchange

COURT ORDERS THE CONVENING OF SCHEME MEETING

Tuesday, 31 January 2017: Further to its announcement on 30 November 2016, Pulse Health Limited (ASX:PHG) (“**Pulse”**) is pleased to announce that the Supreme Court of New South Wales (“**the Court**”) has made orders to convene a meeting of Pulse Shareholders to consider and vote on the proposed acquisition of all of the shares in Pulse by Healthe Care Australia Pty Ltd (“**Healthe Care**”) via a scheme of arrangement (“**Scheme**”). Implementation of the Scheme is subject to the satisfaction or waiver (where capable of waiver) of certain conditions precedent, including Pulse shareholder approval in respect of the Scheme and approval by the Court.

Pulse shareholders will vote on the Scheme at the Scheme Meeting, which will be held at **9:30am** (Sydney time) on **Wednesday, 22 March 2017** at **Grace Hotel (Marra Room) Level 2**, **77 York Street, Sydney**.

Information relating to the Scheme, including the notice convening the Scheme Meeting and the independent expert’s report, will be included in the Scheme Booklet that will be sent to Pulse shareholders on or about Friday, 10 February 2017 (and those Pulse shareholders who have previously elected to receive notification from Pulse’s share registry in electronic format will be able to access the material (including a proxy form) electronically).

The key events and the expected timing in relation to the approval and implementation of the Scheme are set out in the table below:

	[1]
Scheme Booklet despatched to Pulse shareholders	Wednesday, 8 February 2017
Scheme Meeting to vote of the Scheme	Wednesday, 22 March 2017
Second Court Hearing for approval of the Scheme	Friday, 24 March 2017
Effective Date of the Scheme	Monday, 27 March 2017
Scheme Record Date	Monday, 3 April 2017
Implementation Date	Thursday, 6 April 2017

A further announcement attaching the Scheme Booklet will be made by Pulse following registration of the Scheme Booklet with the Australian Securities and Investments Commission.

For more information, contact:

Geoff Elliott
GRA Cosway
Tel: +612 8353 0420

[1] All dates are indicative only and subject to change.

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