



14 September 2010

ASX/Media Release

STOCKLAND DESPATCHES SUPPLEMENTARY BIDDER'S STATEMENT

Stockland has today begun despatch of a Supplementary Bidder's Statement to Aevum shareholders, which sets out further information regarding its increased all-cash off-market Offer to acquire Aevum.

Stockland yesterday declared its increased bid unconditional and final.

Aevum shareholders who accept Stockland's increased Offer before 30 September 2010 will now receive a cash payment of \$1.80 per share, which will be made within three business days of receipt of their acceptance.

The total value of \$1.80 per share comprises an increased Offer price of \$1.77 per share plus the value of Aevum's three cent final dividend.

The offer will close at 7.00pm (Sydney time) on 30 September 2010, unless extended.

A copy of the Supplementary Bidder's Statement as sent to Aevum shareholders is available at www.stockland.com.au/aevum.

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14 September 2010

Company Announcements Manager
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

By email

Dear Sirs

Stockland Development Pty Limited as trustee for The Retirement Living Acquisition Trust ("Stockland") - Takeover bid for Aevum Limited ("Aevum")

In accordance with section 647 of the Corporations Act 2001 (Cwlth), we enclose a second supplementary bidder's statement dated 14 September 2010, which supplements Stockland's replacement Bidder's Statement despatched to Aevum Shareholders on 20 August 2010 ("**Second Supplement**").

The enclosed Second Supplement was lodged with the Australian Securities and Investments Commission and given to Aevum earlier today, and is in the process of being despatched to Aevum shareholders.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Phillip Hepburn".

Phillip Hepburn
General Counsel and Group Secretary

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Stockland

Second Supplementary Bidder's Statement 14 September 2010

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser as soon as possible.

ACCEPT the increased unconditional cash Offer before 30 September 2010 and you will receive total value of **\$1.80** per Aevum Share (inclusive of the value of Aevum's 3 cent Final Dividend)

ACCEPT THE CASH OFFER BY:

Stockland Development Pty Limited

(ACN 000 064 835)

a wholly owned subsidiary of Stockland Corporation Limited
(ABN 43 000 181 733)

as trustee for The Retirement Living Acquisition Trust

(ABN 32 474 093 417)

to purchase all of your shares in:

Aevum Limited

(ABN 80 087 648 691)

for **\$1.77** cash for each Aevum Share

plus the value of Aevum's **3 cent** Final Dividend payable to you if you accept the Offer before 30 September 2010

FOR MORE INFORMATION PLEASE CALL

1800 646 920

(callers in Australia) or

+61 2 8280 7071

(callers outside Australia) for further information about this Second Supplement.

www.stockland.com.au/aevum

Legal adviser

MALLESONS STEPHEN JAUQUES

Financial adviser

Deutsche Bank



The Offer will close at 7.00pm (Sydney time), on 30 September 2010, unless extended.

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This document is the second supplementary bidder's statement ("**Second Supplement**") to the Bidder's Statement dated 5 August 2010 ("**Original Bidder's Statement**") issued by Stockland Development Pty Limited (ACN 000 064 835) as trustee for The Retirement Living Acquisition Trust (ABN 32 474 093 417) ("**Stockland**") and lodged with the Australian Securities and Investments Commission ("**ASIC**") on 5 August 2010, in relation to the offer by Stockland ("**Offer**") for the ordinary shares in Aevum Limited (ABN 80 087 648 691).

A first supplementary bidder's statement ("**First Supplement**") and a replacement bidder's statement containing the changes made to the Original Bidder's Statement by the First Supplement were lodged with ASIC on 12 August 2010 ("**Replacement Bidder's Statement**"). On 20 August 2010, Stockland lodged with ASIC and ASX a copy of the Replacement Bidder's Statement as despatched to Aevum Shareholders ("**Bidder's Statement**"). This Second Supplement supplements, and is to be read together with, the Bidder's Statement as despatched to Aevum Shareholders. A copy of this Second Supplement was lodged with ASIC on 14 September 2010. Neither ASIC nor any of its officers takes any responsibility for the contents of this Second Supplement.

Unless the context requires otherwise, defined terms in the Bidder's Statement have the same meaning in this Second Supplement. This Second Supplement prevails to the extent of any inconsistency with the Bidder's Statement.

This Second Supplement also contains two notices under sections 650D and 650F of the Corporations Act 2001 ("**Corporations Act**") respectively, that were lodged with ASIC on 14 September 2010.

Letter from Chairman of Stockland Group

14 September 2010

Dear Aevum Shareholder,

Increased, unconditional and final cash Offer

On behalf of Stockland, I am pleased to make an increased and unconditional final offer to acquire all of your shares in Aevum.

The increased cash consideration comprises the increased Offer price of \$1.77 per share plus the value of Aevum's three cent final dividend, resulting in a total value of \$1.80 per Aevum Share, payable to you if you accept the Offer before 30 September 2010.

This Offer represents both a substantial premium to the share price for Aevum Shares immediately before Stockland announced its bid for Aevum and a premium to the average trading price during the Offer Period.

We have also accelerated our payment terms so that if you accept this increased Offer we will pay you within three Business Days of receiving your valid acceptance.

Stockland's increased Offer price has been declared last and final and will not be increased.

Benefits of the Offer

Premium

The value of Stockland's increased Offer is both a significant premium to the Aevum Share price before we announced our Offer and a premium to the average trading price during the Offer Period. Stockland's increased Offer value of \$1.80 per Aevum Share if you accept before 30 September 2010 represents:

- 65.1% premium to the \$1.09 closing price of Aevum Shares on the last Trading Day prior to the Announcement Date;
- 68.2% to the \$1.07 one month volume weighted average price (VWAP) of Aevum Shares prior to the Announcement Date;
- 59.2% to the \$1.13 three month VWAP of Aevum Shares prior to the Announcement Date; and
- 7.9% to the \$1.67 VWAP of Aevum Shares since the announcement of Stockland's Offer.

We anticipate that the share price will fall when Stockland's Offer closes. In addition, as trading volume levels in Aevum Shares have been consistently low, it may be difficult to sell large numbers of shares in the market, particularly after Stockland's Offer closes.

Cash certainty

As the Offer is now unconditional, you will be paid cash for your shares within three Business Days of Stockland receiving a valid acceptance from you. The Offer is fully funded from Stockland Group's ample existing cash reserves and undrawn debt facilities so you can be confident that sufficient funds are available to complete the Offer.

Aevum's Target's Statement made it clear that Aevum had not received any other formal alternative offers and we believe that the likelihood of a superior offer emerging is low, particularly now that Stockland has increased its Offer and waived all conditions to its Offer.

Letter from Chairman of Stockland Group

Aevum has failed to justify rejecting the Offer

Aevum has failed to make a compelling argument for you not accepting Stockland's Offer. Stockland has identified what it believes are a number of serious flaws in the Target's Statement prepared by Aevum for its shareholders. In Stockland's opinion, the Target's Statement:

- fails to reflect accurately the true underlying performance of Aevum's business;
- relies on an Independent Expert valuation which contains serious flaws and which appears to materially overstate the value of Aevum;
- contains other incorrect and potentially misleading statements; and
- contains several acknowledgements that indicate Stockland's Offer should be seriously considered by Aevum Shareholders.

Our full explanation of these issues is set out on pages 10-15 of this document.

Commitment to Aevum residents

We appreciate that some Aevum Shareholders are also residents in Aevum retirement villages and may be concerned about what a change of ownership may mean for them. Residents can be confident in Stockland Group's full commitment to being a leader in the retirement living sector. We have a strong track record in maintaining excellent resident satisfaction ratings in our existing retirement villages and we have consistently demonstrated our commitment to continue investing in village development for the benefit of our residents. Aevum residents will benefit from our proven expertise in the retirement living sector.

More information about this Offer

We encourage you to read this Supplementary Bidder's Statement for more details about Stockland's increased and unconditional Offer and our full response to Aevum's Target's Statement.

The Offer is open for your acceptance until **7.00pm (Sydney time) on 30 September 2010** (unless extended). If you wish to accept the Offer, please complete and return the enclosed Acceptance Form.

If you have any questions, please do not hesitate to contact the shareholder information line on 1800 646 920 from within Australia or on +61 2 8280 7071 from outside Australia or to consult your financial or other professional adviser.

