BABCOCK & BROWN
COMMUNITIES

Babcock & Brown Communities Group comprising
Babcock & Brown Communities Limited ABN 16 010 622 901 and
Babcock & Brown Communities Investor Services Limited ACN 080 737 042
as responsible entity of the Babcock & Brown Communities Trust ARSN 124 896 733
Registered Office: Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia
T +61 2 9229 1800 · F +61 2 9216 1753 · www.bbcommunities.com

ASX Release

28 November 2008

BABCOCK & BROWN COMMUNITIES - 2008 NOTICE OF MEETING

Please find attached the 2008 Notice of Meeting for the Annual General Meeting of the Babcock & Brown Communities Group.

This meeting is scheduled to be held as follows:

Time: 10.30am Sydney time
Date: Tuesday, 30 December 2008
Place: Auditorium, Museum of Sydney, 37 Phillip Street, Sydney

ENDS

Further Information:
Gregor Dixon
Investor Relations
Babcock & Brown Communities
+61 3 8699 3300

BABCOCK & BROWN
COMMUNITIES

About Babcock & Brown Communities Limited
Babcock & Brown Communities Group (**BBC**) is an integrated owner, operator and developer of senior living communities listed on ASX. BBC owns and manages a portfolio of 56 retirement villages and 29 aged care facilities across Australia and New Zealand comprising approximately 10,000 retirement units and 2,200 residential aged care beds. Within the retirement portfolio, BBC has full exposure to the deferred management fees of approximately 6,800 units and receives management fees in relation to the remaining units.

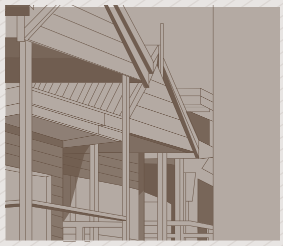
BBC's growth is supported by its development pipeline of approximately 2,200 retirement units and 344 aged care beds which is expected to be delivered over the next 6 years.

For further information please see our website: www.bbcommunities.com

BABCOCK & BROWN COMMUNITIES

NOTICE OF

ANNUAL GENERAL MEETING 2008



NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS OF BABCOCK & BROWN COMMUNITIES LIMITED (ABN 16 010 622 901) (COMPANY)

and

UNITHOLDERS OF BABCOCK & BROWN COMMUNITIES TRUST (ARSN 124 896 733) (TRUST)

issued by the Company and Babcock & Brown Communities Investor Services Limited (ACN 080 737 042) (Responsible Entity) as responsible entity of the Trust

BABCOCK & BROWN COMMUNITIES GROUP (BBC) IS A STAPLED STRUCTURE AND COMPRISES THE COMPANY AND THE TRUST

Tuesday, 30 December 2008
10.30am (Sydney time)
Auditorium
Museum of Sydney
Corner of Bridge and Phillip Streets, Sydney

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You should read the whole of this document before you decide whether and how to vote on the Resolutions in the Notice of Meeting. If you are in doubt as to what you should do, please consult your financial or other professional adviser.

Important Notices

This Explanatory Memorandum is intended to provide Securityholders with information to assess the merits of the proposed Resolutions contained in the accompanying Notice of Meeting and is to be read in conjunction with the Notice of Meeting.

READ THIS DOCUMENT
This Explanatory Memorandum, the Notice of Meeting and the Independent Expert's Report are important. You should read each document in its entirety before deciding how to vote on the Resolutions. If you have any doubt regarding what you should do, you should consult your investment, financial or other professional adviser.

RESPONSIBILITY STATEMENT
This Explanatory Memorandum (excluding the Independent Expert's Report and the Lend Lease Information) has been prepared by BBC.

B&B International, BBCM and BBC and their respective related bodies corporate do not assume responsibility for the accuracy or completeness of the Independent Expert's Report, or the Lend Lease Information.

The Independent Expert, Deloitte Corporate Finance Pty Limited, prepared the Independent Expert's Report for the benefit of Securityholders and is responsible for that report. The Independent Expert's Report considers:

- whether the Retirement By Design Acquisition, including the related issue of the RBD Convertible Notes to Lend Lease is fair and reasonable to Securityholders in accordance with the ASX Listing Rules; and
- whether the increase in the holding of Stapled Securities by Lend Lease through the issue of the Second Tranche, the acquisition of the Second BNB Parcel and the potential conversion of the First Notes, the Second Notes and the RBD Convertible Notes is fair and reasonable to Securityholders in accordance with section 611 of the Corporations Act and the ASX Listing Rules.

The Independent Expert's Report is included in Annexure A to this Explanatory Memorandum.

The information concerning the Retirement By Design Business in Section 2.8, the statements about LLVRE and its intentions in Section 2.10, the information in paragraph 2.12 relating to the estimate of the Base Fee for the quarter ending March 2009 and the examples showing the effect of removing the Performance Targets for the Base Fee and the statements describing Lend Lease's relevant interest in Stapled Securities in Sections 7.2, 7.3, 7.4 and 7.5 and the information set out in Section 4, has been provided by Lend Lease (**Lend Lease Information**) and is the responsibility of Lend Lease.

The information concerning B&B International contained in Section 2.10 has been provided by B&B International and is the responsibility of B&B International.

FORWARD LOOKING STATEMENTS
Certain statements in this Explanatory Memorandum may constitute "forward looking statements" for the purposes of applicable securities law. You should be aware that there are a number of risks (known and unknown), uncertainties and assumptions and other important factors that could cause the actual results, performance or achievements of BBC to be materially different from the future results, performance or achievements, expressed or implied, by such statements. Factors that could cause or contribute to such differences include the general trading and economic conditions affecting BBC or its subsidiaries. The past performance of BBC is not necessarily representative of future performance.

None of B&B International, BBCM or BBC, its subsidiaries or their respective directors, officers and advisers, or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur. Securityholders are cautioned not to place undue reliance on these forward looking statements.

All subsequent written and oral forward looking statements attributable to B&B International, BBCM or BBC or its subsidiaries or any person acting on their behalf are qualified by the above cautionary statement.

DEFINED TERMS
Terms used in this Explanatory Memorandum and the Notice of Meeting are defined in the Glossary in Section 9.

DATE
This Explanatory Memorandum is dated 28 November 2008.

SECURITYHOLDER INFORMATION LINE
If you have any further questions regarding the Lend Lease Proposal, the Notice of Meeting or this Explanatory Memorandum or you would like additional copies of this Explanatory Memorandum (which includes the Notice of Meeting), please contact the Securityholder Information Line on 1800 881 047 toll free within Australia or +61 2 8280 7923 (for international callers and some Australian mobile phone users). The Securityholder Information Line will be available from Monday to Friday from 8.30am to 5.00pm Sydney time from the date of this Explanatory Memorandum until the date of the Meeting.

Letter from the Chairman

28 November 2008

Dear Securityholder

In June, Babcock & Brown Communities Group (**BBC**) commenced a strategic review designed to reduce the value gap between the underlying assets of BBC and its security's trading price. The outcomes of the review were the implementation of a price discovery process for the whole of BBC in parallel with internalisation of management, a debt reduction program and capital management initiatives.

The price discovery process was a public and competitive process and resulted in a number of interested parties conducting due diligence over a concentrated period of time.

On 1 October 2008, as an outcome of the price discovery process, BBC announced that it had entered into an implementation agreement with Lend Lease Corporation Limited (**Lend Lease**) in relation to a proposed recapitalisation of BBC and an in principle agreement to acquire the Retirement By Design Business from Lend Lease (**Implementation Agreement**). On the same day Lend Lease separately entered into agreements with Babcock & Brown International Pty Limited (**B&B International**) to acquire the BBC management rights and B&B International's Stapled Securities in BBC (**Lend Lease Proposal**).

The Lend Lease Proposal was the most attractive proposal resulting from the price discovery process. It gave BBC additional capital flexibility in order to maintain its current operations and position itself for future growth. BBC decided not to proceed with the internalisation proposal as to do so would have meant that BBC would continue to face operational constraints as a consequence of its limited financial flexibility and minimal capital available based on its existing debt facilities.

BBC announced amendments to the Lend Lease Proposal on 24 November 2008 which recognise the change in market conditions since 1 October 2008. The effect of those amendments will be to increase the amount of capital injected into BBC from $170 million to $195 million.

If a Superior Proposal is not made or announced for BBC prior to 5.00pm on 25 November 2008, Lend Lease will acquire the BBC management rights from B&B International. The amount payable at the time of transfer of the management rights is $5 million. If the relevant approvals are obtained at the Meeting a further $12.5 million will be payable. This sum will also be payable in certain other circumstances even where the relevant approvals are not obtained.

BBC and Lend Lease have also entered into a formal agreement for BBC to acquire the Retirement By Design Business for $133.4 million to be funded through the issue of 200,000,000 five year redeemable convertible notes (**RBD Convertible Notes**) and a cash payment of $13.4 million. The Retirement By Design Business comprises seven retirement villages and one aged care facility.

If a Superior Proposal is not made or announced for BBC prior to 5.00pm on 25 November 2008 and if the required approvals are obtained at the Meeting, Lend Lease will subscribe for and be issued subordinated convertible notes (the **Second Notes**) and will become BBC's main strategic Securityholder by increasing its stake in BBC to 43.2% (the **Lend Lease Stapled Security and Note Acquisition**) and BBC will acquire the Retirement By Design Business (the **Retirement By Design Acquisition**).

The Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition are conditional on:

- BBC Securityholder approval at the general meeting; and
- no material adverse change occurring in BBC and no material acquisitions or disposals being undertaken by BBC prior to completion.

In addition, OIO Approval is required from the New Zealand Overseas Investment Office for Lend Lease to increase its holding of Stapled Securities above 25%.

BBC has also agreed to issue Lend Lease $21.5 million of subordinated notes (**BBC Notes**) and $13.4 million of subordinated convertible notes (**First Notes**).

Under the Implementation Agreement, the issue of the BBC Notes and the First Notes and acquisition of the Initial BNB Parcel is conditional on Securityholder approval of the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition. However, Lend Lease may waive this condition in which case the BBC Notes and First Notes may be issued to Lend Lease and the Initial BNB Parcel may be acquired by Lend Lease notwithstanding that Securityholder approval is not obtained to the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition.

Lend Lease has also applied for 35.9 million Stapled Securities at $0.60. If BBC issues the BBC Notes and accepts that application, Lend Lease will be issued 35.9 million Stapled Securities which comprises 4.3% of the Stapled Securities on issue. If the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition are approved at the Meeting this will mean that Lend Lease will acquire a relevant interest in 43.2% of the Stapled Securities on issue. If the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition are not approved by Securityholders at the Meeting Lend Lease will acquire a relevant interest in 17.8% of the Stapled Securities on issue.

You are being sent this document to explain these transactions and because the proposed acquisition of Stapled Securities by Lend Lease to increase its security holding from 13.4% (once it acquires the Initial BNB Parcel) to 43.2% requires the approval of the Securityholders of BBC. The issue of Stapled Securities on conversion of the convertible notes issued as consideration for the Retirement By Design Acquisition and on conversion of the subordinated notes, if they become convertible and on conversion of the Second Notes also requires the approval of Securityholders.

These approvals are needed for Lend Lease to hold more or acquire more than 20% of the securities in BBC. Your Independent Directors believe that Lend Lease's increasing its security holding from 13.4% (once it acquires the Initial BNB Parcel) to 43.2% and acquiring further Stapled Securities on the conversion of the notes and the Retirement By Design Acquisition should be supported by Securityholders. Lend Lease's relevant interest in Stapled Securities at various stages of the Lend Lease Proposal is further explained in Section 4.2 of the Explanatory Memorandum accompanying this Notice of Meeting.

This Lend Lease Proposal will provide a number of benefits to BBC and its Securityholders, including:

- a cash injection of $195 million, which will allow BBC to materially reduce its net gearing levels and provide the financial flexibility required to maintain current operations and position itself for future growth;
- a long-term strategic investor, who has a strong balance sheet and provides stability to the security register;
- increased exposure to the Australian senior living sector through the acquisition of seven mature retirement villages (1,154 retirement units) and one aged care facility (49 hostel beds) from Lend Lease;
- an investment in a listed vehicle which is well capitalised, well positioned for further industry consolidation and growth and contains a quality manager; and
- Lend Lease's development expertise and support for BBC's development pipeline from an operational and financial perspective.

The meeting of Securityholders to consider the Lend Lease Proposal has been called for 30 December 2008.

The Independent Directors are of the opinion that it is in the best interests of BBC Securityholders to support Lend Lease increasing its security holding from 13.4% (once it acquires the Initial BNB Parcel) to 43.2% and the Retirement By Design Acquisition. The Independent Directors believe that the benefits provided by the Lend Lease Proposal are likely to result in improved prospects for BBC in the senior living sector.

We are pleased Lend Lease has expressed its confidence in BBC's management. If the Lend Lease Proposal is approved, Lend Lease will support management's activities through the provision of development expertise, register stability, capital and balance sheet strength.

To assist in your consideration of the Lend Lease Proposal, the Independent Directors commissioned the Independent Expert to provide a report which gives its opinion as to whether:

- the Retirement By Design Acquisition, including the related issue of the RBD Convertible Notes to Lend Lease, is fair and reasonable to Securityholders; and
- the increase in the holding of Stapled Securities by Lend Lease through the issue of the Second Tranche, the acquisition of the Second BNB Parcel and the potential conversion of the First Notes, the Second Notes and the RBD Convertible Notes is fair and reasonable to Securityholders.

On the basis of the matters discussed in its report, the Independent Expert has concluded that these transactions are fair and reasonable to Securityholders. The Independent Expert's Report is included in the Explanatory Memorandum and you are encouraged to read that report in full.

BBC welcomes Lend Lease as a major Securityholder and is excited by the prospect of working with Lend Lease as a strategic investor to help drive the future growth of BBC. On behalf of the Independent Directors, I strongly urge you to read the Explanatory Memorandum, including the Independent Expert's Report, in full and vote at the general meeting. Securityholders present at the general meeting will have the opportunity to ask questions. If you cannot attend the general meeting in person, you should complete the proxy form and return it (see proxy form for details) as soon as possible and in any event by 10.30am, Sydney time, on 28 December 2008.

If you have any queries about the Lend Lease Proposal, you can call the information line on 1800 881 047 (toll free within Australia), or +61 2 8280 7923 (for international callers and some Australian mobile phone users) Monday to Friday between 8.30am and 5.00pm Sydney time. If you are in doubt as to whether to vote in favour or against, you should consult your financial or other professional adviser.

Each of the Independent Directors, including myself, believes that the Lend Lease Proposal will provide substantial future benefits to BBC and, accordingly, recommends that Securityholders vote in favour of the Lend Lease Proposal. Your Independent Directors intend to vote all BBC securities controlled by them in favour of the Lend Lease Proposal.

Your Directors continue to recommend that you REJECT the unsolicited proportionate scrip bid from The Prime Trust for the reasons set out in BBC's Target's Statement dated 15 October 2008.

I intend to vote all proxies over which I have discretion in favour of the Lend Lease Proposal.

Yours sincerely

Judith Sloan
Chairman
Babcock & Brown Communities Group

Notice of Annual General Meeting 2008

Notice is hereby given that the Annual General Meeting of Securityholders of BBC will be held on Tuesday, 30 December 2008 at 10.30am Sydney time in the Auditorium, Museum of Sydney, corner of Bridge and Phillip Streets, Sydney, New South Wales.

ORDINARY BUSINESS

Financial Report – Company only
To receive and consider the consolidated financial statements of the Company and its controlled entities for the year ended 30 June 2008 and the reports of the Directors and Auditors thereon.

Note: There is no vote on this item.

Resolution 1 – Remuneration Report – Company only
To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"THAT the Remuneration Report for the year ended 30 June 2008 be adopted."*

Note: The vote on this resolution does not bind the Directors or the Company.

Resolution 2 – Re-election of Mr Andrew Love as a Director – Company only
To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"THAT Mr Andrew Love, retiring in accordance with ASX Listing Rule 14.4 and rule 70.1 of the Company's Constitution, be re-elected as a Director of the Company."*

Resolution 3 – Re-election of Ms Judith Sloan as a Director – Company only
To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"THAT Ms Judith Sloan, retiring in accordance with ASX Listing Rule 14.4 and rule 70.1 of the Company's Constitution, be re-elected as a Director of the Company."*

SPECIAL BUSINESS

Resolution 4 – Approval of the issue of Stapled Securities to Lend Lease Corporation Limited
To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 5, 6 and 7, THAT for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given to the issue of 247,433,333 Stapled Securities at $0.60 per Stapled Security to Lend Lease Corporation Limited ABN 32 000 226 228 (**Lend Lease**)."*

Voting Exclusion Statement
The Company and the Trust will disregard any votes cast in relation to Resolution 4 by:

- Lend Lease Corporation Limited ABN 32 000 226 228; and
- an associate of Lend Lease Corporation Limited ABN 32 000 226 228.

However, the Company and Trust need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 5 – Approval of the acquisition of Stapled Securities by Lend Lease from Babcock & Brown International Pty Limited

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 4, 6 and 7, THAT for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given to the acquisition of 42,522,020 Stapled Securities at $0.29 per Stapled Security by Lend Lease from Babcock & Brown International Pty Limited ABN 76 108 617 483 (**B&B International**), on the terms and conditions set out in the Stapled Security Acquisition Agreement between B&B International and Lend Lease which is described in the Explanatory Memorandum."*

Voting Exclusion Statement

The Company and the Trust will disregard any votes cast in relation to Resolution 5 by:

- Lend Lease Corporation Limited ABN 32 000 226 228 and Babcock & Brown International Pty Limited ABN 76 108 617 483; and
- an associate of either of them.

However, the Company and Trust need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 6 – Approval of the issue and conversion of the Second Notes

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 4, 5 and 7, THAT for the purposes of ASX Listing Rule 7.1 and for all other purposes:*
>
> *(a) the issue of 100,000,000 convertible notes on the terms described in the Explanatory Memorandum (the **Second Notes**) to Lend Lease at an issue price of $0.25 per Second Note; and*
>
> *(b) the issue of 100,000,000 Stapled Securities to Lend Lease on conversion of the Second Notes (or such higher number of Stapled Securities as a result of an adjustment of the conversion number in accordance with the terms of the Second Notes),*
>
> *be approved."*

Voting Exclusion Statement

The Company and the Trust will disregard any votes cast in relation to Resolution 6 by:

- Lend Lease Corporation Limited ABN 32 000 226 228;
- an associate of Lend Lease Corporation Limited ABN 32 000 226 228; and
- any person who might obtain a benefit from the issue of the Second Notes, except a benefit solely in the capacity of a holder of Stapled Securities, if the resolution is passed.

However, the Company and Trust need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 7 – Approval of the Retirement By Design Acquisition

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 4, 5 and 6, THAT for the purposes of ASX Listing Rules 7.1 and 10.1 and item 7 of section 611 of the Corporations Act and for all other purposes:*
>
> *(a) the acquisition by BBC of the Retirement By Design Business on the terms set out in the RBD Acquisition Agreement between BBC and Lend Lease which is described in the Explanatory Memorandum;*
>
> *(b) the issue by BBC of 200,000,000 convertible notes to Lend Lease on the terms described in the Explanatory Memorandum (the RBD Convertible Notes), as part of the consideration for the acquisition of the Retirement By Design Business; and*
>
> *(c) the issue of 200,000,000 Stapled Securities to Lend Lease on conversion of the RBD Convertible Notes (or such higher number of Stapled Securities as a result of an adjustment of the conversion number in accordance with the terms of the RBD Convertible Notes),*
>
> *be approved."*

Voting Exclusion Statement

The Company and the Trust will disregard any votes cast in relation to Resolution 7 by:

- Lend Lease Corporation Limited ABN 32 000 226 228;
- an associate of Lend Lease Corporation Limited ABN 32 000 226 228;
- Babcock & Brown Communities Limited ABN 16 010 622 901 or any subsidiary of Babcock & Brown Communities Limited nominated to acquire the Retirement By Design Business;
- an associate of Babcock & Brown Communities Limited ABN 16 010 622 901 or an associate of any subsidiary of Babcock & Brown Communities Limited nominated to acquire the Retirement By Design Business; and
- any person who may obtain a benefit from the issue of the RBD Convertible Notes, except a benefit solely in the capacity of a holder of Stapled Securities if the resolution is passed.

However, the Company and Trust need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 8 – Approval of the issue and conversion of the First Notes

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"If the First Notes have been issued prior to the date of the Meeting, THAT for the purposes of ASX Listing Rules 7.1 and 7.4, item 7 of section 611 of the Corporations Act and for all other purposes:

(a) the issue of 22,333,333 convertible notes on the terms described in the Explanatory Memorandum (the ***First Notes****) to Lend Lease at an issue price of $0.60 per First Note;*

(b) the right of the holder of a First Note to require the conversion of that First Note into Stapled Securities on the terms set out in the First Notes; and

(c) the issue of 22,333,333 Stapled Securities to Lend Lease on conversion of the First Notes (or such higher number of Stapled Securities as a result of an adjustment of the conversion number in accordance with the terms of the First Notes),

be approved.

OR

If the First Notes have not been issued prior to the date of the Meeting, THAT for the purposes of ASX Listing Rules 7.1 and 7.9, item 7 of section 611 of the Corporations Act and for all other purposes:

(a) the issue of 22,333,333 convertible notes on the terms described in the Explanatory Memorandum (the ***First Notes****) to Lend Lease at an issue price of $0.60 per First Note; and*

(b) the issue of 22,333,333 Stapled Securities to Lend Lease on conversion of the First Notes (or such higher number of Stapled Securities as a result of an adjustment of the conversion number in accordance with the terms of the First Notes),

be approved."

Voting Exclusion Statement

The Company and the Trust will disregard any votes cast in relation to Resolution 8 by:

- Lend Lease Corporation Limited ABN 32 000 226 228;
- an associate of Lend Lease Corporation Limited ABN 32 000 226 228; and
- any person who might obtain a benefit from the issue of the First Notes, except a benefit solely in the capacity of a holder of Stapled Securities, if the resolution is passed.

However, the Company and Trust need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 9 – Appointment of new responsible entity – Trust only
To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"THAT Lend Lease Villages Responsible Entity Limited ACN 099 064 141 be appointed to act as the responsible entity of the Trust in place of Babcock & Brown Communities Investor Services Limited ACN 080 737 042."*

Resolution 10 – Change of name – Company only
To consider and, if thought fit, to pass the following resolution as a special resolution:

> *"THAT the Company change its name to Lend Lease Primelife Limited."*

Resolution 11 – Amendment of management fees
To consider and, if thought fit, pass the following resolution as an ordinary resolution:

> *"THAT for the purposes of the Corporations Act and the ASX Listing Rules and for all other purposes, amendments to the Management Agreements to the effect that:*
>
> *(a) payment of the Base Fee pursuant to the Management Agreements for the financial years ending 30 June 2009 and 30 June 2010 no longer be conditional on the Performance Targets;*
>
> *(b) the calculation of the incentive fee under the Company Management Agreement be amended;*
>
> *(c) the agreement of BBCM to be paid 50% of the Base Fee under the Management Agreements in Stapled Securities for the financial years ending 30 June 2009 and 30 June 2010 be terminated; and*
>
> *(d) the Manager Origination and Disposal Fee under the Management Agreements be reduced to 1.25%*
>
> *as more fully described in each case in Section 2.11 of the Explanatory Memorandum be approved."*

Voting Exclusion Statement
The Company and the Trust will disregard any votes cast in relation to Resolution 11 by:

- Lend Lease Corporation Limited ABN 32 000 226 228;
- an associate of Lend Lease Corporation Limited ABN 32 000 226 228; and
- any person who might obtain a benefit from the amendment of the management fees, except a benefit solely in the capacity of a holder of Stapled Securities, if the resolution is passed.

However, the Company and Trust need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the Board

Dated: 28 November 2008

Simone Lander
Company Secretary
Babcock & Brown Communities Limited
Babcock & Brown Communities Investor Services Limited
as responsible entity of the Babcock & Brown Communities Trust

NOTES

1. The accompanying Explanatory Memorandum forms part of this Notice of Annual General Meeting and should be read in conjunction with it. Unless the context otherwise requires, terms which are defined in the Explanatory Memorandum have the same meaning when used in this Notice of Annual General Meeting.
2. A proxy form accompanies this Notice of Annual General Meeting.
3. On a poll, Securityholders have one vote for every fully paid ordinary Stapled Security held. On a show of hands, every person present and qualified to vote has one vote and if one proxy has been appointed, that proxy will have one vote on a show of hands. If a Securityholder appoints more than one proxy, neither proxy may vote on a show of hands, but both proxies will be entitled to vote on a poll.
4. A Securityholder entitled to attend and vote is entitled to appoint not more than two proxies. If it is desired to appoint two proxies, then an additional proxy form can be obtained from the BBC share registry by telephoning +61 2 8280 7923.
5. Where more than one proxy is appointed, each proxy may be appointed to represent a specified proportion or number of the Securityholder's voting rights. If a Securityholder appoints two proxies and the appointment does not specify the proportion or number of the Securityholder's votes, each proxy may exercise, each proxy may exercise half of the votes.
6. A proxy need not be a Securityholder of BBC and may be an individual or body corporate.
7. Proxy forms (and if the appointment is signed by the appointor's attorney, the original authority under which the appointment was signed or a certified copy of the authority) must be received by BBC's share registry Link Market Services:
   - by mail to Locked Bag A14, Sydney South NSW 1235; or
   - by hand to Level 12, 680 George Street, Sydney NSW 2000; or
   - by fax to +61 2 9287 0309; or
   - by electronic lodgement online at Link Market Services' website **www.linkmarketservices.com.au** in accordance with the instructions provided on the website. You will need your Holder Identification Number (HIN) or Security Reference Number (SRN) to lodge your proxy online,

   prior to 10.30am Sydney time, 28 December 2008.
8. A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of Securityholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

   The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to BBC.
9. The Board of the Company and the Responsible Entity have determined that, for the purposes of the meeting, securities will be taken to be held by the persons who are registered as a Securityholder as at **7.00pm, Sydney time on 28 December 2008**. Accordingly, security transfers registered after that time will be disregarded in determining entitlement to attend and vote at the meeting.

Contents

Explanatory Memorandum

This Explanatory Memorandum has been prepared for the Securityholders of BBC to provide information about the items of business to be considered at the Annual General Meeting of Securityholders to be held on Tuesday, 30 December 2008 at 10.30am Sydney time.

This Explanatory Memorandum and the Independent Expert's Report in Annexure A are important documents and should be read carefully by all Securityholders.

1. ORDINARY BUSINESS

1.1 Financial Report

The Corporations Act and the Company's Constitution require the Company's Annual Report to be tabled before the Annual General Meeting, and the Company's Constitution provides for the Annual Report to be received and considered at that Meeting. With the exception of the Remuneration Report, which forms part of the Directors' Report, neither the Corporations Act nor the Company's Constitution requires a vote of Securityholders at the Annual General Meeting on the Annual Report.

The Company's Annual Report has been made available on the BBC website at **www.bbcommunities.com**. Annual Reports have been sent to those Securityholders who have elected to receive a printed copy in the mail.

The Annual General Meeting provides a forum for Securityholders to ask questions and make comments on the Annual Report and on the business and operations of the Company for the financial year ended 30 June 2008.

In addition, Securityholders may at the meeting ask questions of the Company's auditors in relation to the following matters:

(a) the conduct of the audit;

(b) the preparation and content of the Auditor's Report;

(c) the accounting policies adopted by the Company for the preparation of the financial statements; and

(d) the auditors' independence in relation to the conduct of the audit.

Securityholders may submit written questions to the auditors in relation to the above items. Any written questions to the auditors must be submitted to the Company no later than the fifth Business Day before the Annual General Meeting, that is, on or by 18 December 2008.

1.2 Resolution 1 – Remuneration Report

The Remuneration Report in respect of the financial year ended 30 June 2008 is included in the Annual Report 2008 on pages 25 to 42 and is also available from the Company's website, **www.bbcommunities.com**. The Corporations Act provides that at a listed company's annual general meeting, a resolution that the Remuneration Report be adopted must be put to the vote. Securityholders will be given the opportunity to ask questions about and make comments on the Remuneration Report at the Meeting. The vote on the resolution is advisory only, and does not bind the Directors or the Company.

Resolution 1 need only be passed as an ordinary resolution, that is, by a simple majority of those present (including by proxy) and, being entitled to do so, voting in favour of the resolution. A reasonable opportunity for discussion of the Remuneration Report will be provided at the Meeting.

1.3 Resolution 2 – Re-election of Mr Andrew Love as a Director

ASX Listing Rule 14.5 provides that a listed entity that has directors must hold an election of directors each year. ASX Listing Rule 14.4 and rule 70.1 of the Company's Constitution regulate who is to retire. Mr Love retires in accordance with the Listing Rules and the Company's Constitution and submits himself for re-election.

Mr Love has been an Independent Non-Executive Director since July 2005 and was a Senior Partner with Ferrier Hodgson. Mr Love is the chairman of ROC Oil Company Limited and Deputy Chairman of Riversdale Mining Limited. Mr Love has over 30 years' experience in corporate recovery and reconstruction. He has had experience at the public company level in the energy, mining and exploration, mortgage securitisation and international property sectors. Mr Love is Chairman of the Audit, Risk & Compliance Committee.

Resolution 2 need only be passed as an ordinary resolution, that is, by a simple majority of those present (including by proxy) and, being entitled to do so, voting in favour of the resolution.

The Directors (other than Mr Love) unanimously recommend that Securityholders vote in favour of the re-election of Mr Love.

1.4 Resolution 3 – Re-election of Ms Judith Sloan as a Director

ASX Listing Rule 14.5 provides that a listed entity that has directors must hold an election of directors each year. ASX Listing Rule 14.4 and rule 70.1 of the Company's Constitution regulate who is to retire. Ms Sloan retires in accordance with the Listing Rules and the Company's Constitution and submits herself for re-election.

Ms Sloan has been an Independent Non-Executive Director since May 2006. Ms Sloan has extensive board experience and is currently on the boards of Santos Limited and Westfield Limited. Ms Sloan is a Commissioner of the Productivity Commission and the Australian Fair Pay Commission and a member of the Lowy Institute for International Policy. Ms Sloan is an academic professor and has held a number of academic appointments and is the Chairman of the Board, the Nomination & Governance Committee, the People, Strategy & Remuneration Committee and a member of the Audit, Risk & Compliance Committee.

Resolution 3 need only be passed as an ordinary resolution, that is, by a simple majority of those present (including by proxy) and, being entitled to do so, voting in favour of the resolution.

The Directors (other than Ms Sloan) unanimously recommend that Securityholders vote in favour of the re-election of Ms Sloan.

2. SPECIAL BUSINESS – APPROVAL OF THE LEND LEASE PROPOSAL

2.1 Background

On 19 June 2008, BBC commenced a strategic review for the purpose of determining options to reduce the gap between BBC's underlying asset values and current market trading prices as the Directors were of the view that BBC's market trading prices represented a discount to the value of BBC's portfolio of high quality underlying assets.

On 28 August 2008, as the outcome of the strategic review, BBC announced that the Directors had agreed to undertake the following initiatives that would in their view optimise value for Securityholders:

- a price discovery process for the whole of BBC; and
- internalisation of the Management Agreements, a debt reduction program and capital management initiatives.

BBC announced that it had entered into an agreement with BBCM (the existing manager of BBC) to terminate the Management Agreements and internalise management in consideration of the payment of $17.5 million (the **Internalisation Agreement**). The Internalisation Agreement was subject to the approval of Securityholders and was to terminate if the price discovery process elicited an unconditional recommended takeover bid for the whole of BBC.

A number of interested parties participated in the price discovery process and on 1 October 2008, BBC announced that, as an outcome of that process, it had entered into an Implementation Agreement with Lend Lease in relation to a proposed recapitalisation of BBC and an in principle agreement to acquire the Retirement By Design Business from Lend Lease. A condition precedent to effecting the transactions contemplated by the Implementation Agreement was the consent of the Finance Parties.

The Directors consider that the Lend Lease Proposal achieves the primary outcomes identified from the strategic review, namely needing to reduce debt and implement capital management initiatives by providing BBC with the capital flexibility to maintain its current operations and position itself for future growth.

In addition, it was announced that Lend Lease had on 1 October 2008 separately entered into agreements with B&B International to acquire the rights of BBCM under the Management Agreements (the **Management Rights**) and B&B International's Stapled Securities.

When compared with the Lend Lease Proposal, BBC was of the view it was in the best interests of Securityholders not to proceed with the internalisation of the Management Agreements as previously announced, which had also been subject to the consent of the Finance Parties, because to do so would mean BBC would continue to face operational constraints as a consequence of its limited financial flexibility and minimal capital available based on existing debt facilities.

Amendments to the Lend Lease Proposal were announced on 24 November 2008 which recognised the change in market conditions since 1 October 2008. The effect of those amendments was to increase the amount of capital injected into BBC from $170 million to $195 million.

2.2 Consent of Finance Parties

The consent of the Finance Parties is a condition to the implementation of the Lend Lease Proposal.

This consent has been obtained, subject to certain conditions and amendments to the Finance Documents, including:

(a) BBC and its subsidiaries agreeing to provide first ranking security (subject to agreed exceptions) in the form of first ranking fixed and floating charges and/or registered real property mortgages over all of their assets and undertakings;

(b) favourable amendments to existing financial ratios;

(c) if Resolutions 4, 5 and 7 are approved and the Second Completion Date occurs, then within seven Business Days of the Second Completion Date, BBC must reduce its debt levels under the Finance Documents so that the commitment under the Finance Documents is permanently reduced by $75 million;

(d) if the Second Completion Date does not occur, then BBC must, in order to avoid implications around pricing, voluntarily reduce its debt levels under the Finance Documents so that the commitment under the Finance Documents is permanently reduced by $75 million in accordance with an agreed timetable;

(e) unless and until the commitment under the Finance Documents is permanently reduced by $75 million, BBC must apply the proceeds (to the extent necessary) of a permitted asset disposal (in excess of an aggregate $30 million threshold) towards the reduction of its debt levels so that the commitment under the Finance Documents is permanently reduced by $75 million; and

(f) Lend Lease (or its nominee) becoming the manager of BBC prior to 5.00pm on 28 November 2008.

2.3 Undertakings to the Takeovers Panel

On 10 October 2008 The Prime Trust made an application to the Takeovers Panel (**Panel**) seeking a declaration of unacceptable circumstances by the Panel in relation to the Lend Lease Proposal. On 31 October 2008 the Panel decided not to make a declaration of unacceptable circumstances regarding the Lend Lease Proposal on the basis of an undertaking given by BBC, B&B International and Lend Lease (the **Panel Undertaking**) that:

(a) they would not, prior to 5.00pm on Monday, 17 November 2008:

  (i) issue to Lend Lease the First Notes or the BBC Notes;

  (ii) consent to the novation of the Management Agreements;

  (iii) agree to terminate the Internalisation Agreement;

  (iv) issue securities pursuant to the Lend Lease Application; or

  (v) acquire the Initial BNB Parcel; and

(b) if a Superior Proposal were made or announced for BBC prior to 5.00pm on Monday, 17 November 2008, they would amend the terms of the Implementation Agreement, the Stapled Security Acquisition Agreement and the agreement relating to the transfer of the Management Rights so that Securityholder approval was obtained prior to any of transactions described in paragraph (a) above being completed.

A proposal is a Superior Proposal if the Independent Directors form the opinion, reasonably formed in good faith and for a proper purpose based on their fiduciary duties, that it is a superior proposal to the Lend Lease Proposal. No Superior Proposal was received by 5.00pm on 17 November 2008.

Following the amendments to the Lend Lease Proposal which were announced on 24 November 2008, BBC, B&B International and Lend Lease agreed to extend the timeframe in relation to the Panel Undertaking to 5.00pm on 25 November 2008.

If a Superior Proposal is made or announced for BBC prior to expiry of the Panel Undertaking, the Board will consider what action if any will be required in respect of the consideration of Resolutions 1 to 11 at the Meeting, including whether it may be necessary to adjourn consideration of any of those Resolutions or to convene a subsequent meeting for the purposes of considering any of those Resolutions or any other resolutions.

2.4 Changes to occur on expiry of Panel Undertaking

If a Superior Proposal for BBC is not made or received prior to expiry of the Panel Undertaking, a number of changes to the management of BBC contemplated by the Implementation Agreement and in the separate agreements entered into by B&B International and Lend Lease will occur. In these circumstances those changes will not require the approval of Securityholders and are set out below:

- Lend Lease Village Management Pty Ltd (**LLVM**) will become the manager of BBC by acquiring the Management Rights from BBCM. Lend Lease will pay B&B International $5 million on transfer of the Management Rights to LLVM and will pay an additional $12.5 million if the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition (i.e. Resolutions 4, 5, 6 and 7) are approved at the Meeting (even if Resolutions 4, 5, 6 and 7 are not approved at the Meeting the additional $12.5 million is still payable in certain circumstances). If BBC is entitled to and does exercise any right to terminate the existing Management Agreements before LLVM acquires the Management Rights from BBCM, BBC has agreed to appoint LLVM as manager of BBC on the same terms as the Management Agreements but for zero consideration;
- BBA will cease to be the exclusive financial adviser to BBC, and Lend Lease will be appointed as a new financial adviser to BBC on the same terms (a summary of the terms of the mandate letter is set out in Section 8 of this Explanatory Memorandum). This appointment will take effect on Lend Lease's Australian Financial Services Licence being effectively varied to permit it to provide the services under the mandate letter; and
- Lend Lease will apply for 35,900,000 Stapled Securities at $0.60 (Lend Lease Application). BBC is not obliged to accept this application and may only do so if the BBC Notes are issued to Lend Lease.

The appointment of LLVM as manager will mean BBC will have a manager with a proven track record in development and development management. LLVM will be able to complement and expand BBC's development capability, giving it access to a critical skill-set required to deliver on BBC's business plan and excel in the industry. The appointment of LLVM as manager does not have any implications for the fee structure currently in place under the BBCT Constitution or the Management Agreements (although Resolution 11 to be considered at the Meeting does relate to proposed changes to the management fees more fully described in paragraph 2.12). Nor does the appointment of LLVM as manager have any implications for the terms on which BBCIS, as the current responsible entity, currently waives its rights to receive the full fee to which it is entitled under the BBCT Constitution.

As a result, even if the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition (i.e. Resolutions 4, 5, 6 and 7) are not passed at the Meeting LLVM will become the manager of BBC and Lend Lease will become the exclusive financial adviser to BBC.

2.5 Issue of the BBC Notes and First Notes and acquisition of Initial BNB Parcel

Under the Implementation Agreement BBC has also agreed to:

- issue 35,900,000 BBC Notes to Lend Lease at $0.60 per BBC Note (or a total of $21.5 million). A summary of the terms of the BBC Notes is set out in Section 8 of this Explanatory Memorandum. The BBC Notes mature on the first Business Day after the Meeting; and
- issue 22,333,333 First Notes to Lend Lease at $0.60 per First Note (or a total of $13.4 million) (a summary of the terms of the First Notes is set out in Section 8 of this Explanatory Memorandum).

Lend Lease has agreed under the Stapled Security Acquisition Agreement to acquire 42,522,022 Stapled Securities from B&B International at $0.29 per Stapled Security.

Under the Implementation Agreement, the issue of the BBC Notes and the First Notes and the acquisition of the Initial BNB Parcel is conditional on Securityholders approving the Lend Lease Stapled Security Acquisition and the Retirement By Design Acquisition (i.e. passing Resolutions 4, 5, 6 and 7) at the Meeting (**Securityholder Approval Condition**). If the Securityholder Approval Condition is satisfied, the BBC Notes and the First Notes will be issued to Lend Lease and Lend Lease will acquire the Initial BNB Parcel on the Business Day after the Meeting. If Resolution 8 is also passed the First Notes will be issued as convertible securities. If not, the First Notes will not include conversion rights and will be issued as debt securities.

If the Securityholder Approval Condition is satisfied and BBC Notes are issued, BBC may accept the Lend Lease Application. This will result in Lend Lease being issued an additional 35,900,000 Stapled Securities, which comprises 4.3% of the Stapled Securities on issue. This together with the acquisition of the Initial BNB Parcel and the issue of 69,300,000 Stapled Securities in the Second Tranche will result in Lend Lease increasing its stake in BBC immediately after the Meeting to 25% of the Stapled Securities on issue.

Lend Lease may waive fulfilment of the Securityholder Approval Condition. It may do this prior to the Meeting, in which case the BBC Notes and the First Notes will be issued to Lend Lease and the Initial BNB Parcel will be acquired by Lend Lease prior to the Meeting. In this case the First Notes will not have conversion rights (but approval of the inclusion of conversion rights will be sought at the Meeting (see Resolution 8) and Lend Lease's stake in BBC will increase to 13.4% prior to the Meeting. If the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition is subsequently approved and BBC accepts the Lend Lease Application, this will increase Lend Lease's stake in BBC immediately after the Meeting to 25%.

If the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition is not subsequently approved and BBC accepts the Lend Lease Application, this will increase Lend Lease's stake in BBC immediately after the Meeting to 17.8%.

Lend Lease may also waive fulfilment of the Securityholder Approval Condition immediately after the Meeting if the Securityholder Approval Condition is not satisfied. In this case the BBC Notes and the First Notes will be issued to Lend Lease and the Initial BNB Parcel will be acquired by Lend Lease on the Business Day after the Meeting. In this scenario, if Resolution 8 is not passed, the First Notes will not include any conversion rights and if BBC accepts the Lend Lease Application, Lend Lease's stake in BBC will increase to 17.8% after the Meeting notwithstanding that the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition are not approved by Securityholders at the Meeting.

The issue of the BBC Notes and First Notes will give BBC a cash injection of $34.9 million which will provide much needed working capital.

2.6 Summary of Lend Lease Proposal

The Lend Lease Proposal involves two key components which are interdependent:

- the first is the Lend Lease Stapled Security and Note Acquisition; and
- the second is the Retirement By Design Acquisition.

In addition, Securityholders are being asked to consider Resolutions to approve:

- if the First Notes have been issued by the Meeting, the inclusion of conversion rights in the First Notes;
- if the First Notes have not been issued by the Meeting, the issue of the First Notes;
- the appointment of Lend Lease Villages Responsible Entity Limited as the new responsible entity of the Trust in place of BBCIS (the current responsible entity);
- the change of name of the Company to Lend Lease Primelife Limited; and
- amendments of aspects of the management fee structure of the Management Agreements.

2.7 Lend Lease Stapled Security and Note Acquisition – Resolutions 4, 5 and 6

The Lend Lease Stapled Security and Note Acquisition involves:

- the issue of 247,433,333 Stapled Securities by BBC to Lend Lease at $0.60 each (or a total of $148,460,000) (the **Second Tranche**);
- the acquisition of 45,522,020 Stapled Securities (the **Second BNB Parcel**) by Lend Lease from B&B International under the Stapled Security Acquisition Agreement for $0.29 per Stapled Security (or a total price of $12,331,386); and
- the issue of 100 million Second Notes by BBCL to Lend Lease at $0.25 each (or a total of $25 million) (the **Second Notes**).

The issue of the Second Tranche and the Second Notes will provide a cash injection of $173,460,000 which will be partially used to reduce the bank debt of BBC. The issue to Lend Lease of 69,300,000 Stapled Securities in the Second Tranche and the Second Notes will occur on the first Business Day after Resolutions 4, 5, 6 and 7 are considered by Securityholders if Resolutions 4, 5, 6 and 7 are passed. This will provide a cash injection of $66,580,000.

The issue of the remaining 178,133,333 Stapled Securities in the Second Tranche will not occur until OIO Approval is obtained which is not expected until February 2009.

The acquisition of the Second BNB Parcel will not occur unless the issue of all the Stapled Securities in the Second Tranche occurs.

If Resolutions 4, 5, 6 and 7 are passed, the Lend Lease Stapled Security Acquisition completes, BBC issues the BBC Notes and accepts the Lend Lease Application, Lend Lease will have a relevant interest in 417,684,727 Stapled Securities comprising 43.2% of the Stapled Securities on issue.

If Lend Lease exercises its right to convert the Second Notes, Lend Lease will have a relevant interest in 517,684,727 Stapled Securities comprising 48.6% of the Stapled Securities on issue (calculated after completion of issue of the Second Tranche).

Further details of the terms of issue of the Second Tranche and the acquisition of the Second BNB Parcel are set out in Section 6 of this Explanatory Memorandum.

Further details of the terms of issue of the Second Notes are set out in Section 8.4 of this Explanatory Memorandum.

2.8 Retirement By Design Business Acquisition – Resolution 7

The terms of the RBD Acquisition are set out in the RBD Acquisition Agreement.

The Retirement By Design Business consists of seven mature retirement villages and one aged care facility. A brief description of each of assets comprising the Retirement By Design Business is set out below.

Village name	Location	Number of ILU units	Average ILU price ($)	Number of SA units	Average SA price ($)	Average age of residents	Earliest settlement date
Pittwater	Mona Vale, NSW	59	361,017	26	112,885	85.0	1988
Burwood Terrace	Burwood East, Victoria	106	390,698	–	–	77.5	1996
Forest Hills	Nunawading, Victoria	110	270,545	50	136,300	84.3	1984
Glenaeon	Belrose, NSW	220	546,377	50	222,500	81.9	1986
Highvalue	Glen Waverley, NSW	126	341,627	64	121,260	84.7	1985
Peppertree Hill	Rowville, Victoria	210	342,114	–	–	81.6	1987
Lutanda Manor	Pennant Hills, NSW	87	488,310	46	231,739	84.6	1988
Keppera	Keppera, Queensland	43	n/a	n/a	n/a	87.2	1996
Total		**961**		**236**			

The assets of the Retirement By Design Business described above are located within metropolitan areas of NSW, Victoria and Queensland and are considered to be relatively modern (with respect to age) and mature (with respect to occupancy) assets. More than 50% of the independent living units (**ILUs**) and 70% of the assisted living and serviced apartments (**SAs**) are located in Sydney which, according to the NSW Department of Planning, is expected to experience population growth of almost 40% over the period 2006 to 2036. Equally, Melbourne (44% of ILUs and 21% of SAs) is expected to experience population growth of more than 25% over the same period. Both cities are expected to experience such growth in part driven by the ageing of the "baby boomer" generation. Further details of the Retirement By Design Business are set out in the Independent Expert's Report.

The key terms of the Retirement By Design Acquisition Agreement are as follows:

- the purchase price is $133.4 million; and
- the purchase price will be satisfied by the cash payment of $13.4 million and the issue of 200,000,000 RBD Convertible Notes.

The Retirement By Design Acquisition will increase the number of units owned by BBC by 1,154, strengthening BBC's retirement living portfolio and improving its overall portfolio mix.

Further details of the RBD Acquisition Agreement and the terms of the RBD Convertible Notes are in Section 8.

2.9 Approval of the First Notes Conversion Rights – Resolution 8

If the First Notes are issued prior to the Meeting, Securityholders are being asked to approve at the Meeting the First Note Conversion Rights which will allow Lend Lease to convert the First Notes to Stapled Securities on maturity of the notes. In this case if Resolution 8 is not passed, the First Notes will remain on issue but their holder will not have any rights to convert the First Notes to Stapled Securities.

If the First Notes are not issued prior to the Meeting, Securityholders are being asked to approve the issue of the First Notes. In this case, if Resolution 8 is not passed the First Notes will be issued as debt securities and the holder will have no rights to convert the First Notes to Stapled Securities.

2.10 Replacement of the Responsible Entity – Resolution 9

Lend Lease Villages Responsible Entity Limited (**LLVRE**) has consented to being appointed the new responsible entity of the Trust in place of BBCIS if approved by Securityholders.

B&B International is committed to facilitating the successful outcome of the Lend Lease Proposal, as recommended by the Independent Directors of BBC. In that context, and having regard to the undertakings given by B&B International to BBC in connection with the strategic review and the broader Lend Lease Proposal under which B&B International has agreed to sell its Management Rights to BBC and to sell its Stapled Securities, B&B International considers that is in the best interests of Securityholders for BBCIS to retire as responsible entity of the Trust if the appointment of LLVRE is approved by Securityholders.

LLVRE is a public company and holds an Australian Financial Services Licence (**AFSL**). LLVRE has lodged an application with ASIC to vary its licence so that it will have all of the necessary authorisations to act as the responsible entity of BBCT.

LLVRE is a wholly-owned subsidiary of Lend Lease. The board of LLVRE will be the same as for BBCL.

If Resolution 9 is not passed, for the time that BBCIS continues to be the responsible entity of the Trust, B&B International will provide the necessary resources to ensure that BBCIS is able to effectively provide the services, and discharge its duties, as required by that role. During that time, B&B International will review the provision of services by BBCIS as part of a broader group-wide corporate governance review in order to ensure consistency as to the provision of such services across BBC. If Resolution 9 is not passed, BBCIS may, should it so determine, apply to the court as it is permitted to do under section 601FL(3) of the Corporations Act to appoint a replacement responsible entity so that BBCIS can retire as the responsible entity of the Trust.

Under the BBCT Constitution, the responsible entity is entitled to a fee of 2.0% per annum of the value of the aggregate of the gross assets of the Trust and the Company. BBCIS, the current responsible entity, has waived its right to receive this fee on the basis that it is paid a fee of $500,000 per annum, increased (but not decreased) for CPI. The fee waiver automatically ceases to apply if the Management Agreements are terminated or if the responsible entity gives the ASX three months' notice. If LLVRE is appointed, it has agreed to continue to waive its right to receive the 2.0% fee on the same terms.

2.11 Change of Name – Resolution 10

BBC is seeking approval to change its name to reflect that B&B will no longer be involved in the management of BBC. It is proposed that BBC be known as Lend Lease Primelife Limited.

2.12 Amendment of Management Fees – Resolution 11

Subject to obtaining Securityholder approval, BBC and LLVM intend to amend the fees payable under the Management Agreements to bring those fees more into line with current market conditions and ensure that LLVM is incentivised to maximise Securityholder value.

(a) Base Fee

Proposed amendments

Under the current Management Agreements, for the financial years ending 30 June 2009 and 2010, BBCM (as the existing manager) has agreed to make payment of 50% of the Base Fee conditional on achieving the following two performance targets (the **Performance Targets**):

(i) a cash distribution target of 10.03 cents for the financial year ending 30 June 2009 and 10.93 cents for the financial year ending 30 June 2010; and

(ii) an earnings before interest, taxes, depreciation, amortisation and fees payable under the Management Agreements (**EBITDAM**) target of $81.2 million in 2009 and $88.5 million in 2010, provided that BBCM's entitlement to a Base Fee is reduced unless it exceeds the EBITDAM target by 9% or greater.