Thank you for your consideration of our Offer. We look forward to receiving your acceptance.

Yours sincerely



Graham Bradley
Chairman

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1 Update on the Offer

1.1 Important developments

- **Stockland has increased its Offer price. Aevum Shareholders who accept the Offer before 30 September 2010 will receive a total value of \$1.80 per Aevum Share comprising:**
 - Stockland's increased Offer price of \$1.77 per Aevum Share; plus
 - the value of the 3 cents per Aevum Share final dividend announced by Aevum in respect of the financial year ended 30 June 2010 (the "**Final Dividend**").
- **Stockland has waived all conditions to the Offer and has declared the Offer unconditional**
- **Stockland's increased Offer is its last and final Offer**
- **Stockland's Offer is scheduled to close on 30 September 2010. Stockland has no current intention of extending the Offer Period, but retains the right to do so**

Stockland believes the increased, final and unconditional Offer represents an extremely attractive opportunity for Aevum Shareholders and urges Aevum Shareholders to review the contents of this Second Supplement and **accept the Offer** before it is scheduled to close at **7:00pm** (Sydney time) on **30 September 2010**.

1.2 Stockland's intentions

Stockland confirms that, if at the close of the Offer it has acquired less than 90% of Aevum Shares, or less than 50.1% of Aevum Shares, its intentions in respect of Aevum (as set out at sections 4.4 and 4.5 of the Bidder's Statement respectively) remain unchanged.

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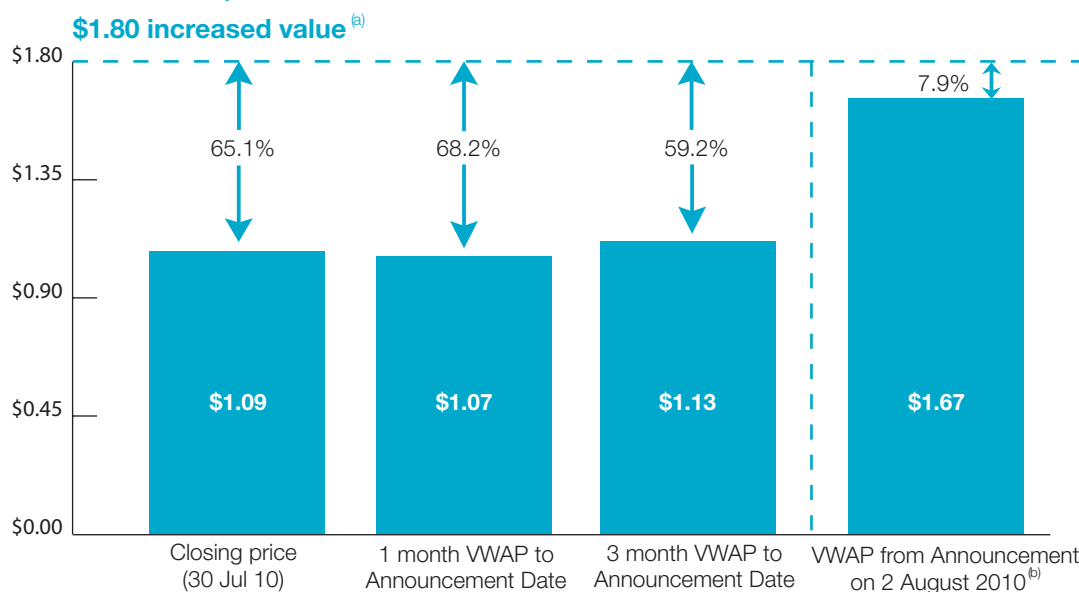
2 Reasons why you should ACCEPT Stockland's increased and unconditional final Offer

- Stockland's increased Offer is at a highly attractive and substantial premium
- Stockland's increased Offer compares favourably to recent transactions in the industry
- Stockland's increased Offer has no conditions attached
- Stockland's increased Offer is final and Stockland will not be increasing the Offer price
- Shareholders who accept the Offer will benefit from accelerated payment terms. Payment will be made within 3 Business Days of Stockland receiving Shareholders' valid acceptances
- Stockland's increased Offer is the only offer currently available to Aevum Shareholders
- The Aevum share price is likely to drop after Stockland's increased Offer closes and it may become difficult to sell large parcels of Aevum Shares in the market
- Stockland believes Aevum's Target's Statement fails to reflect accurately the underlying performance of Aevum's business and relies on an Independent Expert's valuation which, in Stockland's opinion, contains serious flaws
- When considering whether to accept Stockland's Offer, Aevum Shareholders should have regard to Stockland's estimate of an adjusted Independent Expert's valuation range for Aevum's shares of \$1.18 to \$1.39 after taking these flaws into account (see section 3.2 and Annexure A for more information)

2.1 Stockland's increased Offer is at a highly attractive and substantial premium

The increased cash consideration of \$1.80 per Aevum Share, payable to Aevum Shareholders who accept the Offer before 30 September 2010, represents a substantial premium of:

- 65.1% to the \$1.09 closing price of Aevum Shares on the Trading Day before the Announcement Date
- 68.2% to the \$1.07 one month volume weighted average price ("VWAP") of Aevum Shares prior to the Announcement Date
- 59.2% to the \$1.13 three month VWAP of Aevum Shares prior to the Announcement Date
- 7.9% to the \$1.67 VWAP of Aevum Shares from Stockland's announcement on 2 August 2010

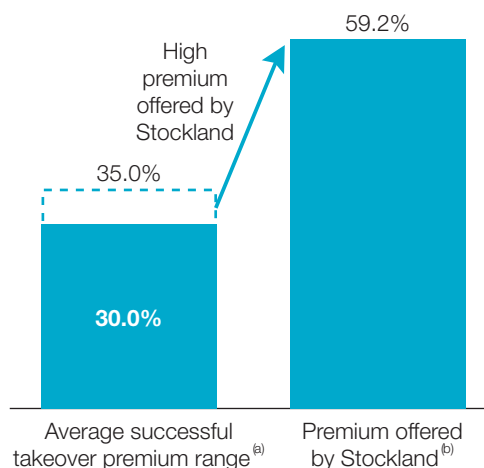


(a): Based on total value of \$1.80 payable to Aevum Shareholders who accept the Offer before 30 September 2010
 (b): VWAP as at 13 September 2010 (excluding the 10,388,911 Aevum Shares acquired by Stockland on 2 August 2010)

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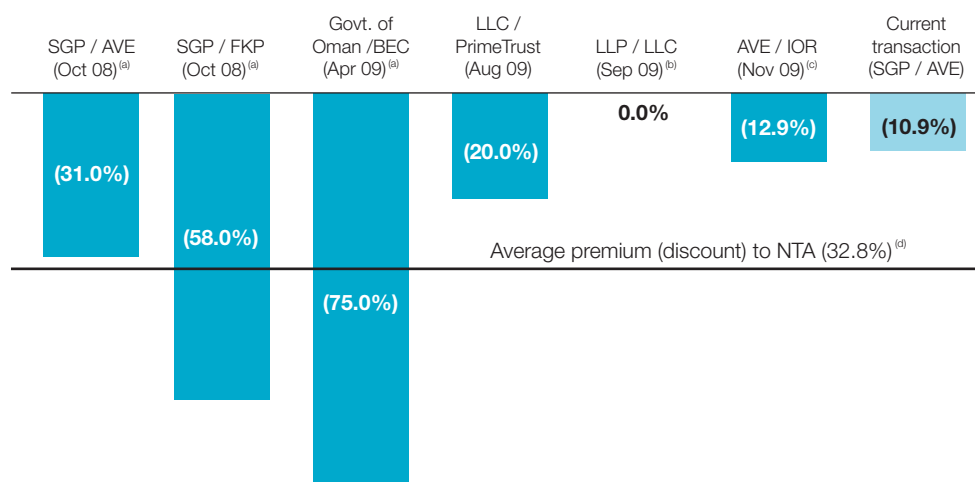
Additionally, the premium being offered is substantially greater than the average range of successful takeover premia of 30% to 35% as stated by the Independent Expert, Lonergan Edwards & Associates Limited (the “Expert”) in Aevum’s Target’s Statement.