The current cash distribution target of 10.03 cents for the financial year ending 30 June 2009 and 10.93 cents for the financial year ending 30 June 2010 equates to a distribution yield of 8.7% in 2009 and 9.5% in 2010 based on the

IPO Offer Price of $1.15. Under the current Management Agreements there is no cash distribution target or EBITDAM performance target applicable to financial years after the financial year ending 30 June 2010.

It is proposed that the Management Agreements be amended to remove the Performance Targets for the financial years ending 30 June 2009 and 30 June 2010, with the consequence that LLVM (as the new manager) will be entitled to 100% of the Base Fee in those years irrespective of whether the relevant Performance Targets are achieved. An example which shows the effect of the proposed amendment to the Management Agreements to remove the Performance Targets for the Base Fee for the financial years ending 30 June 2009 and 30 June 2010 is set out in the table below.

For the financial year ending 30 June 2009, the Base Fee payable to LLVM will be reduced pro rata to reflect the duration of LLVM's appointment as the manager. As the Base Fee is payable quarterly in arrears, the Base Fee payable to LLVM for the quarter ending 31 December 2008 will be reduced pro rata for the period of LLVM's appointment as manager. Furthermore, BBCM will be entitled to a pro rata payment of the Base Fee, calculated under the existing arrangements, for that part of the quarter ending 31 December 2008 during which it is the manager.

Calculation of Base Fee

Section 9.3.4 of the BBC Prospectus and PDS sets out a summary of the calculation of the Base Fee. The manager is entitled to receive a Base Fee for services provided under the Management Agreements. The fee is an amount equal to 0.5% per annum of the Adjusted Gross Asset Value of BBC, which is split between BBCL (80%) and BBCT (20%) under the Management Agreements less, in the case of BBCT only, the Responsible Entity fee. The Base Fee is payable to the manager quarterly in arrears.

The Base Fee is estimated to be $1,749,883 for the quarter ending 31 March 2009. This estimate is based on the following assumptions underlying the Adjusted Gross Asset Value of BBC:

Adjusted Gross Asset Value (for the quarter) = $1,519,349,000, being

- the amount of the total assets of BBC as that amount is specified in its audited accounts as at 30 June 2008; less
- the amount of the total residential loans of BBC as that amount is specified in its audited accounts as at 30 June 2008.

Base Fee (for the quarter)

= 0.5% x $1,519,349,000 x 90/365 – $123,287 (being the quarterly component of the Responsible Entity fee payable to the manager)

= $1,873,170 – $123,287

= $1,749,883

The manager may also be entitled to further fees for services it provides to BBC which are beyond the normal scope of its services under the Management Agreements. Such fees will be paid at rates for the respective service determined on an arm's length basis between BBC and the manager.

Set out below is an example which shows the effect of the proposed amendment to the Management Agreements to remove the Performance Targets for the Base Fee for the financial years ending 30 June 2009 and 30 June 2010. The hypothetical examples set out below are provided for illustrative purposes only and do not purport to represent the likely Base Fee payable by BBC or the likely performance of BBC.

Base Fee – FY09 Period/FY10 Period

	Current Arrangements						Proposed Arrangements
All $ amounts in $ million		Example 1		Example 2		Example 3	Proposal*
Conditional components of Base Fee %		50%		50%		50%	0%
Conditional component of Base Fee		$3.5		$3.5		$3.5	$0
Unconditional component of Base Fee		$3.5		$3.5		$3.5	$7.0
EBITDA (before Management Fees) achieved		$98.0		$112.0		$124.0	N/A
EBITDA (before Management Fee) target		✓		✓		✓	N/A
Cash distribution target achieved**	✓	✗	✓	✗	✓	✗	N/A
Conditional component payable	$3.5	$0.0	$3.5	$0.0	$3.5	$0.0	$0
Unconditional component payable	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$7.0
Total Base Fee payable	**$7.0**	**$3.5**	**$7.0**	**$3.5**	**$7.0**	**$3.5**	**$7.0**

* Assuming the proposed arrangements applied for the full financial year.

** Cash distribution target – distribution yield of 8.7% for the Financial Year ending 30 June 2009 and 9.5% for the Financial Year ending 30 June 2010 (based on the IPO Offer Price of $1.15).

(b) Incentive Fee

Proposed amendments

Under the current Company Management Agreement, BBCM may be entitled to an Incentive Fee at the end of each financial year. Section 9.3.5 of the BBC Prospectus and PDS provides a summary of the calculation of the Incentive Fee which is outlined below.

Under the proposed amendments to the fees payable under the Company Management Agreement, a number of changes will be made to the calculation of the Incentive Fee. These changes are primarily intended to align the calculation of the amount payable under the Incentive Fee arrangements with the performance of LLVM, as manager of BBCL. The three key changes to the Incentive Fee are explained below.

Firstly, the initial Incentive Fee will be calculated over the period from the date of the Annual General Meeting to 30 June 2009 (the **First Incentive Fee Period**) rather than the entire financial year. In order to effectively calculate the Incentive Fee for the First Incentive Fee Period it is proposed to modify the mechanism for calculating the Incentive Fee (solely in relation to the First Incentive Fee Period) as follows:

- The Stapled Security Return (as defined below) for the First Incentive Fee Period will be calculated using a base which will be determined using the volume weighted average of the Stapled Security Accumulation Index over the 20 trading days following the Annual General Meeting, whereas it would ordinarily be calculated as the volume weighted average of the Stapled Security Accumulation Index on the last 20 trading days of the preceding Incentive Fee Period (as defined below).
- The Benchmark Return (as defined below) for the First Incentive Fee Period will be calculated using a base which will be determined using the average closing value of the Benchmark Index over the 20 trading days following the Annual General Meeting, whereas it would ordinarily be calculated as the average closing value of the Benchmark Index on the last 20 trading days of the preceding Incentive Fee Period.
- BBC's Equity Value (as defined below) for the First Incentive Fee Period will be calculated using the VWAP of the Stapled Securities over the 20 trading days following the date of the Annual General Meeting multiplied by the number of securities on issue on 30 June 2009, whereas it would ordinarily be calculated as the VWAP of the Stapled Securities on the last 20 trading days of the preceding Incentive Fee Period.

Secondly, the amount of any carried forward surplus or deficiency arising from the period during which BBCM was managing BBC will be eliminated for the purpose of calculating the Incentive Fee applicable to the First Incentive Fee Period. This is intended to ensure that LLVM is not penalised or rewarded for BBCM's performance as manager of BBC. There is currently no carried forward surplus and the carried forward deficit is currently approximately $327 million (giving a net deficit of approximately $327 million).

Thirdly, the proposed arrangements will reduce the Incentive Fee cap from 1% of the Adjusted Gross Asset Value of BBC to 0.75% of the Adjusted Gross Asset Value of BBC. This will have the effect of reducing the maximum Incentive Fee payable to LLVM in any given financial year.

Calculation of the Incentive Fee

Currently, BBCM is entitled in respect of each financial year (**Incentive Fee Period**) to receive an Incentive Fee of up to 20% of the amount of the excess (if any) of the Stapled Security Return over the Benchmark Return for that Incentive Fee Period. The maximum Incentive Fee payable for an Incentive Fee Period is currently limited to 1.00% of Adjusted Gross Asset Value of BBC. As noted above, it is proposed to reduce this cap to 0.75% of the Adjusted Gross Asset Value of BBC as part of the proposed amendments to the Company Management Agreement. An Incentive Fee (I) for a particular Incentive Fee Period will only be payable where the Accrued Incentive Fee (P), calculated using the following formula, results in a positive number:

P = 20% x (SSR – BR + S – D)

The Incentive Fee (I) payable is subject to an Incentive Fee Cap (M) for any Financial Year such that:

I = the lesser of P and M

where:

M is currently 1.00% of Adjusted Gross Asset Value

SSR is the Stapled Security Return for the Incentive Fee Period

BR is the Benchmark Return for the Incentive Fee Period

S is any carried forward surplus calculated as being equal to the higher of:

- zero; and
- a number calculated by dividing the sum of the excess (if any) of the Accrued Incentive Fee (P) over the Incentive Fee Cap (M) by 20% for each of the prior years, but limited to not more than three prior years immediately preceding the relevant year, such sum adjusted for any deficit carried forward from previous years.

As noted above, any existing surplus will be reset to zero for the First Incentive Fee Period.

D is any carried forward deficit (expressed as a positive number) calculated as being equal to the higher of:

- zero; and

- the sum of the Benchmark Return minus the sum of the Stapled Security Return for each of the prior years since the previous Incentive Fee (if any) was paid, but limited to not more than three prior years immediately preceding the relevant year, such sum adjusted for any surplus carried forward from previous years.

As noted above, any existing deficit will be reset to zero for the First Incentive Fee Period.

The **Stapled Security Return** is calculated as the percentage movement in the Stapled Security Accumulation Index over the Incentive Fee Period multiplied by BBC's Equity Value.

The **Stapled Security Accumulation Index** is an index formulated by the manager to measure the accumulated ASX-traded value of Stapled Securities (assuming BBC distributions are reinvested in Stapled Securities and adjusted for any Stapled Security consolidations, splits, bonuses and rights issues).

Subject to the proposed variations as described above, BBC's **Equity Value**, for the purposes of the Incentive Fee calculation, is the closing number of Stapled Securities that are officially quoted on the ASX on the last trading day of the relevant Incentive Fee Period multiplied by the VWAP for Stapled Securities over the last 20 days of trading on the ASX for the relevant Incentive Fee Period.

The **Benchmark Return** is calculated as being equal to the percentage movement in the Benchmark Index over the Incentive Fee Period multiplied by BBC's Equity Value.

The **Benchmark Index** is currently the S&P/ASX 300 Accumulation Index. To the extent BBC is no longer included in the S&P/ASX 300 Accumulation Index, or gains inclusion in other indices, the Benchmark Index may be changed by the manager in consultation with the Board.

Subject to the proposed variations as described above, the calculation of the movement in the Stapled Securities Accumulation Index and the Benchmark Index respectively over the Incentive Fee Period is calculated using the trading data over the last 20 trading days in the relevant Incentive Fee Period.

Any shortfall between the Stapled Security Return and Benchmark Return or any surplus of the Accrued Incentive Fee over the Incentive Fee paid is carried forward for up to three years and continues on a rolling basis.

(c) Payment of Base Fee in Stapled Securities

BBCM had agreed with BBC to accept 50% of any Base Fee payable to it in the form of Stapled Securities for the financial years ending 30 June 2009 and 30 June 2010. It is proposed that this agreement be terminated and that any Base Fees payable to LLVM for the financial years ending 30 June 2009 and 30 June 2010 will be paid in cash unless LLVM requests payment in Stapled Securities and the Independent Directors agree to pay the Base Fee in Stapled Securities. Payment of the Base Fee in cash rather than Stapled Securities will reduce the growth in the number of Stapled Securities issued by BBC and increase the outgoings payable by BBC in cash.

The Company Management Agreement provides that the Incentive Fee is payable in cash unless the Manager and BBC agree otherwise. There is currently no agreement otherwise.

(d) Manager Origination and Disposal Fee

Under the current Management Agreements, BBCM is entitled to a Manager Origination and Disposal Fee at the time of any acquisition or disposal of assets for BBC. This fee is currently 1.50% of the purchase price (including any debt assumed) of, or sale proceeds (including any debt assumed by the purchaser) from, an asset. It is proposed that the Management Agreements be amended to reduce the amount of this fee from 1.50% to 1.25%.

2.13 Appointment of Directors

Subject to Securityholders approving the Lend Lease Stapled Security Acquisition and the Retirement By Design Acquisition, a Board meeting of the Company and the Responsible Entity will be convened to appoint Steve McCann (Group Finance Director, Lend Lease) and David Hutton (Chief Executive Officer, Retail & Communities Asia Pacific, Lend Lease) to the Board until BBC's next Annual General Meeting in late 2009. Steve McCann and David Hutton will fill the casual vacancies that will be created by the resignation as directors of John Martin (Managing Director) and Robert Topfer (Non-Executive Director), both of whom have indicated that they will resign from the Board after the Annual General Meeting if the Lend Lease Proposal is approved.

The qualifications and associations of the proposed directors are set out in Section 4.3.

2.14 Advantages, disadvantages and risks of the Lend Lease Proposal

The advantages, and risks of the Lend Lease Proposal are set out in Section 3.

2.15 Independent Expert's Report

BBC has appointed Deloitte Corporate Finance Pty Limited to prepare the Independent Expert's Report on the Lend Lease Stapled Security Acquisition and the acquisition of Stapled Securities on conversion of the First Notes, the RBD Convertible Notes and the Second Notes and the Retirement By Design Acquisition which is included at Annexure A to this Explanatory Memorandum. The Independent Expert's Report contains a detailed assessment of the Lend Lease Stapled Security Acquisition and the acquisition of Stapled Securities on conversion of the First Notes, the RBD Convertible Notes and the Second Notes and the Retirement By Design Acquisition and sets out information to enable Non-Associated Securityholders to assess the merits of, and decide whether to approve, those aspects of the Lend Lease Proposal.

The Independent Expert has concluded that:

(a) the acquisition of the Retirement By Design Business is fair and reasonable to Securityholders; and

(b) the increase in Lend Lease's voting power through the issue of the Second Tranche, the acquisition of the Second BNB Parcel and the possible conversion of the First Notes, the RBD Convertible Notes and the Second Notes is fair and reasonable to Securityholders.

Non-Associated Securityholders should carefully read the Independent Expert's Report in its entirety to understand the scope of the report, the methodology of assessment, the sources and bases of information and the assumptions made.

2.16 Independent Directors' Recommendation

The Board comprises five Directors, two of whom are associated with or employed by B&B International.

All of the Directors have approved the proposal to put the Resolutions in the Notice of Meeting to Securityholders and this Explanatory Memorandum.

The B&B International associated Directors who are also employees of B&B International may have a material interest in the Lend Lease Proposal and have therefore abstained from making a recommendation in respect of the Lend Lease Proposal.

Subject to receiving a superior proposal, each of the Independent Directors unanimously recommend that you vote in favour of the Resolutions to approve the Lend Lease Proposal, and intend to vote the Stapled Securities that they control in favour of the Resolutions. The rationale, risks and other factors relevant to your decision whether to vote for or against the Lend Lease Proposal are set out in detail in Section 3. In making this recommendation to you, the Independent Directors have considered:

(a) the advantages of the Lend Lease Proposal being implemented, together with other factors relevant to a Securityholder's decision whether to vote for or against the Lend Lease Proposal as summarised in Section 3;

(b) the risks associated with the Lend Lease Proposal, as summarised in Section 3; and

(c) the opinion of the Independent Expert, as contained in the Independent Expert's Report set out in Annexure A to this Explanatory Memorandum.

In summary, the Independent Directors consider that the rationale for undertaking the Lend Lease Proposal outweighs the risks of the Lend Lease Proposal.

It is important for Securityholders to note that the decision to proceed with the Lend Lease Proposal is subject to the Resolutions being passed.

3. ADVANTAGES AND RISKS OF THE LEND LEASE PROPOSAL

This Section outlines the Lend Lease Proposal rationale and the risks associated with the Lend Lease Proposal and other factors relevant to the decision whether to vote for or against the Lend Lease Proposal.

3.1 Rationale for Lend Lease Proposal

On 19 June 2008, BBC commenced a strategic review designed to reduce the value gap between the underlying assets of BBC and the trading price of its Stapled Securities. The outcomes of the review identified the need to reduce debt and implement capital management initiatives. The Lend Lease Proposal achieves these outcomes and positions BBC for future growth in the medium to long term.

The capital injection of $195 million through the issue of 283.3 million new securities (being a combination of notes and Stapled Securities) at $0.60 per security and 100 million convertible notes at $0.25 per note to Lend Lease will be partially used to reduce the bank debt of BBC and fund the Retirement By Design Acquisition and will allow BBC to strengthen its retirement living portfolio and reduce overall net gearing levels.

The Lend Lease Proposal will also enhance BBC's ability to execute its development pipeline by having a financially strong and proven development manager in Lend Lease.

The Lend Lease Proposal provides Securityholders the opportunity to maintain an investment in a listed vehicle which is well capitalised, able to recognise value from its development pipeline and well positioned for further industry consolidation and growth.

The Independent Expert has concluded that the Retirement By Design Acquisition and the increase in Lend Lease's voting power through the issue of the Second Tranche, the acquisition of the Second BNB Parcel and the possible conversion of the First Notes, RBD Convertible Notes and Second Notes, is fair and reasonable to Securityholders. A copy of the Independent Expert's Report is included in Annexure A to this Explanatory Memorandum. You are encouraged to read the Independent Expert's Report in full.

3.2 Advantages

(a) Cash injection

BBC requires capital flexibility to maintain its current operations and position itself for future growth. BBC is currently constrained in its operations by its limited financial flexibility as it has limited capacity under its debt facilities.

BBC will have $195 million of cash injected into its business which will allow BBC to materially reduce its net gearing levels, provide increased covenant head room and provide the financial flexibility required to maintain current operations and position itself for future growth.

(b) Strong strategic investor

BBC will have a strong strategic investor in Lend Lease, which has a strong balance sheet and provides stability to the security register in uncertain market conditions. Synergies with Lend Lease will be generated, especially in areas such as development, where the Lend Lease team will be able to drive efficiencies and increase margins.

(c) Increased exposure to Australian retirement living sector

BBC will increase its scale and its exposure to the Australian retirement living sector through the acquisition of seven mature retirement villages (1,154 retirement units) and one aged care facility (49 hostel beds) from Lend Lease's retirement living portfolio, the Retirement By Design Business, which will increase BBC's geographical exposure to metropolitan Sydney and Melbourne.

(d) Maintain investment in an enhanced listed vehicle

The Lend Lease Proposal provides Securityholders with the opportunity to maintain an investment in a listed vehicle which is well capitalised, able to recognise value from its development pipeline and well positioned for further industry consolidation and growth.

BBC will have a manager with a proven track record in developing both masterplanned urban communities, apartments and senior living communities as well as urban regeneration projects.

(e) Development expertise

Lend Lease is capable of supporting BBC's development pipeline from an operational and financial perspective.

Lend Lease has a proven track record in the planning and development of masterplan, greenfield and urban renewal communities globally.

Lend Lease's development capabilities include:

(i) Retirement By Design, Lend Lease's senior living development and management division. As part of the Retirement By Design Acquisition, Lend Lease will make available some of the development talent within this business;

(ii) Delfin Lend Lease, which is a leading Australian developer of large scale, residential led communities;

(iii) Lend Lease Development, which specialises in delivering integrated, mixed-use urban developments located on premium sites in key growth corridors; and

(iv) Vivas Lend Lease, Lend Lease's new Australian apartments business, specialising in creating premium, high-density living environments in high-value locations.

(f) Banking syndicate

As part of the transaction Lend Lease has also held negotiations and concluded an agreement with BBC's banking syndicate. Should the proposal not be endorsed by Securityholders it is likely that BBC's banking syndicate will require BBC to sell assets to reduce debt, to increase the margins on BBC's debt and to require more onerous covenants forcing further asset sales to pay down debt. This would be a sub-optimal outcome for all stakeholders in the business.

3.3 Risks and other factors relevant in the decision to vote for the Resolutions

(a) Dilution of Non-Associated Securityholder interest

If the Lend Lease Proposal is approved, the number of Stapled Securities held by you will not change, but your ordinary security holding percentage will be diluted.

(b) Securityholders other than B&B International do not participate in any premium payable

If the Lend Lease Proposal is approved, B&B International will be permitted to sell the Second BNB Parcel for $0.29 per Stapled Security. Lend Lease has not offered to acquire any Stapled Securities from any other Securityholder. This is because Lend Lease is not acquiring the whole of BBC. Lend Lease's Proposal is primarily a recapitalisation through the subscription for Stapled Securities and notes and the injection of $195 million of cash into BBC.

(c) The Retirement By Design Business does not perform

If the Lend Lease Proposal is approved, BBC will acquire the Retirement By Design Business. Should these assets under perform or drop in value, this may negatively impact BBC's financial position.

3.4 Risks and other factors relevant in the decision to vote against the Resolutions

(a) Lack of available capital

If the Lend Lease Proposal is not approved, BBC will continue to be capital constrained in its operations by its limited financial flexibility as it has limited capacity under its debt facilities. BBC requires capital flexibility to maintain its current operations and position itself for future growth.

(b) Asset sales in the current market

If the Lend Lease Proposal is not approved, BBC is likely to need to sell assets in order to fund its current operations. This would not be ideal in the current market where asset prices are weak and full value may not be realised.

(c) Reduction of development pipeline

If the Lend Lease Proposal is not approved, BBC may need to slow down its development pipeline to manage its capital more efficiently. This would inhibit the future growth of BBC and reduce earnings from the development division of the business.

4. OVERVIEW OF LEND LEASE

4.1 Overview of Lend Lease

(a) Overview

Lend Lease is one of the leading international property groups listed on the ASX. As at 20 November 2008, Lend Lease's market capitalisation was approximately $2.8 billion, ranking it as the 62nd largest company in the S&P/ASX 200.

Lend Lease focuses on capturing value across the property value chain through its integrated model. The Lend Lease Group delivers this business model through five key operations comprising:

- Retail
- Communities including Lend Lease's retirement village operations
- Public Private Partnerships (**PPP**)
- Project Management and Construction
- Investment Management

The diagram below outlines key information for each business unit for the year ended 30 June 2008.

	Retail	Communities	Public Private Partnerships	Project Management and Construction	Investment Management
Core Activities	Asset ownership, development, property and asset management	Masterplanned greenfield communities and urban regeneration	Military housing, healthcare, education and waste	Project management and construction	Asset ownership, real estate investment management services
Operating Revenue	A$130.7m	A$969.5m	A$962.7m	A$12,426.8m	A$127.3m
EBITDA	A$79.4m	A$124.0m	A$60.0m	A$198.9m	A$151.2m
Proportion of Profit After Tax from Operating Businesses[1]	12.6% ↓6.5%	19.2% ↓30.1%	13.9% ↑27.4%	28.1% ↑240.0%	26.2% ↓27.4%
Regional Business Operations	Australia, Singapore, UK, US	UK, Australia, US	UK, US	UK, Europe, Middle East, Americas, Asia Pacific	Australia, Singapore, UK

1 Before Group Services, Treasury, Property Investment Revaluations and Adjustment to Carrying Value of Inventory.

(b) Lend Lease's business segments

Lend Lease has operations across three geographic regions: Asia Pacific, Europe and the Americas. As at 30 June 2008, the Net Profit After Tax contribution from each region was 43.0%, 27.6% and 29.4% respectively.

Retail

Across the UK, Australia and Singapore, the Retail group manages 16 retail centres (with a total gross lettable area of 931.1 million sq m) valued at $10.8 billion as at 30 June 2008. There is also a development pipeline of 12 retail centres (with an estimated additional gross lettable area of 466.4 million sq m) across these regions as at 30 June 2008.

Communities

In Australia, as at 30 June 2008 the Communities business had a development backlog of more than 85,000 residential units and a commercial backlog of approximately 3.2 million sq m:

- Delfin Lend Lease (**Delfin**) develops large scale masterplanned urban communities
- Lend Lease Development (**LLD**) develops large scale integrated mixed-use projects
- Vivas Lend Lease (**Vivas**) develops quality inner ring apartment projects
- Retirement By Design (**RBD**) develops and manages retirement communities.

Delfin operates as a master developer to arrange approvals and subdivide land as well as to support community building initiatives. It has an established track record as a leading masterplanned community developer in Australia.

LLD specialises in delivering integrated, mixed-use urban developments located on premium sites in high growth corridors. Some of its key developments include Darling Park Towers, Sydney and Victoria Harbour, Melbourne.

Vivas specialises in creating premium, high-density apartments in high-value locations. Some of its developments include Jacksons Landing, Sydney and the Dock 5 and Mosaic apartments at Victoria Harbour, Melbourne.

RBD is recognised as an experienced operator of retirement villages with quality designs and has been developing and managing retirement communities for over 20 years. The Group currently manages 15 villages (approximately 2,092 units) across NSW, Queensland, South Australia and Victoria and has another 770 units across various villages in its development backlog. As part of the Lend Lease Proposal, Lend Lease will sell seven mature retirement villages and one aged care facility to BBC.

In Europe, the Communities business comprises Crosby Lend Lease (**Crosby**) and three large scale development projects in London.

Crosby is an urban regeneration specialist operating in major northern England cities such as Manchester, Leeds and Birmingham. Crosby generally purchases inner city brownfield sites, optimises planning outcomes and develops residential led mixed-use projects.

The Lend Lease group is also involved in a number of large scale redevelopment projects including:

- Greenwich Peninsula project – covering approximately 80 hectares is one of the largest ever housing developments in the UK and will include homes for 25,000 people, jobs for 24,000, 3.5 million sq ft of office space, 150 shops and restaurants, 48 acres of parks and green spaces.
- Stratford – Lend Lease has been named as preferred bidder for the development of approximately 4,200 residential dwellings and related accommodation that will become the Athletes Village for the 2012 London Olympic Games. Final terms for the project are currently being finalised.
- Elephant & Castle – Lend Lease has been named as preferred bidder for the regeneration of 57 acres of land in central London.

The Communities business in Europe had a backlog of approximately 14,470 units across northern England and London as at 30 June 2008.

In the US, the Communities business focuses on large scale urban greenfield development and regeneration opportunities. The business has two projects in Denver, Colorado – Horizon Uptown and Lowry Range. These two projects are expected to deliver 17,125 lots.

Public Private Partnerships

The PPP business comprises Actus Lend Lease (**Actus**) in the US, Catalyst Lend Lease (**Catalyst**) and Vita Lend Lease (**Vita**) in the UK. Actus, creates high quality communities and homes for the US Military using proven private sector design, construction, financing, environmental practices and asset management processes. Actus had 44,750 units under management as at 30 June 2008.

In the UK and Europe, Catalyst focuses on Private Finance Initiative (**PFI**) projects in the public sector particularly in the Education, Health, Waste and Government Office Accommodation markets. Under the terms of a typical PFI contract, Catalyst consortia will own, finance, design, construct and manage completed projects for up to 40 years.

Vita is the Group's facilities and estates management business in Europe, with responsibility for maintaining certain completed Catalyst assets for the duration of the PFI contract. The Group controls 29 projects across the UK and Europe.

Project Management and Construction

Lend Lease is one of the world's leading project management and construction services companies. With operations in more than 30 countries, the company's Project Management and Construction business, Bovis Lend Lease, offers market leading expertise in project and construction management and design-build services. The business is a key source of intellectual capital for the Lend Lease Group, with specialists in key sectors including commercial, retail, residential, communications, industrial and pharmaceutical.

The key service offerings include design and build, construction management, project and program management, design management, design engineering, procurement and facilities management. As at 30 June 2008, the Lend Lease Group had backlog Gross Profit Margin of $788.3 million.

Investment Management

Lend Lease Investment Management (**LLIM**) manages property funds globally on behalf of institutional clients. Lend Lease also invests directly in its managed funds. As at 30 June 2008, LLIM had $9.3 billion in funds under management globally. In the Asia Pacific, LLIM manages a number of investment funds across the risk/return spectrum: Australia Prime Property Funds, Lend Lease Real Estate Partnership Funds, Lend Lease Core Plus Fund, Lend Lease Communities Fund 1, Asia Pacific Investment Company Limited, Asia Pacific Investment Company No 2 Limited and Lend Lease Asian Retail Investment Fund. These Funds own a number of high quality properties mainly focused on the retail, commercial and industrial sectors.

In the UK, LLIM manages three investment funds/partnerships focused on high quality retail properties: Lend Lease Retail Partnership, Lend Lease Overgate Partnership and Chelmsford Meadows Limited Partnership.

(c) Directors
The directors of Lend Lease are as follows:

- **D A Crawford** (Chairman, Non-Executive Director)
- **G A Clarke** (Managing Director and Group CEO)
- **P M Colebatch** (Non-Executive Director)
- **G G Edington CBE** (Non-Executive Director)
- **P C Goldmark** (Non-Executive Director)
- **J A Hill** (Non-Executive Director)
- **D J Ryan AO** (Non-Executive Director)
- **M W Selway** (Non-Executive Director)

Further background information on the directors of Lend Lease is available in the 2008 Lend Lease Annual Report. A copy is available for download from www.lendlease.com.au.

(d) Lend Lease's strategy
Lend Lease's vision is to be the leading international property group. Lend Lease aims to achieve this vision and maximise shareholder value, by deploying an integrated business model across its core Retail, Communities, Project Management and Construction, Public Private Partnerships and Investment Management businesses.

To achieve this, Lend Lease has developed the following strategic framework:

Deliver long-term growth and value
Lend Lease aims to drive long-term growth and value by securing assets and projects, which are either scarce or in high growth markets. Lend Lease will seek to create value by applying its integrated property skill-set to these opportunities.

Optimise business unit and asset performance
Lend Lease actively manages its assets within the sectors and geographies in which it operates to optimise the Group's performance. The Group aims to extract maximum value by coordinating and leveraging its capabilities, across its various lines of business, to provide integrated solutions for clients.

Utilise capital efficiently
Lend Lease seeks to allocate capital efficiently by employing tailored business and capital models intended to maximise Group returns. As part of its capital recycling policy, Lend Lease seeks to sell-down assets and reinvest the proceeds into higher yielding development opportunities and assets.

Create "best in class" property capabilities
Lend Lease has developed a number of core competencies which it applies across its projects and businesses. These include:

- In-depth market and customer intelligence;
- Ability to manage complex projects;
- Deep sector-specific business and technical skills; and
- Ability to develop sustainable solutions.

Lend Lease has a deep understanding of international property markets and its strategy is to ensure its business has adequate scale and diversity, as well as access to higher growth market opportunities. This enables Lend Lease to:

- Mitigate the inherent risks associated with operations or assets in any one geography, sector or line of business;
- Capture growth opportunities as the different markets in which Lend Lease participates move through the economic and property cycles; and
- Leverage the expertise of the other businesses within the Lend Lease Group to maximise value from each development and investment opportunity.

An important component of Lend Lease's success is its people. With approximately 12,000 employees, Lend Lease is committed to being an employer of choice. Programs have been implemented to attract and retain the best people as well as provide ongoing training, mentoring and development.

Lend Lease has developed a business that is adaptable and flexible to changing markets, enabling it to maximise value across the property value chain and to proactively respond to clients needs and emerging trends.

4.2 Lend Lease's interest in BBC
Lend Lease currently owns 49,307,352 Stapled Securities, which were purchased in mid-2008 or acquired by Lend Lease under the Distribution Reinvestment Plan, representing 7.2% voting power in BBC.

This combined impact of the Lend Lease Proposal on Lend Lease's interests and voting power in BBC Stapled Securities if Securityholders approve the Lend Lease Stapled Security Acquisition and the Retirement By Design Acquisition is set out below.

	Interest in BBC Securities	Cumulative Interest in BBC Securities	Total BBC Securities on Issue	Cumulative Voting Power
Current Holding[1]	49,307,352	49,307,352	682,919,313	7.2%
Initial BNB Parcel	42,522,022	91,829,374	682,919,313	13.4%
If Lend Lease Application accepted	35,900,000	127,729,374	718,819,313	17.8%
Second Tranche A	69,300,000	197,029,374	788,119,313	25.0%
Second Tranche B	178,133,333	375,162,707	966,252,646	38.8%
Second BNB Parcel[2]	42,522,020	417,684,727	966,252,646	43.2%
Post Proposal (without conversion of Second Notes)	**417,684,727**		**966,252,646**	**43.2%**
Post Proposal (with conversion of Second Notes)[3]	**100,000,000**	**517,684,727**	**1,066,252,646**	**48.6%**

1 Includes 49,307,352 BBC Securities purchased in mid-2008 or acquired by Lend Lease under the Distribution Reinvestment Plan. Does not include Initial BNB Parcel or Second BNB Parcel included in substantial shareholder notice, which is subject to shareholder approval.

2 Completion of the Second BNB Parcel is conditional on issue of all of the Second Tranche.

3 If Lend Lease exercises its right to convert all of the Second Notes (calculated after completion of issue of the Second Tranche).

If Lend Lease waives the Securityholder Approval Condition and Securityholders do not approve the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition and BBC accepts the Lend Lease Application then the combined impact of the Lend Lease Proposal on Lend Lease's interests and voting power in BBC Stapled Securities is set out below.

	Interest in BBC Securities	Cumulative Interest in BBC Securities	Total BBC Securities on Issue	Cumulative Voting Power
Current Holding[1]	49,307,352	49,307,352	682,919,313	7.2%
Initial BNB Parcel	42,522,022	91,829,374	682,919,313	13.4%
If Lend Lease Application accepted	35,900,000	127,729,374	718,819,313	17.8%
Post Proposal	**127,729,374**		**718,819,313**	**17.8%**

1 Includes BBC Securities purchased in mid-2008 or acquired by Lend Lease under the Distribution Reinvestment Plan. Does not include Initial BNB Parcel or Second BNB Parcel included in substantial shareholder notice, which is subject to shareholder approval.

If the Securityholders approve the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition and BBC accepts the Lend Lease Application, then Lend Lease will hold 413,685,727 Stapled Securities, comprising:

- Lend Lease's current holding (49,307,352 Stapled Securities);
- the Initial BNB Parcel (42,522,022 Stapled Securities) and Second BNB Parcel (42,522,020 Stapled Securities);
- 35,900,000 Stapled Securities which are issued to Lend Lease on acceptance of the Lend Lease Application; and
- Second Tranche A (69,300,000 Stapled Securities) and Second Tranche B (178,133,333 Stapled Securities).

The maximum extent of the increase in the voting power of Lend Lease (and each of its associates) in BBC that results directly from the Lend Lease Stapled Security Acquisition (which is the subject of Resolutions 4 and 5) is 25.4%.

However, Securityholder approval of the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition is a condition precedent to:

- the issue of the BBC Notes; and
- Lend Lease's acquisition of the Initial BNB Parcel.

If Lend Lease does not waive this condition and BBC accepts the Lend Lease Application, then the total increase in Lend Lease's voting power after the Lend Lease Stapled Security Acquisition will be 36% (comprising the acquisition of the Initial BNB Parcel, the issue of securities to Lend Lease on acceptance of the Lend Lease Application, the acquisition of the Second BNB Parcel and issue of the Second Tranche to Lend Lease). This will give Lend Lease total voting power of 43.2% in BBC. In this scenario, the issue of the Second Notes does not affect Lend Lease's voting power in BBC. If the Second Notes are converted into Stapled Securities (on the basis that Resolutions 4, 5, 6 and 7 are approved) then the total increase in Lend Lease's voting power will be 41.4%, which will mean Lend Lease's total voting power in BBC will be 48.6%.

The issue of the First Notes and the RBD Convertible Notes do not affect Lend Lease's voting power in BBC until those notes convert into Stapled Securities (on the basis that Resolutions 4, 5, 6, 7 and 8 are approved). To the extent that the First Notes and RBD Convertible Notes are ultimately converted into Stapled Securities, Lend Lease's security holding would increase to 57.4%, assuming no more securities are issued in the preceding period. However, Lend Lease does not intend to hold more than 49% of the total BBC securities on issue and would therefore reduce its holding accordingly if the conversion of these notes were to occur.

4.3 Identity, associations and qualifications of proposed Directors

If Securityholders approve the Lend Lease Proposal, then following completion, each of

- Steve McCann, Group Finance Director, Lend Lease; and
- David Hutton, Chief Executive Officer, Retail & Communities Asia Pacific, Lend Lease,

will be appointed to the Board of BBC to fill casual vacancies created by the resignations as directors of John Martin and Robert Topfer.

(a) Steve McCann (Group Finance Director, Lend Lease)

Steve McCann was appointed Group Finance Director in March 2007, prior to this he held the role of Chief Executive Officer – Investment Management from September 2005 to December 2007 and is based in Sydney, Australia.

Mr McCann has more than 15 years' experience in funds management and capital markets transactions. Prior to joining Lend Lease, Mr McCann spent six years at ABN AMRO, where his roles included Head of Property, Head of Industrial Mergers & Acquisitions and, for the last three years, Head of Equity Capital Markets for Australia and New Zealand.

Mr McCann's previous roles also include Head of Property at Bankers' Trust and a role in property corporate finance at Ord Minnett (now JP Morgan). Prior to that, Mr McCann practised as a mergers and acquisitions lawyer at Freehills, Melbourne for four years. He also spent four years in a Chartered Accounting firm (now Deloittes) in taxation.

Mr McCann holds a Bachelor of Economics degree (Finance major) and a Bachelor of Laws degree from Monash University in Melbourne, Australia.

(b) David Hutton (Chief Executive Officer, Retail & Communities Asia Pacific, Lend Lease)

David Hutton was appointed CEO of Lend Lease's APAC Retail and Communities business in May 2007. Included within Lend Lease's APAC Retail and Communities business is the Retirement By Design division.

Mr Hutton started his career in retail management before joining Lend Lease in 1988. He has worked in Australia and London (between 1994 and 2004) and held numerous senior positions including CEO of Lend Lease Europe, COO of Lend Lease Development, and CEO of Lend Lease Retail Asia Pacific.

Mr Hutton's achievements include the development of multiple new regional shopping centres in Australia and Europe (the largest being Bluewater in Kent, England), the launch of Lend Lease's first UK investment fund, the conversion of Greenwich Peninsular (the UK's largest regeneration project), and a number of large mixed-use projects.

Mr Hutton has significant experience in retail development, fund, asset and property management in addition to high-density residential and mixed-use projects. He has also negotiated and managed numerous joint venture structures with both government and private sector partners.

Mr Hutton has a Bachelor of Business (with distinction) from Charles Sturt University, formal qualifications in retail management and is a licensed real estate agent. He has also held Board positions on the British Property Federation, the Investment Property Forum (IPF) and the Property Council of Australia.

4.4 Future intentions

Lend Lease has indicated that its intentions outlined in this Section are based on the facts and information regarding BBC and the general business environment which are known to it as at the date of this Explanatory Memorandum. Any future decisions will, of course, be reached by Lend Lease based on all material information and circumstances at the relevant time. Accordingly, if circumstances change or new information becomes available in the future, Lend Lease's intentions could change accordingly.

(a) General intentions

Lend Lease's ambition is to further enhance BBC's position as a market leader in managing, owning, operating and developing products for the senior living sector. BBC is to become Lend Lease's main vehicle for the ownership and operation of retirement villages in Australia and New Zealand.

The strategic imperative for Lend Lease is to ensure BBC gains scale in units under management, drive operational efficiencies and provide BBC the development skill-set to realise value from its development portfolio. Lend Lease intends to drive value creation by extracting synergies and efficiencies which will benefit all BBC stakeholders. Lend Lease also intends to enhance the development capability of BBC by leveraging Lend Lease's proven development expertise.

Lend Lease sees the two organisations partnering together by the following:

BBC	Lend Lease
• Manage, own and develop senior living lifestyle products	• Management expertise: – 50 years of operating expertise – Established first list A-REIT, GPT
• Be one of the largest listed senior living companies	• Provide property expertise
• Build a diversified geographic portfolio	• Provide development expertise
• Gain scale in units under management and owned	• Asset/property management services to assess portfolio, redevelopment and upside opportunities

(b) Strengthen BBC's financial position

It is Lend Lease's intention to strengthen the financial position of BBC by:

(i) making a capital injection of $195 million;

(ii) negotiating an appropriate debt regime with BBC's banking syndicate;

(iii) making available its strong management team to ensure BBC is being run efficiently; and

(iv) undertaking a fundamental operating and strategy review of BBC to ensure that it has an appropriate ongoing strategy.

(c) Business, fixed assets and employees

Lend Lease is currently conducting a review of BBC's assets and operations. Accordingly, it has not reached a definitive view regarding its intentions for BBC's business, employees or fixed assets. Lend Lease is looking to develop a strong strategic plan to assist BBC achieve its growth potential. The outcomes of this review will enable Lend Lease to understand better which operations or assets are core or non-core and then how to best deal with those assets. A potential outcome of the review may be the sale of non-core assets.

As the Manager of BBC, Lend Lease is required to maintain BBC's core management team, including the chief executive officer, general manager/chief operating officer and chief financial officer roles. Lend Lease intends initially to satisfy this obligation through secondment arrangements which it has agreed with B&B International, under which existing members of the core and ancillary management teams will be seconded to Lend Lease. Lend Lease intends to put in place arrangements to ensure that it continues to satisfy its management obligations through an appropriate management team after those secondment arrangements are terminated.

(d) Long-term retirement operator

Lend Lease views the retirement sector as one of the fastest growing property segments within the Australian property market. The market currently displays strong demographic growth prospects and low levels of penetration versus other western economies.

Lend Lease views the acquisition of additional BBC Stapled Securities as highly strategic as it becomes the manager and cornerstone shareholder in a market leading retirement vehicle with over 11,000 units owned or under management.

(e) Injection of capital

Lend Lease has no current intention to propose the injection of further capital into BBC, and intends to maintain voting power of less than 49% in BBC.

(f) Property transfers

As part of the Lend Lease Proposal, Lend Lease is selling to BBC seven mature retirement villages and one aged care facility owned by RBD. While Lend Lease has no current intention for any further property transfers between it and BBC, in the future Lend Lease and BBC may agree to the sale and purchase of further RBD villages on arm's length terms.

(g) Financial and dividend policies

The future financial and dividend policy of BBC will be determined by the BBC Board. As set out in Section 4.3, following completion of the Lend Lease Proposal, Lend Lease will hold two out of five BBC Board seats.

(h) Fee waiver

Under the BBCT Constitution, the Responsible Entity is entitled to a fee of 2.0% per annum of the value of the aggregate of the gross assets of the Trust and the Company. BBCIS, the current responsible entity, has waived its right to receive this fee on the basis that it is paid a fee of $500,000 per annum, increased (but not decreased) for CPI. The fee waiver automatically ceases to apply if the Management Agreements are terminated or if the responsible entity gives the ASX three months' notice. Under the agreement relating to the transfer of the Management Rights which was signed on 1 October 2008, B&B International waived and agreed to procure that its related bodies corporate (including the Responsible Entity) would waive the right to receive any fees in relation to BBC that would otherwise have been payable after that time. If LLVRE is appointed, it has agreed to continue to waive its right to receive the 2.0% fee on the same terms.

5. EFFECT OF LEND LEASE PROPOSAL ON BBC

The financial information in this Section consists of:

- The historical consolidated balance sheet of BBC as at 30 June 2008 which has been extracted from the Annual Report (the "historical balance sheet"); and
- The pro-forma historical consolidated balance sheet of BBC at 30 June 2008 representing the historical consolidated balance sheet adjusted for the pro-forma effects of the Lend Lease Proposal and the Distribution Reinvestment Plan (the "pro-forma balance sheet").

The financial information is provided to Securityholders for illustrative purposes to show the effect of the Lend Lease Proposal on BBC's consolidated financial position.

5.1 Introduction and basis of preparation and presentation of financial information

The accounting policies used to prepare the financial information are consistent with those set out in the Annual Report. The Annual Report can be viewed on BBC's website (**www.bbcommunities.com**).

The financial information is presented in an abbreviated form and is prepared in accordance with the recognition and measurement principles of the Australian equivalents to International Financial Reporting Standards (**AIFRS**). It does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

The financial information should be read in conjunction with the Annual Report and the matters disclosed and described therein.

5.2 Historical and pro-forma balance sheet

The pro-forma balance sheet has been prepared for illustrative purposes to show the effect of the Lend Lease Proposal and the Distribution Reinvestment Plan on BBC's 30 June 2008 historical balance sheet. Details of the Lend Lease Proposal are included in Sections 2 and 6. The pro-forma adjustments assume that the Lend Lease Proposal receives all necessary approvals from Securityholders and regulatory authorities and is fully implemented in accordance with the intent of BBC and Lend Lease as set out in this Explanatory Memorandum. This information is not represented as being indicative of BBC's views on its future financial condition.

	30 June 2008 Audited ('$000)	Pro-forma adjustment ('$000)	30 June 2008 Pro-forma ('$000)	Notes
Current Assets				
Cash and Cash Equivalents	19,391	113,000	132,391	(a)
Receivables	52,920		52,920	
Deferred Management Fees	7,083		7,083	
Inventories	29,113		29,113	
Other	1,421		1,421	
Total Current Assets	**109,928**	**113,000**	**222,928**	
Non-Current Assets				
Receivables	446		446	
Deferred Management Fees	63,745		63,745	
Other Financial Assets	11,770		11,770	
Investments Accounted for Using Equity Method	18,551		18,551	
Plant, Property and Equipment	396,527		396,527	
Investment Property	1,786,868	446,016	2,232,884	(b)
Deferred Tax Assets	81,794	750	82,544	(c)
Intangible Assets	238,482	11,900	250,832	(b)
Total Non-Current Assets	**2,598,183**	**458,666**	**3,056,849**	
Total Assets	**2,708,111**	**571,666**	**3,279,777**	
Current Liabilities				
Resident Loans	1,188,762	312,616	1,501,378	(b)
Accommodation Bond Liabilities	105,560		105,560	
Accounts Payable	65,765		65,765	
Interest Bearing Liabilities	432	25,000	25,432	(d)
Provisions	22,829	(13,687)	9,142	(e)
Total Current Liabilities	**1,383,348**	**323,929**	**1,707,277**	
Non-Current Liabilities				
Deferred Revenue	19,318		19,318	
Interest Bearing Liabilities	591,298	58,400	649,698	(f)
Deferred Tax Liabilities	97,111		97,111	
Provisions – Non-Current	4,190		4,190	
Total Non-Current Liabilities	**711,917**	**58,400**	**770,317**	
Total Liabilities	**2,095,265**	**382,329**	**2,477,594**	
Net Assets	**612,846**	**189,337**	**802,183**	
Total Equity	**612,846**	**189,337**	**802,183**	(g)

5.3 Notes and explanations of pro-forma adjustments to the historical balance sheet

(a) Represents the proceeds from the issue of 283.3 million Stapled Securities to Lend Lease at $0.60 per Stapled Security, plus the proceeds of $25 million from the issue of the Second Notes, less a reduction in the commitment under the Finance Documents of $75 million and the payment of the estimated transaction costs in relation to the Lend Lease Proposal.

(b) Represents the acquisition of the Retirement By Design Business from Lend Lease comprising 1,154 retirement village units and 49 aged care beds. The net consideration of $133.4 million is recognised in the pro-forma balance sheet as the net difference between the pro-forma adjustments to Investment Property Assets and Resident Loans. The acquisition will be funded through the issue of 200,000,000 RBD Convertible Notes with a face value of $120 million and $13.4 million in cash funded through the issue of the First Notes. The RBD Convertible Notes have a fixed conversion price of $0.60 per Stapled Security. Additional terms of the RBD Convertible Notes are set out in Section 8.

Goodwill of approximately $11.9 million is recognised in the pro-forma balance sheet on acquisition of the Retirement By Design Business representing the market position of the asset portfolio and synergies expected to arise from the acquisition. The goodwill is within a range consistent with portfolio acquisitions in the retirement village industry.

(c) Represents the recognition of the tax effect of the equity raising costs. The pro-forma balance sheet assumes that no other tax effects occur as a result of the Lend Lease Proposal.

(d) Represents the issue of 100,000,000 Second Notes to Lend Lease for proceeds of $25 million. The Second Notes are convertible at any time at the option of Lend Lease for a fixed conversion price of $0.25 per note. Additional terms of the Second Notes are set out in Section 8.

(e) Represents the net effect from the issue of Stapled Securities pursuant to the fully underwritten Dividend Reinvestment Plan in September 2008 as previously advised to Securityholders.

(f) The pro-forma balance sheet adjustment to Interest Bearing Liabilities assumes the issue of $120.0 million of RBD Convertible Notes to Lend Lease to fund the acquisition of the Retirement By Design Business and the issue of $13.4 million of First Notes to Lend Lease. The RBD Convertible Notes and First Notes have a five year term and, subject to approval of Securityholders in the case of the First Notes, are convertible into Stapled Securities at a fixed price of $0.60 per Stapled Security. Refer to Section 8 for further information on the terms of the notes. The pro-forma adjustment also assumes a reduction in the commitments under the Finance Documents of $75 million using proceeds from the issue of Stapled Securities to Lend Lease.

(g) Represents the issue of 283.3 million Stapled Securities to Lend Lease at $0.60 per Stapled Security as described in the Lend Lease Proposal, the conversion of 35.9 million BBC Notes into Stapled Securities at $0.60 per note, plus $7.4 million representing the estimated equity component of the RBD Convertible Notes less a deduction of $1.8 million net of tax representing the estimated advisory, legal and other costs associated with the issue of Stapled Securities.

5.4 Effect on BBC capital structure

	Number of Securities on Issue	Notes
Number of Stapled Securities on issue at 30 June 2008	651,727,936	
Issue of Stapled Securities pursuant to the Dividend Reinvestment Plan	31,191,397	
Number of Stapled Securities on issue prior to the Lend Lease Proposal	682,919,313	
Stapled Securities to be issued to Lend Lease if the Lend Lease Application is accepted	35,900,000	(a)
Stapled Securities to be issued to Lend Lease under Second Tranche A	69,300,000	(a)
Stapled Securities to be issued to Lend Lease under Second Tranche B	178,133,333	(a)
Number of Stapled Securities on issue following completion of the Lend Lease Proposal	966,252,646	
Number of convertible notes on issue following completion of the Lend Lease Proposal convertible into Stapled Securities	322,333,333	(b)

Notes:

(a) Issue of Stapled Securities to Lend Lease at $0.60 per security.

(b) Issue of 200 million RBD Convertible Notes to LLC to part-fund the acquisition of the Retirement By Design Business and the issue of 22.3 million First Notes and 100 million Second Notes for working capital. The convertible notes have a term of five years and, subject to the approval of Securityholders in the case of the First Notes, convert into Stapled Securities at a fixed price of $0.60 per Stapled Security. Refer to Section 8 for further information.

6. DETAILS OF THE TRANSACTION

6.1 Issue of the Second Tranche and the Second Notes

Subject to each of Resolutions 4, 5, 6 and 7 being approved by Securityholders at the Meeting, BBC will issue to Lend Lease the Second Tranche at an issue price of $0.60 per Stapled Security for a total price of $148,460,000 and the Second Notes at an issue price of $0.25 per note for a total price of $25,000,000.