- (a): Average successful takeover premium range (above the listed market price of a target company’s shares three months prior to announcement of a bid) as stated by the Expert on page 53 of its Independent Expert’s Report in Aevum’s Target’s Statement
- (b): Premium of 59.2% to the \$1.13 three month VWAP prior to the Announcement Date based on total value of \$1.80 payable to Aevum Shareholders who accept the Offer before 30 September 2010

2.2 Stockland’s increased Offer compares favourably to recent transactions in the industry

The total value of \$1.80 of Stockland’s increased Offer, payable to Aevum Shareholders who accept the Offer before 30 September 2010, represents a 10.9% discount to NTA. This discount is substantially lower than the average discount to NTA of 32.8% observed in a range of recent transactions in the industry.



- (a): Not control transactions
- (b): Several months prior to the transaction, LLP announced significant write-downs to its retirement living assets
- (c): Based on issue price of Aevum Shares of \$1.43 as per Aevum’s 1H2010 results
- (d): Excludes current transaction

2 Reasons why you should ACCEPT Stockland's increased and unconditional final Offer

- Stockland notes that all the transactions shown above (other than the current transaction and the Aevum/IOR transaction itself, which took place at a 12.9% discount to NTA), were used by the IOR Independent Expert in the Aevum / IOR merger transaction to assess the merits of that particular merger.
- Please refer to Annexure A, Section (g) of this Second Supplement for further details.

2.3 Stockland's increased Offer has no conditions attached

- Stockland has decided to waive all conditions to its Offer meaning its Offer is now unconditional.
- This means the Offer will proceed and that shareholders who validly accept the Offer will receive the Offer consideration.

2.4 Stockland's Offer is final and Stockland will not be increasing the Offer price

- Stockland has declared its Offer final.
- This means that Stockland will not be increasing its Offer again during the Offer Period.
- Aevum Shareholders who have been holding out for a higher offer are strongly encouraged to accept given **Stockland will not be increasing its Offer.**

2.5 Shareholders who accept the Offer will benefit from accelerated payment terms and be paid within 3 Business Days of Stockland receiving their valid acceptances

- Stockland has put in place accelerated payment procedures to ensure accepting Aevum Shareholders receive their cash as soon as possible.
- Shareholders who accept Stockland's attractive cash Offer will receive their consideration by cheque to be despatched within 3 Business Days after a valid acceptance is received by Stockland's share registry.

2.6 Stockland's increased Offer is the only offer currently available to Aevum Shareholders

- No alternative formal offer for Aevum has emerged since Stockland's Offer was announced on 2 August 2010.
- Aevum's Expert has confirmed that "no formal alternative offers have been received subsequent to the announcement of the Offer on 2 August 2010" (*Independent Expert's Report, Page 55*).
- Stockland notes the recent announcement made by Aevum on 9 September 2010 regarding its "indicative", "potential transaction" that is "under consideration" and under which "no agreement" has been reached with any party.
- Based on the above, it is clear that Stockland's Offer is currently the only offer available to Aevum Shareholders.
- Stockland Group believes that its existing position as Aevum's largest shareholder with more than 16% of Aevum Shares means that the likelihood of another bidder emerging with a superior proposal is very low.

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2.7 The Aevum share price is likely to drop after Stockland's increased Offer closes

- Stockland's view is the current share price of Aevum is supported by its current Offer and that when Stockland's Offer closes, it is highly likely that the Aevum Share price will fall below the value implied by the Offer (and it may become difficult to sell large parcels of shares in the market, particularly after Stockland's Offer closes) in the absence of any other superior proposals that may exist at that time.
- The Expert in Aevum's Target's Statement has confirmed that when Stockland's Offer closes it is likely "that Aevum shares will trade at a discount to our valuation" (*Independent Expert's Report, Page 54*).
- The closing share price of Aevum prior to the Announcement Date was \$1.09, and the 1-month VWAP prior to the Announcement Date was \$1.07.

2.8 Stockland believes Aevum's Target's Statement fails to reflect accurately the underlying performance of Aevum's business and relies on an Expert's valuation which, in Stockland's opinion, contains serious flaws

- Stockland has identified what it believes are a number of serious flaws in Aevum's Target's Statement.
- Full details of Stockland's response to the Target's Statement can be found in Section 3 of this Second Supplement.
- Stockland urges Aevum shareholders to read Stockland's response to Aevum's Target's Statement so you can properly assess Stockland's highly attractive and unconditional increased Offer.

3 Stockland's response to Aevum's Target's Statement

Stockland has identified what it believes are a number of serious flaws in the Target's Statement prepared by Aevum for Aevum Shareholders.

In Stockland's view, the **Target's Statement**:

- **Fails to reflect accurately the true underlying performance of Aevum's business**
- **Relies on an Expert's valuation which contains serious flaws and which appears to materially overstate the value of Aevum**
- **Contains other incorrect and potentially misleading statements**
- **Contains several acknowledgements that indicate that Stockland's Offer should be seriously considered by Aevum Shareholders**

3.1 Failure to reflect accurately the true underlying performance of Aevum's business

The failure by the Target's Statement to reflect accurately the true underlying performance of Aevum's business is demonstrated by the following key points:

- **Aevum's presentation of operating cash flows does not accurately reflect the true cash flow of the business as it includes the revenue from its development activities but excludes the development expenditure required to produce and sustain that revenue**
 - **Aevum's free cash flows are forecast to decline**
 - **Aevum has not included a profit forecast for the financial year ending 30 June 2011 ("FY11")**
 - **Aevum's underlying profitability has been declining**
 - **Aevum's earnings before interest and tax ("EBIT") prior to significant items has been close to nil for the last two financial years**
 - **Aevum's net tangible assets ("NTA") per share has been deteriorating**
 - **Aevum has demonstrated poor and declining operating metrics**
- (a) **Aevum's presentation of operating cash flows does not accurately reflect the true cash flow of the business as it includes the revenue from its development activities but excludes the development expenditure required to produce and sustain that revenue**
- (i) Aevum's reported operating cash flow, while in line with the appropriate accounting standards, fails to reflect the true free cash flow generated by Aevum's business.
 - (ii) For example, Aevum's reported operating cash flow includes the revenue from its development activities without taking into consideration the development expenditure required to produce and sustain that revenue.
 - (iii) By not including the development expenditure Aevum is selectively presenting its cash flows in a potentially misleading manner.
 - (iv) If restated to allow for development expenditure, underlying operating cash flow for the financial year ended 30 June 2010 ("FY10") was \$8.7 million, materially down from its 'headline' operating cash flow of \$29.1 million.

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(b) Aevum's free cash flows are forecast to deteriorate

- (i) Adjusting Aevum's forecast operating cash flow to include not only development cash inflows but also development cash outflows, forecast underlying operating cash flow in FY11 is negative \$1.3 million, materially less than Aevum's stated operating cash flow forecast of \$50.4 million.
- (ii) Based on Aevum's cash flow forecasts, total net cash flow is expected to decline from \$7.4 million in FY10 to negative \$10.5 million in FY11.
- (iii) Furthermore, Aevum's FY11 cash flow forecast of negative \$10.5 million is inclusive of drawing down \$20 million of additional debt. Without this 21% increase in net debt from FY10, the forecast net cash flows for FY11 would be negative \$30.5 million.

(c) Aevum has not included a profit forecast for FY11

- (i) Aevum's Target's Statement does not provide a profit forecast for FY11 making it difficult to form a view as to Aevum's future profitability.
- (ii) Aevum has stated in its Target's Statement that a key component of its income statement is the revaluation of investment properties, for which it cannot reasonably make forecasts. As a result, no income statement forecast for FY11 has been provided by Aevum.

(d) Aevum's underlying profitability has been declining

- (i) Aevum stated in its Target's Statement that underlying profit after tax increased to \$19.3 million for FY10. This, however, included volatile non-cash property revaluations of \$24.5 million, which resulted in higher FY10 underlying profitability.
- (ii) Adjusting the income statement to exclude the \$24.5 million of FY10 non-cash revaluation gains, results in an underlying loss of negative \$5.2 million.
- (iii) If the same adjustment of excluding property revaluations is made to Aevum's results for the financial year ended 30 June 2009 ("FY09") results, the reported underlying loss of negative \$12.2 million becomes a small profit of \$2.4 million.
- (iv) Aevum's underlying profit, therefore, has decreased from \$2.4 million in FY09 to a loss of negative \$5.2 million in FY10. This highlights a negative trend of declining and marginal profitability.
- (v) The lack of a profit forecast for FY11 is concerning in light of this decline in underlying profitability.