In addition to requiring Securityholder approval, the issue of the Second Tranche and the Second Notes to Lend Lease is also conditional upon the following:

(a) the issue to Lend Lease of the BBC Notes and the First Notes;

(b) there being no preliminary or final decision, order or decree having been issued by a Government Agency and no action or investigation having been announced (other than in relation to OIO Approval), commenced or threatened by any Government Agency in consequence of, or in connection with the transactions contemplated by the Implementation Agreement;

(c) BBC (and BBC having procured that each BBC Group Entity):

  (i) has conducted its business in the usual and ordinary course consistent with past practice;

  (ii) used its reasonable endeavours to preserve and maintain the value of its business and assets and relationships with suppliers, customers, partners, agents, landlords and employees; and

  (iii) did not acquire or dispose of one or more entities, businesses or assets above $2,500,000 or enter into any arrangements which would require expenditure, or the foregoing of revenue, by the BBC Group of over $2,500,000;

(d) there being no change in BBC's business which results in its consolidated net assets for the year ended 30 June 2008 being reduced by at least 10% or the value of its consolidated net annual profit after tax reported in its financial statements for the year ended 30 June 2008 being reduced by 10%; and

(e) LLVM continuing to be the manager of BBC.

Furthermore, OIO Approval is required from the New Zealand Overseas Investment Office for Lend Lease to increase its security holding in BBC above 25%. Therefore 69.3 million Stapled Securities (**Second Tranche A**) and the Second Notes will be issued to Lend Lease shortly after the Meeting prior to BBC obtaining OIO Approval. The issue of the remaining 178.1 million Stapled Securities (**Second Tranche B**) and the acquisition of the Second BNB Parcel are conditional on BBC obtaining OIO Approval.

OIO Approval is the approval required from the New Zealand Overseas Investment Office to the acquisition by Lend Lease of the Second Tranche and the Second BNB Parcel.

Approval from the OIO is required because under the New Zealand *Overseas Investment Act 2005* (**OI Act**) an "overseas person" making an "overseas investment transaction" is required to apply for the OIO's consent to the transaction. Lend Lease qualifies as an "overseas person" for the purposes of the OI Act and as a result of BBC's ownership of Primecare Holdings Limited, a New Zealand holding company whose wholly-owned subsidiaries own and operate retirement villages in New Zealand, the acquisition of the Second Tranche and the Second BNB Parcel would qualify as an "overseas investment transaction" for the purposes of the OI Act.

The application for OIO Approval was made by Lend Lease on 20 October 2008. The OIO Approval process could take up to three months from the date of lodgement of that application.

Completion of the issue of Second Tranche A and the Second Notes is scheduled to occur on the first Business Day to occur after Resolutions 4, 5, 6 and 7 are put to Securityholders at a general meeting. Completion of Second Tranche B is scheduled to occur within five Business Days from the date that OIO Approval is obtained provided that the other conditions are and continue to be satisfied or waived.

If the conditions as set out above are not satisfied or waived by the later of 28 February 2009 or the date on which OIO Approval is granted, the issue of the Second Tranche will not proceed.

6.2 Acquisition of the Second BNB Parcel

Subject to each of Resolutions 4, 5, 6 and 7 being approved by Securityholders at the Meeting, Lend Lease will acquire from B&B International the Second BNB Parcel for $0.29 per Stapled Security for a total price of $12,331,386.

In addition to requiring Securityholder approval, the acquisition of the Second BNB Parcel by Lend Lease is also conditional upon the issue of the Second Tranche.

On the date that all conditions to the acquisition of the Second BNB Parcel are satisfied, B&B International will procure that ownership of all Stapled Securities in the Second BNB Parcel is transferred to Lend Lease. Settlement of the sale and purchase of the Second BNB Parcel will take place on the date of issue of Second Tranche B.

6.3 Acquisition of the Retirement By Design Business

Subject to Resolutions 4, 5, 6 and 7 being approved by Securityholders at the Meeting, BBC and Lend Lease have agreed to the acquisition by BBC of the Retirement By Design Business from Lend Lease for the RBD Purchase Price.

A description of the Retirement By Design Business is set out in Section 2.8.

The terms of the RBD Convertible Notes are summarised in Section 8.3.

The key terms of the RBD Acquisition Agreement are:

(a) the purchase price is $133.4 million; and

(b) the purchase price will be satisfied by the cash payment of $13.4 million and the issue of 200,000,000 RBD Convertible Notes.

Further information about the terms of the RBD Acquisition Agreement is set out in Section 8.4.

The acquisition of the Retirement By Design Business and the issue of the RBD Convertible Notes is conditional upon the passing of Resolutions 4, 5, 6 and 7 and the completion of the issue of the Second Tranche A.

6.4 Prime's Offer

The Prime Trust has made an unsolicited proportional scrip bid to acquire 40% of your Stapled Securities. You will have received Prime's Bidder's Statement which relates to Prime's Offer and which was dated 18 September 2008.

You will also have received a Target's Statement from BBC relating to Prime's Offer in which your Directors recommended that Securityholders reject Prime's Offer.

Prime's Offer was originally scheduled to close on 3 November but has been extended to 28 November 2008. Prime's Offer was declared unconditional on 31 October 2008. As at 18 November 2008 The Prime Trust had a relevant interest in 0.87% of the Stapled Securities, which means it had acceptances of 0.436%. Your Directors continue to recommend that you REJECT Prime's Offer for the reasons set out in the Target's Statement.

7. REASONS WHY SECURITYHOLDER APPROVAL IS REQUIRED

7.1 Introduction

The Lend Lease Proposal can only proceed if the Resolutions approving of the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition are passed at the Meeting and the other conditions of the Lend Lease Proposal are either satisfied or waived.

Resolutions 4, 5, 6, 7, 8, 9 and 11 must be passed as ordinary resolutions and will therefore be passed if supported by a simple majority of votes cast on the Resolutions. Resolution 10 is a special resolution which means that it must be passed by at least 75% of the votes cast by Securityholders entitled to vote on the Resolution. The Resolutions contained under Special Business in the Notice of Meeting are explained in this Section. This explanation should be read together with the entirety of the Explanatory Memorandum.

7.2 Resolution 4 – Approval of the issue of the Second Tranche

This Resolution is an approval for the purposes of item 7 of section 611 of the Corporations Act allowing Lend Lease to acquire a "relevant interest" in Stapled Securities through the issue of the Second Tranche, which acquisition would otherwise breach section 606 of the Corporations Act.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from 20% or below to more than 20%, unless the acquisition falls within one of the exceptions in section 611, such as Securityholder approval under item 7 of section 611 of the Corporations Act.

As at the date of this Explanatory Memorandum, Lend Lease holds 7.2% of the Stapled Securities on issue. It also has a relevant interest in the BNB Parcel by virtue of having entered into the Stapled Security Acquisition Agreement, but acquisition of the Second BNB Parcel is subject to Securityholder approval (see Resolution 5). Lend Lease's initial holding of 7.2% together with the Initial BNB Parcel gives Lend Lease a relevant interest in 13.4% of the Stapled Securities on issue. If BBC issues the BBC Notes and if BBC accepts the Lend Lease Application, Lend Lease will acquire a relevant interest in 17.8% of the Stapled Securities. If Resolutions 4, 5, 6 and 7 are approved, Lend Lease will acquire a relevant interest in 43.2% of the Stapled Securities on issue.

Securityholder approval is therefore required under item 7 of section 611 of the Corporations Act for the issue of the Second Tranche to Lend Lease.

Resolution 4 is conditional upon the passing of Resolutions 5, 6 and 7.

7.3 Resolution 5 – Approval for the acquisition of the Second BNB Parcel

This Resolution is an approval for the purposes of item 7 of section 611 of the Corporations Act allowing Lend Lease to acquire a "relevant interest" in BBC through the acquisition of the Second BNB Parcel, which acquisition would otherwise breach section 606 of the Corporations Act.

As stated above, section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from 20% or below to more than 20%, unless the acquisition falls within one of the exceptions in section 611, such as Securityholder approval under item 7 of section 611 of the Corporations Act.

As stated above, as at the date of this Explanatory Memorandum, Lend Lease holds 7.2% of the Stapled Securities on issue. It also has a relevant interest in the BNB Parcel by virtue of having entered into the Stapled Security Acquisition Agreement, but acquisition of the Second BNB Parcel is subject to this Resolution being passed. Lend Lease's initial holding of 7.2% together with the Initial BNB Parcel gives Lend Lease a relevant interest in 13.4% of the Stapled Securities on issue. If BBC issues the BBC Notes and if BBC accepts the Lend Lease Application, Lend Lease will have a relevant interest in 17.8% of the Stapled Securities. If Resolutions 4, 5, 6 and 7 are approved, Lend Lease will acquire a relevant interest in 43.2% of the Stapled Securities on issue.

Securityholder approval is therefore required under item 7 of section 611 of the Corporations Act for the acquisition by Lend Lease of the Second BNB Parcel.

Resolution 5 is conditional upon the passing of Resolutions 4, 6 and 7.

7.4 Resolution 6 – Approval of the issue of the Second Notes

This Resolution is an approval for the purposes of item 7 of section 611 of the Corporations Act and ASX Listing Rules 7.1 and 7.9.

As described in Section 2, BBC will issue Lend Lease 100,000,000 Second Notes at $0.25 per Second Note.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as Securityholder approval under item 7 of section 611 of the Corporations Act.

Therefore an approval is required under item 7 of section 611 of the Corporations Act to permit the acquisition by Lend Lease of further Stapled Securities on exercise of the Second Notes.

An approval is being sought under ASX Listing Rule 7.1 for the issue of the Second Notes. ASX Listing Rule 7.1 prohibits a listed entity from issuing or agreeing to issue equity securities in any 12 month period which amount to more than 15% of its ordinary securities, unless one of the exceptions to ASX Listing Rule 7.1 applies or Securityholder approval is obtained.

If this Resolution is passed, the Second Notes will not be counted towards the 15% limit as Securityholders will have approved the issue.

The Second Notes are equity securities within the meaning of the ASX Listing Rules as they are by their terms convertible into Stapled Securities.

ASX Listing Rule 7.9 provides that an entity must not issue or agree to issue equity securities, without the approval of Securityholders, for three months after it is told in writing that a person is making a takeover for securities in it unless one of the specified exceptions apply. Exception 6 to ASX Listing Rule 7.9 provides that an entity can issue equity securities in such circumstances where an agreement to issue equity securities that is conditional on holders of ordinary securities approving the issue before the issue is made.

Given that The Prime Trust announced an unsolicited bid for 40% of the Stapled Securities in BBC on 4 September 2008, ASX Listing Rule 7.9 prohibits BBC issuing or agreeing to issue the Second Notes until 5 December 2008. Consequently, BBC was only able to agree to issue the Second Notes to Lend Lease if the issue of the Second Notes were stated to be conditional upon Securityholder approval.

7.5 Resolution 7 – Approval of the Retirement By Design Acquisition

This Resolution is an approval of the Retirement By Design Acquisition for the purposes of ASX Listing Rule 10.1 and under item 7 of section 611 of the Corporations Act and for all other purposes.

ASX Listing Rule 10.1 requires Securityholder approval be obtained for any proposed acquisition of a "substantial asset" by a listed entity from a "substantial holder", if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to the voting securities of that listed entity.

As at the date of this Explanatory Memorandum, Lend Lease has a relevant interest in 7.2% of the total votes attached to the voting securities in BBC and accordingly will be a "substantial holder" in BBC with a relevant interest in at least 10% of the total votes attached to the voting securities of BBC.

The ASX Listing Rules provide that an asset is substantial if its value, or the value of the consideration for it is, or in the ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to the ASX under the Listing Rules. The Retirement By Design Business would fall within the definition of a substantial asset.

Therefore, approval of Securityholders is required under ASX Listing Rule 10.1 for the Retirement By Design Acquisition.

ASX Listing Rule 7.1 prohibits a listed entity from issuing or agreeing to issue equity securities in any 12 month period which amount to more than 15% of its ordinary securities, unless one of the exceptions to ASX Listing Rule 7.1 apply or Securityholder approval is obtained. Although an approval is not required under ASX Listing Rule 7.1 approval is being sought so that if this Resolution is passed, the issue of the RBD Convertible Notes will not use any of the 15% placement capacity under Listing Rule 7.1.

An approval is also required under item 7 of section 611 of the Corporations Act because following completion of the issue of the Second Tranche and acquisition of the Second BNB Parcel, Lend Lease will have a relevant interest in 43.2% of the Stapled Securities on issue.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as Securityholder approval under item 7 of section 611 of the Corporations Act.

Therefore an approval is required under item 7 of section 611 of the Corporations Act to permit the acquisition by Lend Lease of further Stapled Securities on exercise of its conversion rights in relation to the RBD Convertible Notes which are being issued in consideration of the acquisition of the Retirement By Design Acquisition.

This Resolution is also an approval for the purposes of Exception 6 to ASX Listing Rule 7.9. ASX Listing Rule 7.9 provides that an entity must not issue or agree to issue equity securities, without the approval of Securityholders, for three months after it is told in writing that a person is making a takeover for securities in it unless one of the specified exceptions apply. Exception 6 to ASX Listing Rule 7.9 provides that an entity can issue equity securities in such circumstances where an agreement to issue equity securities is conditional on holders of ordinary securities approving the issue before the issue is made.

Given that The Prime Trust announced an unsolicited bid for 40% of the Stapled Securities in BBC on 4 September 2008, ASX Listing Rule 7.9 applied to BBC until 5 December 2008. The RBD Convertible Notes are "equity securities" for the purposes of the ASX Listing Rules. Consequently, BBC was only able to agree to issue the RBD Convertible Notes to Lend Lease if the agreement to issue them was stated to be conditional upon Securityholder approval.

7.6 Resolution 8 – Approval of the issue of the First Notes

If the First Notes are issued prior to the Meeting

This Resolution is an approval for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rules 7.1 and 7.4 and Exception 6 to ASX Listing Rule 7.9 of the First Notes Conversion Rights.

As described in Section 2, it is possible that BBC may issue Lend Lease 22,333,333 First Notes at $0.60 per First Note prior to the Meeting.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as Securityholder approval under item 7 of section 611 of the Corporations Act.

Therefore an approval is required under item 7 of section 611 of the Corporations Act to permit the acquisition by Lend Lease of further Stapled Securities on exercise of the First Notes.

An approval is being sought under ASX Listing Rules 7.1 and 7.4 for the issue of the First Notes. ASX Listing Rule 7.1 prohibits a listed entity from issuing or agreeing to issue equity securities in any 12 month period which amount to more than 15% of its ordinary securities, unless one of the exceptions to ASX Listing Rule 7.1 applies or Securityholder approval is obtained.

ASX Listing Rule 7.4 allows an issue to be subsequently approved by Securityholders and treated as having satisfied the Securityholder approval exception in ASX Listing Rule 7.1 in certain circumstances.

If this Resolution is passed, the First Notes will not be counted towards the 15% limit as Securityholders will have approved the issue.

The First Notes are debt securities within the meaning of the ASX Listing Rules as they are not by their terms convertible into Stapled Securities. This means that ASX Listing Rule 7.9 did not apply to their issue.

The First Notes, however, include the First Note Conversion Rights which will, if approved by Securityholders permit the holder to convert the First Notes to Stapled Securities on their maturity.

As stated above, ASX Listing Rule 7.9 provides that an entity must not issue or agree to issue equity securities, without the approval of Securityholders, for three months after it is told in writing that a person is making a takeover for securities in it unless one of the specified exceptions apply. Exception 6 to ASX Listing Rule 7.9 provides that an entity can issue equity securities in such circumstances where an agreement to issue equity securities that is conditional on holders of ordinary securities approving the issue before the issue is made.

Given that The Prime Trust announced an unsolicited bid for 40% of the Stapled Securities in BBC on 4 September 2008, ASX Listing Rule 7.9 applies to BBC until 5 December 2008. If the First Notes contain the First Notes Conversion Rights they would fall within the definition of "equity securities" for the purposes of the ASX Listing Rules. Consequently, BBC was only able to issue the First Notes to Lend Lease with the First Notes Conversion Rights contained in them, if the First Notes Conversion Rights were stated to be conditional upon Securityholder approval.

Pursuant to the terms of the Implementation Agreement and for the purposes of Exception 6 of ASX Listing Rule 7.9, BBC has agreed to seek Securityholder approval to approve the First Notes Conversion Rights.

If the First Notes are not issued prior to the Meeting

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as Securityholder approval under item 7 of section 611 of the Corporations Act.

Therefore an approval is required under item 7 of section 611 of the Corporations Act to permit the acquisition by Lend Lease of further Stapled Securities on exercise of the First Notes.

An approval is being sought under ASX Listing Rules 7.1 for the issue of the First Notes. ASX Listing Rule 7.1 prohibits a listed entity from issuing or agreeing to issue equity securities in any 12 month period which amount to more than

15% of its ordinary securities, unless one of the exceptions to ASX Listing Rule 7.1 applies or Securityholder approval is obtained.

If this Resolution is passed, the First Notes will not be counted towards the 15% limit as Securityholders will have approved the issue.

As stated above, ASX Listing Rule 7.9 provides that an entity must not issue or agree to issue equity securities, without the approval of Securityholders, for three months after it is told in writing that a person is making a takeover for securities in it unless one of the specified exceptions apply. Exception 6 to ASX Listing Rule 7.9 provides that an entity can issue equity securities in such circumstances where an agreement to issue equity securities that is conditional on holders of ordinary securities approving the issue before the issue is made.

Given that The Prime Trust announced an unsolicited bid for 40% of the Stapled Securities in BBC on 4 September 2008, ASX Listing Rule 7.9 applies to BBC until 5 December 2008. If the First Notes have not been issued by the date of the Meeting, BBC has agreed to issue them as convertible securities. The First Notes would therefore fall within the definition of "equity securities" for the purposes of the ASX Listing Rules. Consequently, BBC was only able to agree to issue the First Notes to Lend Lease if the issue of the First Notes was stated to be conditional upon Securityholder approval.

Pursuant to the terms of the Implementation Agreement and for the purposes of Exception 6 of ASX Listing Rule 7.9, BBC has agreed to seek Securityholder approval to approve the issue of the First Notes.

7.7 Resolution 9 – Appointment of new responsible entity

This Resolution is an approval for the purposes of section 601FL of the Corporations Act to approve the appointment of Lend Lease Villages Responsible Entity Limited as the new responsible entity of the Trust.

7.8 Resolution 10 – Change of Company Name

This Resolution is a special resolution pursuant to section 157(1)(a) of the Corporations Act to change the Company's name to Lend Lease Primelife Limited.

7.9 Resolution 11 – Amendment of management fees

This Resolution is an approval to amend the fees payable under the Management Agreements to bring those fees more in line with current market practice and ensure that Lend Lease is incentivised to maximise Securityholder value.

It is not a specific requirement of the Corporations Act or the ASX Listing Rules that Securityholder approval is required for an amendment to the Management Agreements, however, ASX Guidance Note 26 encourages entities with a management agreement in place obtain member approval for any material changes to that management agreement.

The proposed changes to the management fees payable under the Management Agreements are described in detail in Section 2.12.

8. ADDITIONAL INFORMATION

8.1 BBC Notes

Set out below is a summary of the terms of the BBC Notes.

Issuer:	BBCL
Face Value:	$0.60
Number of Notes:	35,900,000 ($21.5 million)
Interest:	Each BBC Note accrues interest at a rate of BBSW plus 275 basis points per annum (**Interest Rate**), on a daily basis and is calculated on the basis of the actual number of days elapsed in accordance with the following formula: $\frac{\text{Interest Rate x Face Value x N}}{365}$ where: N = the number of days from the date the BBC Notes are issued until (but excluding) the Interest Payment Date.
Interest Payment Date:	Interest accrued on a BBC Note is payable in arrears on the Maturity Date, subject to the terms of the Finance Parties' consents.
Redemption:	BBCL must redeem all outstanding BBC Notes on the Maturity Date. On the Maturity Date, BBC must repay the Face Value of the BBC Notes to the holder of the BBC Notes and redeem the BBC Notes.
Maturity Date:	The date which is the Business Day after Resolution 4 is put to Securityholders at a general meeting.
Dealings:	The BBC Notes are not transferable.

Ranking:	The BBC Notes rank in all respects equally and without preference among themselves and in the event of liquidation of BBCL, are subordinated in right of payment to the claims of all other creditors of BBCL (other than persons whose claims are subordinated in the event of a liquidation of BBCL in any manner (other than by statute) to the claims of any unsecured and unsubordinated creditor of BBCL).

8.2 First Notes

Set out below is a summary of the terms of the First Notes.

Issuer:	BBCL
Face Value:	$0.60
Number of Notes:	22,333,333 ($13.4 million)
Interest:	Each First Note accrues interest at a rate of 9.5% per annum (**Interest Rate**), on a daily basis and is calculated on the basis of the actual number of days elapsed in accordance with the following formula: $\frac{\text{Interest Rate x Face Value x N}}{365}$ where: N = the number of days in the Interest Period.
Interest Period:	The period commencing on (and including) the date the First Notes are issued up to and including 31 December 2008 and each calendar quarter commencing 1 January, 1 April, 1 July and 1 October after 31 December 2008 until the First Notes are redeemed.
Interest Payment Date:	Interest accrued on a First Note is payable in arrears on the last Business Day of each Interest Period, subject to the terms of the Finance Parties' consents.
Conversion:	Subject to the passing of Resolution 8 at the Meeting, the holder of the First Notes may at any time in a period which commences four months before the Maturity Date and ends on the date three months before the Maturity Date give to BBCL an irrevocable notice to convert the First Notes into Stapled Securities. Subject to standard adjustments to be made in the event of a bonus issue, rights issue, off-market buy-back, return of capital or capital distribution, consolidation, subdivision or reorganisation by BBC, the number of Stapled Securities to be issued upon conversion of the First Notes is equal to the number of First Notes. On conversion of the First Notes, BBCL must redeem the First Notes for an amount equal to their Face Value. BBCL must apply the redemption proceeds to the subscription of the Stapled Securities.
Redemption:	Unless redeemed earlier (as described below) BBCL must redeem all outstanding First Notes on the Maturity Date. The First Notes may be redeemed early once the Commitments under the Finance Documents are permanently reduced by $75 million if an Early Redemption Event occurs. The completion of the sale by BBC of any of its assets (other than in the ordinary course) is an Early Redemption Event. BBCL must give the holder of the First Notes notice in writing that an Early Redemption Event has occurred. If BBCL gives the holder of the First Notes notice of an Early Redemption Event within two years from the date of issue, then the Issuer may, if there are proceeds from the sale which are not required to be otherwise applied by the Finance Parties (**Available Proceeds**), redeem a specified number of the First Notes. In addition, the holder of the First Notes may within 30 Business Days of the date of the notice of the Early Redemption Event give a notice to BBCL requiring it to redeem a specified number of First Notes (which number must not exceed that number of First Notes in respect of which the amount payable on redemption will not exceed the Available Proceeds). On redemption of any First Notes, BBCL must pay the Face Value for each First Note to be redeemed and any other amount which is not paid when it is due under the terms of the First Notes.
Maturity Date:	The fifth anniversary of the date the First Notes are issued.
Dealings:	The First Notes are not transferable.

Ranking: The First Notes rank in all respects equally and without preference among themselves and in the event of liquidation of BBCL, are subordinated in right of payment to the claims of all other creditors of BBCL (other than persons whose claims are subordinated in the event of a liquidation of BBCL in any manner (other than by statute) to the claims of any unsecured and unsubordinated creditor of BBCL).

8.3 RBD Convertible Notes

Set out below is a summary of the terms of the RBD Convertible Notes.

Issuer: BBCL

Face Value: $0.60

Number of Notes: 200,000,000 ($120 million)

Interest: Each RBD Convertible Note accrues interest at a rate of 9.5% per annum (**Interest Rate**), on a daily basis and is calculated on the basis of the actual number of days elapsed in accordance with the following formula:

$$\frac{\text{Interest Rate} \times \text{Face Value} \times N}{365}$$

where:

N = the number of days in the Interest Period.

Interest Period: The period commencing on (and including) the date the RBD Convertible Notes are issued up to and including 31 December 2008 and each calendar quarter commencing 1 January, 1 April, 1 July and 1 October after 31 December 2008 until the RBD Convertible Notes are redeemed.

Interest Payment Date: Interest accrued on a RBD Convertible Note is payable in arrears on the last Business Day of each Interest Period, subject to the terms of the Finance Parties' consents.

Conversion: The holder of a RBD Convertible Note may at any time in a period which commences four months before the Maturity Date and ends on the date three months before the Maturity Date give to BBCL an irrevocable notice to convert the RBD Convertible Notes into Stapled Securities.

Subject to standard adjustments to be made in the event of a bonus issue, rights issue, off-market buy-back, return of capital or capital distribution, consolidation, subdivision or reorganisation by BBC, the number of Stapled Securities to be issued upon conversion of the RBD Convertible Notes is equal to the number of RBD Convertible Notes.

On conversion of the RBD Convertible Notes, BBCL must redeem the RBD Convertible Notes for an amount equal to their Face Value. BBCL must apply the redemption proceeds to the subscription of the Stapled Securities.

Redemption: Unless redeemed earlier (as described below) BBCL must redeem all outstanding RBD Convertible Notes on the Maturity Date.

The RBD Convertible Notes may be redeemed early once the Commitments under the Finance Documents are permanently reduced by $75 million if an Early Redemption Event occurs.

The completion of the sale by BBC of any of its assets (other than in the ordinary course) is an Early Redemption Event. BBCL must give the holder of the RBD Convertible Notes notice in writing that an Early Redemption Event has occurred. If BBCL gives the holder of the RBD Convertible Notes notice of an Early Redemption Event within two years from the date of issue, then the Issuer may, if there are proceeds from the sale which are not required to be otherwise applied by the Finance Parties (**Available Proceeds**) redeem a specified number of the RBD Convertible Notes. In addition, the holder of the RBD Convertible Notes may within 30 Business Days of the date of the notice of the Early Redemption Event give a notice to BBCL requiring it to redeem a specified number of RBD Convertible Notes (which number must not exceed that number of RBD Convertible Notes in respect of which the amount payable on redemption will not exceed the Available Proceeds).

On redemption of any RBD Convertible Notes, BBCL must pay the Face Value for each RBD Convertible Note to be redeemed and any other amount which is not paid when it is due under the terms of the RBD Convertible Notes.

Cancellation: If RBD is required to make a payment to BBCL under the RBD Acquisition Agreement, RBD may (through Lend Lease) elect to satisfy this requirement by requiring BBCL to cancel RBD Convertible Notes in lieu of RBD making a cash payment to BBCL.

Maturity Date: The fifth anniversary of the date the RBD Convertible Notes are issued.

Dealings:	The RBD Convertible Notes are not transferable.
Ranking:	The RBD Convertible Notes rank in all respects equally and without preference among themselves and in the event of liquidation of BBCL, are subordinated in right of payment to the claims of all other creditors of BBCL (other than persons whose claims are subordinated in the event of a liquidation of BBCL in any manner (other than by statute) to the claims of any unsecured and unsubordinated creditor of BBCL).

8.4 Second Notes

Issuer:	BBCL
Face Value:	\$0.25
Number of Notes:	100,000,000 (\$25 million)
Interest:	Each Second Note accrues interest at a rate of 9.5% per annum (**Interest Rate**), on a daily basis and is calculated on the basis of the actual number of days elapsed in accordance with the following formula: $\frac{\text{Interest Rate} \times \text{Face Value} \times N}{365}$ where: N = the number of days in the Interest Period.
Interest Period:	The period commencing on (and including) the date the Second Notes are issued up to and including 31 December 2008 and each calendar quarter commencing 1 April, 1 July, 1 October and 1 January and after 31 December 2008 until the Second Notes are converted or redeemed.
Interest Payment Date:	Interest accrued on a Second Note is payable in arrears on the last Business Day of each Interest Period, subject to the terms of the Finance Parties' consents.
Conversion:	The holder of the Second Notes may at any time give to BBCL an irrevocable notice to convert the Second Notes into Stapled Securities. Subject to standard adjustments to be made in the event of a bonus issue, rights issue, off-market buy-back, return of capital or capital distribution, consolidation, subdivision or reorganisation by BBC, the number of Stapled Securities to be issued upon conversion of the Second Notes is equal to the number of Second Notes. On conversion of the Second Notes, BBCL must redeem the Second Notes for an amount equal to their Face Value. BBCL must apply the redemption proceeds to the subscription of the Stapled Securities.
Redemption:	BBCL must redeem all outstanding Second Notes on the Maturity Date. On redemption of any Second Notes, BBCL must pay the Face Value for each Second Note to be redeemed and any other amount which is not paid when it is due under the terms of the Second Notes.
Maturity Date:	The fifth anniversary of the date the Second Notes are issued.
Dealings:	The Second Notes are not transferable.
Ranking:	The Second Notes rank in all respects equally and without preference among themselves and in the event of liquidation of BBCL, are subordinated in right of payment to the claims of all other creditors of BBCL (other than persons whose claims are subordinated in the event of a liquidation of BBCL in any manner (other than by statute) to the claims of any unsecured and unsubordinated creditor of BBCL).

8.5 RBD Acquisition Agreement

The following is a summary of the RBD Acquisition Agreement:

(a) Acquisition

Subject to the fulfilment of certain conditions precedent, BBCL has agreed to purchase the Retirement By Design Business from Retirement By Design Pty Limited (**RBD**) and Keperra Sanctuary Pty Limited (**KSP**), each of which is a wholly-owned indirect subsidiary of Lend Lease on the terms and conditions set out in the RBD Acquisition Agreement. The parties to the RBD Acquisition Agreement are BBCL, RBD and KSP.

(b) Consideration

The consideration for the acquisition by BBCL of the Retirement By Design Business is payment to RBD and KSP of \$133,400,000, of which \$13,400,000 is payable in cash with the remainder being satisfied through the issue of the RBD Convertible Notes to RBD.

(c) Conditions precedent
Completion of the acquisition of the Retirement By Design Business is dependent upon the fulfilment of several conditions precedent, including the Securityholders approving Resolutions 4, 5, 6 and 7.

If these conditions are not satisfied on or before the later of 28 February 2009 and the date on which OIO Approval is granted under the Implementation Agreement, the RBD Acquisition Agreement will terminate.

(d) Retirement By Design contracts
The RBD Acquisition Agreement provides for the transfer to BBCL of contracts entered into by RBD and KSP in connection with the Retirement By Design Business, including the resident agreements entered into by KSP with the residents of Keperra Hostel. BBCL will assume the benefit of and the obligations under those contracts with effect from completion of the acquisition (subject to interim arrangements if the necessary resident or Commonwealth Department of Health and Ageing consents are not obtained before completion). BBCL has agreed to indemnify RBD and KSP against losses suffered by them after completion as a result of BBCL's actions in discharging the obligations under the contracts, to the extent that such loss is a result of BBCL's breach or non-performance (except where such loss is caused or contributed to by the conduct of RBD or KSP).

(e) Warranties
Both BBCL and RBD provide warranties to the other party under the RBD Acquisition Agreement.

BBCL's ability to claim under the warranties given by RBD is subject to certain limitations and exclusions, including time limits for certain types of claims which are expressed to run from completion, a threshold for individual claims and a cap on RBD's potential liability equal to $13,400,000 except in relation to an indemnity in relation to historic liabilities of RBD Property Management Pty Limited relating to asbestos injury, in respect of which the cap is equal to $33,350,000 (being 25% of the purchase price).

(f) Tax indemnity
RBD has agreed to indemnify BBCL against tax payable by any of the entities which BBCL has agreed to purchase pursuant to the RBD Acquisition Agreement to the extent that the tax arises from or relates to certain acts or omissions at or prior to completion of the acquisition. This indemnity does not apply to an amount of tax to the extent that it arises from any change not announced before the date of the RBD Acquisition Agreement after the date of the RBD Acquisition Agreement in any tax or applicable law.

There is a time limit of three and a half years from the date of completion and a cap of $13,400,000 on BBCL's ability to claim under the tax indemnity.

(g) Environmental indemnity (asbestos)
RBD has agreed to indemnify BBCL against any future claims made against RBD Property Management Pty Ltd (one of the entities that BBCL is acquiring) arising from the operations of that company during the period from 6 November 1947 up to completion of the acquisition which involved use, construction with, destruction, removal, storage or movement of asbestos or materials containing asbestos.

There is a time limit of seven years from the date of completion and a cap of $33,350,000 on BBCL's ability to claim under the environmental indemnity.

8.6 Financial Adviser Mandate Letter
The following is a summary of the Financial Adviser Mandate Letter from Lend Lease to BBC.

Lend Lease has confirmed its willingness and ability to act as financial adviser, and provide investment banking services, to BBC from time to time. It has undertaken to make itself available for that purpose and to ensure that it has, or has available to it, sufficient resources to provide these services. Lend Lease's appointment as financial adviser to BBC will become effective from the date on which its Australian Financial Services Licence is effectively varied to permit it to provide the services under the Financial Adviser Mandate Letter.

Financial advisory and investment banking services are defined to include, but are not limited to:

(a) mergers and acquisitions services;

(b) equity and debt advisory services (including capital markets issues);

(c) equity and debt raisings including arranging underwritings;

(d) divestment and acquisition advice; and

(e) general financial and commercial advice.

In consideration for Lend Lease agreeing to provide these financial advisory and investment banking services to BBC, BBC has agreed to grant Lend Lease a first and last right of refusal to provide any financial advisory services to BBC on terms that would be reasonable in the circumstances if BBC, the Company and the Responsible Entity on the one hand and Lend Lease on the other hand were dealing at arm's length and in each case in accordance with reasonable market standards of service. Where Lend Lease agrees to perform such financial advisory and investment banking services, BBC, the Company and the Responsible Entity have agreed to appoint Lend Lease on an exclusive basis (**Specific Appointment**) on terms that would be reasonable in the circumstances as if they were acting at arm's length and in each case in accordance with reasonable market standards of service.

In circumstances of a Specific Appointment where there is a real conflict of interest, the terms of the Specific Appointment must be acceptable to the Independent Directors from time to time of the Company and the Responsible Entity before BBC, the Company and the Responsible Entity are under any obligation to appoint Lend Lease in respect of that Specific Appointment.

If Lend Lease breaches a material obligation of the terms and conditions applying to a Specific Appointment and the breach is not remedied by Lend Lease within 30 Business Days, BBC may terminate the Specific Appointment.

BBC agrees to negotiate in good faith the terms of each Specific Appointment, which terms may provide for a minimum facilitation fee in relation to the particular transaction in an amount approved by the Independent Directors of the Company and the Responsible Entity. Lend Lease will also be entitled to be reimbursed for reasonable out-of-pocket expenses incurred in the performance of its role.

8.7 Interests of Directors in the Lend Lease Proposal

The following table sets out the number of Stapled Securities in which each Director currently has a relevant interest.

Director	Number of Stapled Securities in which each has a relevant interest
Judith Sloan	45,058
Andrew Love	62,872
Graeme Martin	200,043
Robert Topfer	3,237,484
John Martin	240,000

The number of Stapled Securities in which each Director will have a relevant interest will not change if the Lend Lease Proposal is implemented.

8.8 Consents and Disclaimers

The following persons have given and have not, before the date of issue of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

Lend Lease has given and has not, before the date of issue of this Explanatory Memorandum, withdrawn its consent to the inclusion of the information relating to the Retirement By Design Business in Section 2.7, the statements about LLVRE and its intentions in Section 2.9, the information in paragraph 2.12 relating to the estimate of the Base Fee for the quarter ending March 2009 and the examples showing the effect of removing the Performance Targets for the Base Fee and the statements describing Lend Lease's relevant interest in Stapled Securities in Sections 7.2, 7.3, 7.4 and 7.5 and the information in Section 4 of this Explanatory Memorandum and the references to that information in the form and context in which it is included in this Explanatory Memorandum.

Deloitte Corporate Finance Pty Limited has given and has not, before the date of issue of this Explanatory Memorandum, withdrawn its consent to the inclusion of the Independent Expert's Report and the references to that report in the form and context in which it is included in this Explanatory Memorandum.

B&B International has given and has not, before the date of issue of this Explanatory Memorandum, withdrawn its consent to the inclusion of the information about it in this Explanatory Memorandum and the references to that information in the form and context in which it is included in this Explanatory Memorandum.

Each person referred to in this Section 8.8:

(a) does not make, or purport to make, any statement in this Explanatory Memorandum other than those statements referred to above as consented to by that person; and

(b) to the maximum extend permitted by law, expressly disclaims and not taken responsibility for any part of this Explanatory Memorandum other than as described in this Section with that person's consent.

9. GLOSSARY OF TERMS

In this Explanatory Memorandum, unless the context otherwise requires:

Adjusted Gross Asset Value as at any date means:

Adjusted Gross Asset Value = TA – RL

where

TA is the amount of the total assets of BBC as that amount is specified in its consolidated accounts last given to the ASX under the Listing Rules on or before that date; and

RL is the amount of the total residential liabilities of BBC as that amount is specified in its consolidated accounts last given to the ASX under the Listing Rules on or before that date.

Annual Report means the Company's Annual Financial Report, Directors' Report and Auditor's Report for the financial year ended 30 June 2008.

APCH means Australian Property Custodian Holdings Limited ABN 74 095 474 436.

ASIC means the Australian Securities and Investments Commission.

ASX means the ASX Limited ACN 008 624 691.

Base Fee means the Manager Base Fee payable under clause 5.1(a) of each of the Management Agreements.

B&B means Babcock & Brown Limited ABN 53 108 614 955.

BBA means Babcock & Brown Australia Pty Limited ABN 49 002 348 521.

BBAH means Babcock & Brown Asset Holdings Pty Limited ABN 58 002 332 345.

BBC means BBCIS and BBCL operating together as the Babcock and Brown Communities Group.

BBC Group Entity means any body corporate or unit trust controlled by BBC or any subsidiary of BBC.

BBCIS means Babcock & Brown Communities Investor Services Limited ABN 33 080 737 042.

BBCL means Babcock & Brown Communities Limited ABN 16 010 622 901.

BBCM means Babcock & Brown Communities Management Pty Limited ABN 28 120 387 313.

BBC Notes means the 35,900,000 subordinated notes issued on the terms summarised in Section 8 of this Explanatory Memorandum.

BBC Prospectus and **PDS** means the prospectus and product disclosure statement issued by BBC dated 15 June 2007.

BBCT means Babcock & Brown Communities Trust ARSN 124 896 733.

B&B International means Babcock & Brown International Pty Limited ABN 76 108 617 483.

BBSW means the rate expressed as a percentage per annum, calculated as the average mid-rate for bills of a term of 90 days which average rate is displayed on Reuters page designated BBSW (or any page which replaces that page) on the Issue Date, or if there is a manifest error in the calculation of that average rate or that average rate is not displayed by 10.30am (Sydney time) on that day, the rate expressed in good faith by the Issuer at or around that time on that date having regard, to the extent possible, to:

(a) the rates otherwise bid and offered for bills of that term or for funds of that tenor displayed on that page BBSW (or any page which replaces that page) at that time on that day; and

(b) if bid and offer rates for bills of that term are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time.

BNB Parcel means the Initial BNB Parcel and the Second BNB Parcel.

Board means the board of directors of the Company and the Responsible Entity.

Business Day has the same meaning as in the ASX Listing Rules.

Common Terms Deed means the document of that title dated 18 December 2007 between, among others, BBCL and the Finance Parties.

Company means Babcock & Brown Communities Limited ABN 16 010 622 901 or BBCL.

Company Management Agreement means the management agreement dated 26 July 2007 entered into by the Company and the Manager as amended and supplemented by the letter agreement entitled "Base Manager Fees (Allotment Date to 30 June 2010) and Base Manager Expense Amount (Allotment Date to 30 June 2008)" entered into between the Company, the Responsible Entity and the Manager dated 25 July 2007.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company and the Responsible Entity.

Distribution Reinvestment Plan means BBC's distribution reinvestment plan for the final FY2008 distribution paid by BBC.

Explanatory Memorandum means this Explanatory Memorandum dated 28 November 2008.

Finance Documents means:

(a) in respect of National Australia Bank Limited and Bank of New Zealand, the facility agreement dated 18 December 2007 between, among others, National Australia Bank Limited, Bank of New Zealand and BBCL and any "Transaction Document" (as that term is defined in the Common Terms Deed);

(b) in respect of Australia and New Zealand Banking Group and ANZ National Bank Limited, the facility agreement dated 18 December 2007 between, among others, Australia and New Zealand Banking Group Limited, ANZ National Bank Limited and BBCL and any "Transaction Document" (as that term is defined in the Common Terms Deed); and

(c) in respect of Commonwealth Bank of Australia, the facility agreement dated 18 December 2007 between, among others, Commonwealth Bank of Australia and BBCL and any "Transaction Document" (as that term is defined in the Common Terms Deed).

Finance Parties means National Australia Bank Limited, Bank of New Zealand, Australia and New Zealand Banking Group Limited, ANZ National Bank Limited and Commonwealth Bank of Australia.

First Notes means the notes issued on terms and conditions summarised in Section 8.2 of this Explanatory Memorandum.

First Notes Conversion Rights means the rights to convert the First Notes into Stapled Securities as described in Section 8 of this Explanatory Memorandum.

Government Agency means:

(a) a government or government department or other body;

(b) a governmental, semi-governmental or judicial person; or

(c) a person (whether autonomous or not) who is charged with the administration of a law.

Implementation Agreement means the agreement between Lend Lease, BBC and B&B International dated 1 October 2008 pursuant to which Lend Lease agreed to acquire all of the issued share capital of the Manager, subscribe for Stapled Securities, purchase the BNB Parcel and sell its Retirement By Design Business to BBC as amended from time to time.

Incentive Fee means the Manager Incentive Fee payable under clause 5.1(b) of the Company Management Agreement.

Independent Directors means Judith Sloan, Andrew Love and Graeme Martin.

Independent Expert means Deloitte Corporate Finance Pty Limited.

Independent Expert's Report means that report of the Independent Expert, a copy of which is included in Annexure A to this Explanatory Memorandum.

Initial BNB Parcel means 42,522,022 Stapled Securities in which B&B International has a relevant interest.

Internalisation Agreement means the agreement between BBC and BBCM dated 28 August 2008 pursuant to which it was agreed that the Management Agreements would be terminated and the management of BBC would be internalised by BBC.

IPO Offer Price means $1.15.

Lend Lease means Lend Lease Corporation Limited ABN 32 000 226 228.

Lend Lease Application means the application by Lend Lease for 35,900,000 Stapled Securities at $0.60 per Stapled Security.

Lend Lease Information means the information concerning Lend Lease contained in the Explanatory Memorandum being the information set out in Section 4.

Lend Lease Proposal means the Lend Lease Stapled Security and Note Acquisition and the Retirement By Design Acquisition.

Lend Lease Stapled Security Acquisition means the acquisition by Lend Lease of the Second BNB Parcel and the issue to Lend Lease of the Second Tranche.

Lend Lease Stapled Security and Note Acquisition means the Lend Lease Stapled Security Acquisition and the acquisition by Lend Lease of the Second Notes.

LLVRE means Lend Lease Villages Responsible Entity Limited ACN 099 064 141.

LLVM means Lend Lease Village Management Pty Ltd ACN 004 515 977.

Management Agreements means the Company Management Agreement and the Trust Management Agreement.

Manager Origination and Disposal Fee means the Manager O&D Fees payable under clause 5.1(c) of the Company Management Agreement and clause 5.1(b) of the Trust Management Agreement.

Management Rights means the rights and obligations of BBCM under the Management Agreements.

Meeting means the Meeting of Securityholders to be held on 30 December 2008 at 10.30am, Sydney time.

Non-Associated Securityholders means Securityholders other than Lend Lease, B&B International and their associates.

Notice of Meeting means the Notice of Annual General Meeting accompanying this Explanatory Memorandum.

OIO Approval means the consent in writing of the New Zealand Overseas Investment Office to the acquisition by Lend Lease of the Second Tranche and the Second BNB Parcel.

Performance Targets means:

(a) a cash distribution target of a distribution yield of 10.03 cents for the financial year ending 30 June 2009 and 10.93 cents for the financial year ending 30 June 2010; and

(b) an earnings before interest, taxes, depreciation, amortisation and fees payable under the Management Agreements (**EBITDAM**) target of $81.2 million in 2009 and $88.5 million in 2010, provided that BBCM's entitlement to a Base Fee is reduced unless it exceeds the EBITDAM target by 9% or greater.

Prime's Bidder's Statement means the bidder's statement received by BBC from The Prime Trust under Part 6.5 of the Corporations Act dated 18 September 2008.

Prime's Offer means the proportional scrip takeover offer made by The Prime Trust in Prime's Bidder's Statement.

RBD Acquisition Agreement means the agreement between RBD, KSP and BBCL to acquire the Retirement By Design Business.

RBD Convertible Notes means the 200,000,000 convertible notes issued on terms and conditions which are summarised in Section 8 of this Explanatory Memorandum.

RBD Purchase Price means $133.4 million.

relevant interest has the meaning given to that term under sections 608 and 609 of the Corporations Act.

Resolution means a resolution in the Notice of Meeting which requires Securityholder approval.

Responsible Entity means Babcock and Brown Communities Investor Services Limited ABN 33 080 737 042 the responsible entity of the Trust.

Retirement By Design Acquisition means the acquisition of the Retirement By Design Business on the terms set out in the RBD Acquisition Agreement.

Retirement By Design Business means the business so entitled operated by Lend Lease and comprising seven retirement villages and one aged care facility, further described in Section 2.8 of this Explanatory Memorandum.

Second BNB Parcel means 42,522,020 Stapled Securities in which B&B International has a relevant interest.

Second Completion Date means the date on which Second Tranche B is issued to Lend Lease.

Second Notes means the notes issued on terms and conditions summarised in Section 8.4 of this Explanatory Memorandum

Second Tranche means 247,433,333 Stapled Securities.

Second Tranche A means 69,300,000 Stapled Securities.

Second Tranche B means 178,133,333 Stapled Securities.

Securityholder means any person registered as holding a Stapled Security as at 7.00pm, Sydney time on 27 December 2008.

Securityholder Approval Condition means the condition precedent in the Implementation Agreement to the issue of the First Notes and the BBC Notes that Securityholders approve the Lend Lease Stapled Security and Note Acquisition Agreement and the Retirement By Design Acquisition at the Meeting.

Stapled Security means one fully paid ordinary share in the Company and one fully paid ordinary unit in the Trust which are stapled together such that those securities can not be dealt with separately.

Stapled Security Acquisition Agreement means the agreement between B&B International and Lend Lease for the sale of the BNB Parcel dated 1 October 2008 as amended on 21 November 2008.

Superior Proposal means a proposal in respect of which the Independent Directors form the opinion, reasonably formed in good faith and for a proper purpose based on their fiduciary duties, that it is a superior proposal to the Lend Lease Proposal.

Target's Statement means the target's statement of BBC prepared in accordance with Part 6.5 of the Corporations Act dated 15 October responding to Prime's Offer.

The Prime Trust means Australian Property Custodian Holdings Limited as responsible entity for The Prime Retirement and Aged Care Property Trust.

Trust means Babcock & Brown Communities Trust ARSN 124 896 733.

Trust Management Agreement means the management agreement dated 26 July 2007 entered into by the Responsible Entity and the Manager as amended and supplemented by the letter agreement entitled "Base Manager Fees (Allotment Date to 30 June 2010) and Base Manager Expense Amount (Allotment Date to 30 June 2008)" entered into between the Company, the Responsible Entity and the Manager dated 25 July 2007.

voting power has the meaning given to that term under section 610 of the Corporations Act.

VWAP means the volume weighted average price for Stapled Securities on the ASX excluding special crossings, crossings outside of normal trading hours and option related transactions.

Annexure A
Independent Expert's Report

Deloitte.

Babcock & Brown Communities Group

Independent expert's report

28 November 2008

Financial services guide

Deloitte Corporate Finance Pty Limited
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AFSL 241457
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Sydney NSW 2000
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1.1.1 What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance, we, us or our) the holder of Australian Financial Services Licence (AFSL) No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of our dispute resolution systems and how you can access them.

1.1.2 Information about us

We have been engaged by Babcock & Brown Communities Group (BBC or the Company) to give general financial product advice in the form of a report to be provided to you in connection with the proposed recapitalisation of BBC. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com.au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

The financial product advice in our report is provided by Deloitte Corporate Finance and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

1.1.3 Associations and relationships

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

1.1.4 What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to retail and wholesale clients:

- provide financial product advice in respect of:
  - debentures, stocks or bonds to be issued or proposed to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities
- deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of:
  - debentures, stocks or bonds issued or to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities.

1.1.5 Information about the general financial product advice we provide

The financial product advice provided in our report is known as “general advice” because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product.

1.1.6 How are we and our employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Our fee, which is estimated to be $435,000, exclusive of GST and other disbursements, will also be disclosed in the relevant offer document prepared by the issuer of the financial product. Deloitte Corporate Finance, its directors and officers, any related bodies corporate or associates and their directors and officers, do not receive any commissions or other benefits, except for the fees rendered to the party or parties who actually engage us.

Deloitte.

Financial services guide

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

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

1.1.7 What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing addressed to:

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FOS at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001

Deloitte.

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The Directors
Babcock & Brown Communities Group
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2 Chifley Square
SYDNEY NSW 2000

28 November 2008

Dear Directors

Independent expert's report

1. Introduction

On 1 October 2008, Babcock & Brown Communities Group (BBC or the Company) announced that it had entered into an implementation agreement (the Implementation Agreement) with Lend Lease Corporation Limited (LLC) in relation to a proposed recapitalisation of BBC (Original LLC Proposal). The Original LLC Proposal was to be executed in two stages:

Stage 1

- LLC acquiring 50% of Babcock & Brown Group Limited's (BNB) existing 12.5% interest in BBC at a price of \$0.61 per security (First BNB Parcel)
- LLC acquiring the agreements related to the management of BBC (the Management Agreements) from BNB for \$17.5 million (the Management Rights Transaction)
- BBC raising \$37.8 million through the issue of \$24.4 million (35.9 million new BBC securities at a face value of \$0.68 per security) in redeemable loan notes (BBC Notes) and \$13.4 million (19.7 million new BBC securities at a face value of \$0.68 per security) in convertible redeemable loan notes (First Notes) to LLC (Tranche 1 Capital Raising).

Stage 1 was originally expected to be executed by the date of the Annual General Meeting (AGM) and would have resulted in LLC having an equity interest of 13.4% in BBC, LLC taking over the Management Agreements and BBC raising \$37.8 million from LLC.

Stage 2

- LLC acquiring the remaining 50% of BNB's existing 12.5% interest in BBC at a price of \$0.55 per security (Second BNB Parcel)
- BBC raising \$145.6 million through the issue of 214.1 million new BBC securities to LLC at a price of \$0.68 per security (Tranche 2 Capital Raising)
- subject to certain conditions, BBC effectively acquiring seven retirement villages and one aged care facility (RBD Assets) from LLC's retirement portfolio, Retirement by Design (RBD) (RBD Acquisition). The face value of the total consideration payable to LLC for the RBD Assets is \$133.4 million. This is expected to be satisfied through the issue of five year convertible redeemable loan notes with a face value of \$0.68 per security or \$120.0 million (RBD Notes) and \$13.4 million in cash. The RBD Notes may be converted into BBC securities at maturity if they have not been redeemed prior to this date (Potential RBD Note Conversion).