(e) Aevum's EBIT prior to significant items has been close to nil for the last two years

- (i) Despite Aevum's declaration of strong operating results, EBIT has been close to nil for the last two financial years; being negative \$1.2 million in FY09 and \$0.8 million in FY10.
- (ii) The Expert has excluded non-cash revaluations from EBIT due to their volatile and unpredictable nature and their ability to distort reported financial performance. This treatment of the non-cash revaluations provides a clearer and more accurate picture of Aevum's true earnings performance.

3 Stockland's response to Aevum's Target's Statement

- (f) **Aevum's NTA has been declining**
- (i) Aevum's NTA per share has declined from \$2.07 to \$2.02 over the last twelve months to 30 June 2010 despite an upward property revaluation of \$24.5 million.
 - (ii) This reduction in NTA per share demonstrates the value erosion suffered by Aevum shareholders over the last twelve months.
- (g) **Aevum has demonstrated poor and declining operating metrics**
- (i) In the period from the financial year ended 30 June 2007 ("FY07") to FY10 Aevum's retirement village occupancy fell from 96% to 91%.
 - (ii) FY10 sales price growth was 2.0% compared to Aevum's stated 1-year valuation assumption of 2.4% and medium / long-term valuation assumption of 4.2% as stated in Aevum's FY10 results presentation.
 - (iii) Aevum has not demonstrated a sustained and consistent track record in development through in-house capability. Development settlements have been erratic with 2 in the financial year ended 30 June 2008 ("FY08"), 43 in FY09, and 29 in FY10.

3.2 The Target's Statement relies on an Expert's valuation which, in Stockland's view, contains serious flaws and which appears to materially overstate the value of Aevum

- The Expert's valuation uses discount rates and price growth assumptions that are inconsistent with those determined by other independent valuers of Aevum's retirement assets and signed off by the Aevum Board for its FY10 financial report released on 24 August 2010
- There is no reasonable basis provided for the apparent omission of capitalised retirement operating expenses from the valuation
- The aged care valuation is based on an unsubstantiated normalised earnings before interest, tax, depreciation and amortization ("EBITDA") of \$3.6 million which is significantly higher than has been historically achieved in the business
- The aged care valuation implies values for Aevum's aged care beds that are materially inconsistent with the valuation in the Aevum / IOR merger transaction, prepared by Deloitte Corporate Finance Pty Limited (the "IOR Independent Expert")
- The Expert does not adequately substantiate the assumed level of synergies for Stockland and appears to inappropriately include 100% of these assumed synergies in its valuation
- The Expert's assessed value of Aevum's development "pipeline" is not substantiated
- The Expert has insufficient regard for recent transaction evidence in the retirement sector, including Aevum's own acquisition of IOR in February this year at a 13% discount to NTA
- The Expert disregards the trading price of Aevum Shares prior to the announcement of Stockland's Offer
- The Expert has no regard for the valuation of Aevum of \$1.40 to \$1.60 per Aevum Share assessed by the IOR Independent Expert in December 2009 for Aevum's merger with IOR

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- The Expert does not comply with ASIC guidance regarding the content of Independent Expert Reports, by failing to provide a cross check of its valuation using other valuation methods and failing to state any reasons or justifications for this approach

Having regard to the above factors, Stockland believes the Expert's assessed valuation range materially overstates the value of Aevum as shown in the table below.

Summary of Stockland's adjustments to the Expert's valuation

	Low (\$/share)	High (\$/share)	Annexure Reference
Expert's valuation	1.91	2.22	
less adjustment for inappropriate discount rate and price growth assumptions	(0.12)	(0.34)	Table A3
less adjustment for apparent omission of retirement operating expenses	(0.39)	(0.35)	Table A4
Subtotal after discount rate, price growth and retirement operating expenses adjustments	1.40	1.53	
less adjustment for unsubstantiated aged care valuation	(0.04)	(0.06)	Table A5
less adjustment for assumed payment by Stockland for unsubstantiated synergies	(0.18)	(0.08)	Table A6
Stockland's adjusted Expert's valuation	\$1.18	\$1.39	
Total potential overstatement of value	0.73	0.83	
Value of Stockland's Offer for Aevum Shareholders*	1.80	1.80	
Premium to Stockland's adjusted Expert valuation	52.5%	29.5%	

Please refer to Annexure A of this Second Supplement for full details of Stockland's response to Aevum's Independent Expert's Report.

* Payable to Aevum Shareholders who accept the Offer before 30 September 2010

3 Stockland's response to Aevum's Target's Statement

3.3 The Target's Statement contains a number of incorrect and potentially misleading statements

Statement	Comment
<ul style="list-style-type: none"> The Target's Statement asserts that Aevum uses a conservative discount rate relative to its peers (page 7) 	<ul style="list-style-type: none"> The discount rate used to value Aevum's retirement assets in its own FY10 results is reflective of Aevum's particular assets, not the assets of its peers Therefore the discount rate that Aevum uses is neither conservative or aggressive – it is the appropriate discount rate for Aevum's specific portfolio of assets as largely determined by independent valuers
<ul style="list-style-type: none"> Aevum states that Stockland's Offer does not adequately take into account Aevum's strong FY10 results and FY11 forecast (page 9) 	<ul style="list-style-type: none"> At the time of Stockland's Offer, Aevum had already released guidance to the market for its FY10 results and Stockland's Offer takes this guidance into consideration Additionally, Stockland does not believe that Aevum's reported operating loss before non-cash revaluations, declining year-on-year NTA and declining forecast free cash flows can be classified as a 'strong' result
<ul style="list-style-type: none"> Aevum states that the timing of Stockland's Offer is highly opportunistic (page 16) 	<ul style="list-style-type: none"> Stockland has been a shareholder in Aevum since October 2008 Aevum has been trading at an average discount to NTA of greater than 40% for more than 2 years prior to Stockland's Offer During this time, Aevum has traded as low as \$0.55, approximately one third of Stockland's initial Offer price of \$1.50 It is therefore highly misleading to state that Stockland's Offer is opportunistic
<ul style="list-style-type: none"> Aevum has rejected the use of its own share price as a measure of fair market value (page 17) 	<ul style="list-style-type: none"> The trading price of Aevum Shares is a direct reflection of the price willing buyers and sellers are prepared to pay at any point in time to acquire a portion of the underlying value of Aevum's business It is incorrect to state that the pre-announcement trading price of Aevum Shares does not adequately reflect the underlying value of Aevum's business Stockland notes that Aevum's directors used Aevum's trading share price as support for the value placed on IOR when it was acquired in January this year

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3.4 The Target's Statement confirms that Stockland's attractive Offer for Aevum should be seriously considered by investors

- The Expert notes that the premium implied by Stockland's Offer is consistent with or above the average premiums paid in successful takeovers generally
- The Expert agrees that Aevum Shares are highly illiquid, which confirms Stockland's assertion in its Bidder's Statement that it is difficult for Aevum Shareholders to sell larger shareholdings and that Stockland's Offer provides an attractive opportunity for these shareholders to exit at an attractive premium
- The Expert notes that if Stockland's Offer lapses and no higher or alternative proposal emerges, it is likely that Aevum Shares will trade at a discount to its valuation
- The directors of Aevum have confirmed that no formal alternative offers have been received

4 Increase in Offer consideration to be received by Aevum Shareholders

4.1 Stockland has increased the Offer price

Stockland has varied its Offer Terms to increase the consideration offered for each Aevum Share by 27 cents to \$1.77 **cash**. The increase to \$1.77 cash per Aevum Share is an increase of 18% over Stockland's original Offer price for Aevum of \$1.50 cash per Aevum Share.

The increase in the Offer price will result in Aevum Shareholders who accept the Offer before 30 September 2010 receiving total value of \$1.80 per Aevum Share, comprising:

- Stockland's increased Offer price of \$1.77 per Aevum Share; plus
- the value of the 3 cents per Aevum Share Final Dividend which Stockland is allowing Aevum Shareholders to receive or retain without any reduction in the Offer price (see 4.2 below).

Aevum Shareholders should note that the revised Offer price of \$1.77 cash per Aevum Share is final and Stockland will not be increasing the Offer price again during the Offer Period.

Stockland urges you to accept the increased Offer before the Offer closes at 7:00pm (Sydney time) on 30 September 2010, unless extended.