As the Stage 2 transaction will result in LLC's interest increasing above 25%, the Stage 2 transactions are subject to approval by the New Zealand Overseas Investment Office (OIO).

On 24 November 2008, due to the continued decline in global share markets as well as the BBC security price, LLC and BBC amended the terms of the Original LLC Proposal as follows (LLC Proposal):

- decreasing the issue price of the Tranche 1 Capital Raising and the Tranche 2 Capital Raising from $0.68 per security to $0.60 per security. As the amount raised through these two capital raisings will remain the same, the number of securities issued will increase to 283.3 million in total (including conversion of the BBC Notes) such that the total net capital to be injected into BBC for this aspect of the proposal remains at $170 million
- amending the face value and conversion price of the RBD Notes to $0.60 per security
- as part of Stage 2, LLC contributing an additional $25.0 million in capital into BBC in the form of five year convertible loan notes with a face value of $0.25 per security (Second Notes). The Second Notes will have a coupon rate of 9.5% and will be convertible into BBC securities at any time by LLC at face value and can be redeemed by LLC at face value at maturity
- splitting the payment of the $17.5 million consideration in respect of the Management Rights Transaction into two tranches, $5 million payable on transfer of the Management Agreements and $12.5 million payable upon securityholder approval of Stage 2.

Further to this, LLC also renegotiated with BNB a lower acquisition price for the First BNB Parcel and the Second BNB Parcel of $0.29 per security.

If the above transactions proceed, LLC would have an equity interest of 43.2% in BBC prior to conversion of any of the convertible securities.

Pursuant to the Implementation Agreement, the issue of the BBC Notes and the First Notes are conditional on securityholder approval of the Stage 2 transactions.[1]

For the purposes of this report, the acquisition of the Second BNB Parcel, the Tranche 2 Capital Raising, the conversion of the First Notes, the Potential RBD Note Conversion and the potential conversion of the Second Notes are collectively described as the Significant Securityholding Increase (Significant Securityholding Increase or SSI).

Stage 2 requires BBC securityholder approval and BBC securityholders will be voting on these proposals at the AGM scheduled for 30 December 2008 (the Meeting).

The Significant Securityholding Increase and the RBD Acquisition are interdependent in that the approval of the Significant Securityholding Increase is conditional on the RBD Acquisition (and vice versa).

2. Purpose of the report

The Significant Securityholding Increase will result in LLC's economic interest in BBC increasing from below the 20% threshold to above 20% which will require BBC securityholder approval in accordance with Section 611 of the Corporations Act 2001 (Section 611). Section 611 also requires in certain situations where securityholder approval is required that a company commissions an independent expert's report, or the directors of the company prepare a report of equivalent standard. The independent expert is required to provide an opinion as to whether the transactions are fair and reasonable to securityholders of BBC whose votes are not to be disregarded (Securityholders).

Section 10 of the Australian Securities Exchange (ASX) Listing Rules (Listing Rules) requires an entity to obtain approval from securityholders where that entity acquires a substantial asset from, or disposes of a substantial asset to, a "substantial holder", if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to the voting securities of that listed entity. Subsequent to Stage 1 of the LLC Proposal, LLC will have a relevant interest in BBC of 13.4%[2] of the total votes attached to the voting securities in BBC and accordingly is a "substantial holder" in BBC with a relevant interest in at least 10% of the total votes attached to the voting securities of BBC in accordance with the Listing Rules. Furthermore, the RBD Assets would fall within the definition of a substantial asset.

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[1] LLC may waive this condition and issue the BBC Notes and First Notes prior to the Meeting or after the Meeting.

[2] This includes the First BNB Parcel by virtue of LLC having entered into the agreement to acquire BNB's stake in BBC but does not include the Second BNB Parcel since this is subject to securityholder approval.

The directors of BBC (the Directors) have asked Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) to prepare an independent expert's report (the IER) for the benefit of Securityholders which includes the following opinions:

- whether the Significant Securityholding Increase is fair and reasonable to Securityholders in accordance with Section 611 and the Listing Rules
- whether the acquisition of the RBD Assets, including the related issue of the RBD Notes to LLC, is fair and reasonable to Securityholders in accordance with the Listing Rules.

We have prepared this report having regard to Section 611, the Listing Rules and the relevant Australian Securities and Investment Commission (ASIC) regulatory guides.

The IER will accompany the Notice of Meeting to be sent to Securityholders and has been prepared for the exclusive purpose of assisting Securityholders in their consideration of the LLC Proposal. The IER should be read as a whole and specifically having regard to the Qualifications, declarations and consents section as set out in Appendix 12 of our report.

3. Basis of evaluation

Significant Securityholding Increase

In order to assess whether the Significant Securityholding Increase is fair and reasonable we have:

- assessed whether the transaction is fair by estimating the fair market value of a BBC security and comparing that to the subscription price for the Tranche 2 Capital Raising of $0.60 per BBC security. We have also compared our assessment of the fair market value of a BBC security to the weighted average price per security assuming conversion of the First Notes, RBD Notes and Second Notes. In calculating the fair market value of a BBC security, for the purpose of assessing the fairness of the Significant Securityholding Increase we have included the RBD Assets (Enlarged BBC) since the approval of the Significant Securityholding Increase is conditional on the acquisition of the RBD Assets
- assessed the reasonableness of the Significant Securityholding Increase by considering other advantages and disadvantages to Securityholders associated with the Significant Securityholding Increase and the overall LLC Proposal.

RBD Acquisition

In order to assess whether the RBD Acquisition is fair and reasonable we have:

- assessed whether the transaction is fair by estimating the fair market value of the RBD Assets and comparing that value to the estimated fair market value of the consideration to be paid by BBC
- assessed the reasonableness of the acquisition of the RBD Assets by considering other advantages and disadvantages of the RBD Acquisition to Securityholders.

4. Evaluation of the Significant Securityholding Increase

In our opinion the Significant Securityholding Increase is fair and reasonable. In arriving at this opinion, we have had regard to the following factors:

The Significant Securityholding Increase is fair

Set out in the table below is a comparison of our assessment of the fair market value of a security in Enlarged BBC with the subscription price for the Tranche 2 Capital Raising and the weighted average price per security assuming conversion of the First Notes, RBD Notes and Second Notes.

Evaluation of fairness of the Significant Securityholding Increase

	Low ($)	High ($)
Significant Securityholding Increase		
Fair market value of a security in Enlarged BBC	$0.35	$0.56
Tranche 2 Capital Raising subscription price per security	$0.60	$0.60
Weighted average SSI[3] price per security (excluding BNB parcels)[1]	$0.54	$0.54
Weighted average SSI price per security (including BNB parcels)[2]	$0.51	$0.51

Source: Deloitte Corporate Finance analysis

Notes:

1. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion and the $0.25 per security subscription price for the Second Notes.
2. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion, $0.25 per security subscription price for the Second Notes and the $0.29 per security transaction price for the BNB parcels.
3. SSI – Significant Securityholding Increase

The subscription price for the Tranche 2 Capital Raising and the weighted average SSI prices per security are either within or above the range of our estimate of the fair market value of a security in Enlarged BBC.

We would note that a comparison to the weighted average SSI prices per security is only relevant in the context of a conversion of the First Notes, RBD Notes and the Second Notes (which may not all occur).

We do not consider the weighted average SSI price per security (including the BNB parcels) to be directly relevant as BBC securityholders (and BBC) do not have any control over the pricing of this transaction (this transaction has been the subject of negotiation between BNB and LLC).

Accordingly, it is our opinion that the Significant Securityholding Increase is fair.

Valuation of a security in Enlarged BBC

We have estimated the fair market value of Enlarged BBC on a sum-of-the-parts basis and deducted the present value of the corporate costs (including the management fees likely to be payable to LLC pursuant to the LLC Proposal).

We have estimated the fair market value of each of the underlying business units of Enlarged BBC using the discounted cash flow method, which estimates the value by discounting the respective future cash flows to their present value. Where appropriate, the assessment of value for each of the business units has been cross-checked with reference to appropriate valuation multiples based on either net tangible assets (NTA) or earnings before interest, tax, depreciation and amortisation (EBITDA).

We have estimated the fair market value of a security in Enlarged BBC to be in the range of $0.35 per security to $0.56 per security as set out in the table below.

Estimated fair market value of a security in the Enlarged BBC

	Low ($ million)	High ($ million)
Enlarged BBC's businesses:		
Retirement Living	715.0	835.0
Aged Care (including development projects)	180.0	210.0
Retirement Living Development	150.0	200.0
Corporate costs[1]	(200.0)	(200.0)
100% enterprise value of Enlarged BBC	**845.0**	**1,045.0**
Surplus assets and non-operating liabilities	44.3	44.3
Net debt of Enlarged BBC (including RBD Notes)	(551.1)	(551.1)
100% equity value of Enlarged BBC	**338.2**	**538.2**
Total number of existing BBC securities on issue ('000s)	682.9	682.9
Number of securities issued pursuant to the LLC Proposal ('000s)	283.3	283.3
Total securities of Enlarged BBC on issue ('000s)	**966.3**	**966.3**
Value of Enlarged BBC per security ($)	**$0.35**	**$0.56**

Source: Deloitte Corporate Finance analysis

Note:

1. Includes the present value of the management fees that will be payable by Enlarged BBC to LLC as well as other overhead costs not allocated to the underlying business units. The value benefits derived from the management services are included in our valuation of the underlying business units of Enlarged BBC.

Our assessed valuation range for an Enlarged BBC security is relatively wide due to the high-level of debt within BBC.

The above valuation range exceeds recent trading on the ASX in BBC's securities which have traded as low as $0.10 (based on the daily volume weighted average price (VWAP)). Comparison of our assessment of the fair market value of a security in Enlarged BBC to recent trading in BBC's securities is problematic due to:

- recent trading in BBC represents a portfolio interest in BBC whereas our assessed value range for Enlarged BBC represents a control value. Premiums for control generally range between 20% and 40%
- recent trading in BBC's securities has been extremely volatile as set out in Section 4.7.5 of our report due to a number of factors including general volatility in global share markets as well as factors specific to Enlarged BBC such as uncertainty regarding refinancing requirements and the impact of the announcement of the Original LLC Proposal and the LLC Proposal.

As a result we do not consider that recent security trading in BBC represents a reasonable benchmark for the fair market value of a security in Enlarged BBC. However, where appropriate, we have assessed the reasonableness of our valuation of Enlarged BBC by cross-checking the valuation of the significant components of Enlarged BBC to earnings and NTA multiples.

The discounted cash flow valuation of Enlarged BBC is sensitive to a number of assumptions. Our analysis of the key sensitivities is summarised in the table below.

Sensitivity of enterprise value of an Enlarged BBC to changes in assumptions

Assumption	Assumption / Impact ($ million)		Assumption / Impact ($ million)	
Retirement Living				
Resident tenure	+ 1 year	(33.4)	- 1 year	49.2
Discount rate	+ 100 bps[2]	(99.6)	- 100 bps	133.2
Capital growth	- 100 bps	(106.9)	+ 100 bps	125.2
Terminal growth	- 100 bps	(28.2)	+ 100 bps	37.6
Aged Care (including development projects)				
Discount rate	+ 100 bps	(29.1)	- 100 bps	40.2
Terminal growth	- 100 bps	(10.7)	+ 100 bps	14.0
Retirement Living Development				
Discount rate	+ 100 bps	(5.6)	- 100 bps	6.7

Source: Deloitte Corporate Finance analysis

Notes:

1. The sensitivities associated with the RBD Assets have been captured in the respective business units of Enlarged BBC.
2. bps – basis points (100 bps = 1%).

The Significant Securityholding Increase is reasonable

We have formed our opinion on the reasonableness of the Significant Securityholding Increase based on an analysis of the likely advantages and disadvantages to Securityholders of accepting the Significant Securityholding Increase proposal.

Advantages of the Significant Securityholding Increase

A more attractive alternative is not currently available, nor is it likely to become available, to Securityholders

On 19 June 2008, BBC announced that it was exploring a range of strategic alternatives and options to reduce the gap between BBC's underlying asset values and its recent market trading prices in order to maximize the value for BBC stapled securityholders (Strategic Review). These options included a price discovery process for BBC, the internalisation of the management of BBC, a debt repayment program and other capital initiatives which included the reduction of inventory levels, delaying development projects and the sale of selective non-core assets and land sites.

The price discovery process did not yield a takeover bid for the whole of BBC but instead, as the outcome of that process, on 1 October 2008, BBC announced the Original LLC Proposal.

The Board of BBC (the Board) considers that BBC requires additional capital flexibility in order to maintain its current operations and position itself for future growth. In the absence of the LLC Proposal, BBC would face operational constraints as a consequence of its limited financial flexibility and minimal capital available based on its existing debt facilities. These issues would have remained if the internalisation proposal proceeded.

Subsequent to the announcement of the Strategic Review the Board received the unsolicited proportionate scrip offer from Australian Property Custodian Holdings Limited (APCH), the responsible entity of the Prime Retirement and Aged Care Property Trust (Prime Trust) for 40% of the stapled securities of BBC. Prime Trust offered Securityholders one Prime Trust unit for every one BBC stapled security (Prime Trust Offer). The Prime Trust Offer does not provide the prospect of recapitalising BBC, nor the benefit of additional development and operational expertise as provided by LLC, which we consider to be key advantages of the Significant Securityholding Increase.

Going forward, the prospect of a superior competing proposal is considered unlikely irrespective of whether the Significant Securityholding Increase and the RBD Acquisition (due to inter-conditionality) are approved by Securityholders, given LLC will be the manager of BBC and will have an economic interest in BBC of 13.4%. LLC's interests (both management rights and securityholdings) may make an alternate offer for the whole of BBC problematic without previous negotiation with LLC. LLC has stated that they are a long-term investor in BBC.

The Significant Securityholding Increase allows BBC to refinance its existing debt and reduce overall net debt levels which would otherwise not likely occur

As part of the LLC Proposal, LLC has also held negotiations and concluded an agreement with BBC's banking syndicate. Should the Significant Securityholding Increase not proceed, we understand it is likely that BBC's banking syndicate will require BBC to sell assets to reduce debt, increase the margins on BBC's debt and require more onerous covenants to be met increasing the likelihood of BBC being required to sell additional assets to pay down debt.

As a consequence of the Significant Securityholding Increase BBC will have $195 million of cash injected in its business which will allow BBC to reduce its external bank debt by $75 million and thereby will reduce overall gearing levels for BBC.

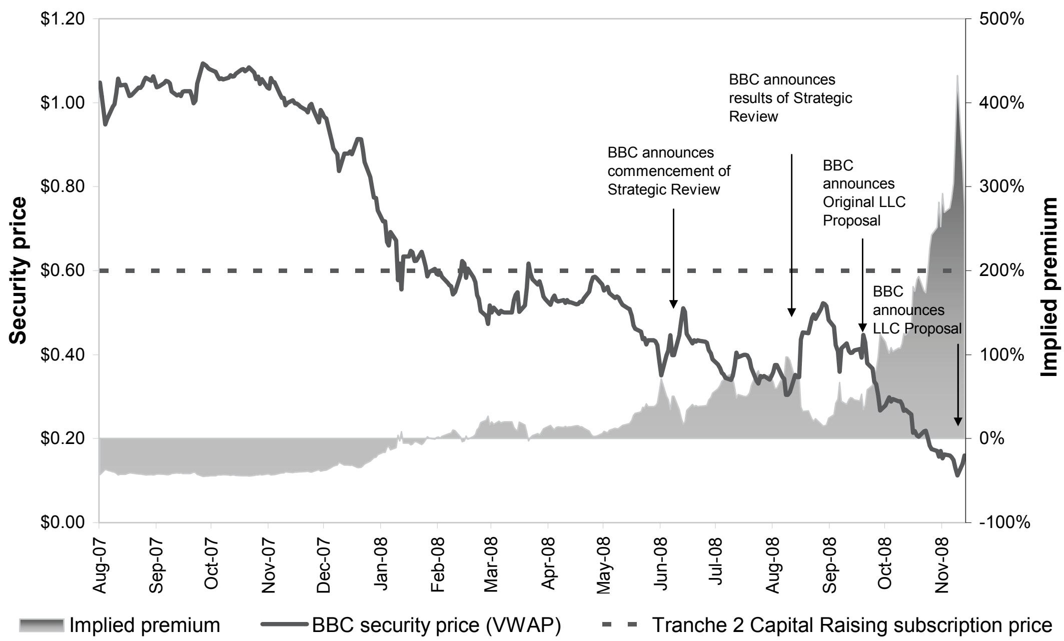
Due to the uncertainty in financial markets as well as the property investment sector, the current environment may not be considered optimal for selling assets to achieve their long-term value. The credit crisis and the significant uncertainty currently being observed in capital markets has limited the number of potential buyers for a number of assets in this sector which has resulted in some forced sellers achieving prices at less than the NTA or net asset value.

The recapitalisation is occurring at a significant premium to trading in BBC securities immediately prior to the announcement of the Original LLC Proposal and LLC Proposal

The Significant Securityholding Increase provides $195 million in additional capital into BBC at a time when obtaining additional funding externally (to fund the development pipeline or otherwise) has become increasingly difficult and costly.

The security price at which LLC is subscribing for BBC securities represents a significant premium to the recent security trading in BBC securities. An analysis of recent trading in BBC securities and the premium implied by the subscription price of the LLC Proposal of $0.60 per security (for the Tranche 2 Capital Raising) is set out in the figure below.

Premium / (discount) to recent trading price of BBC implied by the Tranche 2 Capital Raising



Source: Deloitte Corporate Finance analysis

Notes: Implied premium = right hand scale of figure

BBC security price and Tranche 2 Capital Raising subscription price = left hand scale of figure.

The subscription price for the Tranche 2 Capital Raising and the weighted average SSI prices per security represent the following premiums/discounts to recent trading in BBC's securities:

Premiums / (discounts) implied by the recapitalisation

	Premium / (discount) implied by Tranche 2 Capital Raising ($0.60)	Premium / (discount) implied by weighted average SSI price (excluding BNB parcels) ($0.54)[1]	Premium / (discount) implied by weighted average SSI price (including BNB parcels) ($0.51)[2]
NTA per security as at 30 June 2008 ($0.57)	5.3%	(5.3%)	(10.5%)
NAV per security as at 30 June 2008 ($0.94)	(36.2%)	(42.6%)	(45.7%)
Announcement of Strategic Review			
Based on 1-month VWAP ($0.43)	39.5%	25.6%	18.6%
Based on 3-month VWAP ($0.49)	22.4%	10.2%	4.1%
Announcement of Original LLC Proposal			
Based on 1-month VWAP ($0.45)	33.3%	20.0%	13.3%
Based on 3-month VWAP ($0.41)	46.3%	31.7%	24.4%
As at 25 November 2008			
Based on 1-month VWAP ($0.17)	252.9%	217.6%	200.0%
Based on 3-month VWAP ($0.36)	66.7%	50.0%	41.7%

Source: Deloitte Corporate Finance analysis

Notes:

NAV – Net asset value.

1. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion and $0.25 per security subscription price for the Second Notes.
2. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion, the $0.25 per security subscription price for the Second Notes and the $0.29 per security transaction price for the BNB parcels.

The Significant Securityholding Increase provides exposure to LLC's expertise in operating retirement villages and development businesses

In addition to becoming manager of BBC, the Significant Securityholding Increase will provide LLC with a strategic stake in BBC. This is likely to incentivise LLC to work with BBC to grow the business in order to create value for securityholders. Specifically, the benefits LLC may be able to provide include:

- LLC has significant expertise in developing communities through its Delfin Lend Lease business which is one of Australia's leading developers of large-scale residential communities
- LLC has significant expertise in developing and managing retirement villages through RBD which currently has a development pipeline of approximately 770 units.

LLC's experience and expertise is likely to provide additional benefits to Securityholders in the form of shorter development horizons and higher development margins in respect of the development business.

BBC may also benefit from future opportunities to develop properties sourced through LLC's existing development portfolio that otherwise would not have been available to BBC in the absence of this proposal. These include future master planned greenfield communities and urban regeneration development projects undertaken by LLC.

Ability to participate in further growth associated with BBC

Existing Securityholders will retain exposure to BBC subsequent to the Significant Securityholding Increase (although on a diluted basis as discussed below) and will therefore participate in any future growth of BBC. Subsequent to the Significant Securityholding Increase, BBC will be better capitalised which should allow more timely delivery of its development pipeline and will position BBC for participation in any further industry consolidation and growth. In particular, the debt reduction and cash available to BBC pursuant to the Significant Securityholding Increase may allow BBC to become an acquirer of assets in this sector rather than a potentially distressed seller. This may be particularly beneficial to Securityholders in the current environment since a number of value accretive opportunities may be available in the short to medium term due to funding constraints currently being experienced by a number of industry participants.

Furthermore, the LLC Proposal does not require Securityholders to realise their investment in BBC in the current economic environment which is creating uncertainty in asset values due to the volatility in the share market and illiquidity in credit markets.

Removal of association with BNB

Our analysis suggests that the association with BNB in recent times has had a negative impact on BBC's security price.

If the LLC Proposal is approved, BNB will no longer be associated with BBC by specific reference to the management of BBC and its securityholding in BBC. Further to this, we understand that it is the intention of the Directors to seek a change in BBC's name to also remove that association with BNB.

Association with LLC

The association with LLC, specifically the financial backing delivered through LLC's significant securityholding, is likely to assist BBC in obtaining more secure financing terms in respect of its current and future facilities. However, the recent re-rating of credit markets is likely to result in more onerous obligations on BBC in the immediate term as compared to the existing financing arrangements.

Disadvantages of the Significant Securityholding Increase

The Significant Securityholding Increase will likely reduce the opportunity for Securityholders to realise a full takeover premium in the future

If the Significant Securityholder Increase proposal proceeds, LLC with its 43.2% interest (excluding the conversion[3]) in BBC will have a blocking stake to any potential full takeover offer for the Company resulting in Securityholders being unlikely to be able to realise a full takeover premium for their securities in the future.

Diluted participation in the future growth of BBC

If the Significant Securityholding Increase proceeds, Securityholders will have their exposure to BBC's earnings diluted by the issue of securities to LLC. However, as discussed above, the lack of financial flexibility of BBC in the absence of the LLC Proposal would limit the near-term growth prospects of BBC.

Furthermore, the market price of a BBC security could exceed the exercise price of the convertible notes which could dilute the value to the securityholders of Enlarged BBC at that time. However, the likelihood of the various convertible notes being converted and securityholders being diluted as a consequence of the notes may be partially mitigated by:

- the terms of the RBD Notes allow for early redemption at BBC's option within the first two years of the instrument
- there is an expectation that at least a portion of the RBD Notes will be repaid prior to maturity to the extent that non-core asset sales provide sufficient proceeds to fund repayment.

In isolation, the face value of the Second Notes represents a discount to our estimated fair market value of an Enlarged BBC Security

The Second Notes are being issued at a face value of $0.25 per security which represents a 45% discount to the mid point of our assessed fair market value of an Enlarged BBC security (on a control basis). Whilst this aspect of the Significant Securityholding Increase is occurring at a price below our assessed fair market value:

- the price represents a premium of 92% to the 1-week VWAP of BBC as at 25 November 2008 of $0.13 per security. Further to this, this premium is being paid at a time when many capital raisings are occurring at a discount to recent share trading
- the Second Notes will inject additional capital into BBC at a time when sourcing capital from debt and equity markets is difficult and costly. This additional capital will provide BBC with additional financial flexibility to fund growth projects and/or participate in any further industry consolidation.

BBC will remain an externally managed vehicle

Implementation of the LLC Proposal will mean that BBC will not internalise the management of BBC. BBC will therefore continue to experience a cash outflow relating to the payment of management and other fees to LLC. Compensating this will be the delivery of certain executive functions to BBC by LLC and the operational expertise of LLC as referred to above.

[3] Including the potential conversions, LLC's interest in BBC securities would increase to above 50%. However, we understand that LLC has committed to maintaining their voting interest below 49% for the duration of the RBD Notes.

LLC's securityholding is likely to result in lower trading liquidity in BBC's securities

Should the Significant Securityholding Increase proposal proceed, the free float of BBC securities is likely to be reduced. Prior to the LLC Proposal, BNB owned 12.5% of BBC. Subsequent to the Significant Securityholding Increase, LLC will own 43.2% of BBC which will decrease the free float of BBC from approximately 80% to 57% as set out in Section 5.3 of our report.

Conclusion

On balance, in our opinion, the advantages of the Significant Securityholding Increase outweigh the disadvantages and therefore is reasonable.

5. Evaluation of the RBD Acquisition

In our opinion the RBD Acquisition is fair and reasonable. In arriving at this opinion, we have had regard to the following factors:

The RBD Acquisition is fair

Set out in the table below is a comparison of our assessment of the fair market value of the RBD Assets with the fair market value of the consideration offered by BBC.

Evaluation of fairness of the RBD Acquisition

	Low ($ million)	High ($ million)
Fair market value of the RBD Assets	**115.0**	**135.0**
Fair market value of the consideration offered by BBC:		
Cash	13.4	13.4
RBD Notes	117.1	126.4
Total consideration	**130.5**	**139.8**

Source: Deloitte Corporate Finance analysis

The fair market value of the consideration offered by BBC overlaps our estimate of the fair market value of the RBD Assets. Accordingly it is our opinion that the RBD Acquisition is fair.

Our valuation of the RBD Assets has been predicated on the concept of fair market value. BBC management has asserted to us that they intend to extend the experience and knowledge across to the RBD Assets through optimisation of Deferred Management Fee (DMF) structures, unit sales and refurbishment programs. The successful implementation and execution of such programmes should deliver additional value to BBC securityholders. However, this potential additional value under BBC ownership is considered "special value" over and above the "fair market value" estimated by us.

We have assessed the fair market value of the consideration offered by BBC at between $130.5 million and $139.8 million. We have estimated the fair market value of the RBD Notes in two parts being the bond component and the embedded option component. We have estimated the fair market value of the bond component with reference to current market yields for an unsecured instrument of similar risk profile. We have estimated the fair market value of the embedded option component using the Black-Scholes model, a valuation method commonly applied in valuing options.

The RBD Acquisition is reasonable

We have formed our opinion on the reasonableness of the acquisition of the RBD Assets based on an analysis of the likely advantages and disadvantages to Securityholders of approving the RBD Acquisition as follows.

Advantages of the RBD Acquisition

Provides additional scale to BBC and medium term opportunities to BBC

The RBD Acquisition will provide additional scale to the BBC business through ownership of the seven retirement villages (1,154 units) and one aged care facility (43 hostel beds). The RBD Assets will provide the following incremental benefits to BBC's existing portfolio:

- the RBD Assets are mature assets with a higher average age of residents in comparison to BBC's current portfolio. Hence, they should provide additional financial flexibility to Enlarged BBC through enhanced cash flows in the medium term
- additional geographic exposure to the metropolitan Sydney and Melbourne markets, which are expected to benefit from the positive long-term demographic trends expected in the sector
- the increased scale of Enlarged BBC should provide further economies of scale benefits through potential cost savings
- BBC management should be able to derive additional value from the RBD Assets by leveraging their experience and knowledge to optimise DMF structures and to deliver incremental cash flow benefits from refurbishment and capital programs.

The RBD Acquisition will allow the Significant Securityholding Increase to proceed

The acquisition of the RBD Assets and the Significant Securityholding Increase are inter-dependent. As discussed above, the Significant Securityholding Increase will result in a cash injection of $195 million which will primarily be used to reduce debt levels and will reduce the likelihood of BBC being forced to dispose of certain assets. The LLC Proposal has also resulted in BBC renegotiating the terms of BBC's existing debt with its current financiers, including obtaining a reduction in covenant thresholds for a period of time.

Since the Significant Securityholding Increase is considered to be advantageous to Securityholders due to the factors above, the acquisition of the RBD Assets provides a benefit to Securityholders by enabling the Significant Securityholding Increase to proceed.

Disadvantages of the RBD Acquisition

Potentially presents additional financial leverage to BBC

In isolation, the RBD Acquisition will result in BBC taking on additional debt (albeit convertible to equity) at a time when the Company is otherwise financially constrained. However, the RBD Acquisition is conditional on the Significant Securityholding Increase proceeding. This transaction provides additional capital and will reduce the net debt position of BBC.

Conclusion

On balance, in our opinion, the advantages of the RBD Acquisition outweigh the disadvantages and therefore is reasonable.

6. Other considerations

Prime Trust Offer consideration

Whilst we are not required to review the Prime Trust Offer but rather opine on specific aspects of the LLC Proposal, we note the following in respect of the Prime Trust Offer which may influence a Securityholder's decision on whether to approve aspects of the LLC Proposal:

- the Prime Trust Offer, unlike the LLC Proposal, does not deliver BBC a significant securityholder with the type of operational and developmental expertise of LLC
- the Prime Trust Offer, unlike the LLC Proposal, does not deliver a cash injection to BBC that will allow it to repay its debt

- we understand from management that there are minimal operational synergies to be derived from a combination with Prime Trust given BBC already manages a substantial portion of the Prime Trust portfolio
- acceptance of the LLC Proposal (or aspects of it) does not, based on our understanding, preclude BBC and Prime Trust engaging in some type of transaction to consolidate their assets in the future.

Since the announcement of the Original LLC Proposal, the security price of BBC has declined

Since the announcement of the Original LLC Proposal, the security price of BBC has declined from $0.45 to $0.15 (as at 25 November 2008). Some of this decline in price can be attributed to (i) the general decline in the share market over this period (the Standard and Poor's (S&P)/ASX 300 Index declined 24.7% during the same period), (ii) the release of new information implicit in the Original LLC Proposal and the LLC Proposal, (iii) the loss of any expectation of a full takeover offer and (iv) the market may also be inferring some loss of value in a BBC security as a consequence of the LLC Proposal.

Additional fees may become payable to LLC

Under the previous management agreement, BNB was entitled to a base fee and an incentive fee as follows:

- a base fee of 0.5% of adjusted gross assets of BBC, defined as total assets of BBC less resident loans (AGA). Half of the base fee for the financial years ending 30 June 2009 (FY09) and 30 June 2010 (FY10) was previously subject to the achievement of specific performance hurdles in the 12 month period up to 30 June 2010 which required BBC to achieve a distribution yield of 8.7% and 9.5% for FY09 and FY10, respectively, as well as record an EBITDA (excluding management fees payable pursuant to the Management Agreements) of at least $81.2 million and $88.5 million for FY09 and FY10, respectively
- an incentive fee of up to 20% of any excess return of BBC as compared to the benchmark return (S&P/ASX 300 Index return) after adjusting for any surplus or deficit carried forward (for a rolling three year period). The incentive fee was previously capped at 1.00% of the AGA of BBC.

LLC is proposing to revise the terms of the various agreements such that the conditional element of the base fee for FY09 and FY10 would be removed and the incentive fee will be rebased to a 30 day VWAP subsequent to the Meeting to create a new starting point to calculate any excess returns. Furthermore, any carried forward deficits related to the calculation of the incentive fee will be removed. The incentive fee will be capped at 0.75% of BBC's AGA.

The removal of the conditional element of the base fee as well as resetting the calculation for the incentive fee will likely result in BBC Securityholders paying additional management fees than would otherwise occur pursuant to the existing arrangements. We have estimated the additional base fees to be in the order of approximately $3.5 million per annum for FY09 and FY10 (excluding any impact of the RBD Acquisition). These revised fee arrangements have been factored into our discounted cash flow valuation of Enlarged BBC.

However, LLC is also proposing to reduce the disposal/acquisition fees payable by BBC to LLC whilst changing the arrangements relating to the Preferred Financial Advisory agreement whereby they would be determined on an arm's length basis and be subject to the approval of the Independent Directors.

The intentions of the Directors

We understand that the Directors have unanimously recommended acceptance of the LLC Proposal, in the absence of a superior proposal, on the basis that the rationale for undertaking the LLC Proposal outweighs the risks of the LLC Proposal.

7. Disclosure regarding revised terms pursuant to the LLC Proposal

On 24 November 2008, LLC and BBC revised the terms of the proposal such that the price of the securities to be acquired by LLC decreased to reflect current market trading conditions. Prior to this date, our analysis was based on the price of the securities pursuant to the Original LLC Proposal. Our draft report which was issued to BBC (and their advisors) concluded that both the Significant Securityholding Increase and the RBD Acquisition were fair and reasonable.

The revised proposal (referred to as the LLC Proposal) has resulted in us updating our report to reflect the revised transaction details which resulted in a minor change in our calculated value range. Notwithstanding this, these revised terms did not result in any change to our opinion. Deloitte Corporate Finance have not been party to the negotiations or discussions between LLC and BBC regarding the Original LLC Proposal or the revised LLC Proposal.

8. Opinion

In our opinion:

- the Significant Securityholding Increase is fair and reasonable to Securityholders in accordance with Section 611 and the Listing Rules
- the RBD Acquisition is fair and reasonable to Securityholders in accordance with the Listing Rules.

An individual Securityholder's decision in relation to the RBD Acquisition and the Significant Securityholding Increase and the LLC Proposal in general may be influenced by his or her particular circumstances. If in doubt, the Securityholder should consult an independent advisor.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Tapan Parekh
Director

Mark Pittorino
Director

Note: All amounts stated in this report are in Australian dollars ($) unless otherwise stated and may be subject to rounding.

Contents

APPENDICES

1 Terms of the LLC Proposal

1.1 Background to the Original LLC Proposal

On 19 June 2008, the Board of Directors of BBC announced its intentions to conduct a Strategic Review for the purpose of determining options to reduce the gap between BBC's underlying asset values and its recent security market trading prices in order to maximise value for Securityholders. A committee of Independent Directors and independent corporate advisors was appointed to conduct an extensive review of the available options.

On 28 August 2008, BBC announced the outcomes of the Strategic Review and implemented the following initiatives to be run in parallel with each other:

- a price discovery process for BBC which included consideration of offers for the securities of BBC. A data room was established from 1 September 2008 for a concentrated period of time to solicit proposals (the Data Room)
- internalisation of the management of BBC
- a debt repayment program and capital initiatives which included the reduction of inventory levels, delaying development projects and potential sale of selected non-core assets and land sites.

As part of the price discovery process, on 1 October 2008 BBC announced that it had entered into an Implementation Agreement with LLC in relation to the Original LLC Proposal.

The Original LLC Proposal was to be executed in two stages:

Stage 1

- LLC acquiring the First BNB Parcel from BNB, being 42.5 million BBC securities for $0.61 per security
- LLC acquiring the Management Agreements from BNB for $17.5 million
- BBC raising $37.8 million through the issue of $24.4 million in BBC Notes (35.9 million new BBC securities at a face value of $0.68 per security) and $13.4 million in First Notes (19.7 million new BBC securities at a face value of $0.68 per security) to LLC.

Stage 1 was originally expected to be executed by the date of the AGM and would have resulted in LLC having an equity interest of 13.4% in BBC, LLC taking over the Management Agreements and BBC raising $37.8 million from LLC.

Stage 2

- LLC acquiring the Second BNB Parcel from BNB, being 42.5 million BBC securities for $0.55 per security
- BBC raising $145.6 million through the issue of 214.1 million new BBC securities to LLC at a price of $0.68 per security
- subject to certain conditions, BBC effectively acquiring the RBD Assets. The face value of the total consideration payable to LLC for the RBD Assets is $133.4 million. This is expected to be satisfied through the issue of the RBD Notes with a face value of $120.0 million and $13.4 million in cash.

As the Stage 2 transaction will result in LLC's interest increasing above 25%, the Stage 2 transactions are subject to approval by the OIO.

1.2 The LLC Proposal

On 24 November 2008, due to the continued decline in global share markets as well as the BBC security price, LLC and BBC amended the terms of the Original LLC Proposal as follows (LLC Proposal):

- decreasing the issue price of the Tranche 1 Capital Raising and the Tranche 2 Capital Raising from $0.68 per security to $0.60 per security. As the amount raised through these two capital raisings will stay the same, the number of securities issued will increase to 283.3 million in total such that the total net capital to be injected into BBC for this aspect of the proposal remains at $170 million
- amending the face value and conversion price of the RBD Notes to $0.60 per security
- as part of Stage 2, LLC contributing an additional $25.0 million in capital into BBC through the issue of the Second Notes. The Second Notes will have a coupon rate of 9.5% and will be convertible into BBC securities at any time by LLC at face value and can be redeemed by LLC at face value at maturity

- splitting the payment of the $17.5 million consideration in respect of the Management Rights Transaction into two tranches, $5 million payable prior to the Meeting and $12.5 million payable upon Securityholder approval of Stage 2. This sum will also be payable in certain other circumstances even where the relevant approvals are not obtained.

Further to this, LLC also renegotiated with BNB a lower acquisition price for both the First BNB Parcel and the Second BNB Parcel of $0.29 per security.

If the above transactions proceed, LLC would have an equity interest of 43.2% in BBC prior to any conversion of any of the convertible securities.

The full details of the LLC Proposal are included in Section 2.6 of the Notice of Meeting.

1.3 The Securityholder approval process

The Significant Securityholding Increase and the RBD Acquisition are interdependent in that the approval of the Significant Securityholding Increase is conditional on the RBD Acquisition (and vice versa).

Stage 2 requires Securityholder approval and Securityholders will be voting on these proposals at the Meeting. In particular, the following resolutions will be voted on by Securityholders in relation to the LLC Proposal:

- approval of the issue of the Tranche 2 Capital Raising (Resolution 4)
- approval of the Second BNB Parcel (Resolution 5)
- approval of the issue of the Second Notes (Resolution 6)
- approval of the RBD Acquisition (Resolution 7)
- approval of the issue of the First Notes (Resolution 8)
- appointment of an LLC-nominated entity as the new responsible entity to replace Babcock & Brown Communities Investors Services (BBCIS) (Resolution 9)
- changing the name of BBC (Resolution 10).

The purpose of our report is to provide information to assist Securityholders with their assessment of Resolutions 4, 5, 6 and 7 (the Resolutions).

Under the Implementation Agreement, the issue of the BBC Notes and the First Notes are conditional on Securityholders approving Resolutions 4, 5, 6 and 7 at the Meeting. If these Resolutions are passed, the BBC Notes, and provided Resolution 8 is also passed, the First Notes (which will be convertible) will be issued on the first business day subsequent to the Meeting.

LLC may waive fulfillment of this condition prior to the Meeting, in which case the BBC Notes and the First Notes will be issued prior to the Meeting. In this case the First Notes will not have conversion rights. LLC may also waive this condition immediately after the Meeting if the Resolutions are not approved by Securityholders, in which case the BBC Notes and the First Notes will be issued on the first business day subsequent to the Meeting. In this scenario, if Resolution 8 is not passed, the First Notes will not include any rights for the holder to convert the First Notes into BBC stapled securities.

If the above transactions proceed, LLC would have an equity interest of 43.2% in BBC prior to conversion of any of the convertible securities. If the Resolutions are not passed, LLC will hold a 13.4% interest in BBC and will be the manager and exclusive adviser to BBC.

1.4 The Prime Trust Offer

On 4 September 2008, APCH, the responsible entity of Prime Trust, announced that it was making an unsolicited conditional proportional scrip offer for 40% of the stapled securities of BBC. Prime Trust offered BBC securityholders one Prime Trust unit for every one BBC stapled security.

The Prime Trust Offer was made subsequent to BBC's announcement relating to the commencement of the Strategic Review and initiation of the price discovery process for which Prime Trust did not seek to participate.

As set out in the Target's Statement issued by BBC on 17 October 2008 (BBC Target Statement), the Directors have recommended that Securityholders reject the Prime Trust Offer and have stated that all Directors who hold BBC securities intend to reject the Prime Trust Offer with respect to their own securityholdings in BBC.

There is no legal requirement for the preparation of an independent expert's report in relation to the Prime Trust Offer and the Directors have not instructed Deloitte Corporate Finance to prepare such a report. However, where appropriate, we have considered the Prime Trust Offer in our analysis of the LLC Proposal.

2 Scope of the report

2.1 Purpose of the report

2.1.1 Significant Securityholding Increase

The Significant Securityholding Increase will result in LLC's economic interest in BBC increasing from below the 20% threshold to above 20% which will require BBC securityholder approval in accordance with Section 611. Section 611 also requires in certain situations where securityholder approval is required that a company commissions an independent expert's report, or the directors of the company prepare a report of equivalent standard. The independent expert is required to provide an opinion as to whether the transactions are fair and reasonable to Securityholders of BBC.

The Directors have commissioned Deloitte Corporate Finance to provide an opinion as to whether the Significant Securityholding Increase is fair and reasonable to Securityholders.

2.1.2 RBD Acquisition

Section 10 of the Listing Rules requires an entity to obtain approval from securityholders where that entity acquires a substantial asset from, or disposes of a substantial asset to, a "substantial holder", if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to the voting securities of that listed entity. Subsequent to Stage 1 of the LLC Proposal, LLC will have a relevant interest in BBC of 13.4%[4] of the total votes attached to the voting securities in BBC and accordingly is a "substantial holder" in BBC with a relevant interest in at least 10% of the total votes attached to the voting securities of BBC in accordance with the Listing Rules. Furthermore, the RBD Assets would fall within the definition of a substantial asset.

In order to assist Securityholders with their assessment of whether to approve the RBD Acquisition, the Directors have commissioned Deloitte Corporate Finance to provide an opinion as to whether the RBD Acquisition, including the issue of the RBD Notes to be issued by BBC to fund the RBD Acquisition, is fair and reasonable to Securityholders.

2.1.3 Other

This report is to be included in a Notice of Meeting to be sent to Securityholders and has been prepared for the exclusive purpose of assisting Securityholders in their consideration of the Significant Securityholding Increase and the RBD Acquisition.

2.2 Basis of evaluation

2.2.1 Significant Securityholding Increase

In order to assess whether the Significant Securityholding Increase is fair and reasonable we have:

- assessed whether the transaction is fair by estimating the fair market value of a BBC security and comparing that to the subscription price for the Tranche 2 Capital Raising of $0.60 per BBC security. We have also compared our assessment of the fair market value of a BBC security to the weighted average price per security assuming conversion of the First Notes, RBD Notes and Second Notes. In calculating the fair market value of a BBC security, for the purpose of assessing the fairness of the Significant Securityholding Increase we have included the RBD Assets (Enlarged BBC) since the approval of the Significant Securityholding Increase is conditional on the acquisition of the RBD Assets
- assessed the reasonableness of the Significant Securityholding Increase by considering other advantages and disadvantages to Securityholders associated with the Significant Securityholding Increase and the overall LLC Proposal.

[4] This includes the First BNB Parcel by virtue of LLC having entered into the agreement to acquire BNB's stake in BBC but does not include the Second BNB Parcel since this is subject to Securityholder approval.

2.2.2 RBD Acquisition

In order to assess whether the RBD Acquisition is fair and reasonable we have:

- assessed whether the transaction is fair by estimating the fair market value of the RBD Assets and comparing that value to the estimated fair market value of the consideration to be paid by BBC
- assessed the reasonableness of the acquisition of the RBD Assets by considering other advantages and disadvantages of the RBD Acquisition to Securityholders.

2.2.3 Fair market value

We define fair market value as the amount at which the relevant assets or securities would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices, to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuations have not been premised on the existence of a specific special purchaser.

2.2.4 Individual circumstances

We have evaluated the impact of Significant Securityholding Increase and the RBD Acquisition on Securityholders as a whole and have not considered the particular circumstances of individual investors. Individual investors may place a different emphasis on various aspects of the LLC Proposal from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Significant Securityholding Increase and the RBD Acquisition are fair and reasonable. If in doubt investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the Qualifications, declarations and consents section at the end of this document.

We would specifically draw to the attention of Securityholders that recent volatility in capital markets and the current economic outlook has created significant uncertainty with respect to the valuation of assets. Recognising these factors, we consider that our opinions may be more susceptible to change than would normally be the case.

3 Overview of the senior living industry

3.1 Introduction

The senior living industry focuses on providing accommodation and/or care to individuals aged over 55, many with concerns regarding their health, mobility or current lifestyle.

A detailed breakdown of the senior living industry, including the residential aged care and retirement village segments in which BBC operates, is set out in Table 1 below.

Table 1: Overview of the spectrum of care in the senior living industry

	Residential aged care		Community care	Retirement village	
	High care	Low care	Home and community care	SAs[1]	ILUs[2]
Accommodation	Nursing homes	Hostels	Home	Apartments	Units
Level of care	High	Low	High	None	None
Key risks	Government funding/ operational costs		Government funding/ operational costs	Property values	
Regularity of cash flows	Periodic		Periodic	With property turnover	
Regulation	High		High	Moderate	
Source of revenue	Government/residents		Government/residents	Residents	

Source: BBC and Deloitte Corporate Finance analysis

Notes:

1. SAs – Services apartments/assisted living
2. ILUs – Independent living units.

As set out above, the industry is separated into three distinct sectors based on the level of care and accommodation provided as follows:

- **residential aged care** – provides accommodation and personal or nursing care to the elderly. Revenue is largely regulated, sourced from Government and is based on the level of care provided. Aged care residents can be split into two broad categories:
  - low care – residents have a low level of dependency, requiring occasional nursing care
  - high care – residents have a high level of dependency, often requiring continuous nursing and medical care

  Extra Service Care (ES) may be offered to low and high care residents at an additional cost to the resident based on usage. ES may include a higher standard of accommodation and non-care services.
- **community care** – provision of health care services to the elderly living in the community. Residents are generally in need of medical attention which will allow them to live in their own home. The accommodation products offered include:
  - Community Aged Care Packages – individuals who require low level residential needs are provided with care and assistance allowing them to remain in the community
  - Extended Aged Care at Home – individuals who require a high level of care are provided with care and assistance allowing them to continue to live in the community.
- **retirement villages** – focus on individuals that are independent and self-sufficient and are not in need of regular medical assistance. Retirement villages can vary significantly depending on the target market, the type of accommodation offered and their proximity to major urban centres. The decision to enter a retirement village is typically driven by a lifestyle choice (such as downsizing from the family home to an easier to maintain retirement unit) or health requirements. The accommodation products offered typically fall into one of the following two categories:

- ILUs – designed for those who are generally self-sufficient and wish to maintain an independent lifestyle while enjoying the benefits and security of living in a retirement community
- SAs – designed for those who want to retain as independent a lifestyle as possible but require some assistance on a day-to-day basis.

Further details on the retirement living and aged care sectors are provided with the description of BBC's operations set out in Section 4.4 and Section 4.5, respectively.

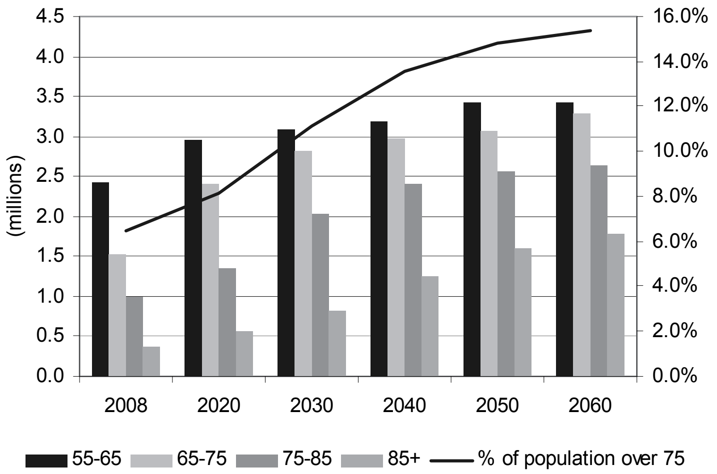
3.2 Factors influencing the senior living industry

The senior living industry has experienced significant growth in recent years. Future growth is expected to be influenced by the following factors.

3.2.1 Demographic factors

Australia and New Zealand, like many other developed countries, are experiencing an aging of their population driven primarily by the aging of the post-World War II "baby boomers" as well as increased life expectancy. These factors are expected to contribute to the demographic shift in the structure of the population going forward. According to the Australian Bureau of Statistics (ABS), the average age of the Australian population is expected to increase steadily over the next 50 years, with more than four million people expected to be over 75 years old in 2060, representing 15% of the projected Australian population. The projected ageing of the population for the next 50 years is set out below.

Figure 1: Projected ageing of the Australian population



Source: ABS

The over 65 age group is the fastest growing segment of the population, with the group projected to grow at rates of 13%, 36% and 26% over the ten year periods to 2011, 2021 and 2031, respectively.[5] The largest increase from current levels is expected to be for the over 85 age group. Similar trends are being experienced in New Zealand.

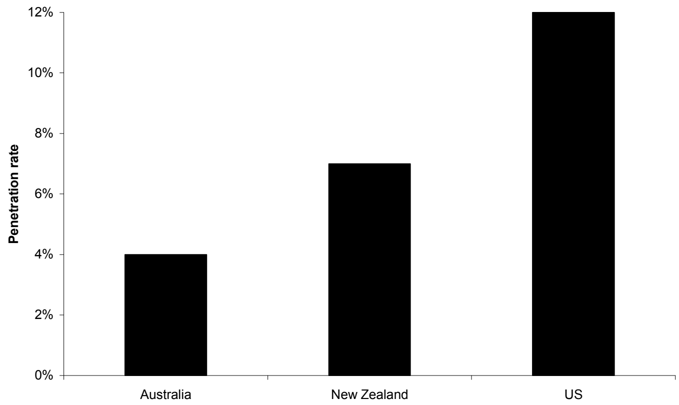
In order to accommodate this expected aging of the population, senior living facilities will need to increase capacity at similar rates, particularly if current or greater market penetration (as discussed in Section 3.2.2) is achieved. By way of example, according to BBC, even if the penetration rate in the Australian market remains constant, a further 280,000 retirement villages are expected to be required by 2050 to meet the demand in Australia.

[5] Source: Australian Institute of Health and Welfare

3.2.2 Market penetration

Compared to the United States of America (US), the Australian and New Zealand senior living markets have historically achieved lower penetration rates (expressed as a percentage of the total population) of senior living as set out below.

Figure 2: Comparative country penetration rates



Source: BBC

One contributing factor for the difference is due to the variances in funding types between markets. A large portion of occupancy agreements in the US are in the form of rental tenure agreements, whereby the resident pays a monthly rental fee with no other significant up-front charges or bonds. In contrast, the majority of retirement village residents in Australia and New Zealand enter loans and licence agreements (or similar), where no actual transfer of ownership is made.