4.2 Aevum Shareholders entitled to receive the benefit of the Final Dividend

Subject to the following paragraph Aevum Shareholders will receive the benefit of the 3 cents per Aevum Share Final Dividend.

If you accept the Offer before 30 September 2010*, being the ex-dividend date for that Final Dividend, or (if the Offer Period is extended) you are the registered holder on the Record Date for that Final Dividend (7 October 2010) and entitled to that dividend and then accept the Offer, you will be entitled to receive or retain that Final Dividend without any reduction in the Offer price of \$1.77. In these circumstances, you will therefore receive total value of \$1.80, being Stockland's increased Offer price of \$1.77 plus the value of the 3 cents per Aevum Share Final Dividend that Stockland will forego.

* Aevum Shareholders need to accept by 7:00pm on 29 September 2010 in order to receive the 3 cents from Stockland.

4.3 Accelerated payment terms

Stockland has shortened the period for payment from 7 days to 3 Business Days after receipt of your acceptance. The payment terms otherwise remain the same as set out in the Bidder's Statement and the Offer Terms.

As the Offer is now unconditional, if you accept the Offer, Stockland will pay you the consideration to which you are entitled within 3 Business Days after the receipt of your acceptance.

Aevum Shareholders should note that:

- in accordance with section 650B(2) of the Corporations Act, any Aevum Shareholder who has already accepted the Offer and sent their Acceptance Form will be entitled to the increased Offer price of \$1.77 cash per Aevum Share plus the amount of the 3 cent Final Dividend; and
- Shareholders may accept the Offer using the original Acceptance Form which accompanied the Bidder's Statement despatched on 20 August 2010 or the replacement Acceptance Form provided to Aevum Shareholders with this Second Supplement and will still be entitled to the increased Offer price of \$1.77 cash per Aevum Share. Shareholders will also be entitled to receive or retain the 3 cent Final Dividend without any reduction in the Offer price if they accept the Offer before 30 September 2010 or (if the Offer Period is extended) if they are the registered holder of Aevum Shares on 7 October 2010 and entitled to that dividend and then accept the Offer.

4.4 Notice of variation of Offer

Attached to this Second Supplement (at Annexure B) is a copy of the formal notice under section 650D of the Corporations Act that gives effect to the increase in the Offer price.

5 Offer now unconditional

5.1 Stockland has declared its Offer unconditional

Stockland has decided to waive all conditions to its Offer and declare the Offer unconditional.

This means that Aevum Shareholders can now accept the unconditional Offer and be paid the increased Offer price within 3 Business Days of Stockland receiving a valid acceptance.

5.2 Notice of freeing of conditions of Offer

Attached to this Second Supplement (at Annexure C) is a copy of the formal notice under section 650F of the Corporations Act that gives effect to the freeing of the conditions of the Offer.

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6 Funding

6.1 Stockland's Offer is fully funded

According to documents lodged by Aevum with ASX, the number of Aevum Shares on issue at the date of this Second Supplement is 177,593,188 and the number of Aevum Share Options on issue is 987,576. If the Offer is accepted in respect of all the Aevum Shares to which the Offer relates (including the maximum number of Aevum Shares which could be issued on exercise of Aevum Share Options) the maximum consideration payable to Aevum Shareholders as a result of Stockland's increased Offer price will be approximately \$270 million (assuming all Aevum Shareholders accept the Offer before 30 September 2010).

As noted in section 6.2 of the Bidder's Statement, Stockland intends to fund the Offer solely through utilising existing cash reserves and existing undrawn and available debt facilities. Stockland Group's existing cash reserves and existing undrawn and available debt facilities (described in section 6.2 of the Bidder's Statement) are significantly in excess of the maximum consideration payable pursuant to the increased Offer.

As noted in section 6.3 of the Bidder's Statement, Stockland Corporation has unconditionally and irrevocably agreed to procure that Stockland is provided with all amounts Stockland requires to make payment pursuant to the increased Offer as and when those payments are due to be made. Accordingly, sufficient funds are available to Stockland to fund the maximum consideration payable under the increased Offer from those reserves and facilities.

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7 Broker handling fees

7.1 Stockland confirms it will pay Broker handling fees

Stockland announces that it will pay handling fees to brokers in respect of valid acceptances received from retail Aevum Shareholders, on the terms set out below.

Subject to the terms below, Stockland will pay a handling fee (“**Handling Fee**”) to participating organisations of ASX and NZX (“**Brokers**”) in respect of valid acceptances received from retail Aevum Shareholders in connection with the Offer (“**Acceptances**”), where such Acceptances are from clients of the Broker and were procured by the Broker.

A retail Aevum Shareholder is one who is not a Broker or an associate of a Broker and who is, as at the date of the Acceptance, recorded on the register of Aevum Shareholders (or who has a beneficial interest in Aevum Shares through a registered Aevum Shareholder) and holds fewer than 200,000 Aevum Shares (determined at the discretion of Stockland).

The Handling Fee payable in respect of an Acceptance will be 0.75% of the consideration payable by Stockland under the Offer as a result of that Acceptance (being \$1.77 per Aevum Share plus any entitlement, if applicable, to receive the Final Dividend of 3 cents per Aevum Share from Stockland), subject to:

- (a) the minimum Handling Fee payable in respect of any Acceptance being \$50; and
- (b) the maximum Handling Fee payable in respect of any Acceptance being \$750.

The Handling Fee will not be increased.

The Handling Fee will only apply to Acceptances received by Stockland after 14 September 2010 and before the end of the Offer Period, being 7.00pm (Sydney time) on 30 September 2010 (unless extended).

If the Offer is extended and Stockland decides to extend the Handling Fee to the Acceptances received during the extended period, it will announce this in a notice released to ASX on or before 30 September 2010. Stockland reserves the right not to extend the Handling Fee to any such extension of the Offer Period.

The Handling Fee is payable to Brokers only, not Aevum Shareholders, and will not be paid in respect of the Aevum Shares held by a Broker or an associate of the Broker on its own account.

The Handling Fee will be payable to any Broker who submits to Link Market Services Limited (“**Link Market Services**”):

- (c) a valid and duly completed claim form (“**Claim Form**”) which sets out:
 - (i) the Broker’s Participant Identification Number;
 - (ii) a representation that neither the Broker nor its associate is the accepting Aevum Shareholder and that the fee will not be passed on or otherwise shared directly or indirectly with the accepting Aevum Shareholder; and
- (d) a list of Acceptances (“**Acceptance List**”) which contains:
 - (i) the registered name and address for each Aevum Shareholder to which the Claim Form relates;
 - (ii) the Holder Identification Number or Shareholder Reference Number for each Aevum Shareholder to which the Claim Form relates;
 - (iii) the number of Aevum Shares in respect of which each such Aevum Shareholder has accepted the Offer and the date of the relevant Acceptance; and

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- (e) **if the Acceptance is effected by an Acceptance Form, a copy of such form bearing the Broker's stamp (where applicable),**

such that they are received by Link Market Services in one of the formats described below by 7.00pm (Sydney time) on the day which is 5 Business Days after the end of the Offer Period; and thereafter provides satisfactory evidence reasonably requested by Link Market Services that any such Acceptances meet the requirements for the Handling Fee.

No Handling Fee will be paid in respect of any Acceptance for which more than one Broker tenders a Claim Form. Each Broker firm should submit only one Claim Form, which covers all Acceptances in respect of which the Broker firm (including its employee brokers) is claiming the Handling Fee.

Claim Forms may be requested by email from Link Market Services. The Claim Form and the Acceptance List must be submitted to Link Market Services in hard copy format. The Acceptance List must also be emailed in Microsoft® Excel® format to the Link Market Services email address below.

Claim Forms and Acceptance Lists must be forwarded to:

By Post:

Link Market Services Limited
Aevum Limited Takeover
Attention: Capital Markets
Locked Bag A14
Sydney South NSW 1235

By Delivery:

Link Market Services Limited
Aevum Limited Takeover
Attention: Capital Markets
Level 12, 680 George Street
Sydney NSW 2000

By Email: stockland@linkmarketservices.com.au

Where an Aevum Shareholder on the CHESS sub-register directly requests Stockland, and not the relevant Broker, to initiate acceptance of the Offer on their behalf, that Broker will not be entitled to receive the Handling Fee. No Handling Fee is payable in respect of an Acceptance where an Acceptance Form has been sent to Link Market Services directly by the Aevum Shareholder or through another agent. No Handling Fees are payable in respect of Acceptances that are not treated as valid by Stockland or are validly withdrawn (if withdrawal rights exist under the Corporations Act). Stockland reserves the right to aggregate any Acceptances in determining the Handling Fees payable to any Broker if Stockland reasonably believes that a party has structured holdings of Aevum Shares to take advantage of the Handling Fee. Stockland may in its discretion determine any disputes regarding whether a Handling Fee is payable.