Whilst an opportunity does exist for the Australian and New Zealand market to convert towards the rental model (and therefore potentially increase penetration rates), based on the historical levels of home ownership amongst Australian and New Zealand residents, this conversion is expected to be limited in at least the short-term.

Notwithstanding this, due to the diversity in retirement products becoming available, market penetration rates in Australia and New Zealand (and therefore facility demand) are expected to increase, however are not expected to achieve the levels observed in the US market in the near-term.

3.2.3 Economic factors

High levels of home ownership (in historically appreciating assets) and growing personal wealth (in real terms) amongst the ageing population is expected to lead to a greater proportion seeking the lifestyle benefits and improved care offered by the senior living industry.

However, demand for senior living accommodation is also influenced by the supply and demand factors of the residential real estate market as the sale of the home typically forms the asset base from which the ingoing purchase price of a retirement village is paid. We note however that the movements in the broader residential market may not be fully reflected in the senior living industry given the services offered by senior living players are generally a demand driven by need rather than a discretionary decision.

Whilst the property market in Australia has been less susceptible to the adverse impacts of the global credit crisis most residential markets have slowed in recent months after experiencing 8% capital growth in residential house prices in FY08. The global credit crisis has also affected the New Zealand economy with negative economic growth being recorded in the past two consecutive quarters. As a result, the New Zealand residential property market has recorded a decline in year-on-year prices with average property values falling 5.8% over the past 12 months.

We set out at Appendix 1 a brief analysis of the current outlook for the Australian and New Zealand residential property markets.

3.2.4 Regulation

Both the retirement living and aged care sectors are highly regulated by Government (State and/or Federal levels) or industry bodies. This regulation ranges from restriction of the provision of services in the sector through to regulating the level of revenues and/or charges operators are allowed to generate. However, regulation does vary between the two sectors.

Retirement living

The retirement living sector is regulated by state Governments and self-governed nationally by the Retirement Villages Association (RVA).

Relative to the aged care sector, regulation in the retirement living sector is not as extensive.

The Australian Retirement Village Accreditation (ARVA) scheme, which is administered by the RVA, is a national accreditation scheme which sets the minimum benchmark standards villages must meet. The standards range from ensuring resident services and lifestyle are adequate to ensuring residents have representation in village affairs. Whilst the scheme is voluntary, it is strongly recommended to all member organisations and allows the village to display a logo of accreditation, something which is looked upon favourably by residents (current and future). The individual State Governments (with the exception of Tasmania) have put in place regulations which are enforced on operators in the sector. These regulations are largely based around appropriate disclosure regarding the retirement village and the manner in which fees can be charged to residents.

In recent years, the future growth prospects for this sector (due to favourable demographic factors and the market structure) has attracted corporate ‘pure-plays’ such as BBC and community property developers such as LLC to invest in the sector.

Aged care

Federal Government policy is a key driver of the aged care industry which impacts regulation, funding and care. Residential aged care is highly regulated with licences being issued by the Federal Government, either directly or through delegation by the State Governments, for each bed within a facility.

The aged care operators receive subsidies from the Federal Government. Until early 2008, this was based on a system titled Resident Classification System (RCS). On 20 March 2008, it was replaced by a more complicated system titled Aged Care Funding Instrument (ACFI). The introduction of ACFI, indirectly, has resulted in a greater level of independent review and/or audit being undertaken of operators.

Operators providing low care of ES can also generate some of their returns from the levy of accommodation bonds to residents. Whilst the quantum of the bond is not regulated (however, this is influenced by the local residential market) operators are only allowed to retain $290 per month from these bonds, up to a maximum of $16,800 per bond per resident.

3.2.5 Market structure

Higher affluence levels and higher expectations from aging “baby boomers” are anticipated to continue to increase the standard and quality of senior living accommodation and services. Residents are increasingly seeking “one stop shop” senior living solutions. Residents are also likely to be more educated and healthier than previous generations and are more willing to pay for these lifestyle and quality choices. The product offering as well as strong brand quality and reputation of service providers will be significant factors influencing the future success of operators in the sector. Many market participants are of the view that such factors are likely to result in the current fragmented industry consolidating over time.

Retirement living

The retirement living sector is highly fragmented with the no player controlling more than 10% of the market. Operators in the sector range from the "for-profit" private sector through to churches and community groups, who control a significant but declining component of the market. The New Zealand market is even more fragmented with less than 15% of the market controlled by the five largest for-profit players. BBC is one of the largest five for-profit operators in this market in Australia and New Zealand.

Aged care

The aged care market within Australia is comprised of for-profit, privately owned operators and not-for–profit, local Government operators. The sector is dominated by not-for-profit and religious based operators, with for-profit operators accounting for only 22% of the market in 2008[6].

The market is highly fragmented characterised by a large number of small operators with no dominant player. As at 30 June 2008, approximately 97% of the market (by number) owned less than 10 facilities[7].

Like the retirement living sector, BBC is one of the largest five for-profit operators in the aged care market.

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[6] Source: Steering Committee for the Review of Government, Service Provision, Report on Government Services, 2008.

[7] Source: Ibid

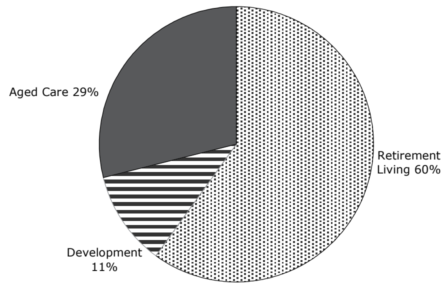
4 Overview of BBC

4.1 Introduction

BBC is currently one of the largest 'pure play' owners, operators and developers of senior living communities listed on the ASX. BBC is structured as three integrated business divisions consisting of retirement living, aged care and property development. As at 30 June 2008, BBC owned or managed 85 established communities (with a further 22 brownfield and greenfield sites under development) comprising 9,930 retirement village units and 2,297 residential aged care beds under management.

BBC's retirement living division has historically been the main contributor of Company profits. The figures below illustrate the revenue and EBITDA contributions of the three operating divisions of BBC for FY08.

Figure 3: BBC FY08 revenue contributions



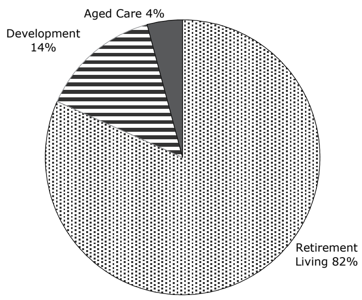
Source: BBC

Notes:

1 Amounts include share of net profits of associates and other revenue/income.

2 FY – Financial year.

Figure 4: BBC FY08 EBITDA contributions



Source: BBC

Note: Excludes corporate costs of $27.6 million.

BBC has achieved 48% growth in total assets since listing in 2007 with total assets of more than $2.7 billion as at 30 June 2008. This growth has mainly been driven through a combination of organic growth and acquisitions.

The principal operations of each of the divisions in BBC and their geographical segmentation are discussed at Sections 4.4 to 4.6 below.

4.2 Corporate history

In August 2007, BBC listed on the ASX as a stapled security subsequent to the restructure of three significant senior living businesses, the ASX listed Primelife Corporation Limited (PCL), the PrimeLiving Trust (PLT) and the Fini portfolio of retirement villages comprising 1,260 units located in Western Australia and 160 units under construction (the Fini Portfolio)[8]. The restructure is described in detail in the Prospectus & Product Disclosure Statement issued by BBC and dated 15 June 2007 (Prospectus).

Since its listing, BBC has been an active player in the senior living sector having undertaken the following acquisitions:

- **The Lakes Retirement Village (September 2007):** The Lakes Retirement Village (Lakes) in Bundaberg, Queensland was acquired for $27.1 million. It comprises 259 ILUs and surplus land which had development approval for 78 ILUs, a residential aged care facility and a medical centre

[8] The Fini Portfolio was acquired through the exercise of a call option shortly after BBC was officially listed on the ASX.

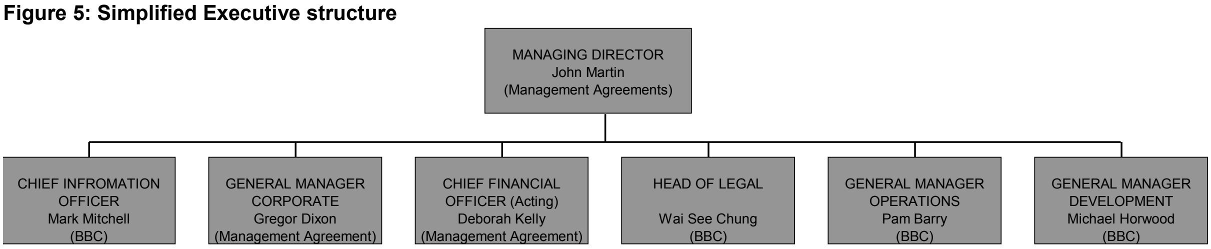
- **Prime Trust management rights (September 2007):** BBC acquired management rights for 3,610 ILUs across 12 retirement villages in Queensland and New South Wales (NSW) owned by Prime Trust for $60 million with a further $15 million payable if certain EBITDA targets were met. Prime Trust failed to meet the initial EBITDA targets which have been subsequently increased pursuant to the contract in place. Based on projected turnover rates of the villages the revised contracted EBITDA targets are deemed by BBC management to be unlikely to be met by the expiry date of 31 December 2008, after which the deferred consideration payments lapse[9]. The transaction was debt funded and entitled BBC to management income of $520 per ILU per annum and 12% of the DMFs and capital gain on resale. The management rights are for a term of 25 years with BBC having pre-emptive acquisition rights over the underlying villages
- **The Homestay Village (October 2007):** BBC acquired the Homestay Village in Perth consisting of 80 ILUs and associated community facilities for $7.6 million
- **Conform Health Group (November 2007):** BBC completed its acquisition, on a debt-free basis, of Conform Health Group (Conform) for $160 million or an implied FY08 EBITDA multiple of 11.5 times. Conform's portfolio comprised 13 aged care facilities consisting of 1,126 aged care beds.

4.3 Management overview

The management of BBC is divided between 'in-house' services and those provided under the Management Agreements. Operational executive functions reside within BBC whilst strategy and leadership functions are provided as part of the Management Agreements.

A current simplified executive structure along with the responsibility for provision of services is set out in the figure below.

Figure 5: Simplified Executive structure



Source: BBC

4.3.1 Manager and other arrangements

As part of Stage 1 of the LLC Proposal, the Management Agreements and other related agreements relating to BBC will be novated to LLC. We understand that the novation of these agreements has been struck in a manner so as to ensure that they are on no less favourable terms than the previous agreements with BNB.

As such, the fees payable by BBC comprise the following:

- **responsible entity fee** of 2.0% per annum of the gross assets of BBC. However this fee is waived in lieu of an agreed fee of $0.5 million per annum (increased for the consumer price index (CPI)) as long as LLC continues to manage BBC
- **base fee** of 0.5% of adjusted gross assets of BBC which is defined as total assets of BBC less resident loans. Half of the base fee for FY09 and FY10 is subject to the achievement of specific performance hurdles in the period up to 30 June 2010 which requires BBC to achieve a distribution yield of 8.7% and 9.5% for FY09 and FY10, respectively as well as record an EBITDA (excluding management fees payable pursuant to the management agreement) of at least $81.2 million and $88.5 million for FY09 and FY10, respectively
- **incentive fee** which is determined with reference to the excess return of BBC's equity value over the S&P/ASX 300 Accumulation Index over the financial year ended 30 June
- **manager expense amount** which is a fixed amount of $0.5 million per annum indexed annually to CPI. This represents BBC's contribution for remuneration of key executives and does not include out-of-pocket expense reimbursements

[9] We note that BBC's auditor PricewaterhouseCoopers made no reference to the any contingent liability of BBC relating the deferred consideration which may be payable to Prime Trust, on the basis that the revised contracted EBITDA targets are unlikely to be met.

- **manager origination and disposal fees** of 1.25% (previously 1.5% under the arrangement with BNB) of the purchase/sales price on acquisition/disposal of an asset payable in cash at the time of transaction
- **Custodian Fee** of 0.0125% of total assets of BBC

Preferred Financial Advisory agreement: BBC had a Preferred Financial Advisory agreement (PFA) with BNB whereby BNB provided financial advisory services and investment banking services to BBC for a term of 10 years for a fee. As part of the Implementation Agreement, LLC will provide those services to BBC at no less favourable terms than previously provided by BNB.

LLC is proposing to revise the terms of the various agreements such that the conditional element of the base fee for FY09 and FY10 would be removed and the incentive fee will be rebased to a 30 day VWAP subsequent to the Meeting to create a new starting point to calculate any excess returns. Furthermore, any carried forward deficits related to the calculation of the incentive fee will be removed. The incentive fee will be capped at 0.75% of BBC's AGA.

4.4 The Retirement Living business

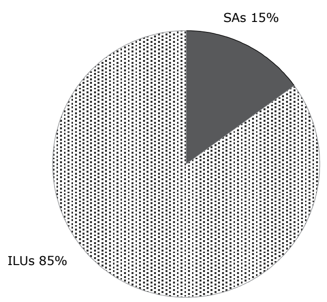
4.4.1 Introduction

BBC currently operates and/or manages a portfolio of 56 retirement villages comprising 9,930 units. The portfolio provides the major source of earnings for BBC contributing $111.7 million in reported EBITDA (net of lease payments) in FY08.

BBC either owns, leases from external third party landlords under contractual agreements or manages on a profit share basis the retirement villages held within its portfolio with the majority of the portfolio comprising ILUs.

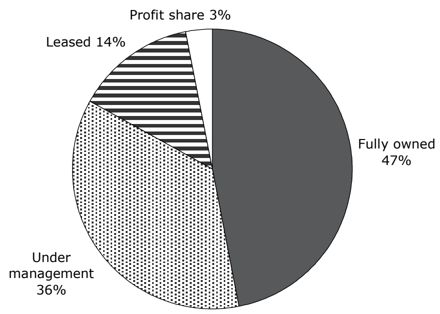
The composition of BBC's portfolio by accommodation type and ownership interest as at 30 June 2008 is set out below.

Figure 6: Retirement living portfolio accommodation type



Source: BBC

Figure 7: Retirement living portfolio ownership structure



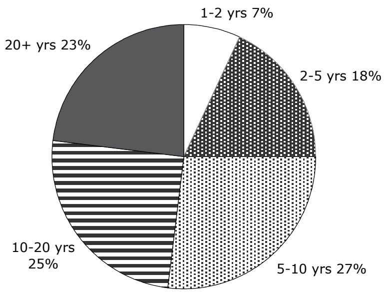
Source: BBC

A detailed breakdown of BBC's retirement village portfolio is provided at Appendix 2.

4.4.2 Portfolio details

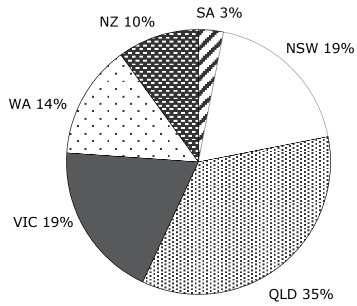
BBC's retirement village portfolio is diverse with reference to village maturity, location and product offering providing the company with less volatile cash flows and the ability to potentially capitalise on more growth opportunities. The composition of BBC's portfolio by geographic location (based on number of units) and maturity is set out below. The majority of villages are located in metropolitan locations.

Figure 8: Retirement living village age profile



Source: BBC

Figure 9: Retirement living geographic location



Source: BBC

BBC's portfolio has current occupancy levels of 98% occupied by residents of an average age of 79.5 years. The average age of villages is estimated at 11.2 years with almost half of the residents having occupied a village for over 10 years, increasing the likelihood of future turnover which should have a positive impact on cash flows.

In addition, 35% of BBC's managed aged care beds are co-located with nine of BBC's retirement communities providing the company the ability to offer prospective residents a continuum of care.

Despite softer property market conditions, the company has recorded an average turnover of units of 6.4% over the past two years allowing existing contracts to be renegotiated under more favourable terms, providing increased DMF cash flow and additional earnings potential.

The company is currently undertaking a buyback and refurbishment program whereby some retirement village units are purchased by the Company and upgraded at a cost delivering benefits to villages, residents and BBC's DMF book by accelerating the resales process and maximising prices.

4.4.3 Cash flow profile

BBC's retirement living business derives the majority of its revenue and cash flows from the DMF directly or indirectly through earned agreements held with approximately 6,800 owned and managed/leased ILUs. The structure of these agreements (including BBC's participation in DMF and the capital gains) and the management of their profile on a whole of business basis is a major determinant of cash flows for retirement living businesses and can provide both a competitive advantage and act as a hedge against cash flow volatility and exposure to particular markets.

The cash flow profile for BBC's retirement village is variable over the life of the village but would include the following elements:

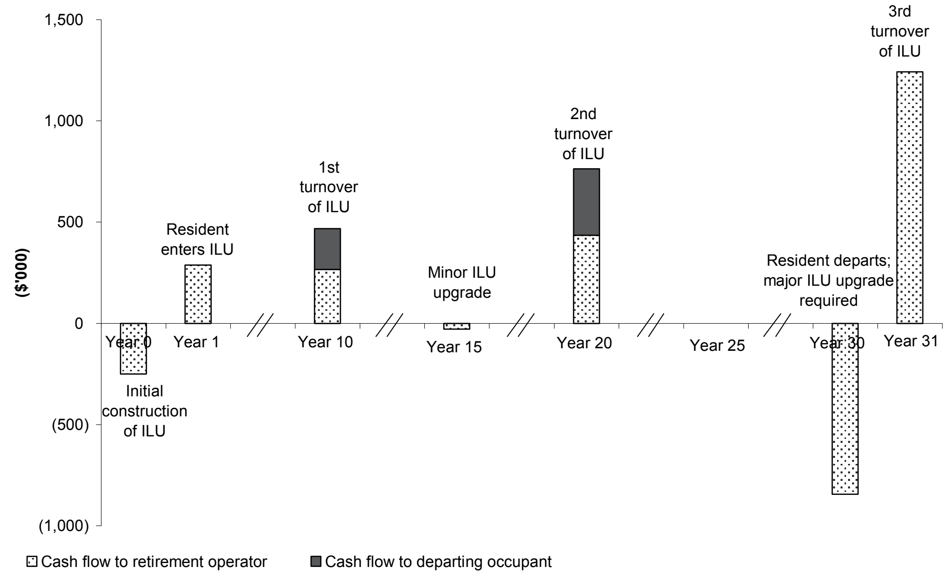
- typically the resident makes an entry payment equivalent to the market value of the ILU to the retirement village on taking up residency in an ILU which is captured as a resident loan and is repaid at exit
- during the term of the residency, a DMF is offset against the resident's payment and the retirement village operator recognises the DMF at an agreed amount per annum as accounting revenue, capped at a certain percentage of the entry price.[10] In calculating the DMF, the resale value of the accommodation, share of capital gains and length of the resident's stay are taken into account. The DMF can be calculated as a percentage of either the ingoing or outgoing property value

[10] In addition to the DMF, residents may also pay a regular service fee for the use and maintenance of shared facilities in the complex, however, positive cash flows are immaterial due to service fees being offset against the cost of maintenance provided.

- upon a resident vacating and the resale of the dwelling, the loan is repaid less any DMF paid to the retirement village operator. Generally speaking, the average length of stay assumed by industry participants is typically 10 to 12 years for an ILU and 6 to 8 years for a SA.

The figure below provides an indicative profile of the cash flows from a single ILU. In the context of a single resident the operator receives cash flows dependent on resident attrition rates and upgrade requirements.

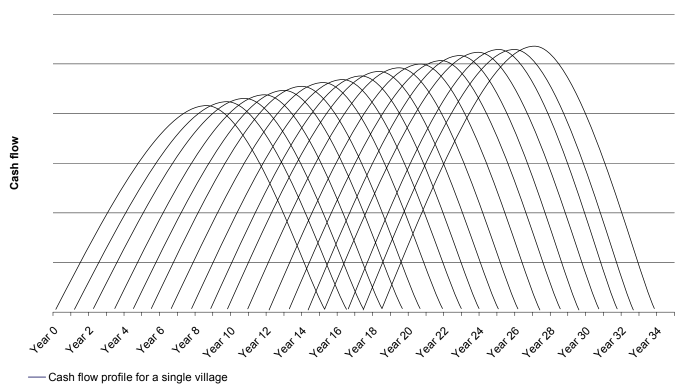
Figure 10: Example of the indicative expected cash flow profile of a single ILU (not to scale)



Source: Deloitte Corporate Finance analysis

However, as indicated below, a portfolio of retirement villages with a staged construction program will typically generate stable cash flows for the retirement village operator. This has the potential to create a stable and recurring income stream comparable with the rental income stream of a property trust.

Figure 11: Example of the indicative expected cash flow profile of a portfolio of retirement villages



Source: Macquarie Equities report on BBC, August 2007

DMF contracts only terminate in the event of a resale with BBC accruing the respective DMF until that sale. BBC typically sells the unit on behalf of the outgoing resident for which it is entitled to a selling fee. BBC's most common DMF contracts are set out below.

Table 2: BBC's most common DMF contracts as at August 2007

Type	% of Total Number of Contracts	% of Total Value of Units	Accrual Period (Years)	Max DMF (%)	DMF Basis	Share of Capital Gain
1	12%	14%	12	36%	Outgoing	-
2	6%	7%	8	20%	Ingoing	100%
3	5%	6%	8	35%	Outgoing	-
4	5%	3%	1	25%	Ingoing	75%
5	5%	3%	4	20%	Ingoing	100%
6	4%	3%	10	30%	Ingoing	-
7	7%	9%	10	25%	Outgoing	-
8	6%	5%	1	-	Ingoing	50%
Top 8	**49%**	**49%**				
Weighted average of Top 8 contracts				**26%**		**35%**
Weighted average of all contracts				**25%**		**33%**

Source: BBC Prospectus

We understand from discussions with BBC management that there has been no significant change in the profile of the DMF contracts as set out in Table 2 above.

Depending on the specific contract structure, the capital gain is normally shared between the owner of the retirement village and the departing resident, although in some cases, the capital gain is realised in-full by the owner of the retirement village. As such, the capital growth of residential properties is a key driver to the profitability of retirement village operators. Approximately 50% of BBC's contracts contain a capital gain component with all New Zealand contracts entitling BBC to 100% of the capital gain. In FY08, BBC reported a weighted average capital growth of 5.2% for ILUs and 2.8% for SAs.

Along with BBC's portfolio of owned villages, BBC also has a number of villages which are operated under different ownership structures:

- managed villages for Prime Trust (12 villages comprising 3,580 ILUs) – BBC generates a management fee in respect of such villages which encompasses $520 per ILU per annum and 12% of the DMF and capital gain on resale of the village. The term of these agreements are for 25 years
- leased (or similar) villages (12 villages comprising 1,458 ILUs as at 30 June 2008[11]) – BBC retains full entitlement to the DMF revenues associated with these villages but makes regular fixed rental lease payments to the owners of the villages (APN and Prime Trust), which typically grow by inflation. The lease terms are typically for an average of 20 years with an option to extend available to BBC
- villages held through joint venture arrangements which are managed on a profit share basis (2 villages comprising 155 ILUs) – BBC is entitled to a portion of operating profits after management and marketing fees.

4.4.4 Key value drivers

The key value drivers for BBC's Retirement Living business may be summarised as follows:

- the structure of the DMF earned across each village, in particular, the ability to create a stable and recurring income stream as part of a diversified portfolio of villages that provides cash flow stability and the ability to create a portfolio benefit
- the composition of the residents across the portfolio in terms of average age and expected length of stay as this will influence the ultimate realisation of the DMF
- residential property growth rates in the areas in which the villages operate and the extent of operator participation in unit capital growth.

[11] Subsequent to 30 June 2008, BBC has acquired the leasehold related to one of the villages.

4.5 The Aged Care business

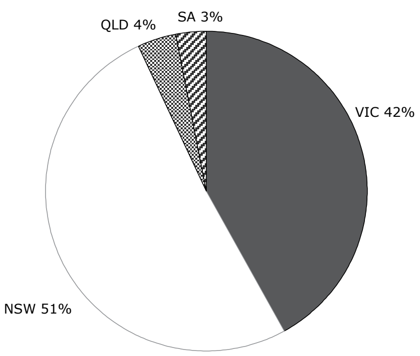
4.5.1 Introduction

As at 30 June 2008, BBC had 29 aged care facilities located across four states. Care is provided in aggregate to circa 1,874 people with a total of 2,213 beds currently under management. Of the total beds available, 35% are co-located with BBC retirement villages.

BBC either owns, leases from external third party landlords or manages on a profit share basis the aged care facilities held within its portfolio.

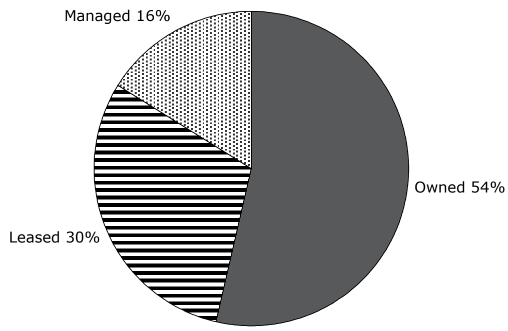
The composition of BBC's portfolio by ownership structure and location as at 30 June 2008 is set out in the figures below.

Figure 12: Portfolio segregation by location



Source: BBC and Deloitte Corporate Finance analysis

Figure 13: Ownership structure



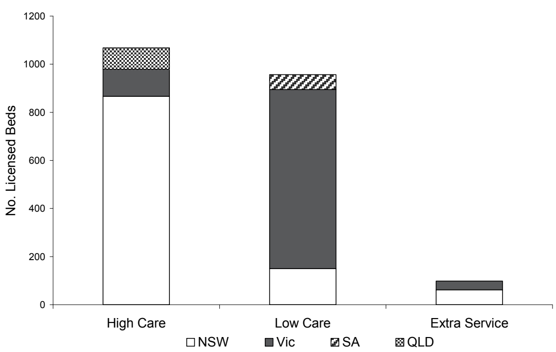
Source: BBC and Deloitte Corporate Finance analysis

A detailed breakdown of BBC's aged care portfolio is provided in Appendix 2.

4.5.2 Portfolio details

Following the acquisition of Conform (refer Section 4.2), BBC's portfolio structure has become fairly equally distributed between low and high care beds. Figure 14 and Figure 15 below illustrate BBC's aged care portfolio split by location and the level of service provided as well as current occupancy of the portfolio.

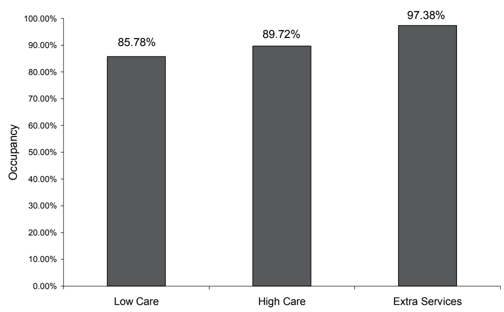
Figure 14: BBC's aged care portfolio overview



Source: BBC and Deloitte Corporate Finance analysis

Note: Includes owned and leased facilities. Excluding interest in joint ventures.

Figure 15: Occupancy by accommodation type



Source: BBC and Deloitte Corporate Finance analysis

Note: Includes owned and leased facilities. Excluding interest in joint ventures.

BBC's current occupancy rate for its portfolio of aged care facilities is approximately 95%, which exceeds the Company's FY08 targeted portfolio occupancy rate (excluding facilities in the ramp-up phase) of 93%. The average age of residents for FY08 was 84 years.

BBC plans to dedicate approximately 50% of its development portfolio bed offering to ES and therefore ES beds are likely to comprise a greater portion of the portfolio subsequent to these developments.

4.5.3 Aged care development portfolio details

BBC's aged care development pipeline of 245 beds is located across NSW. Brownfield beds currently under development relate to three facilities located in Sydney:

- Greenwood – located in Normanhurst, Greenwood has the ability to provide 97 ES and high care beds to residents and is due to complete construction in 2011/12
- Lakewood – located in Greystanes, Lakewood has the ability to provide 84 high care and 36 low care facilities to residents and is due to complete construction in 2010/11
- Redleaf Manor Stage 2 – located in Concord, Redleaf has the ability to provide 28 ES high care beds to residents and is due to complete construction in 2009/10.

A detailed breakdown of the aged care development pipeline as at 30 June 2008 is provided at Appendix 2.

4.5.4 Cash flow profile

As discussed in Section 3.2.4, BBC's aged care business derives the majority of its revenues from Government subsidies which are largely known in advance and secure. The Australian Government provides funding using the ACFI which accounted for approximately 70% of BBC's FY08 revenue.

The two main resident funding contributions are resident fees and charges, which cover the daily cost of providing aged care and accommodation payments (accommodation bonds). Accommodation bonds are lump sum amounts of money paid by residents in low care (or extra services) beds. Bond prices are dictated by market forces and there is no legislative maximum. The average accommodation bond levied on a new resident in 2005-2006 was $141,690. The bond must be refunded (less a specified retention amount which is equal to $3,282 per annum for residents who have entered a facility since July 2006) at the end of the resident's stay.

Approved providers can generate income from accommodation bonds through the retention amount, any interest earned if the bond proceeds are invested, as well as capital appreciation realised when the bond is taken over by the next resident. They may also use bonds (subject to strict prudential requirements) for working capital purposes and to reduce debt.

4.5.5 Key value drivers

The key value drivers in the aged care industry include occupancy, the level of care provided to residents, access to Government subsidies and effective cost management as discussed below:

- maintaining high occupancy. BBC has historically maintained high occupancy rates within its aged care portfolio and has continued to do so across all of its aged care facilities. In order to sustain high occupancy levels, BBC closely monitors such levels at each facility and proactively manages foreseeable vacancy gaps
- maintaining a diversified bed range between high and low care, and extra service places
- BBC has designed and is currently implementing TRAX, a documentation system designed to more accurately capture all relevant clinical and other data to support resident assessments on a regular basis across all aged care facilities. The implementation of such a system will allow BBC to more quickly and accurately realise Government subsidy revenues
- effective cost management particularly in respect of care staff and nursing staff. Wages and salaries are the most significant drivers of operating costs for the aged care sector contributing more than 65% of operating expenditure for BBC's aged care division in FY08. The ability to recruit and retain a skilled and flexible workforce is equally a growing risk factor faced by the sector with a shortage of trained nurses driving wage rate increases. To help manage such factors, BBC has implemented various strategies in order to create opportunities to control costs. Such strategies include a greater focus on the use of nursing agencies, close monitoring of rosters to ensure alignment with care needs, employing multi-skilled staff and negotiating more flexible employment practices
- maintaining a creditable reputation in the market is of major importance to BBC as a poor reputation could ultimately affect occupancy rates, allocated bed licences received, the ability to attract and retain quality staff and the likelihood of non compliance of regulatory requirements, which ultimately, jeopardises funding received by the Government. As at 30 June 2008, BBC's facilities maintained 100% accreditation by the Department of Health & Ageing.

4.6 The Development business

4.6.1 Introduction

As at 30 June 2008, BBC held a development pipeline of 2,225 retirement village units and 701 aged care beds.

Development projects are either wholly owned or owned by third parties and managed by BBC under lease agreements and comprise both new developments and expansions to existing facilities. All of BBC's development operations are for internal use with the construction for the discrete stages of each development project outsourced on a fixed price basis to construction companies with industry-based experience. BBC performs all sales and marketing functions. BBC has historically received 'construction income' when acting as development manager for a third party, however the Company is phasing out this function.

BBC's development business contributed $19.2 million (net of lease payments) to FY08 EBITDA. Prior to the LLC Proposal, BBC was planning to reduce current inventory levels and decreasing the rate of development. However, some of these decisions are being revisited as a consequence of the LLC Proposal. BBC is also undertaking selective land sales which have been approved by the Board.

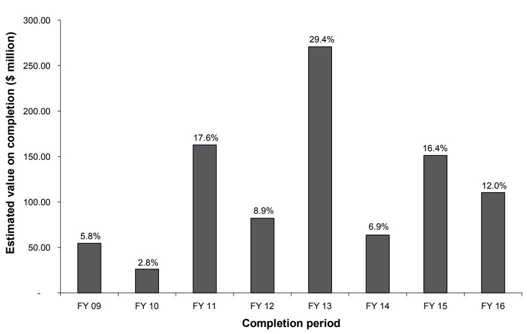
The section below discusses the retirement living developments. The aged care developments are discussed in Section 4.5.3.

4.6.2 Retirement Living Development portfolio details

As at 30 June 2008, BBC's retirement living development pipeline comprised of 1,297 units in brownfield projects and 835 units in greenfield projects with total estimated gross saleable values of $503 million and $331 million, respectively. The remaining 93 units with an estimated gross saleable value of $34 million relate to six projects which have been completed and are awaiting first time sales.

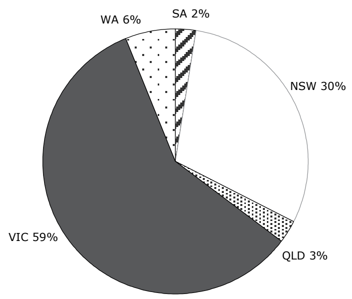
As set out below, the retirement living development pipeline as at 30 June 2008 is expected to be completed and transferred within the next eight years, with approximately 65.8% (by expected gross sales value) completed by FY13.

Figure 16: Retirement living completion profile



Source: BBC and Deloitte Corporate Finance analysis

Figure 17: Development portfolio by location



Source: BBC and Deloitte Corporate Finance analysis

Note: Based on a development pipeline of 2,225 units.

The majority of projects are wholly owned. BBC currently holds a 50% joint venture interest in the Martha's Point, Claremont Terrace and Brighton on the Bay projects. All retirement village developments are undertaken on a staged basis, whereby discrete stages are built and predominately sold prior to the commencement of further stages. Construction has commenced on community facilities at four sites and one extension providing the foundation for future development at these sites.

Gross realisable sales from the current retirement living development pipeline are forecast to be approximately $869 million realised over the next eight years and is expected to organically increase the number of units under BBC management to over 12,000 units. The majority of these projects, which were originally held by PCL, PLT and Fini Portfolio are located in Victoria and NSW. All Greenfield projects are located in either Victoria (61%) or NSW (39%). A detailed breakdown of the current retirement living development pipeline is provided at Appendix 2.

4.6.3 Cash flow profile

Revenue and cash flows related to this business are mainly dependent on the number of units sold, the sales price and the construction costs. Development profits which typically range between 10% and 20% of the sale value of the project are derived from the process of developing and constructing a village and selling completed units to first-time residents (through the signing of a DMF contract with the resident). The development business would also typically share in some portion of the value of the DMF contract related to first time and subsequent residents.

BBC also has a number of developments which are being undertaken through joint venture arrangements. In respect of such ventures, BBC is entitled to the share of the cash flows generated by the joint venture based on its shareholding in the joint venture. There are also a small number of joint ventures where BBC is also entitled to the value of the DMF contract related to first time and subsequent residents.

BBC, in some circumstances also derives profits from the sale of parcels of surplus land and through the redevelopment of established retirement villages.

4.7 Capital structure

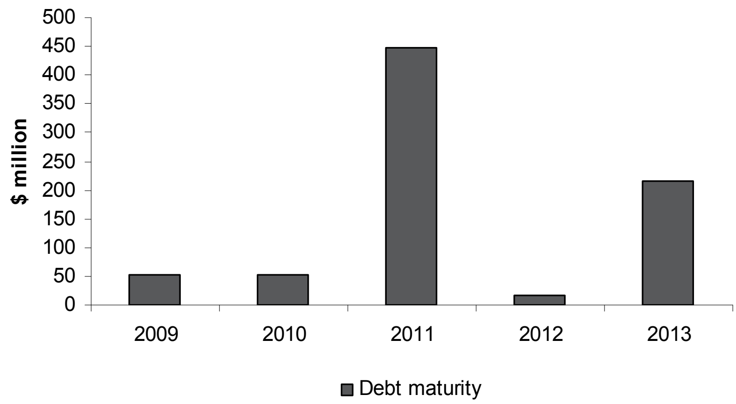
4.7.1 Debt facilities

On 18 December 2007, BBC entered into a $600 million debt facility with a consortium of three Australian banks to fund future acquisitions and consolidate the company's existing debt. As part of the LLC Proposal, LLC and BBC have renegotiated the terms of BBC's facilities as set out in Section 5.3.

4.7.2 Debt maturity structure

The figure below summarises BBC's existing debt maturity profile as at 30 June 2008:

Figure 18: Maturity of BBC's existing debt facilities as at 30 June 2008 (excluding impact of refinancing)



Source: BBC

As can be noted in the figure above, there is a large proportion of the debt maturing in 2011 and 2013. This can mainly be attributed to the first and second tranche of the $600 million facility. As at 30 June 2008, BBC's weighted average term of debt was 3.1 years.

4.7.3 Capital management initiatives

In addition to refinancing the Company's debt position, the Board has approved a number of initiatives to deploy capital more effectively in the current environment and therefore reduce current debt levels. These have included:

- reviewed current distribution policy in order to preserve cash flow and strengthen the Company's balance sheet.
- divested the Company's 7.1% investment in retirement village operator, Aevum Limited (Aevum)
- approved the sale of non core assets and land which will also assist in reducing the Company's current inventory levels.

4.7.4 Equity capital

As at the date of this report, BBC had the following securities on issue:

- 682,919,333 stapled securities comprising one ordinary security in BBC and one unit in BBC
- 3,900,000 employee options issued under BBC's Senior Management Option Plan. The options outstanding are subject to vesting conditions based on the return generated by BBC securities relative to the S&P/ASX 100 Index and have a weighted average exercise price of $1.17 per security.

BBC allows securityholders to reinvest their distributions under a fully underwritten distribution reinvestment plan (DRP). Securities issued under the DRP are issued at a 2.5% discount to the ten day VWAP of BBC securities from the date of issue of the new securities. The DRP was only activated for the distribution paid in the second half of FY08. The current number of securities on issue indicated above includes 31,191,397 stapled securities that were recently issued under the DRP.

Securities are held relatively evenly between institutions, corporate and not-for profit organisations, and private investors. The securityholder's register of BBC is relatively concentrated with the top ten security holders representing approximately 40% of total securities on issue. The following table summarises the top ten securityholders in BBC.

Table 3: Top ten security holders of BBC as at 30 September 2008

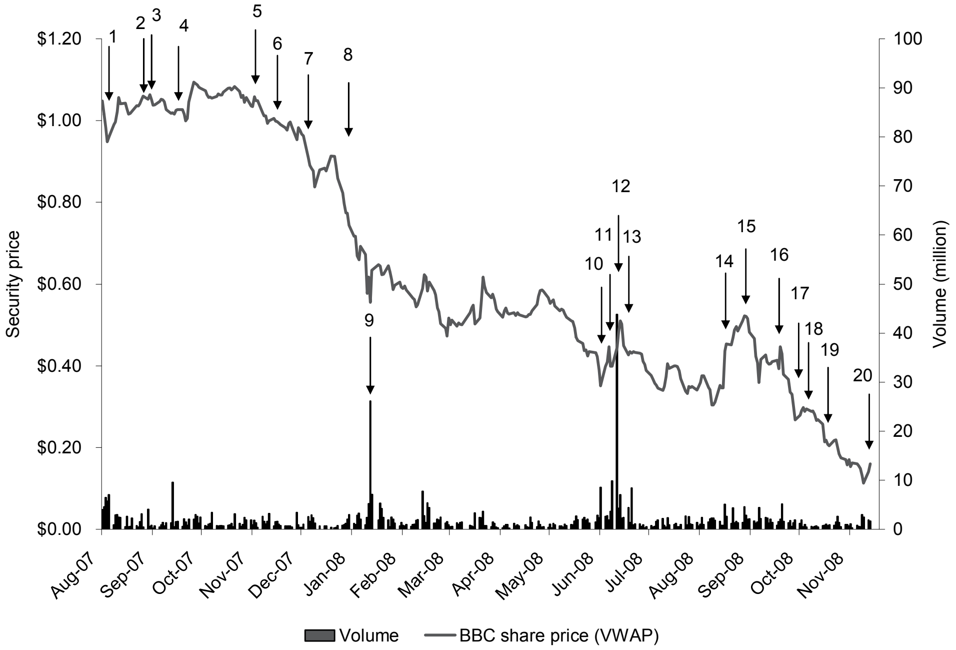
Securityholder name	Number of securities ('000)	Percentage of total issued securities
Babcock & Brown Group Holdings	85,044	12.45%
LLC	49,307	7.22%
Commonwealth Bank (Institutional Group)	34,277	5.02%
Macquarie (Institutional Group)	33,560	4.91%
Legg Mason Asset Management Australia Limited	21,524	3.15%
Bank of New York Mellon Corporation (Institutional Group)	15,441	2.26%
Forsyth Barr (Private Clients)	14,706	2.15%
APG Investments	13,043	1.91%
Pagodatree Investments Limited	10,000	1.46%
Wallace Funds Management	9,742	1.43%
Total of top ten securityholdings	**286,644**	**41.96%**
Other securityholders	396,275	58.04%
Total securities on issue	**682,919**	**100.00%**

Source: BBC

4.7.5 Equity capital security trading

A summary of BBC's security price movements and trading volumes over the period from 13 August 2007 (being the date on which all the securities commenced trading on a normal settlement basis) to 25 November 2008 is provided in Figure 19 below.

Figure 19: BBC's security trading history



Source: Bloomberg

The significant movements identified on the figure above are summarised in the table below.

Table 4: BBC security trading history

Reference	Note
1	BBC completed the acquisition of the Fini Portfolio of retirement villages on 15 August 2007 for $188 million.
2	On 5 September 2007, BBC exercised the option to acquire the management rights from Prime Trust for 3,600 ILUs across 12 retirement villages in Queensland and NSW. Total consideration paid was $60 million with a further $15 million in consideration contingent on Prime Trust meeting certain performance targets.
3	Lakes in Bundaberg, Queensland was acquired by BBC for $27.1 million.
4	On 2 October 2007, BBC settled on the acquisition of the Homestay Village in Perth for $7.6 million.
5	BBC held its Annual General Meeting on 16 November 2007. Management confirmed its FY08 distribution per security guidance of 8.4 cents per stapled security.
6	On 27 November 2007, BBC completed its acquisition of Conform for $160 million or an implied FY08 EBITDA multiple of 11.5 times
7	On 18 December 2007 BBC announced an interim distribution of 4.2 cents for the six months ended 31 December 2007.
8	On 4 January 2008, BBC announced that the DRP will not be activated for the distribution that was announced on 18 December 2007.
9	A total of 23 million BBC stapled securities, relating to those securities issued to MFS Limited as part of the restructure, were released from escrow and sold on the ASX on 24 January 2008 to a combination of existing and new institutional investors.
10	On 12 June 2008, BNB's share price fell 28%, triggering management to review its agreements relating to its $2.8 billion debt position. BBC confirmed on 13 June 2008 that BNB's fall in price and review had no effect on the debt position of BBC.
11	On 19 June 2008, BBC announced a final distribution of 2.1 cents for a total FY08 distribution of 6.3 cents compared to the 8.4 cents per stapled security forecast in the PDS. BBC also announced the commencement of the strategic review.
12	LLC acquired a 6.18% interest in BBC for approximately $18 million or $0.4498 per security through a purchase of over 40 million ordinary fully paid stapled securities on 23 June 2008. LLC has subsequently

Reference	Note
	increased its shareholding to 7.12% through additional on-market purchases.
13	Increased market speculation of BBC being a potential takeover target led to BBC's security price increasing by approximately 45% over the period from 19 June 2008, being the announcement date of the Strategic Review, to 25 June 2008.
14	On 28 August 2008, BBC announced the outcome of the Strategic Review which included plans to internalise the management rights from BNB, the price discovery process and debt reduction program. BBC also reported its FY08 results with adjusted net income and adjusted earnings per share exceeding expectations by 34.4% and 24.1%, respectively. BBC's securities resumed trading and closed approximately 25% higher than the closing price on 26 August 2008, after BBC securities were released from the trading halt that was implemented on 27 August 2008 awaiting the announcement.
15	BBC announced the Prime Trust Offer on 5 September 2008.
16	BBC announced the Original LLC Proposal on 1 October 2008.
17	On 10 October 2008, the Takeovers Panel received an application from APCH, seeking a declaration of unacceptable circumstances in relation to BBC's entry into the LLC Proposal. APCH submitted that BBC's entry to the Original LLC Proposal constitutes a 'frustrating action' in relation to the Prime Trust Offer.
18	The BBC Target Statement (which recommended that securityholders reject the Prime Trust Offer) was dispatched.
19	On 31 October 2008, the Takeovers Panel advised of its decision not to make a declaration of unacceptable circumstances in response to the application received from APCH.
20	On 24 November 2008 BBC and LLC announced the revised terms contained in the LLC Proposal.

Source: BBC, ASX and Deloitte Corporate Finance analysis

4.7.6 BBC's relative security price performance

As noted in Section 4.7.5 above, the security trading price of BBC has been volatile since its initial public offering, particularly in recent months. Recent volatility has been influenced by overall volatility in the market, as well as general sentiment regarding BNB and its "satellite" funds.

The figures below show the relative performance of BBC over the period from 13 August 2007 to 13 November 2008 to the following:

- the S&P/ASX 300 Index
- the consolidated performance of companies directly comparable to BBC (the Comparables Index)
- the performance of those companies listed on the ASX which are managed, to varying degrees by BNB (the BNB Index)
- BNB.

Figure 20: BBC's relative performance to the S&P/ASX 300 Index and the Comparables Index

Source: Bloomberg and Deloitte Corporate Finance analysis

Figure 21: BBC's relative performance to BNB and the BNB Index

Source: Bloomberg and Deloitte Corporate Finance analysis

Notes:

1. All companies/indices have been rebased to 100 on 13 August 2007.
2. The Comparables Index is calculated as a market capitalisation index (reweighted every six months) comprising of Aevum, Ryman Healthcare Limited (Ryman), Metlifecare Limited (Metlifecare), FKP Property Group (FKP) and Becton Property Group (Becton).
3. The BNB Index is calculated as a market capitalisation index (reweighted every six months) comprising of BBC, Babcock & Brown Infrastructure Group, Babcock & Brown Capital Limited, Babcock & Brown Japan Property Trust, Babcock & Brown Wind Partners, Babcock & Brown Residential Land Partners Limited, Babcock & Brown Power and Everest Babcock & Brown Limited.

As set out above, BBC underperformed the S&P/ASX 300 index over the period from 13 August 2007 to 25 November 2008 with BBC's security price falling 85.7% over the period which equates to loss on a total return annual equivalent basis of 76.4%. Over the same period, the S&P/ASX 300 index fell 40.2% equating to a loss on a total return annual equivalent basis of 28.4%.

BBC's security price movements have displayed the same downward movement as other companies in the senior living sectors but the price depreciation experienced by the securities has been arguably greater (with the exception of that experienced by FKP) due to the Company's higher gearing levels relative to its competitors and the negative investor sentiment towards BNB.

4.8 Financial Overview

BBC has changed significantly since 30 June 2006 primarily due to the Company's restructure completed in August 2007 and subsequent acquisitions as discussed in Section 4.2. As a result, comparisons of financial performance across prior years are not considered meaningful.

4.8.1 Financial performance

The pro-forma forecast for the years ended 30 June 2007 and 30 June 2008 as presented in the Prospectus and the audited income statement for the year ended 30 June 2008 are summarised in the table below.

Table 5: Financial performance

	30-Jun-07 Pro-forma Forecast ($'000) [1]	30-Jun-08 Pro-forma Forecast ($'000) [1, 2]	30-Jun-08 Actual ($'000) [3]
Retirement living	72,858	77,824	157,102
Development	46,031	58,955	27,225
Aged care	29,542	32,565	77,336
Corporate and Eliminations	n/a	n/a	1,930
Total revenue and other income	**148,431**	**169,344**	**263,593**
Retirement living	62,418	66,895	118,176
Development	13,066	34,939	19,194
Aged care	3,239	4,396	12,443
Lease payments	(13,204)	(13,554)	(13,109)
Corporate costs	(12,517)	(11,442)	(27,582)
EBITDA	**53,002**	**81,234**	**109,122**
Margin (%)	*35.71%*	*47.97%*	*41.40%*
EBIT[4]	**49,445**	**78,782**	**101,055**
Margin (%)	*33.31%*	*46.34%*	*38.34%*
Net profit attributable to stapled security holders	**15,608**	**35,087**	**41,073**
Distribution per security (cents)	n/a	8.4	6.3

Source: BBC and Deloitte Corporate Finance analysis

Notes:

1. Sourced from the Prospectus.
2. On 16 November 2007, BBC issued additional guidance which adjusted the pro-forma 30 June 2008 performance to reflect the actual period of ownership of acquisitions made. This resulted in net profit after tax reducing to $34.5 million.
3. Sourced from BBC's FY08 Annual Report.
4. EBIT – Earnings before interest and tax.

BBC exceeded the FY08 forecast net profit as presented in the Prospectus due largely to additional acquisitions which occurred subsequent to the restructure (refer Section 4.2).

We note the following in relation to BBC's reported EBITDA for FY08:

- BBC's retirement living business recorded an investment property revaluation gain of $61.5 million due largely to increased price growth and the successful review and implementation of revised resident contract terms over the period
- revenue arising from accrued DMF was $27.5 million for the year
- during FY08, 280 sales (comprising 250 settlements) across 13 sites were recorded with an average development margin in excess of 18% (in line with expected margins of 15-20%). The volume of settlements were below BBC's expectations largely due to a slow down in residential property markets which resulted in incoming residents delaying settlements as they attempted to sell their own home. This (as well as delays in achieving budgeted land sales) has resulted in the gap between sales and settlements widening and FY08 Development EBITDA falling significantly below forecast levels of $34.9 million to $19.2 million
- in November 2007, BBC acquired Conform for $160 million. The portfolio consisted of 13 aged care facilities with 1,126 beds
- BBC's corporate costs have primarily been driven by increased costs relating to the restructuring and initial public offering of BBC in August 2007 (and related acquisitions), office relocation costs, the loss on the sale of BBC's interest in Aevum ($1.9 million) and costs related to the four acquisitions made in FY08.

We note that the reported earnings for BBC are not a good reflection of the cash flows of the business due primarily to the significant differences between accrual accounting and cash flow in respect of DMF contracts related to BBC's Retirement Living business and construction costs related to the development business. This is highlighted by the following table.