Subject to the terms set out above, payment of the Handling Fee in respect of any Acceptances will be made by cheque by the later of:

- (f) **10 Business Days after the date of receipt by Link Market Services of:**
- (i) an Acceptance Form (where applicable) bearing the Broker's stamp; and
 - (ii) the Claim Form and the Acceptance List in the formats described above; and
- (g) **21 days after the end of the Offer Period.**

8 Consents

Stockland has relied on the modification to section 636(3) of the Corporations Act set out in paragraph 11 of ASIC Class Order 01/1543 "Takeover Bids" to include, without obtaining specific consent, statements which are made in, or based on statements made in, documents announced on the company announcements platform of ASX by Aevum, including Aevum's Target's Statement and accompanying Independent Expert's Report.

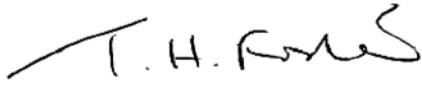
If you would like to receive a copy of any of these documents (free of charge), please contact the shareholder information line on 1800 646 920 (toll-free) from within Australia or on +61 2 8280 7071 from outside Australia. Stockland notes that the Target's Statement and accompanying Independent Expert's Report have already been mailed to Aevum Shareholders directly by Aevum.

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9 Authorisation

The copy of this Second Supplement that is to be lodged with ASIC has been approved by a resolution passed by the directors of Stockland on 14 September 2010.

Signed by Tim Foster of Stockland in accordance with section 351 of the Corporations Act.

A handwritten signature in black ink, appearing to read 'T. H. Foster', written in a cursive style.

Director: Tim Foster

Date: 14 September 2010

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Annexure A – Stockland’s detailed response to Aevum’s Independent Expert’s Report

As noted in Section 3.2 of this Second Supplement, Stockland believes the Expert’s report contained in Aevum’s Target’s Statement contains serious flaws and materially overstates the value of Aevum for the following reasons:

- The Expert’s valuation uses discount rates and price growth assumptions that are inconsistent with those determined by other independent valuers of Aevum’s retirement assets and signed off by the Aevum Board for its FY10 financial report released on 24 August 2010
- There is no reasonable basis provided for the apparent omission of capitalised retirement operating expenses from the valuation
- The aged care valuation is based on an unsubstantiated normalised EBITDA of \$3.6 million which is significantly higher than has been historically achieved in the business
- The aged care valuation implies values for Aevum’s aged care beds that are materially inconsistent with the IOR Independent Expert valuation in the Aevum / IOR merger transaction
- The Expert does not adequately substantiate the assumed level of synergies for Stockland and appears to inappropriately include 100% of these assumed synergies in its valuation
- The Expert’s assessed value of Aevum’s development “pipeline” is not substantiated
- The Expert has insufficient regard for recent transaction evidence in the retirement sector, including Aevum’s own acquisition of IOR in February this year at a 13% discount to NTA
- The Expert disregards the trading price of Aevum Shares prior to the announcement of Stockland’s Offer
- The Expert has no regard for the valuation of Aevum of \$1.40 to \$1.60 per Aevum Share assessed by the IOR Independent Expert in December 2009 for Aevum’s merger with IOR
- The Expert does not comply with ASIC guidance regarding the content of Independent Expert Reports, by failing to provide a cross check of its valuation using other valuation methods and failing to state any reasons or justifications for this approach

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Having regard to the above factors, Stockland believes the Expert's assessed valuation range materially overstates the value of Aevum as shown in the table below.

TABLE A1: Summary of Stockland's adjustments to the Expert's valuation

	Low (\$/share)	High (\$/share)	Annexure Reference
Expert's valuation	1.91	2.22	
less adjustment for inappropriate discount rate and price growth assumptions	(0.12)	(0.34)	Table A3
less adjustment for apparent omission of retirement operating expenses	(0.39)	(0.35)	Table A4
Subtotal after discount rate, price growth and retirement operating expenses adjustments	1.40	1.53	
less adjustment for unsubstantiated aged care valuation	(0.04)	(0.06)	Table A5
less adjustment for assumed payment by Stockland for unsubstantiated synergies	(0.18)	(0.08)	Table A6
Stockland's adjusted Expert's valuation	\$1.18	\$1.39	
Total potential overstatement of value	0.73	0.83	
Value of Stockland's Offer for Aevum Shareholders*	1.80	1.80	
Premium to Stockland's adjusted Expert valuation	52.5%	29.5%	

(a) The Expert's valuation uses discount rate and price growth assumptions that are inconsistent with those signed off by the Aevum Board for its FY10 financial report released on 24 August 2010

- (i) Stockland notes that the Target's Statement acknowledges (on page 6) that items on Aevum's balance sheet in its FY10 financial report are already meant to reflect market / fair values.
- (ii) In Aevum's FY10 results that were released on August 24, Aevum stated that the average discount rate applied across its retirement portfolio was 13.88%.
- (iii) Aevum's average discount rate has increased (i.e. deteriorated) to 13.88% from its FY09 results where the average discount rate applied was 13.53%.
- (iv) The discount rates in Aevum's results are determined by independent valuers who are experts in the valuation of retirement village portfolios and who have already assessed appropriate discount rates to apply to Aevum's retirement assets.
- (v) The Expert notes in its own valuation that in the FY10 results, the discount rates that apply to Aevum's own portfolio range from 13.0% to 16.75%.
- (vi) Aevum has not released to the market any announcements or other information which may give rise or cause the need to revise the assessment made by Aevum's directors as at 30 June 2010.

* Payable to Aevum Shareholders who accept the Offer before 30 September 2010

Annexure A – Stockland’s detailed response to Aevum’s Independent Expert’s Report

- (vii) In its valuation, the Expert has applied a discount rate range of 12.5% to 13.5% to Aevum’s retirement portfolio which is inconsistent with the approach adopted by Aevum’s directors in Aevum’s FY10 financial report.
- (viii) Stockland notes that discount rates are unique to individual assets and it is inappropriate, and can be misleading, to refer to peer company discount rates which reflect the specific assets of those peer companies and are not representative of Aevum’s own portfolio.
- (ix) Stockland also notes that to apply a ‘portfolio’ adjustment to Aevum’s asset discount rates and thereby increase the asset values, is incorrect for a number of reasons, such as:
- Independent valuers often include an asset’s participation in a portfolio as one of its considerations when selecting an appropriate discount rate, therefore, the Expert may be double counting any ‘portfolio’ benefits by further adjusting the discount rate for this impact; and
 - There is no evidence that Aevum’s portfolio is of reduced risk purely because Aevum owns a collection of assets. To the contrary, the share price prior to the announcement of Stockland’s Offer is one indicator of the risk adjusted market value of Aevum’s entire asset portfolio.
- (x) In its FY10 results presentation, Aevum stated that the long-term price growth assumption for its retirement assets was 4.2% whereas the Expert has applied a mid-point long-term price growth rate of 4.5% in its valuation which is inconsistent with Aevum’s own report.
- (xi) The average long term price growth rate of industry participants (excluding Aevum) as set out in paragraph 177 of the Expert’s report is 4.2% (see table below).

TABLE A2: Long term capital growth in unit values assumed by industry participants

	%p.a
Becton	4.3%
FKP Property Group	5.0%
ING Real Estate Community Living	n/a
Lend Lease Primelife	3.9%
Prime Retirement & Aged Care Property Trust	4.0%
Stockland	3.7%
Average (Excluding Aevum)	4.2%

Source: page 105, Aevum Target’s Statement (paragraph 177, Aevum Independent Expert’s Report)

- (xii) The IOR Independent Expert’s Report included in the Aevum / IOR merger transaction used a long term growth rate between 3.0% and 3.5% to value IOR’s retirement village portfolio.
- (xiii) Adjusting for the inappropriate discount rate and price growth assumptions described above that have been applied by the Expert results in a reduction in the assessed valuation of Aevum of \$0.12 to \$0.34 per share as shown in the table on opposite page.

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TABLE A3: Stockland's adjustments for inappropriate discount rate and price growth assumptions

	Low	High
Reported FY10 value for Aevum retirement (\$m)	398.7	398.7
Expert's valuation for Aevum retirement (\$m)	420.0	460.0
Adjustment for inappropriate discount rate and price growth assumptions (\$m)	(21.3)	(61.3)
Fully diluted shares on issue (m)	178.0	178.0
Adjustment per share (\$)	(0.12)	(0.34)

(b) There is no reasonable basis for the apparent omission of capitalised retirement operating expenses from the valuation

- (i) The Expert has not adequately explained how operating expenses relating to the retirement living business have been accounted for or applied in its valuation.
- (ii) In its FY10 results, Aevum reported \$8.8 million of retirement operating expenses. These costs do not reflect current annual costs as they only include 5 months of IOR's allocated retirement costs.
- (iii) Operating expenses can be differentiated from the asset specific costs that are normally valued in the deferred management fee ("DMF") contracts and included in the valuation of Aevum's retirement assets.
- (iv) The Expert has not adequately explained how the retirement operating expenses have been treated in its valuation.
- (v) Stockland notes that the valuation is overstated to the extent that the analysis does not adequately account for these expenses in the Expert's valuation. Applying an equivalent capitalisation rate as that applied by the Expert to unallocated corporate overheads (of 7.0x to 8.0x), would result in a reduction to the Expert's valuation by \$0.35 to \$0.39 as shown in the table below.

TABLE A4: Stockland's adjustment for apparent omission of retirement operating expenses

	Low	High
Aevum reported retirement operating expenses for FY10 (\$m)	(8.8)	(8.8)
Capitalisation rate	8.0x	7.0x
Capitalised retirement operating expenses (\$m)	(70.1)	(61.6)
Fully diluted shares on issue (m)	178.0	178.0
Adjustment per share (\$)	(0.39)	(0.35)

Annexure A – Stockland’s detailed response to Aevum’s Independent Expert’s Report

- (vi) Stockland notes that the impact shown above is conservative as it only includes 5 months of IOR’s retirement operating expenses.
- (c) The aged care valuation is based on an unsubstantiated normalised EBITDA of \$3.6 million which is significantly higher than has been historically achieved in the business**
- (i) Stockland notes that the profit before tax (“PBT”) of aged care was only \$1.3 million in FY10 and \$0.4 million in FY09
- Stockland notes that the FY10 PBT only includes 5 months contribution from IOR’s aged care business, however, based on the disclosure in the Independent Expert’s Report for that transaction, the normalised FY10 EBITDA of IOR aged care operations is only \$0.5m and the actual EBITDA for FY09 was \$0.1 million.
- (ii) The Expert does not provide any reasonable basis for its assumption of normalised EBITDA for Aevum’s aged care business of \$3.6 million.
- An appropriate substantiation would include cost and revenue growth rate assumptions to support the sustainability of the EBITDA being capitalised
- (d) The aged care valuation implies values for Aevum’s aged care beds that are materially inconsistent with the IOR Independent Expert valuation in the Aevum / IOR merger transaction**
- (i) The Expert notes that its assessment of the value of Aevum’s aged care business equates to a value range of approximately \$102,000 to \$113,000 per bed.
- (ii) The Expert states that this range of per bed values is broadly consistent with recent transaction evidence, however the Expert does not provide any transaction examples with which to back up this statement.
- (iii) In the Scheme documents for the Aevum / IOR merger transaction, a value range of \$5.0 million to \$7.5 million was placed on IOR’s aged care business. This value equates to a range of approximately \$30,000 and \$45,000 per bed. This value is materially lower than the range of \$102,000 to \$113,000 that the Expert places on Aevum’s aged care business.
- (iv) Stockland notes that if the value of Aevum’s aged care business is adjusted to reflect the reported net tangible value used by its own directors in its FY10 financial report, the Expert’s valuation of Aevum would be reduced by \$0.04 to \$0.06 per Aevum Share as shown in the table below.

TABLE A5: Stockland’s adjustment for unsubstantiated aged care valuation

	Low	High
Reported FY10 value for aged care (\$m)	30.5	30.5
Expert’s valuation for Aevum aged care (\$m)	37.4	41.5
Adjustment for unsubstantiated aged care valuation (\$m)	(6.9)	(11.0)
Fully diluted shares on issue (m)	178.0	178.0
Adjustment per share (\$)	(0.04)	(0.06)

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(e) The Expert does not adequately substantiate the assumed level of synergies for Stockland and appears to inappropriately include 100% of these assumed synergies in its valuation

- (i) The Expert has included annual synergies of \$4.0 million in its valuation of Aevum that equates to a value increase of \$28 to \$32 million (\$0.16 to \$0.18 per Aevum Share) when capitalised at the Expert's multiple of 7.0x to 8.0x.
- (ii) The Expert has provided no explanation or analysis of how it has derived its estimate of synergies, nor provided synergy calculations, costs of implementation and achievement timeline.
- (iii) The Expert has provided no explanation of why a multiple range of 7.0x to 8.0x is appropriate to capitalise its estimate of synergies.
- (iv) Aevum has already achieved annual synergies of \$4.0 million from its merger with IOR which materially reduces the amount of any synergies that may be available to Stockland should it acquire 100% of Aevum.
- (v) The Expert has assumed that Stockland will be successful in acquiring 100% of Aevum.
 - If Stockland is not successful in acquiring 100% of Aevum its ability to extract any synergies from the business will be limited and, therefore, it would be inappropriate to include an allowance for 100% of estimated synergies in the Expert valuation.
- (vi) The Expert appears to have assumed in its valuation that Stockland will pay away 100% of any synergies it may achieve upon a successful acquisition of Aevum.
 - The IOR Independent Expert in the Aevum / IOR merger transaction earlier this year, assumed 0% to 50% of estimated synergies would be paid away in its valuation for that transaction.
- (vii) If estimated synergies are treated on the same basis as in the Aevum / IOR Expert's Report (i.e. allowing for 0% to 50% of estimated synergies), the Expert's valuation would be reduced by \$0.08 to \$0.18 per share as shown in the table below.
(Note: Stockland is not yet in a position to calculate likely synergies and is not endorsing any estimate of synergies in the Target's Statement).

TABLE A6: Stockland's adjustments for unsubstantiated synergies being paid away by Stockland

	Low	High
Annual synergies assumed in Expert's valuation (\$m)	4.0	4.0
Multiple applied by the Expert to capitalise synergies	8.0x	7.0x
Capitalised value of synergies included in Expert's valuation (\$m)	32.0	28.0
Adjustment for assumed payment by Stockland for unsubstantiated synergies ¹ (\$m)	(32.0)	(14.0)
Fully diluted shares on issue (m)	178.0	178.0
Adjustment per share (\$)	(0.18)	(0.08)

1. Low value includes 0% of estimated synergies, high value includes 50% of estimated synergies

Annexure A – Stockland’s detailed response to Aevum’s Independent Expert’s Report

(f) The Expert’s assessed valuation of Aevum’s development “pipeline” is not substantiated

- (i) The Expert has valued Aevum’s development pipeline within a range of \$50 million to \$53 million versus the current value in its recently released FY10 results of \$42 million.
- (ii) Aevum has not demonstrated a sustained and consistent track record in development through in-house capability. Development settlements have been erratic with 2 in FY08, 43 in FY09, and 29 in FY10.
- (iii) The Expert has inappropriately referenced Stockland’s own development discount rate in deriving a discount rate for Aevum’s development pipeline. Stockland’s development discount rate takes account of Stockland’s deep development experience, funding capacity and credit rating, which Aevum does not have.
- (iv) As such, the Expert does not appear to have taken account of Aevum’s lack of substantial development history and experience, and its lack of sustained delivery of completed developments when setting an appropriate risk adjusted discount rate for Aevum’s development pipeline.

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(g) **The Expert has insufficient regard for recent transaction evidence in the retirement sector, including Aevum's own acquisition of IOR in February this year at a 13% discount to NTA**

- (i) In the Aevum / IOR merger transaction, the IOR Independent Expert assessed recent transaction evidence in the retirement living industry in line with ASIC guidance.
- (ii) The Expert has not referred to recent transaction evidence in its assessment of Aevum's valuation.
- (iii) The average discount to NTA for the transactions cited by the IOR Independent Expert in the Aevum / IOR merger transaction was 37%.
- (iv) Stockland notes that the Aevum / IOR merger transaction took place at a 13% discount to NTA. When this transaction is included in the list of comparable transactions used in the IOR Independent Expert report, the average discount to NTA for comparable transactions is 33% as shown in the table below.