Table 6: BBC's cash flow

	30-Jun-07 Pro-forma Forecast ($'000)	30-Jun-08 Pro-forma Forecast ($'000)
EBITDA	**53,002**	**81,234**
Revaluations	(6,887)	-
DMF cash timing differences	(36,479)	(37,387)
Aged care accommodation bonds	10,491	4,519
Development and construction	(70,653)	25,635
Other	(5,982)	4,152
Total operating cash flow	**(56,508)**	**78,153**

Source: Prospectus

The key components of the cash flows for BBC as set out above relate to the cash realisation of the DMF's accrued as well as the net inflows from accommodation bonds. The large volume of accommodation bonds pertains primarily to new residents received from aged care facilities in the ramp-up phase.

4.8.2 Financial position

BBC's pro-forma balance sheet as at 31 December 2006 and audited financial position as at 31 December 2007 and 30 June 2008 are summarised in the table below.

Table 7: Financial position

	31-Dec-06 Pro-forma ($'000)	31-Dec-07 Actual ($'000)	30-Jun-08 Actual ($'000)
Cash and cash equivalents	37,608	44,024	19,391
Receivables	29,810	45,429	53,366
DMF	67,751	69,902	70,828
Inventory	44,945	38,174	29,113
Property, plant & equipment	212,212	379,845	396,527
Investment property	1,311,163	1,750,300	1,786,868
Intangibles	62,526	234,812	238,482
Other	67,947	97,585	113,536
Total current and non current assets	**1,833,962**	**2,660,071**	**2,708,111**
Resident loans	820,300	1,176,062	1,188,762
Accommodation bond liabilities	60,525	83,124	105,560
Payables	42,366	54,151	65,765
Borrowings	369,800	563,621	591,730
Deferred revenue	-	18,258	19,318
Deferred tax liabilities	56,740	108,362	97,111
Other	28,853	40,212	27,019
Total current and non current liabilities	**1,378,584**	**2,043,790**	**2,095,265**
Net assets	**455,378**	**616,281**	**612,846**
Net tangible assets	**392,852**	**381,469**	**374,364**
Book value gearing (debt / AGA)	*36.48%*	*37.98%*	*38.95%*
Book value gearing (net debt / (net debt + equity))	*42.18%*	*45.74%*	*48.29%*
Net asset value per security	*$0.70*	*$0.95*	*$0.94*
Net tangible assets per security	*$0.61*	*$0.58*	*$0.57*

Source: Prospectus, BBC and Deloitte Corporate Finance analysis

We note the following in respect of BBC's financial position as at 30 June 2008:

- inventory decreased due to the Company's focus on inventory control and a reduction in construction and the speed of delivery of the development pipeline
- property, plant and equipment has increased due to several acquisitions throughout the year
- investment properties relate to the assessed fair value of retirement villages and aged care facilities owned by BBC
- intangible assets relate to bed licences, the management rights acquired from Prime Trust and goodwill
- other assets primarily include deferred tax assets consisting largely of carried forward tax losses deemed by the Company to be recoverable in future periods. Other assets also include BBC's interest in development joint ventures and equity accounted investments
- the acquisition of Conform resulted in accommodation bond liabilities increasing
- resident loans pertain to the license liability in respect of the loan-license agreements of retirement village units
- during the period, the NAV and NTA per security has not changed significant in spite of acquisitions, due to the fact that these acquisitions have been funded by debt or equity (as opposed to operating cash flows).

4.8.3 Distribution history

BBC employs a distribution policy whereby it pays unfranked tax-deferred distributions out of the Babcock & Brown Communities Trust (BBCT). Since listing, BBC has paid the following distributions:

- a fully tax-deferred interim distribution of 4.2 cents per stapled security ($27.4 million) in respect of the six months ended 31 December 2007
- a fully tax-deferred interim distribution of 2.1 cents per stapled security ($13.7 million) in respect of the six months ended 30 June 2008.

The above two payments equated to a total full year distribution of 6.3 cents per stapled security which was below the forecast distribution of 8.4 cents provided in the Prospectus resulting in a distribution yield of 6.0%[12], rather than the projected yield of 8.0%[13].

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[12] Annualised distribution yield based on the main offer price ($1.15) calculated over the period from 6 August 2007 to 30 June 2008.

[13] BBC's 8% yield represents an annualised distribution yield for the FY08 period, based on the main offer price ($1.15) over the period from 6 August 2007 (expected allotment date) to 30 June 2008.

5 Profile of the RBD Assets and the Enlarged BBC

5.1 Details of the RBD Assets

As part of the LLC Proposal, BBC will acquire the RBD Assets. These assets are wholly owned by LLC and the purchase price will be satisfied through the issue of the RBD Notes with a face value of $120 million and cash of $13.4 million.

A brief description of each of the RBD Assets is provided below.

Table 8: Village summary

Village name	Location	Number of ILU units	Average ILU price ($)	Number of SA units	Average SA price ($)	Average age of residents	Earliest settlement date
Pittwater	Mona Vale, NSW	59	361,017	26	112,885	85.0	1988
Burwood Terrace	Burwood East, Victoria	106	390,698	-	-	77.5	1996
Forest Hills	Nunawading, Victoria	110	270,545	50	136,300	84.3	1984
Glenaeon	Belrose, NSW	220	546,377	50	222,500	81.9	1986
Highvalue	Glen Waverley, NSW	126	341,627	64	121,260	84.7	1985
Peppertree Hill	Rowville, Victoria	210	342,114	-	-	81.6	1987
Lutanda Manor	Pennant Hills, NSW	87	488,310	46	231,739	84.6	1988
Keperra[1]	Keperra, Queensland	43	n/a	n/a	n/a	87.2	1996
Total		**961**		**236**			

Source: Implementation Agreement, RBD website and LLC

Note:

1. Aged care facility with reference to ILU units being beds.

The RBD Assets are located within metropolitan areas of NSW, Victoria and Queensland and are considered to be a relatively modern (with respect to age) and mature (with respect to occupancy). More than 50% of the ILUs (and 70% of the SAs) are located in Sydney which according to the NSW Department of Planning is expected to experience population growth of almost 40% over the period from 2006 to 2036. Equally, Melbourne (44% of ILUs and 21% of SAs) is expected to experience population growth of more than 25% over the same period.[14] Both cities are expected to experience such growth in part driven by the ageing of the 'baby boomer' generation.

If the LLC Proposal proceeds, ownership of the freehold title in respect of each of the villages will transfer to BBC. The Keperra aged care facility is leased and therefore BBC will also take over LLC's obligation to pay rent to the landlord. The remaining leasehold in respect of this facility is for 13 years with a five year renewal option, with growth annually at inflation.

[14] Victoria in the Future, 2004

5.1.1 DMF profiles

Each of the retirement villages generate cash flows through contractual DMF agreements held with each resident. The table below provides a summary of the DMF structures of each of the retirement villages.

Table 9: RBD Assets – DMF summary

Village name/type of unit	Annual DMF	Minimum DMF	Maximum DMF	Capital Gain DMF
Pittwater	2% - 6%	2% - 12%	20% - 30%	20% - 25%
Burwood Terrace	0.25% - 6%	0 - 6%	27% - 30%	0 - 50%
Forest Hills	2.5% - 10%	0 -10%	25% - 30%	0 - 100%
Glenaeon	2.5% - 8.5%	5% - 8.5%	25% - 42.5%	-
Highvale	2% - 10%	2% - 10%	20% - 30%	0 - 50%
Peppertree Hill	2.5% - 10%	5% - 10%	25% - 30%	0 - 50%
Lutanda Manor	2.5% - 8.5%	5% - 8.5%	25% - 42.5%	-

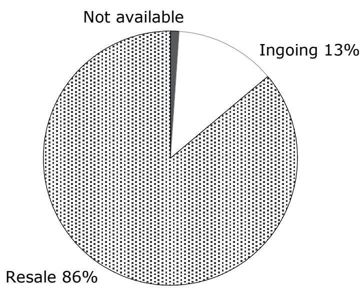
Source: LLC

Note: The above DMF structures are based on a combination of ingoing and resale purchase prices as set out in Appendix 3.

The table above excludes Keperra which is an aged care facility and therefore not subject to DMF structures. A detailed breakdown of the DMF profile for each of the RBD Assets is provided in Appendix 3.

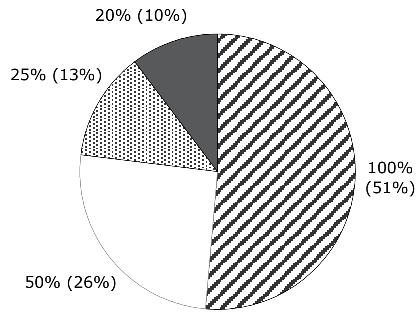
The figures below present an overview of the number of DMF contracts based on either the ingoing or resale purchase price and the capital gain percentage of each contract.

Figure 22: Basis of DMF calculation



Source: Deloitte Corporate Finance analysis

Figure 23: Capital gain participation summary



Source: Deloitte Corporate Finance analysis

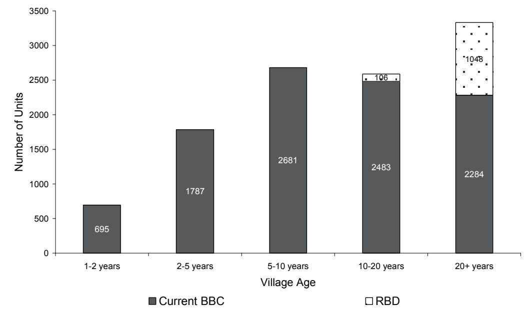
In addition to the above fee structures, many of the DMF contracts include clauses for additional charges (i.e. administration costs and refurbishment fund or provision for major maintenance) which can range from 0.5% to a maximum of 5%, based on either the ingoing or resale purchase price.

Based on discussions with RBD management, we understand that the DMF agreements are being renegotiated on each resident rollover to implement more commercial DMF structures as highlighted in Appendix 3.

5.2 Profile of the Enlarged BBC

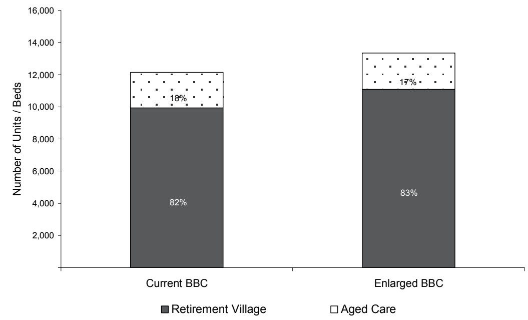
Enlarged BBC will operate a total of 92 retirement villages and 33 aged care facilities. The business will have a slightly greater focus on the retirement living sector and geographically, the NSW and Victorian markets (specifically capital cities within those markets).

Figure 24: Distribution of age of retirement villages pre and post the RBD Acquisition



Source: Deloitte Corporate Finance analysis

Figure 25: Split of retirement villages and aged care pre and post the RBD Acquisition



Source: Deloitte Corporate Finance analysis

5.3 Impact of the LLC Proposal on Enlarged BBC

As part of the LLC Proposal, LLC has been a party to negotiations between BBC and BBC's banking syndicate. The impact on BBC's debt terms and profile is expected to be as follows:

- the previous facility did not require collateral, but limited BBC from providing additional charges over its assets to other parties. The new facility requires BBC to provide certain assets as collateral
- a commitment by BBC to reduce its total debt commitments by $75 million
- the number of monitored and reported covenants reducing from three to two and some of these covenants temporarily lowered up to 30 June 2009.

In the absence of the LLC Proposal, there exists a risk that BBC's banking syndicate will require BBC to sell assets to reduce debt, to increase the margins on BBC's debt and to require more onerous covenants to be met increasing the likelihood of BBC having to sell additional assets to pay down debt. The LLC Proposal therefore will provide greater financial flexibility to Enlarged BBC.

The impact of the LLC Proposal on Enlarged BBC's net debt position is set out in the table below:

Table 10: Net debt of Enlarged BBC

	$ million
Consolidated net debt as at 30 September 2008	**587.6**
Add: impact of LLC Proposal	
Cash injection from Tranche 1 and Tranche 2 Capital Raising	(169.9)
Cash payment as part of the acquisition of the RBD Assets	13.4
RBD Notes (at face value)	120.0
First Notes (net)	-
Second Notes (net)	-
Pro-forma net debt of Enlarged BBC	**551.1**

Source: Deloitte Corporate Finance analysis

As set out above, there is no net impact on the net debt in respect of the First Notes and the Second Notes and it is expected that these will be redeemed in the short-term at face value.

Enlarged BBC will be better capitalised which should allow more timely delivery of its development pipeline and will position BBC for participation in any further industry consolidation and growth. In particular, the debt reduction and cash available to BBC pursuant to the Significant Securityholding Increase may allow BBC to become an acquirer of assets in this sector rather than a potentially distressed seller.

Following the LLC Proposal, the number of Enlarged BBC securities on issue is expected to increase to 966.3 million whilst the pro-forma security register will be as follows:

Table 11: Enlarged BBC securities outstanding (undiluted)

	Prior to the LLC Proposal		Subsequent to the LLC Proposal	
Securityholder	Number of securities ('000)	% held	Number of securities ('000)	% held
BNB	85,044	12.5	-	-
LLC	49,307	7.2	417,685	43.2
Other	548,568	80.3	548,568	56.8
Total	**682,919**	**100.0**	**966,253**	**100.0**
Free float (%)		**80.3**		**56.8**

Source: BBC, Deloitte Corporate Finance analysis

Whilst the LLC Proposal is expected to stabilise the register through the introduction of a long term stable investor with a significant securityholding, the LLC Proposal is also expected to result in a lowering of the free float from 80.3% to 56.8%.

6 Valuation of the RBD Assets

6.1 Introduction and summary

We have estimated the fair market value of the RBD Assets to be in the range of $115 million to $135 million, on a control basis.

We have estimated the fair market value of the RBD Assets by aggregating the estimated cash flows of the individual villages and the aged care facility comprising the RBD Assets and deducting any costs not captured within the cash flows related to these businesses (e.g. taxation).

In undertaking this analysis we have estimated the fair market value of the RBD Assets using the discounted cash flow method as long term cash flow projections have been prepared and the discounted cash flow method is commonly accepted as the most appropriate method for valuing retirement living and aged care assets given it provides the ability to incorporate rollover rates of residents and specific DMF related cash flows. Our rationale as to the appropriateness of the use of this methodology is set out in Appendix 4.

We provide below details of our application of the discounted cash flow methodology and the consequent views on value.

6.1.1 Future cash flows

The management team of LLC have prepared long-term projections of nominal cash flows in respect of the RBD Assets up to and including the year ending 30 June 2028 (RBD Model). We have undertaken an analysis of these projections which has included:

- limited procedures to check the mathematical accuracy of the projected cash flows (but neither a review nor an audit of the projections). As we were only provided limited access to the calculations underpinning the RBD Model, these procedures were very limited
- analysing the impact on the cash flows for the RBD Assets for changes to various inputs into the cash flow forecasts
- holding limited discussions with LLC management concerning the preparation of the projections and their views regarding the assumptions on which they are based
- assessing the reasonableness of the significant assumptions and their sensitivity, such as property growth rates and resident turnover for the purposes of our valuation analysis.

We have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information. However, nothing has come to our attention as a result of our analysis that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis.

Appendix 5 sets out the significant underlying cash flow assumptions relating to the RBD Assets and we note the key cash flow assumptions below:

- the average length of resident stay across the retirement villages of the RBD Assets is assumed to be between 8.5 years to 12.9 years for ILUs and between 5 years and 8 years for SAs in the first tenure period, and 9.5 years for ILUs and between 5.5 years and 9 years for SAs for subsequent rollover periods. These assumptions are in line with industry averages, RBD Assets' historical performance and assumptions currently adopted by companies which own assets comparable to the RBD Assets. An allowance has been made to account for the typically high turnover rates in more mature villages such as the RBD Assets
- annual capital growth rates of 6% for ILUs and 2% to 3% for SAs for the first 20 years of our analysis and 4% thereafter. This is based on estimated growth in the property market, the maturity and location of the villages and the supply/demand imbalance in the markets serviced by the RBD Assets. It is supported by the long-term average growth rates in the residential market (which exceed 8% in some markets). These annual capital growth rates are approximately 100 basis points (bps) higher than the assumed growth rates in BBC's retirement living portfolio which reflects the largely east coast metropolitan location of the RBD Assets (which have shown more resilience in cyclical downturns)
- corporate tax rate of 30% has been applied to the cash flows of the RBD Assets as we understand that the tax position of the RBD Assets is such that a potential acquirer of these assets would be fully taxed on the income generated by the RBD Assets. We have also included the stamp duty taxes expected to be paid as part of the acquisition of the RBD Assets in our cash flow analysis.

6.1.2 Discount rates

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. For the RBD Assets we have selected a nominal post tax discount rate in the range of 10.0% to 11.0% as set out in Appendix 6.

In selecting these discount rates we have considered the following factors:

- the overall cost of capital we consider investors would demand in the current environment
- the required rates of returns on listed companies in similar businesses as well as analysis of the factors impacting the RBD Assets' market risk, i.e. the sensitivity of its core earnings/cash flows to broader market movements
- factors specific to the financing and operations of the RBD Assets including:
  - a likely buyer of the RBD Assets, being an existing retirement living operator or developer with an existing portfolio of similar assets/projects
  - the relative maturity of the RBD Assets which results in the business deriving a relatively stable cash flow profile
- estimated cost of debt for the RBD Assets and the likely quantum and cost of funding that could be secured in the current market
- RBD Assets' debt capacity by reference to listed company gearing levels and current credit market conditions.

A detailed consideration of these matters is provided in Appendix 6.

6.1.3 Corporate costs

The cost structure of the RBD Assets encompasses a number of administrative overheads, including costs relating to finance and accounting, information technology and corporate services. Based on discussions with LLC and BBC management, we understand that each village is allocated a proportionate amount of corporate costs to be recovered from the residents' administrative fund. In the event that these funds do not break even, an additional expense is borne by the operator and this has been included in the cash flow projections. This expense has been estimated to be up to 1% of the sales price of each unit.

6.1.4 Sensitivity analysis

Based on the above assumptions, the discounted cash flow analysis results in a range of net present values for the RBD Assets of $112.1 million to $135.3 million.

In our assessment of the implications of the RBD Assets' cash flow projections to our estimate of the fair market value of the businesses, we have also had regard to the following factors:

- the value of the RBD Assets is sensitive to both the discount rate and the long-term terminal growth rate assumed
- resident tenure may be different to that projected in the cash flows of the RBD Assets for example the resident tenure may be less than projected in the RBD Model in particular the first resident rollover period
- expected growth in underlying property prices may be greater than projected.

Based on the variability in the cash flow assumptions, we have considered a range of valuation sensitivity scenarios in estimating our discounted cash flow valuation range. These scenarios and the impact on the enterprise value of the RBD Assets are presented below.

Table 12: Sensitivity analysis of the enterprise value of the RBD Assets to changes in key assumptions

Assumption	Assumption / Impact ($ million)		Assumption / Impact ($ million)	
Sensitivity analysis:				
Resident tenure	+ 1 year	(9.3)	- 1 year	17.7
Discount rate	+ 100 bps	(16.7)	- 100 bps	22.8
Capital growth	- 100 bps	(11.9)	+ 100 bps	13.4
Terminal growth	- 100 bps	(5.6)	+ 100 bps	7.6

Source: Deloitte Corporate Finance analysis

Our valuation of the RBD Assets has been predicted on the concept of fair market value. BBC management has preliminary plans to enhance the performance of the RBD Assets through optimisation of DMF structures, unit sales and refurbishment programs. The successful implementation and execution of such programmes will deliver additional value to BBC securityholders. However, this potential additional value under BBC ownership is considered “special value” over and above the “fair market value” estimated by us.

6.1.5 Assessed enterprise value of the RBD Assets

Recognising the sensitivity analysis above, and our estimate of the reasonable assumptions a buyer may employ in the current market, we estimate the fair market value of the RBD Assets to be in the range of $115 million to $135 million. We have not been able to cross-check this to any form of implied valuation multiple due to the lack of information. However, we do not consider this impacts on our views on value given the due diligence undertaken by BBC and their advisors.

6.2 Valuation of the consideration to be paid for the RBD Assets

6.2.1 Introduction and summary

We have estimated the fair market value of the consideration to be paid by BBC for the RBD Assets to be in the range of $130.5 million to $139.8 million.

Under the LLC Proposal, the RBD Assets are being acquired for a total consideration of $133.4 million paid by way of:

- $13.4 million in cash
- RBD Notes with a face value $120 million, consisting of 176.5 million notes.

The RBD Notes have the following key terms as detailed in the Implementation Agreement:

- 9.5% annual coupon which will be payable quarterly over a five year term
- are subordinated unsecured debt instruments and will not be guaranteed
- if any assets are sold by BBC, the proceeds of the sale will be used to redeem the RBD Notes subject to LLC or BBC electing to do so. BBC can only elect to redeem the RBD Notes during the first two years
- on maturity (year 5), at LLC’s option, each RBD Note will be redeemed for cash at face value, or will be convertible into a BBC stapled security at $0.60 per security.

The embedded option component of the RBD Notes allows LLC to participate in additional upside potential in the Enlarged BBC stapled securities (in the event the price of a security in Enlarged BBC is in excess of $0.60 per security in five years) along with the downside protection of a fixed income instrument.

Accordingly, in determining the fair market value of the consideration being offered, we have considered both the underlying bond value and the embedded option component of the RBD Notes. We discuss each component individually below.

6.2.2 Valuation of the bond component of the RBD Notes

In considering the bond value of the RBD Notes, we have considered the implied yield of 9.5% and its reasonableness with reference, in particular, to:

- publicly available information in respect of yields of listed bonds with a similar risk profile to BBC (where available). We note that there were limited directly comparable listed bonds
- BBC's expected cost of debt of approximately 8.3% (on a secured basis) and the unsecured nature and relative ranking of the RBD Notes relative to other debt instruments of BBC
- our estimate of the cost of equity of BBC which provides an indication of the return required by an equity investor of BBC (which would likely be far greater than that of an unsecured lender)
- market soundings in respect of margins observed on secured and unsecured debt from the same issuer.

Based on the above, we consider that the yield implied by the face value of the RBD Notes is below market rates. However, due to the current state of credit markets and the significant volatility observed in recent periods, there is no conclusive evidence in respect of an appropriate yield for the bond component of the RBD Notes. After considering BBC's current cost of secured debt, our estimated cost of equity for BBC and market soundings we consider that a yield in the range of 9.5% to 11.0%. would be appropriate for determining the fair market value of the bond component of the RBD Notes.

Using a yield between 9.5% to 11.0% results in an estimated bond value for the RBD Notes of between $113.1 million to $120.0 million.

6.2.3 Valuation of the embedded option component of the RBD Notes

Approach

We have used the Black-Scholes option pricing model to estimate the fair market value of the embedded option component of the RBD Notes. Whilst the RBD Notes can be redeemed by LLC for face value at any time, and by BBC over the first two years (provided there are sufficient proceeds from asset sales), the Black-Scholes model (assuming a five year term) provides the maximum theoretical value for the option component of the RBD Notes.

Valuation inputs

The following inputs were used in applying the Black-Scholes option pricing methodology to estimate the fair market value of the option component of each RBD Note.

Table 13: Valuation inputs

	Assumptions		
Input	Low	High	Rationale
Security price	$0.45	$0.45	Based on the mid-point of our assessed range of values for the Enlarged BBC
Security price volatility	40.0%	50.0%	Estimated volatility of the security prices of BBC and comparable companies
Risk free interest rate	4.6%	4.6%	Government bond yield for the equivalent term of the RBD Notes
Distribution yield	6.0%	7.0%	Estimated distribution yield for BBC based on our analysis of comparable companies, the current environment and BBC's previously stated yield expectations
Expected life	5 years	5 years	Maximum term of the RBD Notes is five years
Probability of redemption	75%	60%	Reflects the potential that the RBD Notes will be redeemed during the period. Based on our discussions with management and the pipeline of non-core asset sales of BBC, we have assessed the probability of redemption to be in the range of 60% to 75%

Source: Deloitte Corporate Finance analysis

Our considerations regarding the more significant inputs are set out in Appendix 7.

Conclusion

Based on the above assumptions and methodology, the estimated value of embedded option component of the RBD Notes is outlined in the table below.

Table 14: Estimated valuation of the embedded option component of the RBD Notes

	Low	High
Estimated fair market value of the embedded option component (per RBD Note)	**$0.02**	**$0.03**
Number of RBD Notes (million)	200.0	200.0
Estimated fair market value of the embedded option component of the RBD Notes ($ million)	**4.0**	**6.4**

Source: Deloitte Corporate Finance analysis

6.2.4 Summary

Based on the above analysis and the cash component of the consideration to be paid for the RBD Assets, we consider that the fair market value of the consideration for the RBD Assets is in the range of $130.5 million to $139.8 million as set out in the table below.

Table 15: Estimated fair market value of the consideration paid for the RBD Assets

	Low ($ million)	High ($ million)
Bond value	113.1	120.0
Embedded option value	4.0	6.4
Cash	13.4	13.4
Estimated fair market value of the RBD Assets consideration	**130.5**	**139.8**

Source: Deloitte Corporate Finance analysis

7 Valuation of Enlarged BBC

7.1 Introduction and summary

We have estimated the fair market value of a security in Enlarged BBC to be in the range of $0.35 to $0.56 per security on a control basis. This has been estimated by aggregating the estimated fair market value of the underlying businesses of Enlarged BBC on a sum-of-the-parts basis and deducting the present value of any costs not captured within the cash flows related to these businesses (including corporate overheads and management fees).

In undertaking the sum-of-the-parts analysis we have estimated the fair market value of each operating business unit of Enlarged BBC separately using the discounted cash flow method. Our rationale as to the appropriateness of use of this methodology is set out at Appendix 4.

The following table sets out a summary of our estimate of the fair market value of an Enlarged BBC security, on a control basis.

Table 16: Summary – estimated fair market value of an Enlarged BBC security

	Low ($ million)	High ($ million)
Enlarged BBC's businesses:		
Retirement Living	715.0	835.0
Aged Care (including development projects)	180.0	210.0
Retirement Living Development	150.0	200.0
Corporate costs[1]	(200.0)	(200.0)
100% enterprise value of Enlarged BBC	**845.0**	**1,045.0**
Surplus assets and non-operating liabilities	44.3	44.3
Net debt of Enlarged BBC (including RBD Notes)	(551.1)	(551.1)
100% equity value of Enlarged BBC	**338.2**	**538.2**
Total number of existing BBC securities on issue ('000s)	682.9	682.9
Number of securities issued pursuant to the LLC Proposal ('000s)	283.3	283.3
Total securities of Enlarged BBC on issue ('000s)	**966.3**	**966.3**
Value of Enlarged BBC per security ($)	**$0.35**	**$0.56**

Source: Deloitte Corporate Finance analysis

Notes:

1. Includes the present value of the management fees that will be payable by BBC to LLC as well as other overhead costs not allocated to the businesses. The value benefits derived from the management services are included in our valuation of the underlying assets of Enlarged BBC.

The above valuation range exceeds recent ASX trading in BBC's securities which have traded as low as $0.10 (based on the daily VWAP). Comparison of our estimate of the fair market value of a Enlarged BBC security to recent trading in BBC's securities is difficult due to:

- recent trading in BBC represents a portfolio interest in BBC whereas our assessed value range for Enlarged BBC represents a control value. Premiums for control generally range between 20% and 40%
- recent trading in BBC's securities has been extremely volatile as set out in Section 4.7.5 due to a number of factors including general volatility in global share markets as well as factors specific to BBC (such as uncertainty regarding refinancing requirements and the impact of the announcement of the Original LLC Proposal).

As a result we do not consider that recent share trading in BBC represents a reasonable benchmark for the current fair market value of a security in Enlarged BBC. However, we have assessed the reasonableness of our valuation of Enlarged BBC by cross-checking the valuation of the significant components of Enlarged BBC to earnings and NTA multiples.

We provide below details of our application of the discounted cash flow methodology and the consequent views on value.

7.2 Future cash flows

The management team of BBC and their advisors have prepared long-term projections of nominal cash flows of each retirement village, aged care facility and development project owned, lease or managed by BBC for the periods up to and including the year ending 30 June 2028 (or the term of the management/lease agreement or development project) (BBC Facility-Level projections). We have also been provided with the RBD Model consisting of similar cash flow projections in respect of the RBD Assets as discussed in Section 6.1.1. We have undertaken an analysis of these cash flows which has included:

- limited procedures to check the mathematical accuracy of the projected cash flows (but neither a review nor an audit of the projections)
- holding discussions with BBC and LLC management concerning the preparation of the projections and their views regarding the assumptions on which they are based
- analysing historical results and available industry publications, assessing the reasonableness of the significant assumptions, such as occupancy rates, property growth rates, retirement village turnover, accommodation bond turnover, etc to assess the inputs for the purposes of our valuation analysis.

We have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information. However, nothing has come to our attention as a result of our analysis that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis.

Appendix 5 sets out the significant underlying cash flow assumptions relating to each of BBC's operating business units and the RBD Assets. We note the following in respect of each business unit:

- **Retirement Living**:
  - the average length of resident stay across the Australian portfolio of villages is assumed to be 11 years for ILUs and six years for SAs. The average length of resident stay across the New Zealand portfolio of villages is assumed to be nine years for ILUs and five years for SAs. These assumptions are in line with industry averages, BBC's historical performance and assumptions currently adopted by companies comparable to BBC. An allowance has been made to account for the typically lower turnover rates in younger villages as compared to more mature villages
  - occupancy assumptions in respect of each of the villages appear reasonable given the historical trend in occupancy levels recorded by BBC, its large scale diversified asset base and the favourable industry dynamics
  - annual capital growth rates ranging from 2.0% to 6.5% have been assumed with variances based on the maturity, type and location of the village. The weighted average growth rate (by gross asset value) amounts to 4.5% which is in line with market analysts' publications and those applied by independent valuers and comparable companies
  - in respect of the RBD Assets, the cash flow assumptions are the same as those set out in Section 6.1.1 above
  - we have estimated a nominal long-term growth rate of 3% having regard to long term observed industry growth rates, long term real growth expectations in the underlying economy and long term forecasts for inflation. Further details are provided at Appendix 5
  - cash flows include the respective cash inflows and outflows pursuant to the current lease, management and profit share arrangements in place for those villages BBC manages on behalf of or leases from third party owners. We understand that in the event the LLC Proposal is approved, BBC will remain entitled to operate and manage the 27 retirement villages and aged care facilities currently owned by Prime Trust
  - the cash flows attributable to the New Zealand portfolio of villages have been converted to Australian dollars based on the current forward curve
  - based on discussions with management, we have incorporated certain operating costs attributable to the retirement living business which are not captured within the DMF profile of each village.
- **Aged Care**
  - assumed occupancy levels are in line with industry averages and BBC's track record
  - income per resident which largely represents fees paid by the Government, is assumed to grow, in line with inflation

- o the average length of resident stay across the Australian portfolio of aged care facilities is assumed to be 3 years for high care and 4 years for low care services. These assumptions are broadly in line with industry averages (recognising the profile of BBC's facilities) and BBC's historical track record
- o the 'ramp-up' occupancy associated with new residents entering recently developed facilities acquired as part of the Conform transaction results in a significant increase in cash inflows for BBC over 2009 and 2010 due to the ramp-up significant inflows expected to be received from accommodation bonds
- o in respect of accommodation bond liability, there is a relatively common view that these bonds do not represent a real economic liability since this liability will never have to be repaid provided occupancy levels are maintained. As a result, the bond liability can therefore be argued to be an interest free perpetual liability. However, there is a risk that this liability may require repayment at some point due to:
  - ▪ change in Government regulation
  - ▪ occupancy rates being difficult to sustain over the long term due to potential increased supply from a government response to increased demand and/or difficulty in maintaining occupancy rates as facilities age require refurbishment.

  We have considered the net cash inflows from the accommodation bonds (including the potential repayment of the liability) in our analysis. Our cash flows have been sensitised for this assumption.
- o based on discussions with management, we have incorporated certain operating costs attributable to the Aged Care business which are not captured within the individual cash flows for each facility.

- **Retirement Living Development**
  - o the development pipeline of seven retirement living villages is expected to be delivered over a period of eight years. The delivery of this development pipeline reflects the deferral of certain projects in order to manage the business cash flow and excess stock build up
  - o the cash flow forecasts include the full sale proceeds and the margin expected to be realised on first time sales of units
  - o we have estimated the likely valuation impact for those projects/assets currently held at cost by the Company as 'work in progress' based on discussions with management and have had regard to the expected margin which may be realised on the sale of the project/units and any value attributable to the future DMF profile going forward
  - o BBC management has identified a number of assets to be divested and have begun the process to accomplish this. The status of the divestment process varies for each asset. We have considered the present value of the expected proceeds to be derived from the sale of identified projects and surplus land based on indicative or final offers received to date, having regard to the potential tax implications of these divestments
  - o based on discussions with management, we have incorporated certain operating costs attributable to the Development business which are not captured within the individual cash flows for each project.

7.3 Discount rates

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected nominal post tax discount rates to discount the future cash flows of the appropriate businesses of Enlarged BBC to their present value, as set out in the table below.

Table 17: Summary – Nominal post-tax discount rates

Business unit	Low (%)	High (%)
Retirement Living (Australia)	10.0	11.0
Retirement Living (New Zealand)	10.5	11.5
Aged Care [1]	9.5	10.5
Retirement Living Development	13.0	15.0

Source: Deloitte Corporate Finance analysis

Note:

1. This represents the discount rate applied for mature aged care facilities. For early-stage development projects in the Aged Care business we have applied a discount rate of 13.0% to 14.0% to reflect the specific risks associated with the development business of Enlarged BBC as set out in Appendix 6.

In selecting these discount rates we have considered the following factors which are relevant to each operating division:

- the required rates of returns on listed companies in Australia and New Zealand with similar businesses or in similar sectors
- analysis of the factors impacting BBC and the RBD Assets' market risk, in particular the sensitivity of their core earnings/cash flows to broader market movements and the extent to which, in our opinion, these are not factored into the cash flow projections
- specific business and financing risks relating to the operating businesses of Enlarged BBC including:
  - its diverse retirement living portfolio results in the business deriving a relatively stable cash flow stream
  - companies specialising in the development of senior living accommodation generally have additional risks to manage when compared to companies that only operate existing senior living facilities. The majority (94%) of BBC's current development portfolio however is in the form of completed and brownfield projects which tend to have a lower risk profile than greenfield projects
  - the majority of BBC's aged care funding comes from Government subsidies. Funding changes are a significant risk to the business cash flows given that the types and amount of funding differ between high, low and extra service care
- BBC and the RBD Assets' current cost of debt and the likely quantum and cost of funding that could be secured in the current market
- BBC and the RBD Assets' debt capacity by reference to listed company gearing levels and current credit market conditions.

A detailed consideration of these matters is provided in Appendix 6.

Having regard to the above, and the implied demanded cost of capital in the current environment, we do not consider the above discount rates unreasonable.

7.4 Discounted cash flow summary

Based on the above assumptions, the results of our discounted cash flow analysis are set out below:

Table 18: Summary – discounted cash flow method

Business unit	Low ($ million)	High ($ million)
Retirement Living	725.2	827.5
Aged Care	183.1	221.0
Retirement Living Development	168.2	200.4

Source: Deloitte Corporate Finance analysis

Our valuation of the Retirement Living Development business also includes the estimated value associated with surplus land as assessed by management.

7.4.1 Sensitivity analysis

In estimating the valuation range for each of the business units of Enlarged BBC we have considered a range of valuation sensitivity scenarios to our discounted cash flow analysis. The relative change in enterprise value for each business unit as a result of changes in selected key valuation inputs is presented below.

Table 19: Sensitivity analysis of the enterprise value of Enlarged BBC to changes in key assumptions

Assumption	Assumption / Impact ($ million)		Assumption / impact) ($ million)	
Retirement Living				
Resident tenure	+ 1 year	(33.4)	- 1 year	49.2
Discount rate	+ 100 bps	(99.6)	- 100 bps	133.2
Capital growth	- 100 bps	(106.9)	+ 100 bps	125.2
Terminal growth	- 100 bps	(28.2)	+ 100 bps	37.6
Aged Care (including development projects)				
Discount rate	+ 100 bps	(29.1)	- 100 bps	40.2
Terminal growth	- 100 bps	(10.7)	+ 100 bps	14.0
Retirement Living Development				
Discount rate	+ 100 bps	(5.6)	- 100 bps	6.7

Source: Deloitte Corporate Finance analysis

7.4.2 Assessed value

Based on the above analysis, our estimate of the fair market value of the underlying business units of Enlarged BBC is as follows:

Table 20: Summary

	Low ($ million)	High ($ million)
Retirement Living	715.0	835.0
Aged Care	180.0	210.0
Retirement Living Development	150.0	200.0
Enterprise value	**1,045.0**	**1,245.0**

Source: Deloitte Corporate Finance analysis

Note: The value of the RBD Assets has been captured in the respective business units

7.4.3 Cross check of our assessment of the enterprise value of the operating business units of Enlarged BBC

Our assessment of the enterprise value of the Retirement Living and Aged Care businesses of Enlarged BBC has been cross-checked by reference to a number of other valuation methods as set out below. We have not presented a cross check in relation to our assessed enterprise value of the Retirement Living Development business.

Retirement Living business

The Retirement Living business of Enlarged BBC is predominantly an asset backed business which derives a significant portion of its returns from participation in underlying capital growth in its properties (it could also be argued that even the DMF component is effectively a rental yield derived from the property assets). Given these factors, we consider it relevant to cross-check our assessment of value to the implied ungeared NTA multiple of comparable companies.

Our estimate of the implied NTA multiple for the Retirement Living business of Enlarged BBC is set out below.

Table 21: Retirement Living valuation cross-check

	Retirement Living (Enlarged BBC)	
	Low	High
Assessed enterprise value (on a control basis) ($ million)	**715.0**	**835.0**
Enlarged BBC's ungeared NTA:		
NTA of BBC's retirement living business ($ million)[1]	650.0	650.0
RBD Assets ($ million) [2]	133.4	133.4
Total ungeared NTA for Enlarged BBC ($ million)	**783.4**	**783.4**
Implied ungeared historical NTA multiple (on a control basis)	**0.91x**	**1.07x**
Average comparable listed companies (on a minority basis)[2]	0.74x	
Average recent comparable transactions (on a control basis)	0.81x	

Source: Deloitte Corporate Finance analysis

Notes:

1. Based on 30 June 2008 carrying values and is composed of total investment property and DMF receivable ($1.86 billion) less resident loans and deferred revenue ($1.21 billion) as per Section 4.8.
2. Represents consideration payable for the RBD Assets.

The calculation of the implied ungeared NTA valuation multiples has been based on recent transactions involving such businesses or the prices implied by the trading in the securities of those businesses listed on the ASX or other similar exchange. Further detail on the identified businesses is set out at Appendix 8 and Appendix 9. However, we note that this analysis is limited by the following factors:

- there are only a limited number of companies and none are precisely comparable
- the multiples relating to comparable list companies shown above are based on share market prices and do not reflect a premium for control
- a number of the comparable listed companies and transactions have been impacted by recent volatility in the share market due to high levels of gearing which has had a downward impact on observed NTA multiples
- one of the transactions (Stockland Corporation Limited's (Stockland's) buy into FKP) is founded on support for an emergency rights issue (and represents the acquisition of a small minority interest) and effectively gave Stockland the right of first refusal over FKP's retirement living assets. As such we do not consider this transaction to be truly comparable.

Recognising the above, the ungeared NTA multiple implied by our assessed valuation range of Enlarged BBC's Retirement Living business does not appear unreasonable.

Aged Care

The Aged Care business of Enlarged BBC derives its returns from the efficient use of its asset base to provide nursing and other care to residents. Its revenues are predominantly generated from fees charged to residents or provided by Government. Whilst a portion of its revenues are generated from appreciation in residential property prices, this is generated in an indirect manner (i.e. the return is not linked to its assets but rather to the assets of the resident) and it does not have direct control over it. Given these factors, we consider it relevant to cross-check our assessment of value to the implied EBITDA multiple of comparable businesses in the aged care sector.

Our analysis, at Appendix 8 and Appendix 9, identified only one company, Ryman, which can be considered relevant for the purposes of this exercise in the current environment.

Table 22: Aged Care valuation cross-check

	Aged Care (Enlarged BBC) Low	Aged Care (Enlarged BBC) High
Assessed enterprise value (on a control basis) ($ million)	**180.0**	**210.0**
FY08 EBITDA ($ million)	10.3	10.3
Historical EBITDA multiple (on a control basis)	**17.5x**	**20.4x**
Ryman historical EBITDA multiple (on a minority basis)	11.2x	11.2x

Source: Bloomberg, Annual Reports and Deloitte Corporate Finance analysis

Similar to retirement villages, the above analysis is limited by the following factors:

- Ryman cannot be considered precisely comparable due its main market being New Zealand
- the share trading multiples shown above are based on share market prices and do not reflect a premium for control (which may be in the order of 20% to 40%)
- the aged care business with its near term brownfield development projects would appear to have higher growth prospects than Ryman.

Recognising the above, our assessed value of Enlarged BBC's Aged Care business implies an EBITDA multiple which does not appear unreasonable.

7.4.4 Conclusion as to enterprise value of the operating assets

Having regard to the above, our assessed enterprise value for each of the operating business units of Enlarged BBC appear to be reasonable.

7.5 Corporate costs

The cost structure of Enlarged BBC encompasses a number of administrative overheads, including management fees and costs relating to finance and accounting, information technology, corporate services and head office functions of the company. In analysing the fair market value of Enlarged BBC on a going concern basis, these costs need to be considered as the value benefits (but not the costs) derived from these services (including the management fee to paid to LLC) are included in our valuation of each of the operating divisions of Enlarged BBC.

Similar to the arrangements BBC had in place with BNB, as the manager of BBC, LLC will receive a base management fee equal to 0.5% per annum of the adjusted asset value of BBC as well as a performance fee if certain return hurdles are met as set out in Section 4.3. Due to the uncertainty in respect of achieving the incentive fee, no specific allowance was made for this fee but we did have regard to the potential for LLC to earn an incentive fee in the future in our assessment of the valuation impact of corporate costs as a whole.

In addition to the management fees, Enlarged BBC incurs additional overhead costs which have not been allocated to the Enlarged BBC business units for the purpose of our valuation. These costs are approximately $14 million per annum and relate to administration and back office functions.

We have allowed for the management fees and unallocated corporate costs in our valuation taking into account the following factors:

- growth in investment properties and gross assets in line with the capital growth assumptions included in our valuation of the retirement living business of 5% per annum. For the purpose of this calculation, resident loans estimated based on historical resident loans as a proportion of investment properties
- a responsible entity fee and manager expense amount of $0.5 million per annum each escalated based on inflation
- assumed renewal of the management contracts at the end of the current term on the expectation that a similar economic arrangement will be put in place between LLC and BBC at the end of the current contractual term
- a discount rate of 11% in line with the weighted average discount rate for Enlarged BBC as a whole.

Applying the above assumptions, we have calculated the present value of the corporate costs of Enlarged BBC to be in the order of $200 million.

7.6 Surplus assets and non-operating liabilities

Surplus assets are those assets owned by a company that are surplus to its operating activities, such as unused property, loans or investments. Such assets have been valued separately from the operating activities of the company, after adjusting the cash flow projections operating results to remove the cash flow (if any) expected to be generated by the surplus assets. The table below summarises the surplus assets and non-operating liabilities identified and their estimated fair market values:

Table 23: Surplus assets and non-operating liabilities of Enlarged BBC

	Assessed fair market value ($ million)
Tax benefits	50.0
Contingent liabilities	(5.7)
Total	**44.3**

Source: Deloitte Corporate Finance analysis

We note the following in respect of these surplus assets and non-operating liabilities:

- as at 30 June 2008, BBC had approximately $229.3 million in recognised gross tax losses which are capable of being utilised against future taxable profit from the Company's Australian operations. We have estimated the fair market value of these tax benefits by discounting the present value of these benefits (assuming a corporate weighted average discount rate for Enlarged BBC equal to 11%) over the period of expected use, which we have assumed to be between 3 and 4 years. This results in a net present value of these tax deductions of approximately $50 million
- BBC is currently in negotiations to settle alleged claims placed by Bufalo Corporation Pty Ltd against BBC for an alleged wrongful appointment of a receiver and manager and alleged breaches of agreements in relation to various building projects and aged care facilities. Whilst negotiations continue between the parties, the expected settlement amount to be paid by BBC is estimated to be in the range of $3.5 million to $7.8 million. In the absence of any contrary information, we have selected the midpoint of this range of $5.7 million.

7.7 Net debt

The attributable net debt position of Enlarged BBC following the implementation of the LLC Proposal is set out below. Our analysis is based on the consolidated net debt position of BBC as at 30 September 2008, which according to BBC management, is not expected to vary significantly up until the implementation of the LLC Proposal.

Table 24: Net debt of Enlarged BBC

	$ million
Consolidated net debt as at 30 September 2008	**587.6**
Add: impact of LLC Proposal	
Cash injection from Tranche 1 and Tranche 2 Capital Raising	(169.9)
Cash payment as part of the acquisition of the RBD Assets	13.4
RBD Notes (at face value)	120.0
First Notes (net)	-
Second Notes (net)	-
Pro-forma net debt of Enlarged BBC	**551.1**

Source: Deloitte Corporate Finance analysis

As set out above, there is no net impact on the net debt in respect of the First Notes and the Second Notes and it is anticipated that these will be redeemed in the short-term at face value.

BBC management has advised the net debt position as at 30 September 2008 includes the cash flow impact from the Company's recent DRP issue. No adjustments have been made in respect of the expected profit from 30 September 2008 until the expected implementation of the LLC Proposal and the net debt attributable to BBC which is held within its joint venture arrangements as these items have been taken into account in our valuation of the underlying businesses of Enlarged BBC.

7.8 Number of Enlarged BBC securities

The table below summarises the assumed Enlarged BBC securities outstanding following the implementation of the LLC Proposal.

Table 25: Enlarged BBC securities outstanding

	Number
BBC stapled securities on issue prior to the LLC Proposal (undiluted)	682,919,333
Securities to be issued pursuant to LLC Proposal:	
Tranche 1 and Tranche 2 Capital Raising	283,333,333
First Notes	-
Second Notes	
Total Enlarged BBC stapled securities on issue following the LLC Proposal	**966,252,666**

Source: BBC and Deloitte Corporate Finance analysis

We note that there are currently 3.9 million options which have been issued to senior management of BBC. The weighted average exercise price of the issued options is $1.17 per stapled security, ranging between $1.07 and $1.52 per stapled security. Based on the subscription prices of $0.60 per security for the Tranche 2 Capital Raising all outstanding options are out of the money and therefore we have assumed they are unlikely to be exercised. As such, no net debt adjustment or dilution impact has been taken into account in our valuation.

8 Evaluation

8.1 Evaluation of the Significant Securityholding Increase

In our opinion the Significant Securityholding Increase is fair and reasonable. In arriving at this opinion, we have had regard to the following factors:

8.1.1 Evaluation of fairness

Set out in the table below is a comparison of our assessment of the fair market value of a security in Enlarged BBC with the price at which LLC is acquiring the Second BNB Parcel and the subscription price for the Tranche 2 Capital Raising.

Table 26: Evaluation of fairness of the Significant Securityholding Increase (per security)

	Low ($)	High ($)
Significant Securityholding Increase		
Fair market value of a security in Enlarged BBC	$0.35	$0.56
Tranche 2 Capital Raising subscription price per security	$0.60	$0.60
Weighted average SSI[3] price per security (excluding BNB parcels)[1]	$0.54	$0.54
Weighted average SSI price per security (including BNB parcels)[2]	$0.51	$0.51

Source: Deloitte Corporate Finance analysis

Notes:

1. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion and the $0.25 per security subscription price for the Second Notes.
2. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion, the $0.25 per security subscription price for the Second Notes and the $0.29 per security transaction price for the BNB parcels.
3. SSI – Significant Securityholding Increase.

The subscription price for the Tranche 2 Capital Raising and the weighted average SSI prices per security are either within or above the range of our estimate of the fair market value of a security in Enlarged BBC.

We would note that a comparison to the weighted average SSI prices per security is only relevant in the context of a conversion of the First Notes, RBD Notes and the Second Notes (which may not all occur).

We do not consider the weighted average SSI price per security (including the BNB parcels) to be directly relevant as BBC securityholders (and BBC) do not have any control over the pricing of this transaction (this transaction has been the subject of negotiation between BNB and LLC).

Accordingly, it is our opinion that the Significant Securityholding Increase is fair.

8.1.2 Evaluation of reasonableness

We have formed our opinion on the reasonableness of the Significant Securityholding Increase based on an analysis of the likely advantages and disadvantages to Securityholders of accepting the Significant Securityholding Increase proposal.

Advantages of the Significant Securityholding Increase

A more attractive alternative is not currently available, nor is it likely to become available, to Securityholders

On 19 June 2008, BBC announced that it was exploring a range of strategic alternatives and options to reduce the gap between BBC's underlying asset values and its recent market trading prices in order to maximize the value for BBC stapled securityholders. These options included a price discovery process for BBC, the internalisation of the management of BBC, a debt repayment program and other capital initiatives which included the reduction of inventory levels, delaying development projects and the sale of selective non-core assets and land sites.

The price discovery process did not yield a takeover bid for the whole of BBC but instead, as the outcome of that process, on 1 October 2008, BBC announced the Original LLC Proposal.

The Board considers that BBC requires additional capital flexibility in order to maintain its current operations and position itself for future growth. In the absence of the LLC Proposal, BBC would face operational constraints as a consequence of its limited financial flexibility and minimal capital available based on its existing debt facilities. These issues would have remained if the internalisation proposal proceeded.

Subsequent to the announcement of the Strategic Review the Board received the unsolicited proportionate scrip offer from APCH for 40% of the stapled securities of BBC. The Prime Trust Offer offers Securityholders one Prime Trust unit for every one BBC stapled security. The Prime Trust Offer does not provide the prospect of recapitalising BBC, nor the benefit of additional development and operational expertise as provided by LLC, which we consider to be key advantages of the Significant Securityholding Increase.

Going forward, the prospect of a superior competing proposal is considered unlikely irrespective of whether the Significant Securityholding Increase and the RBD Acquisition (due to inter-conditionality) are approved by Securityholders, given LLC will be the manager of BBC and will have an economic interest of approximately 13.4%. LLC's interest (both management rights and securityholdings) may make an alternate offer for the whole of BBC problematic without previous negotiation with LLC. LLC has stated that they are a long-term investor in BBC.