TABLE A7: Implied NTA multiples for recent transactions in the retirement living sector

Announced	Company	Acquirer	Interest acquired	Transaction price (\$m)	Premium / (discount) to NTA
2 Nov 09	IOR Group	Aevum	100.0%	69 ⁽¹⁾	(12.9%)
28 Sep 09	Lend Lease Primelife	Lend Lease Corporation	56.8%	170	0.0%
14 Aug 09	Certain assets of PrimeTrust	Lend Lease Corporation	100.0%	77	(20.0%)
17 Apr 09	Summerset Management Group	Quadrant Private Equity	49.9%	n/a	n/a
14 Apr 09	Certain assets of Becton Property Group	Government of the Sultanate of Oman	50.0%	31	(75.0%)
15 Oct 08	FKP	Stockland	14.9%	563	(58.0%)
10 Oct 08	Aevum	Stockland	14.4%	188	(31.0%)
Average premium / (discount) to NTA - excluding Aevum / IOR					(36.8%)
Average premium / (discount) to NTA - including Aevum / IOR					(32.8%)

1. Aevum / IOR merger transaction price based on issue price of Aevum Shares of \$1.43 as per Aevum's 1H 2010 results presentation

Source: Aevum / IOR Scheme Booklet; Aevum 1H 2010 results presentation

- (v) Applying a 33% discount to Aevum's NTA would result in an implied transaction valuation of \$1.36 per Aevum Share, as shown in the table below:

TABLE A8: Implied valuation of Aevum based on recent transaction comparables

Aevum reported NTA (30 Jun 10) (\$/share)	2.02
Average discount to NTA from comparable transactions (32.8%)	(0.66)
Implied valuation of Aevum	\$1.36

Annexure A – Stockland’s detailed response to Aevum’s Independent Expert’s Report

- (h) The Expert disregards the trading price of Aevum Shares prior to the announcement of Stockland’s Offer**
- (i) Prior to Stockland announcing its Offer, Aevum Shares were trading at \$1.09.
 - (ii) The Expert has stated that “the trading level of Aevum prior to the announcement of the Offer is not a reliable indicator of Aevum’s market value or an appropriate reference point from which to assess the Offer”.
 - (iii) The market price of Aevum Shares prior to the Offer is the only reliable indicator of Aevum’s market value at that time.
 - The market price reflects the price that buyers and sellers are willing to transact in Aevum Shares.
 - Aevum is covered by three equity analysts providing the financial markets and sophisticated and institutional investors with research reports on Aevum.
 - Stockland notes that some of Aevum’s largest shareholders have bought and sold shares during this period indicating their support for the market price as an indicator of value.
 - The lack of liquidity in Aevum Shares is reflective of the general lack of demand for Aevum Shares relative to other listed stocks.
 - Notwithstanding the limited liquidity, Aevum complies with the full disclosure regime required by ASX. As a result, the market should be fully informed about the performance and affairs of Aevum.
 - (iv) Furthermore, the IOR Independent Expert in the Aevum / IOR merger transaction used the trading price of Aevum Shares as the basis for its fair market valuation of Aevum.
 - (v) The total value to be received by Aevum Shareholders who accept the Offer before 30 September 2010 or (if the Offer is extended) who are registered holders on 7 October 2010 and entitled to the Final Dividend and then accept, of \$1.80 per Aevum share is an attractive premium of 65.1% to the trading price of Aevum prior to the announcement of Stockland’s Offer.

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- (i) **The Expert has no regard for the valuation of Aevum of \$1.40 to \$1.60 per share assessed by the IOR Independent Expert in December 2009 for Aevum's acquisition of IOR**
 - (i) The IOR Independent Expert in the Aevum / IOR merger transaction assessed the fair market value of a share in the merged Aevum / IOR Group at \$1.40 to \$1.60.
- (j) **The Expert does not comply with ASIC guidance regarding the content of Independent Expert Reports**
 - (i) ASIC Regulatory Guidance 111 – “Content of Expert Reports” clearly states that “an expert should, when possible, use more than one valuation methodology” (paragraph 111.50).
 - (ii) Additionally, the Guidance Note states this is important because “this reduces the risk that the expert's opinion is distorted by its choice of methodology” (paragraph 111.50).
 - (iii) The Expert has not disclosed any cross check valuation methodologies in its Independent Expert's Report for Aevum which is not in accordance with ASIC guidance for Independent Experts.
 - (iv) Stockland notes that in the Aevum / IOR merger transaction, the Expert looked at both trading and transaction comparables in assessing its valuation.
 - (v) By not providing an alternative valuation for Aevum in its Expert report (for example an analysis of recent transaction comparables), the Expert's valuation of Aevum may be unduly distorted by its discounted cash flow approach.

Annexure B - Section 650D Notice increasing the Offer price

STOCKLAND DEVELOPMENT PTY LIMITED

(ACN 000 064 835)

as trustee for

THE RETIREMENT LIVING ACQUISITION TRUST

(ABN 32 474 093 417)

NOTICE OF VARIATION INCREASING OFFER

TO: Aevum Limited (ABN 80 087 648 691) (“**Aevum**”)

AND TO: Each person to whom an offer was made (“**Offer**”) pursuant to the replacement bidder’s statement dated 12 August 2010 (“**Bidder’s Statement**”) by Stockland Development Pty Limited (ACN 000 064 835) as trustee for The Retirement Living Acquisition Trust (ABN 32 474 093 417) (“**Stockland**”)

Stockland gives notice under section 650D of the Corporations Act 2001 (Cwlth) that it varies the Offer by increasing the Offer consideration by an additional 27 cents cash per Aevum share. The Offer consideration is now \$1.77 cash per Aevum share.

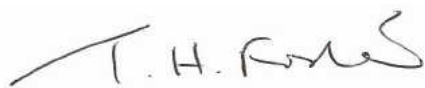
The increased price will apply to all Aevum shareholders who accept Stockland’s Offer, including those Aevum shareholders who have already accepted the Offer.

Unless the context requires otherwise, defined terms in this notice have the same meaning as in the Bidder’s Statement.

A copy of this notice was lodged with the Australian Securities and Investment Commission (“**ASIC**”) on 14 September 2010. ASIC takes no responsibility for the contents of this notice.

This notice is dated: 14 September 2010

Signed on behalf of Stockland pursuant to a resolution passed by the directors of Stockland in accordance with ASIC Class Order CO 03/633.



Tim Foster
Director

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Annexure C - Section 650F Notice freeing the conditions of the Offer

STOCKLAND DEVELOPMENT PTY LIMITED
(ACN 000 064 835)
as trustee for
THE RETIREMENT LIVING ACQUISITION TRUST
(ABN 32 474 093 417)

NOTICE TO FREE OFFER FROM CONDITIONS

TO: Aevum Limited (ABN 80 087 648 691) (“**Aevum**”)

AND TO: ASX Limited

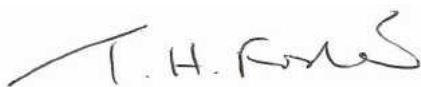
In relation to the offer (“**Offer**”) made pursuant to the replacement bidder’s statement dated 12 August 2010 (“**Bidder’s Statement**”) by Stockland Development Pty Limited (ACN 000 064 835) as trustee for The Retirement Living Acquisition Trust (ABN 32 474 093 417) (“**Stockland**”), Stockland gives notice under section 650F of the Corporations Act that:

- (a) it declares the Offer and any takeover contract arising from acceptance of the Offer free from the conditions set out in paragraphs (a) to (d) in Appendix 2 of the Bidder’s Statement; and
- (b) as at the date prior to this notice, Stockland’s voting power in Aevum was 16.08%, comprising 28,556,496 shares out of a total of 177,593,188 shares presently on issue.

Unless the context requires otherwise, defined terms in the Bidder’s Statement have the same meaning in this notice.

Dated: 14 September 2010

Signed on behalf of Stockland pursuant to a resolution passed by the directors of Stockland.



Tim Foster
Director

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