The Significant Securityholding Increase allows BBC to refinance its existing debt and reduce overall net debt levels which would otherwise not likely occur

As part of the LLC Proposal, LLC has also held negotiations and concluded an agreement with BBC's banking syndicate. Should the Significant Securityholding Increase not proceed, we understand it is likely that BBC's banking syndicate will require BBC to sell assets to reduce debt, increase the margins on BBC's debt and require more onerous covenants to be met increasing the likelihood of BBC being required to sell additional assets to pay down debt.

As a consequence of the Significant Securityholding Increase BBC will have $195 million of cash injected in its business which will allow BBC to reduce its external bank debt by $75 million and thereby will reduce overall gearing levels for BBC.

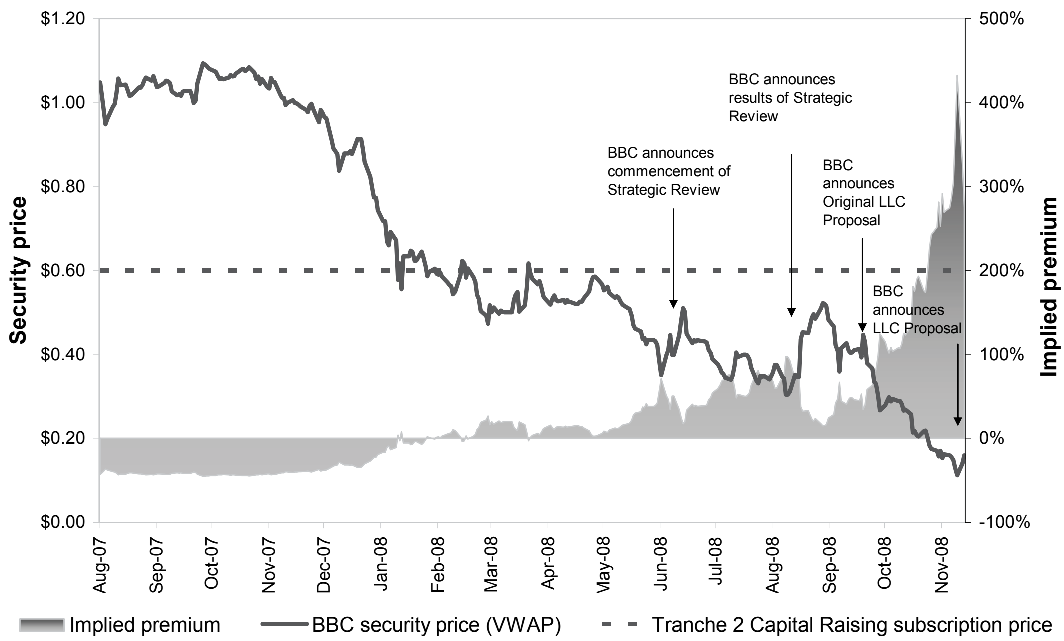
Due to the uncertainty in financial markets as well as the property investment sector, the current environment may not be considered optimal for selling assets to achieve their long-term value. The credit crisis and the significant uncertainty currently being observed in capital markets has limited the number of potential buyers for a number of assets in this sector which has resulted in some forced sellers achieving prices at less than the NTA or net asset value.

The recapitalisation is occurring at a significant premium to trading in BBC securities immediately prior to the announcement of the LLC Proposal

The Significant Securityholding Increase provides $195 million in additional capital into BBC at a time when obtaining additional funding externally (to fund the development pipeline or otherwise) has become increasingly difficult and costly.

The security price at which LLC is subscribing for BBC securities represents a significant premium to the recent security trading in BBC securities. An analysis of recent trading in BBC securities and the premium implied by the subscription price of the LLC Proposal of $0.60 per security (for the Tranche 2 Capital Raising) is set out in the figure below.

Figure 26: Premium / (discount) to recent trading price of BBC implied by the Tranche 2 Capital Raising



Source: Deloitte Corporate Finance analysis

Notes: Implied premium = right hand scale of figure

BBC security price and Tranche 2 Capital Raising subscription price = left hand scale of figure.

The subscription price for the Tranche 2 Capital Raising and the weighted average SSI prices per security represent the following premiums/discounts to recent trading in BBC's securities:

Table 27: Premiums / (discounts) implied by the recapitalisation

	Premium / (discount) implied by Tranche 2 Capital Raising ($0.60)	Premium / (discount) implied by weighted average SSI price (excluding BNB parcels) ($0.54)[1]	Premium / (discount) implied by weighted average SSI price (including BNB parcels) ($0.51)[2]
NTA per security as at 30 June 2008 ($0.57)	5.3%	(5.3%)	(10.5%)
NAV per security as at 30 June 2008 ($0.94)	(36.2%)	(42.6%)	(45.7%)
Announcement of Strategic Review			
Based on 1-month VWAP ($0.43)	39.5%	25.6%	18.6%
Based on 3-month VWAP ($0.49)	22.4%	10.2%	4.1%
Announcement of Original LLC Proposal			
Based on 1-month VWAP ($0.45)	33.3%	20.0%	13.3%
Based on 3-month VWAP ($0.41)	46.3%	31.7%	24.4%
As at 25 November 2008			
Based on 1-month VWAP ($0.17)	252.9%	217.6%	200.0%
Based on 3-month VWAP ($0.36)	66.7%	50.0%	41.7%

Source: Deloitte Corporate Finance analysis

Notes:

NAV – Net asset value.

1. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion and $0.25 per security subscription price for the Second Notes.
2. This has been calculated based on the $0.60 per security subscription price for the Tranche 1 Capital Raising, Tranche 2 Capital Raising and the RBD Conversion, the $0.25 per security subscription price for the Second Notes and the $0.29 per security transaction price for the BNB parcels.

The Significant Securityholding Increase provides exposure to LLC's expertise in operating retirement villages and development businesses

In addition to becoming manager of BBC, the Significant Securityholding Increase will provide LLC with a strategic stake in BBC. This is likely to incentivise LLC to work with BBC to grow the business in order to create value for securityholders. Specifically, the benefits LLC may be able to provide include:

- LLC has significant expertise in developing communities through its Delfin Lend Lease business which is one of Australia's leading developers of large-scale residential communities
- LLC has significant expertise in developing and managing retirement villages through RBD which currently has a development pipeline of approximately 770 units.

LLC's experience and expertise is likely to provide additional benefits to Securityholders in the form of shorter development horizons and higher development margins in respect of the development business.

BBC may also benefit from future opportunities to develop properties sourced through LLC's existing development portfolio that otherwise would not have been available to BBC in the absence of this proposal. These include future master planned greenfield communities and urban regeneration development projects undertaken by LLC.

Ability to participate in further growth associated with BBC

Existing Securityholders will retain exposure to BBC subsequent to the Significant Securityholding Increase (although on a diluted basis as discussed below) and will therefore participate in any future growth of BBC. Subsequent to the Significant Securityholding Increase, BBC will be better capitalised which should allow more timely delivery of its development pipeline and will position BBC for participation in any further industry consolidation and growth. In particular, the debt reduction and cash available to BBC pursuant to the Significant Securityholding Increase may allow BBC to become an acquirer of assets in this sector rather than a potentially distressed seller. This may be particularly beneficial to Securityholders in the current environment since a number of value accretive opportunities may be available in the short to medium term due to funding constraints currently being experienced by a number of industry participants.

Furthermore, the LLC Proposal does not require Securityholders to realise their investment in BBC in the current economic environment which is creating uncertainty in asset values due to the volatility in the share market and illiquidity in credit markets.

Removal of association with BNB

Our analysis suggests that the association with BNB in recent times has had a negative impact on BBC's security price.

If the LLC Proposal is approved, BNB will no longer be associated with BBC by specific reference to the management of BBC and its securityholding in BBC. Further to this, we understand that it is the intention of the Directors to seek a change in BBC's name to also remove that association with BNB.

Association with LLC

The association with LLC, specifically the financial backing delivered through LLC's significant securityholding, is likely to assist BBC in obtaining more secure financing terms in respect of its current and future facilities. However, the recent re-rating of credit markets is likely to result in more onerous obligations on BBC in the immediate term as compared to the existing financing arrangements.

Disadvantages of the Significant Securityholding Increase

The Significant Securityholding Increase will likely reduce the opportunity for Securityholders to realise a full takeover premium in the future

If the Significant Securityholder Increase proposal proceeds, LLC with its 43.2% interest (excluding the conversion[15]) in BBC will have a blocking stake to any potential full takeover offer for the Company resulting in Securityholders being unlikely to be able to realise a full takeover premium for their securities in the future.

[15] Including the potential conversions, LLC's interest in BBC securities would increase to above 50%. However, we understand that LLC has committed to maintaining their voting interest below 49% for the duration of the RBD Notes.

Diluted participation in the future growth of BBC

If the Significant Securityholding Increase proceeds, Securityholders will have their exposure to BBC's earnings diluted by the issue of securities to LLC. However, as discussed above, the lack of financial flexibility of BBC in the absence of the LLC Proposal would limit the near-term growth prospects of BBC.

Furthermore, the market price of a BBC security could exceed the exercise price of the convertible notes which could dilute the value to the securityholders of Enlarged BBC at that time. However, the likelihood of the various convertible notes being converted and securityholders being diluted as a consequence of the notes may be partially mitigated by:

- the terms of the RBD Notes allow for early redemption at BBC's option within the first two years of the instrument
- there is an expectation that at least a portion of the RBD Notes will be repaid prior to maturity to the extent that non-core asset sales provide sufficient proceeds to fund repayment.

In isolation, the face value of the Second Notes represents a discount to our estimated fair market value of an Enlarged BBC Security

The Second Notes are being issued at a face value of $0.25 per security which represents a 45% discount to the mid point of our assessed fair market value of an Enlarged BBC security (on a control basis). Whilst this aspect of the Significant Securityholding Increase is occurring at a price below our assessed fair market value:

- the price represents a premium of 92% to the 1-week VWAP of BBC as at 25 November 2008 of $0.13 per security. Further to this, this premium is being paid at a time when many capital raisings are occurring at a discount to recent share trading
- the Second Notes will inject additional capital into BBC at a time when sourcing capital from debt and equity markets is difficult and costly. This additional capital will provide BBC with additional financial flexibility to fund growth projects and/or participate in any further industry consolidation.

BBC will remain an externally managed vehicle

Implementation of the LLC Proposal will mean that BBC will not internalise the management of BBC. BBC will therefore continue to experience a cash outflow relating to the payment of management and other fees to LLC. Compensating this will be the delivery of certain executive functions to BBC by LLC and the operational expertise of LLC as referred to above.

LLC's securityholding is likely to result in lower trading liquidity in BBC's securities

Should the Significant Securityholding Increase proposal proceed, the free float of BBC securities is likely to be reduced. Prior to the LLC Proposal, BNB owned 12.5% of BBC. Subsequent to the Significant Securityholding Increase, LLC will own 43.2% of BBC which will decrease the free float of BBC from approximately 80% to 57% as set out in Section 5.3.

8.2 Evaluation of the RBD Acquisition

In our opinion the RBD Acquisition is fair and reasonable. In arriving at this opinion, we have had regard to the following factors:

8.2.1 Evaluation of fairness

Set out in the table below is a comparison of our assessment of the fair market value of the RBD Assets with the fair market value of the consideration offered by BBC.

Table 28: Evaluation of fairness of the RBD Acquisition

	Low ($ million)	High ($ million)
Fair market value of the RBD Assets	**115.0**	**135.0**
Fair market value of the consideration offered by BBC:		
Cash	13.4	13.4
RBD Notes	117.1	126.4
Total consideration	**130.5**	**139.8**

Source: Deloitte Corporate Finance analysis

The fair market value of the consideration offered by BBC overlaps our estimate of the fair market value of the RBD Assets. Accordingly it is our opinion that the RBD Acquisition is fair.

Our valuation of the RBD Assets has been predicated on the concept of fair market value. BBC management has asserted to us that they intend to extend the experience and knowledge across to the RBD Assets through optimisation of DMF structures, unit sales and refurbishment programs. The successful implementation and execution of such programmes should deliver additional value to BBC securityholders. However, this potential additional value under BBC ownership is considered "special value" over and above the "fair market value" estimated by us.

We have assessed the fair market value of the consideration offered by BBC at between \$130.5 million and \$139.8 million. We have estimated the fair market value of the RBD Note in two parts, being the bond component and the embedded option component. We have estimated the fair market value of the bond component with reference to current market yields for an unsecured instrument of similar risk profile. We have estimated the fair market value of the embedded option component using the Black-Scholes model, a valuation method commonly applied in valuing options.

8.2.2 Evaluation of reasonableness

We have formed our opinion on the reasonableness of the acquisition of the RBD Assets based on an analysis of the likely advantages and disadvantages to Securityholders of approving the RBD Acquisition as follows.

Advantages of the RBD Acquisition

Provides additional scale to BBC and medium term opportunities to BBC

The RBD Acquisition will provide additional scale to the BBC business through ownership of the seven retirement villages (1,154 units) and one aged care facility (43 hostel beds). The RBD Assets will provide the following incremental benefits to BBC's existing portfolio:

- the RBD Assets are mature assets with a higher average age of residents in comparison to BBC's current portfolio. Hence, they should provide additional financial flexibility to Enlarged BBC through enhanced cash flows in the medium term
- additional geographic exposure to the metropolitan Sydney and Melbourne markets, which are expected to benefit from the positive long-term demographic trends expected in the sector
- the increased scale of Enlarged BBC should provide further economies of scale benefits through potential cost savings
- BBC management should be able to derive additional value from the RBD Assets by leveraging their experience and knowledge to optimise DMF structures and to deliver incremental cash flow benefits from refurbishment and capital programs.

The RBD Acquisition will allow the Significant Securityholding Increase to proceed

The acquisition of the RBD Assets and the Significant Securityholding Increase are inter-dependent. As discussed above, the Significant Securityholding Increase will result in a cash injection of \$195 million which will primarily be used to reduce debt levels and will reduce the likelihood of BBC being forced to dispose of certain assets. The LLC Proposal has also resulted in BBC renegotiating the terms of BBC's existing debt with its current financiers, including obtaining a reduction in covenant thresholds for a period of time.

Since the Significant Securityholding Increase is considered to be advantageous to Securityholders due to the factors above, the acquisition of the RBD Assets provides a benefit to Securityholders by enabling the Significant Securityholding Increase to proceed.

Disadvantages of the RBD Acquisition

Potentially presents additional financial leverage to BBC

In isolation, the RBD Acquisition will result in BBC taking on additional debt (albeit convertible to equity) at a time when the Company is otherwise financially constrained. However, the RBD Acquisition is conditional on the Significant Securityholding Increase proceeding. This transaction provides additional capital and will reduce the net debt position of BBC.

8.3 Other considerations

Prime Trust Offer consideration

Whilst we are not required to review the Prime Trust Offer but rather opine on specific aspects of the LLC Proposal, we note the following in respect of the Prime Trust Offer which may influence a Securityholder's decision on whether to approve aspects of the LLC Proposal:

- the Prime Trust Offer, unlike the LLC Proposal, does not deliver BBC a significant securityholder with the type of operational and developmental expertise of LLC
- the Prime Trust Offer, unlike the LLC Proposal, does not deliver a cash injection to BBC that will allow it to repay its debt
- we understand from management that there are minimal operational synergies to be derived from a combination with Prime Trust given BBC already manages a substantial portion of the Prime Trust portfolio
- acceptance of the LLC Proposal (or aspects of it) does not, based on our understanding, preclude BBC and Prime Trust engaging in some type of transaction to consolidate their assets in the future.

Since the announcement of the Original LLC Proposal, the security price of BBC has declined

Since the announcement of the Original LLC Proposal, the security price of BBC has declined from $0.45 to $0.15 (as at 25 November 2008). Some of this decline in price can be attributed to (i) the general decline in the share market over this period (the S&P/ASX 300 Index declined 24.7% during the same period), (ii) the release of new information implicit in the LLC Proposal, (iii) the loss of any expectation of a full takeover offer and (iv) the market may also be inferring some loss of value in a BBC security as a consequence of the LLC Proposal.

Additional fees may become payable to LLC

Under the previous management agreement, BNB was entitled to a base fee and an incentive fee as follows:

- a base fee of 0.5% of the AGA of BBC. Half of the base fee for the FY09 and FY10 was previously subject to the achievement of specific performance hurdles in the 12 month period up to 30 June 2010 which required BBC to achieve a distribution yield of 8.7% and 9.5% for FY09 and FY10, respectively, as well as record an EBITDA (excluding management fees payable pursuant to the Management Agreement) of at least $81.2 million and $88.5 million for FY09 and FY10, respectively
- an incentive fee of up to 20% of any excess return of BBC as compared to the benchmark return (S&P/ASX 300 Index return) after adjusting for any surplus or deficit carried forward (for a rolling three year period). The incentive fee was previously capped at 1.00% of the AGA of BBC.

LLC is proposing to revise the terms of the various agreements such that the conditional element of the base fee for FY09 and FY10 would be removed and the incentive fee will be rebased to a 30 day VWAP subsequent to the Meeting to create a new starting point to calculate any excess returns. Furthermore, any carried forward deficits related to the calculation of the incentive fee will be removed. The incentive fee will be capped at 0.75% of BBC's AGA.

The removal of the conditional element of the base fee as well as resetting the calculation for the incentive fee will likely result in BBC Securityholders paying additional management fees than would otherwise occur pursuant to the existing arrangements. We have estimated the additional base fees to be in the order of approximately $3.5 million per annum for FY09 and FY10 (excluding any impact of the RBD Acquisition). These revised fee arrangements have been factored into our discounted cash flow valuation of Enlarged BBC.

However, LLC is also proposing to reduce the disposal/acquisition fees payable by BBC to LLC whilst changing the arrangements relating to the Preferred Financial Advisory agreement whereby they would be determined on an arm's length basis and be subject to the approval of the Independent Directors.

The intentions of the Directors

We understand that the Directors have unanimously recommended acceptance of the LLC Proposal, in the absence of a superior proposal, on the basis that the rationale for undertaking the LLC Proposal outweighs the risks of the LLC Proposal.

8.4 Opinion

In our opinion:

- the Significant Securityholding Increase is fair and reasonable to Securityholders in accordance with Section 611 and the Listing Rules
- the RBD Acquisition is fair and reasonable to Securityholders in accordance with the Listing Rules.

An individual Securityholder's decision in relation to the RBD Acquisition and the Significant Securityholding Increase and the LLC Proposal in general may be influenced by his or her particular circumstances. If in doubt, the Securityholder should consult an independent advisor.

Appendix 1: Historical capital growth rates by state

The capital growth within retirement villages can also be linked to the underlying residential market as the sale of the home typically forms the asset base from which the ingoing/purchase price of a retirement village is paid. We note however that the movements in the broader residential market may not be fully reflected in the senior living industry given the services offered by senior living players are generally need rather than demand driven and the current views that there is a significant supply short fall.

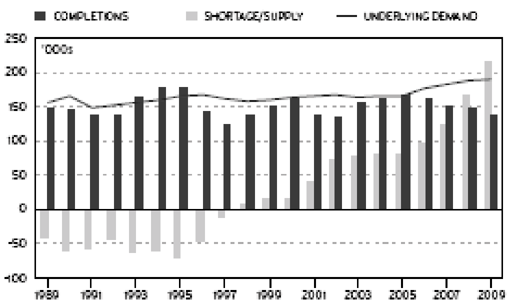
Presented below is a brief summary of our review of the residential housing markets in Australia and New Zealand. The results of this and other analysis assisted us in forming the views on the cash flow projection assumptions.

General market conditions and outlook

Rising interest rates, widening credit spreads, high levels of mortgage stress and low house affordability levels have led to a moderation of price growth within Australia and New Zealand with some markets falling.

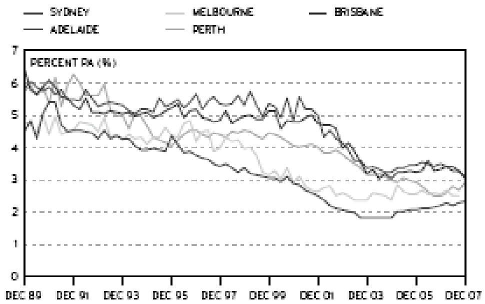
Australian house prices recorded 8% growth over the 12 months to 30 June 2008 driven by continued low unemployment rates, population growth driven by increased overseas migration and record low vacancy rates resulting in sustained high rental growth. In addition, the continued monetary policy tightening further compounded the housing imbalance (as shown below) with construction activity currently close to a cyclical low.

Figure 27: Trend in residential demand



Source: Real Estate Institute of Australia (REI) and Mirvac Group Limited (Mirvac)

Figure 28: State by state residential yields (houses)



Source: REI and Mirvac

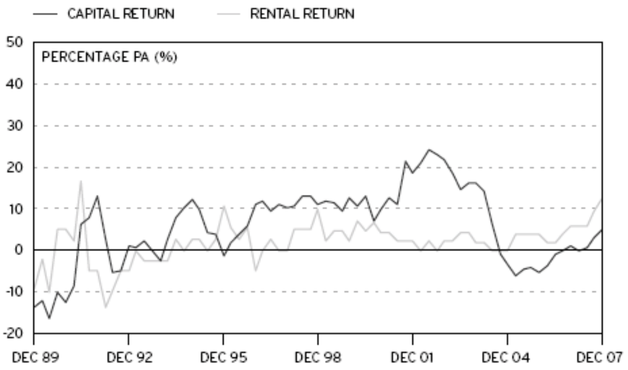
Given current financial market volatility and negative market sentiment, mild price growth is expected in the short term influenced more by a slower rate of turnover in the market as vendors are willing to wait for a longer period of time for their desired selling price rather than realising a large decline in prices. However, this is expected to be offset in the short to medium term by uncertainty in credit markets (which is creating volatility in the cost of borrowing) and threats of an impending global recession. Longer lead times to settlement due to difficulties in residents' ability to sell their place of residence has a direct impact on the demand for retirement villages. Recent and forecast falls in interest rates, combined with continued housing shortages and population growth will place upward pressure on prices in the medium term.

We set out below a brief analysis of the current and future outlook of the Australian and New Zealand residential property market.

NSW market conditions and outlook

NSW has the most pronounced market imbalance in Australia, and over the longer term has been influenced by strong international and interstate migration. The market is showing signs of recovery from a period of recent weakness driven by falling interest rates, an upswing in retail sales growth and increasing building approvals. Sydney's median house price rose by 8% in 2007.

Figure 29: Sydney's historic residential house returns

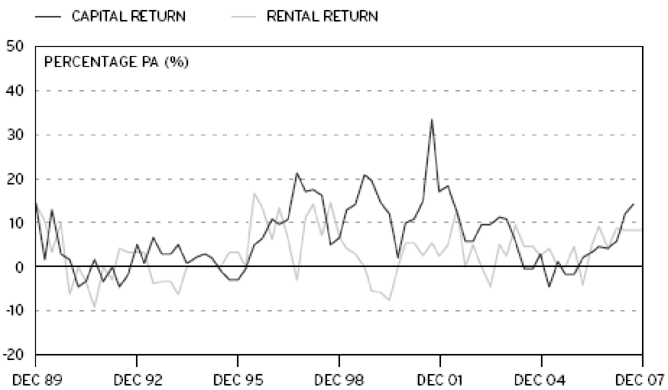


Source: REI and Mirvac

Victorian market conditions and outlook

Despite the softness in the economy, the Victorian housing market has remained buoyant in 2007 due to strong overseas migration with minimal interstate migration. Largest gains have been experienced in suburbs close to the city or in growth corridors with most outer suburb price growth being more subdued. However, house prices have stalled in first half of 2008 and are expected to remain subdued in the short term. Low unemployment rates and positive fundamentals are expected to lead to growth in 2009.

Figure 30: Melbourne's historic residential house returns

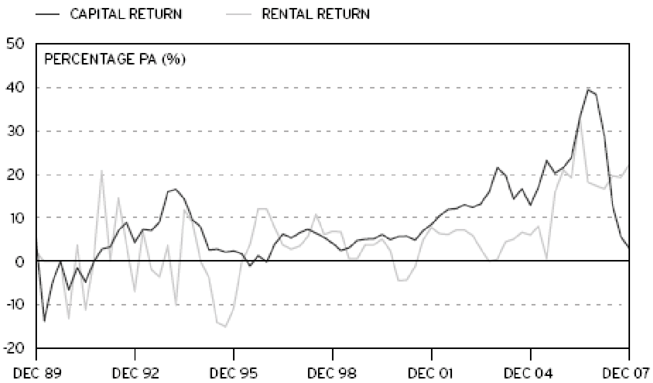


Source: REI and Mirvac

Western Australia market conditions and outlook

Western Australia has performed very strongly due to the resources boom, however price growth has slowed due to a combination of negative market sentiment and substantial deterioration in affordability. Price appreciation has continued albeit at a slower rate with house prices rising by 3.1% and other dwelling prices by 5.2% in the year to 31 December 2007. Yields and price growth are expected to improve over 2009 in the absence of a slow down in the economy as a result of sustained lower commodity prices.

Figure 31: Perth's historic residential house returns

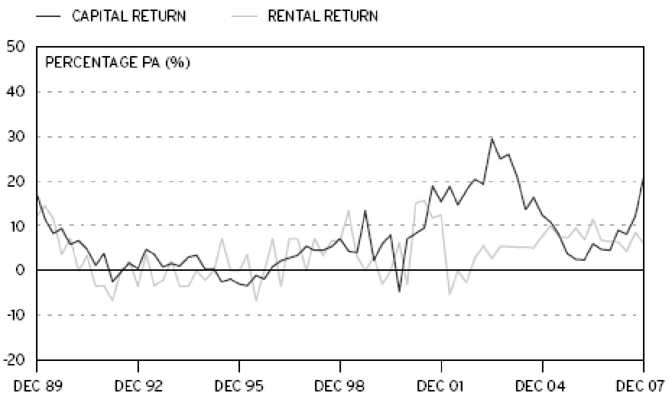


Source: REI and Mirvac

South Australian market conditions and outlook

Residential property price growth in South Australia has outperformed the rest of Australia growing by 22% in 2007. Growth has moderated in 2008 due to negative market sentiment and increased affordability levels towards the national average. Demand for housing is expected to remain strong, driven by the commodity boom and increased migration.

Figure 32: Adelaide's historic residential house returns

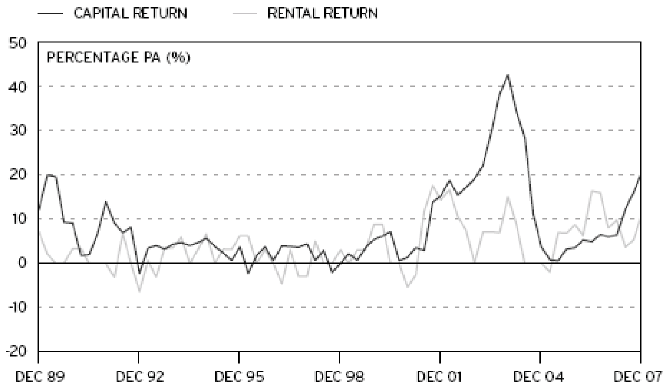


Source: REI and Mirvac

Queensland market conditions and outlook

Prices have increased due to the ongoing commodity boom, population growth driven by interstate migrants, low unemployment rates and expanding employee compensation. Building approvals are beginning to increase, however is being partly offset by lower affordability levels. In the absence of further interest rate rises, price growth, albeit at a reduced level, will be supported by strong physical demand.

Figure 33: Brisbane's historic residential house returns



Source: REI and Mirvac

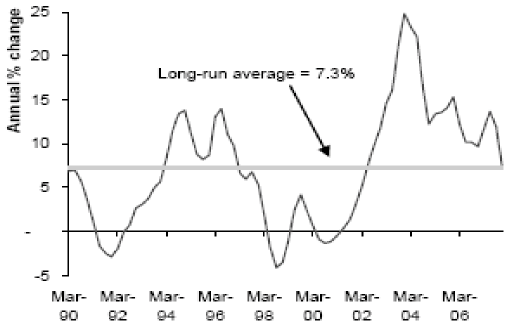
New Zealand market conditions and outlook

Driven largely by the global financial crisis, New Zealand has recently recorded its second quarter of negative economic growth with media reports that the country is going into recession. This is adversely affecting the New Zealand housing market with limited availability of finance and tighter lending policies resulting in declining property values. The residential market has recorded a deceleration with year-on-year growth down from 12.7% in October 2007 to 7.7% in February 2008.

The decline in property values has resulted in longer lead times for properties to sell with houses recording 52 days in September this year, compared to 20 days at the same time last year according to the Real Estate Institute of New Zealand. Average property values fell 5.8% during the past year with the average national sales price in September down to $379,854 from $404,089 at the same time last year. Migration levels (a key driver of demand) are low and affordability is high, nevertheless there is stability between demand and supply in the market.

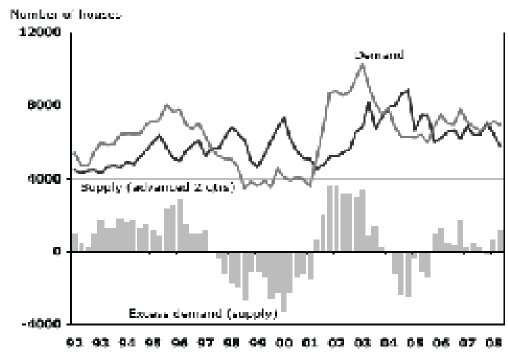
Based on house price inflation (HPI) forecasts from Quotable Value and the Royal Bank of New Zealand, house prices are expected to decline 10% per annum in both FY09 and FY10 with a year of flat prices in FY11 before returning to a conservative long-term 3.0% per annum forecast from FY12 onwards.

Figure 34: Trend in New Zealand's HPI



Source: Quotable Value, Royal Bank of New Zealand, Macquarie Research, March 2008

Figure 35: New Zealand's housing demand and supply



Source: ANZ National Bank, Statistics New Zealand

Appendix 2: Summary of BBC's portfolio

Retirement living portfolio as at 30 June 2008

Table 29: BBC's retirement living portfolio

Village	Location	Number of units	Average market price of units	Age of village (years)	DMF exposure
Owned					
Waterford Valley Lakes	VIC	185	458,243	6	100%
Lexington Gardens	VIC	290	195,697	8	100%
Camberwell Green	VIC	24	334,083	5	100%
Evelyn Ridge	VIC	25	376,400	2	100%
Trowella Gardens	VIC	21	253,050	5	100%
Waterford Park	VIC	53	471,226	2	100%
Woodlands Park	VIC	41	379,110	2	100%
Elliot Gardens	SA	129	318,020	6	100%
Henry Kendall ILU's	NSW	555	262,757	22	100%
Henry Kendall SA's	NSW	91	87,872	22	100%
Bayside	NSW	246	349,878	11	100%
Annesley	NSW	72	641,944	7	100%
Coastal Waters	NSW	71	344,412	5	100%
Eaglemount	QLD	96	294,247	7	100%
Allora Gardens	QLD	240	351,675	10	100%
The Lakes - Bundaberg	QLD	273	285,549	14	100%
Bibra Lake	WA	288	270,722	21	100%
Parkland Booragoon	WA	185	412,312	22	100%
The Pines Ellenbrook	WA	139	394,961	8	100%
Parkland - Mandurah	WA	121	282,938	22	100%
Harbourside Mindarie	WA	134	468,519	6	100%
Parkland Woodlands	WA	240	266,917	25	100%
Timberside Woodvale	WA	140	368,582	14	100%
Parkland Ellenbrook	WA	19	388,684	1	100%
Homestay	WA	80	276,379	7	100%
Knightsbridge	NZ	244	318,165	8	100%
Mayfair	NZ	168	285,376	16	100%
Parklane	NZ	155	287,646	19	100%
Ocean Shores	NZ	206	285,037	13	100%
Peninsula Club	NZ	206	315,010	13	100%
Sub-total / weighted average		**4,737**	**314,983**		
Managed for Prime Trust					
Hibiscus Group	QLD	895	n/a	n/a	12%
Carlye Group	QLD	1,036	n/a	n/a	12%
Bellflower	QLD	460	n/a	n/a	12%
Buderim Gardens	QLD	400	n/a	n/a	12%
Lindfield	QLD	130	n/a	n/a	12%
Ashton	NSW	61	n/a	n/a	12%
Brentwood	NSW	598	n/a	n/a	12%
Sub-total / weighted average		**3,580**	**n/a**	**n/a**	

Village	Location	Number of units	Average market price of units	Age of village (years)	DMF exposure
Managed / Leased / Profit share for other third parties					
Cumberland	VIC	210	n/a	26	100%
Viewbank	VIC	52	n/a	20	100%
Kooratang Court	VIC	122	n/a	24	100%
Meadowvale	VIC	204	n/a	23	100%
Port Phillip	VIC	162	n/a	23	100%
Geelong-Tannoch Brae	VIC	88	n/a	12	100%
Heathglen	VIC	114	n/a	18	100%
Riverwood	NSW	130	n/a	23	100%
Williamstown	VIC	141	n/a	6	100%
Glen Woodley	SA	75	n/a	16	100%
Vermont	SA	118	n/a	19	100%
Goodwin Close[1]	VIC	42	n/a	7	0%
Brighton on the Bay[2]	VIC	76	n/a	4	50%
Claremont Terrace[2]	VIC	79	n/a	8	50%
Sub-total / weighted average		**1,613**	**n/a**		
Total / weighted average		**9,930**			

Source: BBC

Notes:

1. Subsequent to 30 June 2008, BBC acquired the remaining interest in its existing joint venture agreement resulting in BBC subsequently owning the village. No adjustment has been made for presentation purposes however our valuation has been performed based on the current status.

2. Managed through joint venture arrangements on a profit share basis.

Retirement Living Development pipeline as at 30 June 2008

Table 30: BBC's retirement living development pipeline

Project	Location	'Pipeline' - units to be sold	Total Units – Project	Project stage	Expected year of completion of sales	Ave sale price – pipeline ($'000)	Gross sales value ($'000)
Completed and awaiting first time sale							
Bayside Gardens, Bonnells Bay	NSW	2	250	Completed	2008	348	696
Tannoch Brae, Geelong	VIC	2	114	Completed	2008	264	528
Lexington Gardens (Stage 3), Springvale	VIC	16	294	Completed	2009	222	3,552
Camberwell Green, Camberwell	VIC	13	46	Completed	2009	266	3,458
Brighton on Bay (JV), Brighton	VIC	40	77	Completed	2010	524	20,960
Claremont Terrace (JV), McKinnon	VIC	20	80	Completed	2010	261	5,220
Total / Weighted Average		**93**	**861**			**314**	**34,414**
Brownfield projects							
Martha's Point (JV), Mt Martha	VIC	71	125	4 of 7	2009	426	30,246
The Lakes Retirement Village, Bundaberg	QLD	61	337	8 of 10	2009	285	17,385
Evelyn Ridge, Mt Evelyn	VIC	97	122	2 of 6	2011	424	41,128
Elliot Gardens, Port Elliot	SA	53	203	5 of 7	2011	329	17,437
Waterford Park, Knoxfield	VIC	92	168	5 of 6	2011	461	42,412
Parkland Villas, Ellenbrook	WA	139	160	2 of 5	2012	300	41,700
Woodlands Park, Berwick	VIC	219	257	3 of 7	2013	426	93,294
Coastal Waters, Worrowing Heights	NSW	217	284	2 of 11	2013	494	107,198
Trowella Gardens, Griffith	NSW	128	146	2 of 6	2013	259	33,152
Lexington (future stages), Springvale	VIC	220	220	Planning	2015	360	79,200
Total / Weighted Average		**1,297**	**2,022**			**376**	**503,152**
Greenfield projects							
Gibraltar Park, Bowral	NSW	104	104	Civil works commenced	2011	602	62,608
Wodonga	VIC	195	195	Civil works commenced	2015	360	70,200
Catalina Waters , Point Cook	VIC	263	263	Civil works commenced	2016	396	37,620
Hallidays Point, Hallidays Point	NSW	95	95		2013	593	56,335
Pacific Dunes, Medowie	NSW	125	125		2014	510	63,750
Toorak Square, Toorak	VIC	53	53		2012	764	40,492
Total / Weighted Average		**835**	**835**			**509**	**331,005**
Portfolio Total		**2,225**	**3,718**				**868,571**

Source: BBC

Note: JV – Joint venture

Aged care portfolio

Table 31: BBC's aged care portfolio

Village	Location	Age of facility	Number of Beds	Average bond value ($'000)	Facility occupancy (%)
Owned					
Brentwood	NSW	30+	84	-	90%
Calare	NSW	30+	66	-	99%
Rosemore	NSW	30+	90	-	74%
Willandra	NSW	25	64	-	95%
Beechwood	NSW	5	110	160	99%
Henry Kendall (Wyoming)	NSW	25	110	-	85%
Bass Hill	NSW	30+	78	-	81%
Pendle Hill	NSW	30+	84	-	93%
Greenwood	NSW	30+	53	347	94%
Bayside	NSW	7	124	153	96%
Redleaf Manor	NSW	2	62	345	95%
Coastal Waters (Jervis Bay)	NSW	5	126	120	83%
Sylvan Woods	QLD	30+	89	-	99%
Montclaire Hostel	VIC	5	36	312	94%
Highwood Court	VIC	6	75	252	95%
Avonlea	VIC	7	70	198	93%
Princeton View	VIC	1	124	381	68%
Lexington	VIC	4	60	172	100%
Sub-total / weighted average			**1,505**	**244**	**91%**
Managed					
Riverwood Hostel	NSW	14	29	145	83%
Orden on Glendale	VIC	1	105	231	74%
Riddell Gardens	VIC	3	74	207	94%
Little Para	SA	4	62	130	98%
Trevi Court	VIC	6	53	199	94%
Cumberland NH	VIC	18	30	128	100%
Tannoch Brae	VIC	12	50	127	98%
Glendale Hostel	VIC	18	135	128	95%
Summerwood	VIC	4	61	147	48%
Bayside BBC	VIC	8	41	173	95%
Sub-total / weighted average			**640**	**162**	**88%**
Profit share					
Villa del Sole	VIC	7.8	52	159	98%
Claremont Terrace	VIC	5.8	57	256	98%
Medina Manor	VIC	5.5	45	175	91%
Sub-total / weighted average			**154**	**197**	**96%**
Portfolio total / weighted average			**2,299**		

Source: BBC

Aged care development pipeline

Table 32: BBC's aged care development pipeline

Project	Location	Type of Beds	No of Beds	Project stage	Expected year of full occupancy	Ave bond value ($'000s)
Completed and awaiting first time sale						
Redleaf Manor	NSW	ES/HC	62	Completed	Mid 2008	350
Coastal Waters Aged Care (has existing 84 HC beds)	NSW	LC	42	Completed	2008	130
Princeton View Hostel	VIC	HC/LC	124	Completed	2010	370
Riddell Gardens Hostel (has existing 51 LC beds)	VIC	LC	23	Completed	2009	190
The Orden on Glendale	VIC	LC	105	Completed	2009	200
Total			**356**			
Brownfield projects						
Greenwood Aged Care Facility	NSW	ES/HC	97	DA received	Construction to commence late 2008/09	350
Lakewood Aged Care Facility	NSW	ES/HC/LC	84 HC 36 LC	DA lodged with Council	Construction to commence late 2008/09	250
Redleaf Manor (Stage 2)	NSW	ES/HC	28	Feasibility/planning underway	Construction to commence early 2009/10	400
Total			**245**			
Portfolio Total			**601**			

Source: BBC

Notes:

1. HC – High care
2. LC – Low care
3. DA – Development approval

Appendix 3: DMF profiles of the RBD Assets

The table below provides a summary of the DMF structure of each asset, highlighting the current DMF agreement which is expected to be utilised going forward.

Table 33: RBD Assets – DMF summary

Village name /type of unit	Number of DMF contracts	Basis of DMF calculation	Annual DMF	Minimum DMF	Maximum DMF	Capital Gain DMF	Notes
Pittwater							
ILU	15	Ingoing	2%	2%	20%	25%	
ILU	1	Ingoing	2%	2%	20%	20%	
ILU	43	Ingoing	2%	2%	20%	25%	
SA	-	Ingoing	6%	12%	30%	25%	
SA	26	Ingoing	6% / 6%	6%	30%	25%	1
Burwood Terrace							
ILU	3	Ingoing	3%	3%	30%	50%	
ILU	4	Ingoing	3%	3%	30%	50%	
ILU	4	Ingoing	0.25% / 3%	-	30%	50%	
ILU	11	n/a	6% / 3%	6%	30%	-	2,3
ILU	84	Resale	3%	-	27%	-	
Forest Hills							
ILU	11	Resale	2.5%	-	25%	-	
ILU	99	Resale	3%	3%	30%	-	3
SA	3	Ingoing	10% / 25%	10%	25%	100%	4
SA	47	Ingoing	10% / 25%	10%	25%	100%	4
Glenaeon							
ILU	220	Resale	2.5%	5%	25%	-	
ILU	-	Resale	2.5%	5%	25%	-	
SA	49	Resale	5%	5%	25%	-	
SA	1	Resale	6.5%	6.5%	32.5%	-	
SA	-	Resale	8.5%	8.5%	42.5%	-	
Highvale							
ILU	13	Resale	2%	2%	20%	-	5
ILU	112	Resale	3%	3%	30%	-	5,6
ILU	1	Ingoing	10% / 2.5%	10%	30%	50%	5,7
SA	1	Resale	3%	3%	30%	-	5
SA	63	Resale	5%	5%	30%	-	5
Peppertree Hill							
ILU	120	Resale	2.5%	5%	25%	-	
ILU	2	Ingoing	10% / 2.5%	10%	30%	50%	
ILU	88	Resale	2.5%	5%	25%	-	
Lutanda Manor							
ILU	87	Resale	2.5%	5%	25%	-	
SA	-	Resale	5%	5%	25%	-	
SA	46	Resale	8.5%	8.5%	42.5%	-	

Source: LLC

Notes:

1. Annual DMF is calculated based on 6% of the purchase price plus 6% p.a.
2. DMF is derived as 6% per annum and is charged as a New Lease Premium in the first year and 3% p.a. thereafter
3. Manager contributes 1/6 of the DMF
4. DMF is calculated based on 10% of original purchase price for first year, and 25% of original purchase price for occupancies over 12 months
5. Manager contributes 25% of the DMF
6. Annual DMF is calculated per year, or part thereof
7. DMF is calculated based on 10% of the first year or part thereof and thereafter 2.5% per year or part thereof
8. n/a - not applicable

The table above excludes Keperra which is an aged care facility and therefore not subject to any DMF structure.

Appendix 4: Overview of valuation methodologies

Valuation methodologies for Enlarged BBC

To estimate the fair market value of the RBD Assets and the securities in Enlarged BBC we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its securities or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities in a company where they are publicly traded in an informed and liquid market. In the context of a business or a group of assets, the proxy to this approach may be a recent transaction involving the business itself or the group of assets.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life but are equally appropriate when there is a degree of lumpiness in cash flows or profits.

Asset based methods

Asset based methods estimate the market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to securityholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods can sometimes ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

Conclusion as to the appropriate methodology

Based on the foregoing analysis and the specific factors below, we have concluded that the most appropriate methodology to value the Retirement Living business, the Aged Care business, the Retirement Living Development business and the RBD Assets is the discounted cash flow method due to the following factors:

- long term cash flow projections have been prepared
- the discounted cash flow method is commonly accepted as the most appropriate method for valuing retirement living, development and aged care assets given it provides the ability to incorporate rollover rates of residents and specific DMF related cash flows
- there are few companies that are directly comparable to BBC and its individual businesses in terms of its asset portfolio, given its mix of Australian-based aged care facilities and retirement villages spread across both Australia and New Zealand
- the cash flow profile of the development business is relatively uneven over time making use of earnings multiple based approaches less meaningful.

Appendix 5: Discounted cash flow assumptions

Retirement Living

The Retirement Living cash flow model which is part of the BBC Facility-Level Projections sets out a cash flow analysis on an individual village basis and is separated into freehold villages (Australia and New Zealand), villages subject to lease/management and profit share agreements (or the like) and the Prime Trust management rights acquired by BBC in September 2007. The cash flows attributable to each of the aforementioned categories extend to 30 June 2028 (or the appropriate contracted expiry date of the lease/management agreement) and have been based on the current underlying contractual arrangements. Principles underlying the preparation of the projections were:

- the majority of the DMF contracts are renewed on similar terms to the existing contracts, that is on an 'ingoing' basis with a capital growth portion
- high levels of occupancy are assumed in each of the villages which is broadly in line with published industry averages and BBC's current track record
- the average length of resident stay across the Australian portfolio of wholly owned villages is assumed to be 11 years for ILUs and six years for SAs. For BBC's New Zealand wholly owned portfolio, an average length of stay of nine years is assumed for ILUs and five years for SAs. These assumptions are in line with published industry averages and BBC's historical performance. An allowance has been made to account for the typically lower turnover rates in younger villages as compared to more mature villages
- annual capital growth rates ranging from 2% to 6.5% varying based on the maturity and location of the village. The weighted average growth rate (by gross asset value) amounts to 4.5% which is in line with market analysts' publications and those applied by independent valuers and comparable companies
- we have estimated a nominal long-term growth rate of 3% having regard to long term observed industry growth rates, long term real growth expectations in the underlying economy and long term forecasts for inflation. Further details are provided below
- our analysis includes the potential upside associated with certain agreements currently in place and from the village buybacks and rentals which have recently been completed and accounted for by the Company as at 30 June 2008. We have not included any potential upside to be achieved through further village buybacks and refurbishment (which may then be recovered at a margin from residents provided that any revised DMF structure is approved)
- all maintenance capital expenditure is either fully funded by the resident or is accounted for through a reduced DMF cash flow
- we have accounted for BBC's interest in certain projects (equating to approximately 2% of the gross asset value of the portfolio) having regard to valuations prepared by independent valuers and discussions with management
- we have considered upside potential relating to certain agreements which are due to expire in the near term
- in relation to the cash flows relating to those villages managed/leased on behalf of third parties (excluding the management rights purchased from Prime Trust in September 2007):
  - the DMF revenues (accrual and capital gain) to be received by BBC are calculated in accordance with the agreements currently in place. We have assumed BBC will not exercise any of its options to extend the agreements for a further 10 year period
  - high levels of occupancy are assumed in each of the villages which is broadly in line with published industry averages and BBC's current track record
  - consistent with our assumptions relating to BBC's Australian portfolio of wholly owned villages, the average length of resident stay across the managed/leased villages is assumed to be 11 years for ILUs and six years for SAs
  - considering the term of the agreements (on average, 2020), no subsequent rollovers are incorporated
  - annual capital growth rates ranging from 2.0% to 6.5% varying based on the maturity and location of the village
  - lease payments are increased annually by inflation consistent with the underlying lease agreements
- in relation to the cash flows relating to the management rights purchased from Prime Trust in September 2007:

- the DMF revenues (accrual and capital gain) to be received by BBC are calculated in accordance with the management contract currently in place for the contracted period of 25 years, which include the following salient features:
  - BBC's entitlement to a fixed fee component of $520 per annum per ILU indexed by annual inflation and a variable component of 12% of the DMF (accrual and capital gain) from the resales of the ILUs less any refurbishment costs. BBC is not entitled to first time sales
  - BBC's entitlement to all resident fees (ingoing contributions) based on resident agreements for the right to occupy a unit from which they lend to the landlord under a loan agreement. These are used to pay service fees/resident funds and to pay ongoing maintenance. Typically the funds received by the incoming new resident are utilised to pay the outgoing resident
  - BBC's obligation to pay rental on a monthly basis comprising a base rent of $100 per annum for each resident indexed by annual inflation and percentage rent equal to 40% of the cash DMF received in any quarter. BBC may defer payment of the percentage rent if there is insufficient cash to make the payment (measured at portfolio level)
  - BBC also incurs any sales and marketing costs of units in the villages, operating costs (except for capital repairs and maintenance) and its own head office costs
- high levels of occupancy are assumed in each of the villages which is broadly in line with published industry averages and BBC's current track record
- consistent with our assumptions relating to BBC's Australian portfolio of wholly owned villages, the average length of resident stay across the managed/leased villages is assumed to be 11 years for ILUs and six years for SAs
- annual capital growth rates ranging from 3.8% to 4.5% varying based on the maturity and location of the village, with the long term growth rate assumed to be 3.8%
- the management fee's payable to BBC is assumed to be at arm's length terms and have been deducted from our cash flow analysis

- based on discussions with management, we have incorporated certain operating costs attributable to the Retirement Living business which are not captured within the DMF profile of each village. These costs are escalated annually by inflation
- the cash flows attributable to BBC's New Zealand portfolio of wholly owned villages have been converted to Australian dollars based on the current forward curve
- a tax rate of 30% is applied to the cash flows derived by the business having regard to the depreciation profile of the business. We have been advised by management that there are sufficient tax depreciation within the New Zealand tax group to offset any New Zealand tax payable by BBC in New Zealand in at least the short-term. Tax losses available to Enlarged BBC have been separately considered as part of surplus assets.

Aged Care

Management of BBC have prepared a detailed business plan which includes projections of cash flows up to and including the year ending 30 June 2018. Principles underlying the preparation of the projections were:

- the 'ramp-up' associated with new residents entering facilities as a result of the Conform acquisition results in a significant spike in cash inflows. This activity levels out in 2011 when all facilities are assumed to operate under normalised occupancy conditions
- high levels of occupancy are assumed in each of the assets which is broadly in line with published industry averages and BBC's current record
- the main revenue driver is government funding which is growing, in terms of income per resident, closely in line with inflation
- the average length of resident stay across the Australian portfolio of aged care facilities is assumed to be three years for high care and four years for low care services. These assumptions are broadly in line with published industry averages and BBC's historical performance
- accommodation bond cash inflows remain positive driven by increases in underlying property prices and demand for aged care accommodation. Property growth rates are supported by market analysts' publications

- there is a steady growth in the EBITDA margin which is driven by the growth in resident numbers and the realisation of synergies from the Conform acquisition
- overall EBITDA growth between 2013 and the terminal period is 3% per annum
- pursuant to the underlying lease agreements, lease payments are increased annually by inflation
- CPI rate expectations at 3% which are broadly inline with the RBA's forecasts
- the cash flows attributable to the aged care development projects are based on management's assessment of the construction and development of the facility and the subsequent ramp-up
    - significant capital expenditure is incurred in the initial years of the projection period to allow development work to be undertaken at the three aged care projects (Greenwood, Redleaf and Lakewood)
    - as developments are completed, the 'ramp-up' associated with new residents entering the aged care facilities results in a significant spike in accommodation bond cash inflows. This activity levels out in 2012 when all facilities are assumed to operate under normalised occupancy conditions
    - the existing aged care development portfolio pipeline reaches a mature stage of operation by 30 June 2013 with occupancy levels for low and high care reaching and remaining steady at circa 95% onward
- in respect of accommodation bond liability, there is a relatively common view that these bonds do not represent a real economic liability since this liability will never have to be repaid provided occupancy levels are maintained and they can therefore be argued to be an interest free perpetual liability. However, there is a risk that this liability may require repayment at some point due to:
    - change in Government regulation
    - occupancy rates being difficult to sustain over the long term due to potential increased supply from a government response to increased demand and/or difficulty in maintaining occupancy rates as facilities age require refurbishment.

  We have considered the net cash inflows from the accommodation bonds (including the potential repayment of the liability) in our analysis. Our cash flows have been sensitised for this assumption
- due to the ramp up of a number of low care facilities as well as the development of a number of low care and ES beds expected over the next five years, there are some significant inflows expected to be received from accommodation bonds
- based on discussions with management, we have incorporated certain operating costs attributable to the Aged Care business which are not captured within the cash flows for each facility. These costs are escalated annually by inflation

Retirement Living Development

The Retirement Living Development model (BBC Facility-Level Projections) sets out a cash flow analysis on an individual site basis. The cash flows attributable to the Retirement Living Development pipeline are based on recent feasibility studies. Principles underlying the preparation of the projections were:

- the development pipeline of seven retirement living villages is expected to be delivered over a period of eight years. The delivery of this development pipeline reflects the deferral of certain projects in order to manage the business's cash flow and excess stock build up
- cash flows are derived as the net sales proceeds after deducting costs such as those relating to sales and marketing, construction, infrastructure and agency costs
- costs and annual capital growth rates are estimated to be 3%, in line with inflation
- the cash flows forecasts include the full sale proceeds and the expected margin realised on first time sales
- we have estimated the likely valuation impact for those projects/assets currently held at cost by the Company as 'work in progress' based on discussions with management and have had regard to the expected margin which may be realised on the sale of the project/units and any value attributable to the future DMF profile going forward
- BBC management has identified a number of assets to be divested and have begun the process to accomplish this. The status of the divestment process varies for each asset. We have considered the present value of the expected proceeds to be derived from the sale of identified projects and surplus land based on indicative or final offers received to date, having regard to the potential tax implications of these divestments

- based on discussions with management, we have incorporated certain operating costs attributable to the development business which are not captured within the cash flow profile of each project. These costs are escalated annually by inflation
- a tax rate of 30% is applied to the cash flows derived by the business having regard to the depreciation profile of the business. Tax losses available to Enlarged BBC have been separately considered as part of surplus assets.

RBD Assets

The RBD Model sets out a cash flow analysis on an individual site basis. The cash flows attributable to each of the sites have been based on the underlying contractual arrangements. Principles underlying the preparation of the projections in relation to the retirement villages were:

- the average length of resident stay across the retirement villages of the RBD Assets is assumed to be between 8.5 years to 12.9 years for ILUs and between 5 years and 8 years for SAs in the first tenure period, and 9.5 years for ILUs and between 5.5 years and 9 years for SAs for subsequent rollover periods. These assumptions are in line with published industry averages, RBD's historical performance and assumptions currently adopted by companies comparable to the RBD Assets. An allowance has been made to account for the typically lower turnover rates in younger villages as compared to more mature villages
- annual capital growth rates of 6% for ILUs and 2% to 3% for SAs for the first 20 years of our analysis and 4% thereafter. This is based on estimated growth in the property market, the maturity and location of the villages and the supply/demand imbalance in the markets serviced by the RBD Assets. It is supported by the long-term average growth rates in the residential market (which exceed 8% in some markets). These annual capital growth rates are approximately 100 basis points higher than the assumed growth rates in BBC's retirement village portfolio which reflects the largely east coast metropolitan location of the RBD Assets (which have showed more resilience in cyclical downturns)
- the RBD Assets derive sales commission from the sale of individual units on behalf of residents, which LLC estimates will occur approximately 90% of the time a unit is sold. These costs are estimated to be approximately 3% of the unit selling price. As a result of unit sale process, sales and marketing costs are incurred. These expenses have been estimated to be in the range of $150,000 to $310,000 per annum, escalated annually by inflation of 3% per village
- corporate tax rate of 30% has been applied to the cash flows of the RBD Assets as we understand that the tax position of the RBD Assets is such that a potential acquirer of these assets would be fully taxed on the income generated by the RBD Assets. We have also included the stamp duty taxes expected to be paid as part of the acquisition of the RBD Assets in our cash flow analysis.

In relation to the aged care facility, new bonds have been estimated to be issued in the range of $250,000 to $300,000 and a bond growth range of 3% to 5% (consistent with RBD's bond register over recent years).

Terminal value

The terminal value estimates the fair market value of the ongoing cash flows after the forecast period. We have estimated the terminal value based on forecast cash flows in the terminal year, the discount rate and an estimate of the long-term cash flow growth rate. In estimating a nominal long-term growth rate for each of the business units of Enlarged BBC (including the RBD Assets) we have had regard to:

- growth in the percentage of the population over the age of 75, which according to the ABS is to grow from around 6% in 2008 to around 15% in 2060
- predicted growth in residential property prices and the impact this will have on free cash flows from accommodation bonds and DMFs and the underlying value of retirement living and aged care facilities
- the terminal growth rate implied by recent valuations of retirement living villages and aged care facilities performed by listed players within the senior living industry and independent property valuers
- long term forecasts for inflation (the RBA's target inflation rate is 3% per annum)
- long term real growth expectations in the underlying economy (the Economic Intelligence Unit's forecast for real GDP growth over the period to 2012 is between 2.4% and 2.9% per annum).

Our estimated long term growth rates are in line with the target rate of inflation and also take into account the growth of the aged population.

Appendix 6: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (WACC). The WACC can be derived using the following formula:

$$\boxed{WACC = \left(\frac{E}{V} * K_e \right) + \left(\frac{D}{V} * K_d \,(1 - t_c) \right)}$$

The components of the formula are:

K_e	=	cost of equity capital
K_d	=	cost of debt
t_c	=	corporate tax rate
E/V	=	proportion of company funded by equity
D/V	=	proportion of company funded by debt

The adjustment of K_d by (1- t_c) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%, being the current tax rate in Australia and New Zealand.

Cost of equity capital (K_e)

The cost of equity, Ke, is the rate of return that investors require to make an equity investment in a firm.

We have used the Capital Asset Pricing Model (CAPM) to estimate the K_e for BBC's operating businesses and the RBD Assets. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$\boxed{K_e = R_f + \beta(R_m - R_f) + a}$$

The components of the formula are:

K_e	=	required return on equity
R_f	=	the risk free rate of return
R_m	=	the expected return on the market portfolio
β	=	beta, the systematic risk of a stock
α	=	specific company risk premium

Each of the components in the above equation is discussed below.

Risk free rate (R_f)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term government bond rate.

In determining R_f we have taken the recent yield on the 10-year Australian Government Bond of approximately 5.0% and the 10-year New Zealand Government Bond of 5.9% The 10-year bond rate is a widely used and accepted benchmark for the risk free rate. This rate represents a nominal rate and thus includes inflation. As at the date of our report there has been significant volatility in the observed yields on these instruments (in particular on the downside) due to announced and expected fiscal policy initiatives in Australia and New Zealand. We have considered the impact of these yields on our estimate of the cost of capital and consider our estimated cost of capital for BBC to be reasonable.

Equity market risk premium (EMRP)

The Equity Market Risk Premium (EMRP) (R_m – R_f) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It is the excess return above the risk free rate that investors demand for their increased exposure to risk when investing in equity securities.

In selecting an appropriate EMRP to include in the estimation of the cost of equity a number of factors need to be considered:

- whether to use historical or prospective measures
- the use of arithmetic or geometric averaging for historical data
- selection of an appropriate benchmark risk free rate
- the impact of franking tax credits
- exclusion or inclusion of extreme observations.

Historical and prospective EMRP

In evaluating the EMRP, we have considered both the historically observed and the prospective EMRP. The most appropriate EMRP to use in our analysis is the prospective risk premium that investors are using to evaluate current investment opportunities. However, while being theoretically preferable, it is not possible to reliably measure prospective EMRP.

The historically observed EMRP is typically used as a proxy for the prospective EMRP. The historical EMRP is estimated by comparing the historical returns on equities against the returns on risk free assets such as Government bonds. The historical EMRP has the benefit of being capable of estimation from reliable data; however it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time. The forward-looking EMRP will be influenced by several factors such as population demographics, savings rates and the increased globalisation of world markets. In particular, relatively pessimistic investors believe that the days of high EMRPs have passed and that in the future, the share market will perform similarly to the bond market. However, these views are balanced by optimistic investors who believe that the returns on shares will continue to outperform the returns on bonds by a similar margin to the past. It does seem likely that equity investors will continue to be rewarded for the additional risk of their investment and so, in the absence of any conclusive evidence to the contrary, we have placed most emphasis on the historically observed risk premium in our analysis and choice of EMRP.

We have used the historically observed EMRP as a guideline in determining the appropriate EMRP to use in this report. In particular, we have considered the recent studies undertaken by the Centre for Research in Finance at the Australian Graduate School of Management (AGSM), Morningstar Inc (Morningstar) and ABN AMRO/London Business School.

Arithmetic or geometric averaging of historical returns

Empirical studies seeking to measure the historical EMRP typically average the results using either an arithmetic or geometric averaging process. Geometric averaging assumes that returns are reinvested in later periods and will be less than the arithmetic average if the returns show some variance between periods.

We consider the arithmetic average equity risk premium to be more appropriate when discounting future cash flows. The geometric average is more appropriate when reporting past performance, since it represents the compound average return, but we believe that investors today would demand a higher premium than that calculated using a geometric average.

Risk free rate used in the analysis of historical returns

To match the risk free rate included in the CAPM and discussed above, we have considered the premium calculated over the return on 10-year Government bonds.

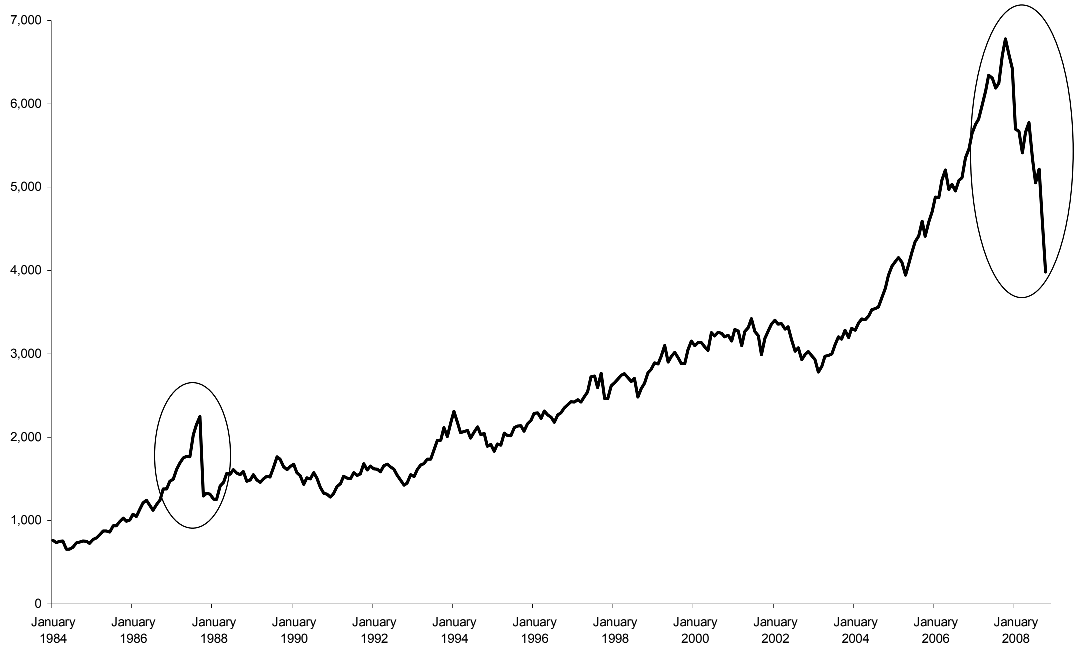
Franking tax credits

The return on the market portfolio used in calculating the EMRP may include a return that shareholders receive through franking tax credits. The evidence on franking tax credits is inconclusive and therefore we have not adjusted the cost of capital for the impact of dividend imputation.

Extreme observations – October 1987 and current market

Some observers consider that the severe market movements such as the downturn in global share markets in October 1987 and more recently as set out below are extreme observations, which are unlikely to regularly repeat themselves.

Figure 36: ASX 100 Accumulation Index



Source: Bloomberg

A large fall in value, such as those observed in October 1987 and the more recent share market downturn, will decrease the returns to equity holders and may also decrease the EMRP. Based on an AGSM study, ignoring extreme observation tends to increase the historically observed EMRP by approximately 1.4%.

On balance, we favour the inclusion of extreme observations within the measurement of the EMRP as it appears that these movements have generally returned the market to its longer term trend.

Selected EMRP

Three recent studies undertaken by the Centre for Research in Finance at the AGSM, Morningstar and ABN AMRO/London Business School detailed a number of estimates for the EMRP. The EMRP calculated by AGSM and Morningstar using arithmetic averaging of returns between January 1974 and December 2006, including October 1987, without adjusting for franking credits was 4.9% and 6.9% respectively. Another study undertaken by ABN AMRO/London Business School, estimated the EMRP to be 6.4% between 1900 and December 2007.

Whilst these and other studies provide some support for an appropriate EMRP, these studies generally support a wide range and may fluctuate significantly depending on the time period and risk free benchmark selected. In selecting an appropriate EMRP for the purpose of our analysis, we have therefore also considered EMRP's commonly applied by research analysts and valuation practitioners. We have also considered the impact of the current repricing of risk which has been occurring within the debt and share markets which has not been included in any of these studies.

Based on the above we have adopted 6% as the EMRP which is consistent with common market practice in Australia and New Zealand.

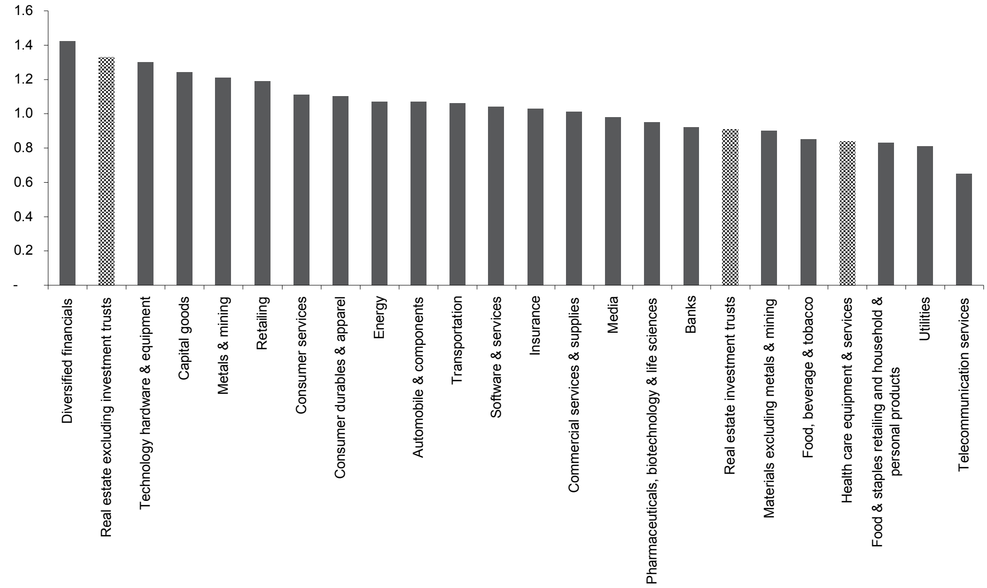
Beta estimate (β)

Description

The beta coefficient measures the systematic risk of a company in comparison to the market as a whole. A beta of greater than one indicates greater market related risk than average, while a beta of less than one indicates less risk than average. The betas of various Australian industries listed on the ASX are reproduced below.

The beta for an asset can be established by regressing the returns on any asset against returns on an index representing the market portfolio, over a reasonable time period.

Figure 37: Betas for various industries (as at 30 June 2008)



Source: AGSM Risk Management Service

The differences are related to the business risks associated with the industry. For example, the above diagram indicates the media industry is riskier than the utilities industry.

Market evidence

We have also considered the betas of listed companies that are comparable to the respective operations. These betas, which are presented below, have been calculated based on weekly returns, over a two year period, compared to the relevant country total return index.

Table 34: Analysis of betas for listed comparable companies

Company Name	Country	Enterprise value ($ million)	Gearing (Market)	Gearing (Book)	Levered Beta	Unlevered Beta[5]
Senior Living						
Prime Trust	Australia	463	73.2%	39.0%	0.70	0.49
INGREC [1]	Australia	290	85.5%	37.3%	1.13	0.80
Aevum	Australia	212	29.5%	18.7%	0.87	0.75
Ryman [2]	New Zealand	751	19.3%	28.0%	1.16	0.91
Metlifecare [2]	New Zealand	431	38.3%	23.7%	0.46	0.38
Average			***49.1%***	***29.3%***	***0.87***	***0.67***
Diversified / Residential Development						
Stockland	Australia	9,345	36.1%	28.4%	1.11	0.87
Mirvac[3]	Australia	4,026	57.3%	34.4%	1.01	0.74
LLC	Australia	3,098	8.3%	7.8%	1.11	1.04
FKP	Australia	1,657	73.0%	47.5%	1.58	0.97
Becton[4]	Australia	499	94.9%	51.8%	1.54	0.88
Average			***53.9%***	***34.0%***	***1.27***	***0.90***

Source: Deloitte Corporate Finance analysis

Notes:

1. INGREC refers to ING Real Estate Community Living Group.
2. Metlifecare and Ryman figures are presented in NZD.
3. Mirvac – Mirvac Group Limited.
4. Becton – Becton Property Group Limited.
5. Unlevered based on the latest reported book value of net debt / equity.

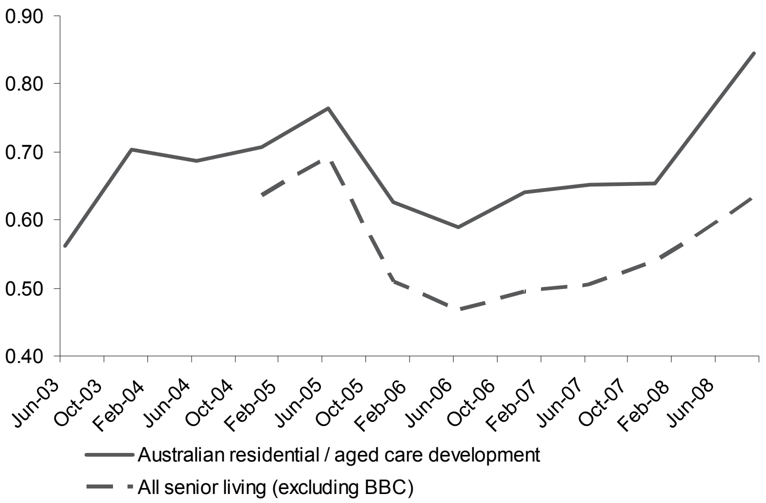
The comparable companies identified above have been selected based on our analysis at Appendix 8.

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as the assets being valued. Therefore, the levered beta is often adjusted for the effect of the capital structure and tax position. The levered beta has been adjusted on the basis of the book value of net debt to net equity. This adjusted beta is referred to as the unlevered beta. The unlevered beta is thus a reflection of the underlying risk of the pre-financing cash flows of the entity.

To ensure an appropriate unlevered beta is selected in calculating the WACC for each of BBC's operating business and the RBD Assets, an analysis of the trend in unlevered betas for the companies listed above are shown in the figure below.

Figure 38: Unlevered beta trend analysis



Source: Deloitte Corporate Finance analysis and Bloomberg

Note: Betas are calculated two years prior to the date shown in the figure, on a two year weekly basis.

The high betas currently observed are most likely a reflection of the global credit crisis and adverse investor sentiment towards the property market. Companies with high gearing and complex business models have generally seen the largest increase in their betas as investors have shifted their capital to more liquid and secure investments. Relative to other industries, the senior living industry has seen less of a dramatic shift in its betas largely due to their expected growth profile.

Selected beta (β)

In selecting an appropriate beta we have considered the above analysis and the following factors

Retirement Living/RBD Assets

- the comparable companies that have the closest characteristics to BBC's Retirement Living operations and the RBD Assets include Aevum in Australia, and Ryman and Metlifecare in New Zealand. Each of these companies operate more than 1,000 retirement village units across a diverse geographical base. Ryman may be less comparable as it also has a substantial aged care component. The unlevered betas for each of these companies are 0.75, 0.91 and 0.38, respectively.

Aged Care

- the likelihood of significant changes in Government regulation of the senior living industry, in particular the collection of accommodation bonds in the aged care industry
- the differences between the comparable set of companies and BBC include the regulatory environment, operations outside of aged care, size of operations, services offered and profile of patients
- the absence of listed companies with directly comparable operations to BBC's Aged Care business.

Retirement Living Development

In selecting an appropriate beta for BBC's Retirement Living Development we have considered the following:

- the comparable companies that have the closest characteristics to BBC's Retirement Living Development operations include FKP and Becton. FKP and Becton each have more than 1,000 senior living units under development, representing a senior living development pipeline of $420 million and $500 million respectively. We note that operations within the senior living industry represent only a small proportion of total operations compared to BBC. The unlevered betas for each of these companies is 0.97 and 0.88 respectively

- the AGSM calculated levered beta for the Real Estate (excluding investment trusts) sector of 1.33
- the absence of listed companies with directly comparable operations to BBC's senior living developments.

Conclusion on selected beta

After considering the factors above, our levered betas for each of the business units of Enlarged BBC are based on the following:

- we have assumed an unlevered beta for Enlarged BBC's Retirement Living business in the range of 0.75 to 0.85, a corporate tax rate of 30% and gearing in the range of 30% to 40% (as discussed below) to give a selected relevered beta in the range of 1.10 to 1.11
- we have assumed an unlevered beta for Enlarged BBC's Aged Care business in the range of 0.65 to 0.75, a corporate tax rate of 30% and gearing in the range of 25% to 30% (as discussed below) to give a selected relevered beta in the range of 0.85 to 0.95
- we have assumed an unlevered beta for Enlarged BBC's Retirement Living Developments in the range of 0.85 to 0.95, a corporate tax rate of 30% and gearing in the range of 20% to 25% to give a selected relevered beta in the range of 1.05 to 1.10
- similar to the Retirement Living business of BBC, for the RBD Assets we have assumed an unlevered beta in the range of 0.75 to 0.85, a corporate tax rate of 30% and gearing in the range of 30% to 40% to give a selected relevered beta in the range of 1.10 to 1.11.

The gearing levels selected in relevering the above betas are based on the gearing analysis as discussed below. The relevered betas presented above are in line with the levered betas observed for BBC and the comparable companies.

Specific company risk premium (α)

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as depth and quality of management, reliance on one key individual or a few key management, reliance on key customers and reliance on key suppliers.

The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

There are several empirical studies that demonstrate that the investment market does not ignore specific company risks. In particular, studies show that:

- on average, smaller companies have higher rates of return than larger companies (often referred to as the size premium)
- on average, early stage companies or companies in their development stage have higher rates of return than mature companies.

Our consideration of these matters is discussed below.

Selection of specific company risk premium

We have selected the following specific company risk premiums in our estimate of an appropriate cost of equity.

Table 35: Specific company risk premium applied to valuation of Enlarged BBC's operations

	Retirement Living		Retirement Living Development		Aged Care	
	Low	High	Low	High	Low	High
Specific company risk premium	1.0%	1.5%	4.0%	5.0%	0.5%	1.0%

Source: Deloitte Corporate Finance analysis

In determining these amounts we have had regard to the following:

General considerations

- BBC's current high level of gearing may make it difficult to obtain further debt for development projects given the current tightness in the credit markets

- due to the large number of recent acquisitions made by BBC there exists a risk that the integration of these businesses will take longer than anticipated or that the level of synergies expected are not fully achieved

Retirement Living

- several of BBC's retirement villages are owned jointly with Prime Trust and are managed on behalf of third parties

Aged Care

- the majority of BBC's aged care funding comes from government subsidies. Funding changes are a significant risk to the business's cash flows given that the types and amount of funding differ between high, low and extra service care

Retirement Living Development

- 6% of BBC's development portfolio is in the form of greenfield projects which tend to have a higher risk profile than brownfield projects
- due to the capital constraints experienced within BBC, there remains some uncertainty in respect of the timing of ultimate delivery of these projects
- even if the LLC Proposal proceeds (and additional capital is injected into the business) there exists integration risk in respect of LLC and BBC's development teams and efficient execution of development projects

RBD Assets

- the relatively small size of the RBD Asset portfolio in comparison to the comparable companies listed above. However, whilst the RBD Assets are relatively small in size, an appropriate portfolio premium may be applicable for a portfolio of seven assets, which are likely to provide potential portfolio synergies and cost savings to a potential acquirer.

Dividend imputation

Dividends paid by Australian corporations may be franked, unfranked, or partly franked. A franked dividend is one that is paid out of company profits which have borne tax at the company rate, currently 30%. Where the shareholder is an Australian resident individual or complying superannuation fund, it will generally be entitled to a tax credit (called an imputation credit) in respect of the tax paid by the company on the profits out of which the dividend was paid. If the recipient of the dividend is another company, the dividend will give rise to a credit in that company's franking account thereby increasing the potential of the company to pay a franked dividend at a later stage.

We have not adjusted the cost of capital or the projected cash flows for the impact of dividend imputation due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Determining the value of franking credits requires an understanding of shareholders' personal tax profiles to determine the ability of shareholders to use franking credits to offset personal income. Furthermore, the observed EMRP already includes the value that shareholders ascribe to franking credits in the market as a whole. In our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive.

Conclusion on cost of equity

Based on the above factors we arrive at a cost of equity, Ke, as follows:

Table 36: K_e applied to valuation of the business units of Enlarged BBC

	Retirement Living (Australia)		Retirement Living (New Zealand)		Retirement Living Development		Aged Care	
	Low	High	Low	High	Low	High	Low	High
Risk free rate (%)	5.00%	5.00%	5.90%	5.90%	5.00%	5.00%	5.00%	5.00%
EMRP (%)	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Relevered beta	1.10	1.11	1.10	1.11	1.05	1.10	0.85	0.95
Specific company risk premium (%)	1.0%	1.5%	1.0%	1.5%	4.0%	5.0%	0.5%	1.0%
Cost of equity capital (calculated)	**12.6%**	**13.2%**	**13.5%**	**14.1%**	**15.3%**	**16.6%**	**10.6%**	**11.7%**
Cost of equity capital (selected)	**12.5%**	**13.5%**	**13.5%**	**14.5%**	**15.5%**	**17.0%**	**11.0%**	**12.0%**

Source: Deloitte Corporate Finance analysis

Cost of debt capital (K_d)

We have estimated the cost of debt for Enlarged BBC to be in the range of 8.0% to 8.5% based on the following considerations:

- based on the current proposal with its financiers, if the LLC Proposal proceeds, Enlarged BBC's cost of debt is expected to be approximately 8.3%
- BBC's current weighted average cost of debt for FY08 of 8.9%, however we note that the previous debt facility was on an unsecured basis whereas the current proposal with BBC's financiers assumes security is provided to BBC's lenders.

We have applied different cost of debt estimates to each of Enlarged BBC's business units based on their relative risk profile.

Gearing[16]

Selecting an appropriate gearing level for valuation purposes requires subjective judgement having regard to the quality of the cash flows of the business and the nature of the industry. In considering the appropriate level of gearing to apply to Enlarged BBC's business units we have had regard to:

- the debt levels of companies operating across relevant segments of the senior living and residential development sector as set out below:

Table 37: Gearing trend analysis

	2003 (Dec)	2004 (Dec)	2005 (Dec)	2006 (Dec)	2007 (Dec)	2008 (Jun)
Australian residential / aged care development	15.4%	15.3%	28.6%	19.3%	26.4%	34.7%
All senior living excluding BBC	n/a	21.6%	-2.0%	16.1%	22.1%	36.3%

Source: Deloitte Corporate Finance analysis

[16] Gearing = net debt / enterprise value

- the nature and quality of the future cash flows of Enlarged BBC and its underlying assets
- BBC's product disclosure statement, issued in 2007, states that the company's target gearing is between 30% to 40%
- BBC's current negotiations with its banking syndicate which we understand will allow Enlarged BBC to target a long-term level of gearing in the range of 30% to 40%.

Based on the above factors, in particular the current state of the credit markets and the de-leveraging occurring across the sector, we have applied the following gearing levels:

- Retirement Living operations: 30% to 40%
- Aged Care operations: 25% to 30%
- Retirement Living Development operations: 20% to 25%.

Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for Enlarged BBC to be:

Table 38: Post-tax WACC of Enlarged BBC's operating business units

	Retirement Living (Australia)		Retirement Living (New Zealand)		Retirement Living Development		Aged Care	
	Low	High	Low	High	Low	High	Low	High
Cost of equity capital	12.5%	13.5%	13.5%	14.5%	15.5%	17.0%	11.0%	12.0%
Cost of debt capital	8.00%	8.50%	8.00%	8.50%	8.50%	9.00%	8.00%	8.50%
Net debt to enterprise value	40.0%	30.0%	40.0%	30.0%	25.0%	20.0%	30.0%	25.0%
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Weighted average cost of capital	**9.7%**	**11.2%**	**10.3%**	**11.9%**	**13.1%**	**14.9%**	**9.4%**	**10.5%**
Selected WACC	**10.0%**	**11.0%**	**10.5%**	**11.5%**	**13.0%**	**15.0%**	**9.5%**	**10.5%**

Source: Deloitte Corporate Finance analysis

The above calculations of WACC, which equate to the rates of return demanded by investors (both equity and debt), do not appear unreasonable based on our experience and taking account of the current markets and specific constraints presented by such conditions in the short term to gearing levels and development projects.

Appendix 7: Valuation assumptions – RBD Notes

Introduction

As discussed in Section 7.2, we have used the Black-Scholes option pricing model to estimate the fair market value of the embedded option component of the RBD Notes.

The following inputs were used in applying the Black-Scholes option pricing methodology to estimate the fair market value of the option component of each RBD Note.

Table 39: Valuation inputs

Inputs	Assumptions Low	Assumptions High	Rationale
Spot price	$0.45	$0.45	Based on the midpoint of our assessed range of values for the Enlarged BBC
Security price volatility	40%	50%	Estimated volatility of the security prices of BBC and comparable companies
Risk free interest rate	4.6%	4.6%	Government bond yield for the equivalent term of the RBD Notes
Distribution yield	6.0%	7.0%	Estimated distribution yield for BBC based on our analysis of comparable companies, the current environment and BBC's previously stated expectations
Expected life	5 years	5 years	Maximum term of the RBD Notes is 5 years
Probability of redemption	75%	60%	Reflects the potential that the RBD Notes will be redeemed during the period. Based on our discussions with management and the pipeline of non-core asset sales of BBC, we have assessed the probability of redemption to be in the range of 60% to 75%

Source: Deloitte Corporate Finance analysis

Our considerations regarding the more significant inputs are set out below.

Security price volatility

Taking into account the historical volatility of BBC's securities and its predecessor companies such as Primelife over the previous five years and the ASX as a whole, we have estimated the volatility of the underlying BBC security price to be in the range of 40% to 50% per annum. This is consistent with historical volatility recorded by companies operating in the retirement living sector.

Distribution yield

Taking into account the historical distribution yield of BBC's securities, and the projected distribution yield of BBC's securities published by various brokers in the market, we have estimated the projected distribution yield of BBC's securities to be 7.5% per annum.

Expected life

As the RBD Notes have a term of five years, and can not be converted by LLC until this time we have selected five years as the term of the RBD Notes. We do note that the RBD Notes can be redeemed by LLC for face value at any time and by BBC over the first two years, provided there are sufficient proceeds from asset sales.

Appendix 8: Comparable listed entities

For the purposes of our cross-check and the beta calculation, we reviewed companies listed on the Australian and New Zealand stock exchanges to identify companies with operations similar to the assets being valued.

The results of our research (and descriptions of the relevant companies) are set out below.

Table 40: Implied NTA multiples for comparable listed companies

Company	Market Capitalisation ($ million)	Enterprise Value ($ million)	FY08 NTA ($ million)	NTA (historical)	Ungeared NTA (Historical)
Companies with senior living operations					
Aevum	150	212	271	0.55 x	0.64 x
Metlifecare [1]	266	431	525	0.51 x	0.62 x
Ryman [1]	606	751	372	1.63 x	1.45 x
INGREC [2]	42	290	416	0.10 x	0.44 x
Prime Trust	124	463	531	0.23 x	0.53 x
Average				***0.60 x***	***0.74 x***
Median				***0.51 x***	***0.62 x***
Maximum				***1.63 x***	***1. 45 x***
Minimum				***0.10 x***	***0.44 x***
Companies with residential development operations					
FKP	447	1,657	1,337	0.33 x	0.65 x
Stockland	5,973	9,345	8,043	0.74 x	0. 82 x
LLC	2,840	3,098	2,314	1.23 x	1.20 x
Mirvac	1,717	4,026	4,089	0.42 x	0.63 x
Becton	25	499	379	0.07 x	0.59 x
Average				***0.56 x***	***0.78 x***
Median				***0.42 x***	***0.65 x***
Maximum				***1.23 x***	***1.20 x***
Minimum				***0.07 x***	***0.59 x***

Source: Bloomberg, Annual Reports and Deloitte Corporate Finance analysis

Notes:

1. Metlifecare and Ryman figures are presented in NZD
2. INGREC refers to ING Real Estate Community Living Group

With the exception of Ryman which has significant aged care operations, the majority of the companies are only suitable for comparison to retirement living operations.

Aevum

Aevum owns, operates and develops retirement villages and aged care facilities in Australia. The company owns and manages 2,109 retirement units and 202 aged care beds across 17 villages in NSW and 4 in Western Australia. Its development pipeline as at 30 June 2008 consisted of around 550 independent living units with an end value of $239 million.

Metlifecare

Metlifecare owns and operates 16 retirement villages in New Zealand, incorporating 10 care facilities and eight hospitals providing care for over 3,300 residents. One retirement village is currently under development in Auckland and will incorporate independent living units and serviced apartments.

Ryman

Ryman develops and manages retirement villages across New Zealand, providing a range of senior living options for over 3,500 residents across 18 operational retirement villages. Ryman facilities include independent townhouses, serviced apartments and a care centre, with four additional sites currently under development. Ryman is considered to be the best available comparable company to the Aged Care business of Enlarged BBC.

INGREC

INGREC invests in senior living and student living assets. The group's senior living assets in the US represent approximately 50% of the company's total assets with the remaining assets located in Australia, New Zealand and Europe.

Prime Trust

Prime Trust invests exclusively in retirement villages and various aged care facilities across Victoria, Queensland, South Australia and NSW. The trust holds a portfolio of 4,600 retirement village units and 780 aged care beds in nearly 40 locations, in addition to a development pipeline of 1,800 units and beds that are expected to be completed over the next five years.

FKP

FKP is engaged in a range of property development and investment activities throughout Australia and New Zealand. Its operations span residential developments, commercial, industrial and retail projects, the ownership and management of retirement villages, construction, design and project management and property funds management. FKP owns and operates 5,947 retirement units across Australia with an additional 969 units in the development pipeline. Furthermore, operational responsibility for both Aveo Live Well and Retirement Villages Group lies with FKP.

Stockland

Stockland is a diversified property group with operations in Australia and the United Kingdom with significant exposure to the residential development market. Its residential operations encompass residential communities, apartments and retirement living with 100 projects underway. As at 30 June 2008, Stockland had 20 existing retirement villages comprising 3,445 established units and a development pipeline of 3,600 units across 21 villages with an end value of $1.5 billion.

LLC

LLC is a property group specialising in project management and construction, real estate investment and development and operates in three geographic regions, namely Asia Pacific, Europe and the US. 19% of LLC's operations are involved in the communities segment, which has a focus on urban regeneration and large scale mixed use urban development.

Mirvac

Mirvac is an integrated real estate group with a focus on investment and management, and has $27.2 billion of activities under control across the real estate spectrum. Mirvac manages large scale residential and non-residential development projects, with $12.9 billion in residential development planned over the next eight to 10 years.

Becton

Becton is a diversified property group involved in property development and construction, property funds development and the ownership and operation of retirement villages. Becton has 889 retirement dwellings under management with another 1,009 under development.

Appendix 9: Comparable transactions

For the purposes of our cross-check, we also reviewed recent transactions in the Australian and New Zealand markets to identify companies with operations similar to the assets being valued.

Our research identified the following transactions:

Transactions in the retirement living sector

Table 41: Implied NTA multiples for recent transactions in the retirement living sector

Announced	Company	Acquirer	Enterprise Value ($ million)	Market Capitalisation ($ million)	NTA Multiple (Historical)	Ungeared NTA (times)
Oct-08	FKP	Stockland	1,774	563	0.42 x	0.70 x
Oct-08	Aevum	Stockland	250	188	0.69 x	0.75 x
Aug-07	Fini Portfolio	BBC	190	181	n/a [1]	1.00 x
Average					***0.56 x***	***0.81 x***
Median					***0.56 x***	***0.75 x***
Maximum					***0.69 x***	***1.00 x***
Minimum					***0.42 x***	***0.70 x***

Source: Bloomberg, Annual Reports, Mergermarket, the Data Room, ASX releases and Deloitte Corporate Finance analysis

Note:

1. Excluded on the basis that the market capitalisation of the portfolio represents the reported book value of equity for the portfolio.

FKP / Stockland

In October 2008, Stockland, the diversified property group, acquired a 5% stake in FKP, the diversified property and investment group operating in Australia and New Zealand. The company will acquire a stake of up to 13% of FKP through the partial sub-underwriting of a rights issue. FKP owns and operates 5,947 retirement units across Australia with an additional 969 units in the development pipeline. Furthermore, FKP holds the operational responsibility for both Aveo and Retirement Villages Group.

Aevum / Stockland

Stockland acquired BNB's 14.4% stake in Aevum in October 2008. Aevum owns, operates and develops retirement villages and aged care facilities in Australia. The company owns and manages 2,109 retirement units and 202 aged care beds across 17 villages in NSW and four in Western Australia.

Fini Portfolio / BBC

The acquisition of the Fini Portfolio of seven retirement villages in Western Australia completed the restructure proposal for the creation of BBC. The Fini Portfolio consists of 1,266 units with a further 160 units under construction and serves to diversify BBC's portfolio into the Western Australian market.

Transactions in the aged care sector

Our analysis did not identify any recent transactions in the aged care sector which could form the basis of a cross-check of our valuation of the Aged Care business.

Appendix 10: Sources of information

In preparing this report we have had regard to the following sources of information:

- BBC Facility-Level Projections
- RBD Model
- independent property valuations published by CBRE
- Prospectus and Product Disclosure Statement issued and dated 15 June 2007
- BBC Annual Reports and the annual reports of comparable companies
- BBC Half year and annual results investor presentations
- other information accessed through the Data Room
- ABS
- publicly available information on comparable companies and market transactions published by Thomson Financial, Bloomberg, Mergermarket, CorpFin and Factiva
- other publicly available information, media releases and brokers reports on BBC and the senior living industry.

In addition, we have had discussions and correspondence with certain executives of BBC, LLC and ABN Amro (advisors to BBC) and the commercial and operational management of each of BBC's business units in relation to the above information and to understand in greater detail the current operations and prospects of BBC and the RBD Assets.

Appendix 11: Glossary

Reference	Definition
$	Australian dollars
α	Specific company risk premium
ABS	Australian Bureau of Statistics
ACFI	Aged Care Funding Instrument
Aevum	Aevum Limited
AGA	Adjusted gross assets
AGM	Annual General Meeting
AFSL	Australian Financial Services Licence
AGSM	Australian Graduate School of Management
APCH	Australian Property Custodian Holdings Limited
ARVA	Australian Retirement Village Accreditation
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BBC	Babcock & Brown Communities Group
BBC Facility-Level Projections	Long-term projections of nominal cash flows of each existing BBC facility and development project prepared by BBC and their advisers
BBC Notes	BBC redeemable loan notes
BBC Target Statement	Target's Statement issued by BBC on 17 December 2008
BBCIS	Babcock & Brown Communities Investors Services
BBCT	Babcock & Brown Communities Trust
BBSY	Bank Bill Swap Bid Rate
Becton	Becton Property Group Limited
bps	Basis points
BNB	Babcock & Brown Group Limited
BNB Index, the	Index consisting of those companies listed on the ASX which are managed, to varying degrees by BNB
Board, the	The board of BBC
β	Beta
CAPM	Capital Asset Pricing model
Company, the	Babcock & Brown Communities Group
Comparables Index, the	Index consisting of the consolidated performance of companies directly comparable to BBC
Conform	Conform Health Group
CPI	Consumer price index
Data Room, the	The data room established as part of the price discovery process and available from 1 September 2008
DA	Development approval
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Directors, the	Directors of BBC
DMF	Deferred management fee
DRP	Distribution reinvestment plan
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMRP	Equity Market Risk Premium
Enlarged BBC	BBC including the RBD assets
ES	Extra Service Care
Fini Portfolio, the	Fini portfolio of retirement villages
First BNB Parcel	Acquisition by LLC of 50% of BNB's interest in BBC
First Notes	BBC Convertible redeemable loan notes with a face value of $0.68 per security
FKP	FKP Property Group
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year

Reference	Definition
GDP	Gross domestic product
HC	High care
HPI	House price inflation
ILU	Independent living units
Implementation Agreement	Implementation agreement between BBC and Lend Lease Corporation Limited in relation to a proposed recapitalisation of BBC
INGREC	ING Real Estate Community Living Group
IER	Independent expert's report to be prepared by Deloitte Corporate Finance
JV	Joint Venture
Kd	Cost of debt capital
Ke	Cost of equity capital
Lakes	The Lakes Retirement Village
LC	Low care
Listing Rules	ASX Listing Rules
LLC	Lend Lease Corporation Limited
LLC Proposal	Revised proposal relating to the proposed recapitalisation of BBC announced on 24 November 2008
Management Agreements	Agreements related to the management of BBC
Management Rights Transaction	Lend Lease acquiring the Management Agreements from BNB
Meeting	Securityholder meeting on 30 December 2008
Metlifecare	Metlifecare Limited
Mirvac	Mirvac Group Limited
Morningstar	Morningstar Inc
NAV	Net asset value
NSW	New South Wales
NTA	Net tangible assets
OIO	New Zealand Overseas Investment Office
Original LLC Proposal	Proposal announced on 1 October 2008 and set out in the Implementation Agreement in relation to a proposed recapitalisation of BBC
PCL	Primelife Corporation Limited
PDS	BBC Product Disclosure Statement
PFA	Preferred Financial Advisory agreement
PLT	PrimeLiving Trust
Potential RBD Note Conversion	The potential conversion of RBD Notes into BBC securities at maturity if they have not been redeemed prior to specified date
Prime Trust	Prime Retirement and Aged Care Property Trust
Prime Trust Offer	40% proportionate scrip offer for BBC
Prospectus	Prospectus & Product Disclosure Statement dated 15 June 2007
RBA	Reserve Bank of Australia
RBD	Retirement by Design, LLC's retirement portfolio
RBD Acquisition	Acquisition by BBC of RBD Assets
RBD Assets	Seven retirement villages and one aged care facility owned by LLC
RBD Model, the	Long-term cash flow projections of nominal cash flows in respect of RBD Assets prepared by LLC
RBD Notes	Convertible redeemable notes issued to satisfy RBD Acquisition
RCA	Retirement Care Australia
RCS	Resident Classification System
REI	Real Estate Institute of Australia
RVA	Retirement Villages Association
Ryman	Ryman Healthcare Limited
R_f	Risk free rate of return
R_m	Expected return on the market portfolio
SAs	Assisted living and serviced apartments
Second BNB Parcel	Acquisition by LLC of remaining 50% of BNB's interest in BBC
Second Notes	BBC convertible redeemable loan notes with a face value of $0.25 per security
Section 611	Section 611 of the Corporations Act 2001

Reference	Definition
Securityholders	Securityholders of BBC whose votes are not to be disregarded
Significant Securityholding Increase	Acquisition of Second BNB Parcel, the Tranche 2 Capital Raising to LLC, the conversion of the First Notes, the Potential RBD Note Conversion and the potential conversion of the Second Notes are collectively described as the Significant Securityholding Increase
SSI	Significant Securityholding Increase
Stockland	Stockland Corporation Limited
Strategic Review	Exploration of a range of strategic alternatives and options to reduce the gap between BBC's underlying asset values and its recent market trading prices in order to maximize the value for BBC stapled securityholders
t_c	Corporate tax rate
Tranche 1 Capital Raising	Issue of BBC Notes and First Notes to LLC
Tranche 2 Capital Raising	Issue of new securities by BBC to LLC
US	United States of America
VWAP	Volume Weighted Average Price
WACC	Weighted average cost of capital

Source: Deloitte Corporate Finance analysis

Appendix 12: Qualifications, declarations and consents

This report has been prepared at the request of the Directors of BBC and is to be included in the Notice of Meeting to be given to Securityholders for approval of the Significant Securityholding Increase and the RBD Acquisition in accordance with Section 611 and ASX Listing Rule 10, respectively. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notice of Meeting in their assessment of the Significant Securityholding Increase and the RBD Acquisition outlined in the report and should not be used for any other purpose. We are not responsible to you, or any one else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Significant Securityholding Increase and the RBD Acquisition.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Significant Securityholding Increase and the RBD Acquisition are fair and reasonable. Deloitte Corporate Finance consents to this report being included in the Notice of Meeting.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by BBC and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to BBC management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by BBC and its officers, employees, agents or advisors, BBC has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which BBC may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance’s reliance on the information provided by BBC and its officers, employees, agents or advisors or the failure by BBC and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the LLC Proposal.

We were also provided information by LLC management and had discussions with them in respect of the RBD Assets and LLC’s rationale in undertaking the transaction and future intentions. However, we have not been engaged by LLC and therefore they have no obligation to us. We may not have become aware of all information that may be relevant to our valuation of the RBD Assets. Accordingly the conclusions reached in our valuation report could differ to those reached had we had full access to the management of LLC.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance’s consideration of this information consisted of enquiries of BBC and LLC personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for BBC included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of BBC, the RBD Assets or Enlarged BBC referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Corporate Finance Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Tapan Parekh, BBus, MCom, CA, F Fin, Mark Pittorino, B Comm, M App Fin, CA, Dave Pearson, B Comm, CFA, CA, CBV. Tapan Parekh and Mark Pittorino are Directors and Dave Pearson is an Associate Director of Deloitte Corporate Finance. Each has many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte Corporate Finance, Deloitte Corporate Finance Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee which is estimated to be $435,000, exclusive of GST and other disbursements, in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the LLC Proposal.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney NSW 2000 acknowledges that:

- BBC proposes to issue a Notice of Meeting in respect of the proposal between BBC and the holders of BBC securities
- the Notice of Meeting will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Notice of Meeting for review.

On the basis that the Notice of Meeting is consistent in all material respects with the draft Notice of Meeting received, Deloitte Corporate Finance Pty Limited consents to it being named in the Notice of Meeting in the form and context in which it is so named, to the inclusion of its independent expert's report at Annexure A to the Notice of Meeting and to all references to its independent expert's report in the form and context in which they are included, whether the Notice of Meeting is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Notice of Meeting and takes no responsibility for any part of the Notice of Meeting, other than any references to its name and the independent expert's report as included in Annexure A of the Notice of Meeting.

BABCOCK & BROWN COMMUNITIES

Babcock & Brown Communities Group comprising
Babcock & Brown Communities Limited ABN 16 010 622 901 and
Babcock & Brown Communities Investor Services Limited ACN 080 737 042
as responsible entity of the Babcock & Brown Communities Trust ARSN 124 896 733

Please return your Proxy forms to:
Link Market Services Limited
Level 12, 680 George Street, Sydney NSW 2000
Locked Bag A14, Sydney South NSW 1235 Australia
Telephone: 1800 881 047
(02) 8280 7923
Facsimile: (02) 9287 0309
ASX Code: BBC
Website: www.linkmarketservices.com.au

APPOINTMENT OF PROXY

If you would like to attend and vote at the Annual General Meeting, please bring this form with you. This will assist in registering your attendance.

X99999999999

I/We being a member(s) of Babcock & Brown Communities Limited and entitled to attend and vote hereby appoint

A the **Chairman of the Meeting (mark box)** ☐ **OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of the Company to be held at 10:30am on Tuesday (Sydney time), 30 December 2008, at Auditorium, Museum of Sydney, corner of Bridge and Phillip Streets, Sydney, New South Wales and at any adjournment of that meeting.

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the share registry. Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

B **To direct your proxy how to vote on any resolution please insert X in the appropriate box below.**

ORDINARY BUSINESS

Resolution	For	Against	Abstain*
1 Remuneration Report – Company only	☐	☐	☐
2 Re-election of Mr Andrew Love as a Director – Company only	☐	☐	☐
3 Re-election of Ms Judith Sloan as a Director – Company only	☐	☐	☐

SPECIAL BUSINESS

Resolution	For	Against	Abstain*
4 Approval of the issue of Stapled Securities to Lend Lease Corporation Limited	☐	☐	☐
5 Approval of the acquisition of Stapled Securities by Lend Lease from Babcock & Brown International Pty Limited	☐	☐	☐
6 Approval of the issue and conversion of the Second Notes	☐	☐	☐
7 Approval of the Retirement By Design Acquisition	☐	☐	☐
8 Approval of the issue and conversion of the First Notes	☐	☐	☐
9 Appointment of new responsible entity – Trust only	☐	☐	☐
10 Change of name – Company only	☐	☐	☐
11 Amendment of management fees	☐	☐	☐

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

C **SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED**

Securityholder 1 (Individual)	Joint Securityholder 2 (Individual)	Joint Securityholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the securityholder's constitution and the *Corporations Act 2001* (Cwlth).

BBC PRX841

How to complete this Proxy Form

1 Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in section A. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in section A. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

3 Votes on Items of Business

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual:	where the holding is in one name, the holder must sign.
Joint Holding:	where the holding is in more than one name, either securityholder may sign.
Power of Attorney:	to sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 10:30am on Sunday, 28 December 2008, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the reply paid envelope or:

– by posting or facsimile to Babcock & Brown Communities Limited's share registry as follows:
Babcock & Brown Communities Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Facsimile: (02) 9287 0309

– lodging it online at Link's website (www.linkmarketservices.com.au) in accordance with the instructions given there (you will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website);

– delivering it to Level 12, 680 George Street, Sydney NSW 2000.