Metlifecare Limited Group Financial Statements

for the year ended 30 June 2018

Financial Statements

For the year ended 30 June 2018

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

$000	Note	**30 June 2018**	30 June 2017
Income			
Operating revenue	2.1	**115,089**	107,737
Other income	2.3	**-**	1,112
Interest income		**184**	244
Total income		**115,273**	109,093
Change in fair value of investment properties	3.1	**134,926**	258,757
Share of profit arising from joint venture, net of tax		**1,953**	2,561
Expenses			
Employee costs		**(48,610)**	(43,260)
Property costs	2.2	**(24,689)**	(23,135)
Other expenses	2.2	**(26,638)**	(23,800)
Residents' share of capital gains		**(4,663)**	(9,286)
Depreciation and impairment	3.3	**(7,005)**	(8,632)
Amortisation		**(631)**	(550)
Finance costs	4.6	**(67)**	(226)
Total expenses		**(112,303)**	(108,889)
Profit before income tax		**139,849**	261,522
Income tax expense	5.1	**(14,764)**	(9,979)
Profit for the year		**125,085**	251,543
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value movement of interest rate swaps, net of tax		**(313)**	-
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income arising from joint venture, net of tax		**22**	40
Net gain / (loss) on revaluation of care homes, net of tax	4.5	**364**	(1,316)
Other comprehensive loss, net of tax		**73**	(1,276)
Total comprehensive income		**125,158**	250,267
Profit attributable to shareholders of the parent company		**125,085**	251,543
Total comprehensive income attributable to shareholders of the parent company		**125,158**	250,267
Profit per share for profit attributable to the equity holders of the company during the year			
Basic (cents)	4.2	**58.8**	118.3
Diluted (cents)	4.2	**58.7**	118.1

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Movements in Equity

For the year ended 30 June 2018

$000	Note	Contributed Equity	Retained Earnings	Hedging Reserve	Revaluation Reserve	Employee Share Scheme Reserve	Total Equity
Balance at 1 July 2016		306,376	817,671	-	8,285	635	1,132,967
Comprehensive income							
Profit for the year		-	251,543	-	-	-	251,543
Other comprehensive loss		-	-	-	(1,276)	-	(1,276)
Total comprehensive income		-	251,543	-	(1,276)	-	250,267
Employee share scheme	4.4	-	-	-	-	262	262
Transfer from employee share scheme reserve on vesting	4.4	519	-	-	-	(519)	-
Dividends paid to shareholders	4.3	-	(13,308)	-	-	-	(13,308)
Balance at 30 June 2017		306,895	1,055,906	-	7,009	378	1,370,188
Balance at 1 July 2017		**306,895**	**1,055,906**	**-**	**7,009**	**378**	**1,370,188**
Comprehensive income							
Profit for the year		**-**	**125,085**	**-**	**-**	**-**	**125,085**
Other comprehensive income / (loss)		**-**	**-**	**(313)**	**386**	**-**	**73**
Total comprehensive income / (loss)		**-**	**125,085**	**(313)**	**386**	**-**	**125,157**
Employee share scheme	4.4	**-**	**-**	**-**	**-**	**210**	**210**
Transfer from employee share scheme reserve on vesting	4.4	**129**	**-**	**-**	**-**	**(129)**	**-**
Transfer from revaluation reserve		**-**	**345**	**-**	**(345)**		**-**
Dividends paid to shareholders	4.3	**-**	**(19,281)**	**-**	**-**	**-**	**(19,281)**
Balance at 30 June 2018		**307,024**	**1,162,055**	**(313)**	**7,050**	**459**	**1,476,275**

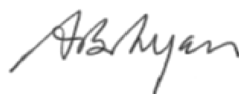
The above consolidated statement of movements in equity should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2018

$000	Note	30 June 2018	30 June 2017
Assets			
Cash and cash equivalents		**16,298**	2,933
Trade receivables and other assets	5.2	**20,870**	8,766
Property, plant and equipment	3.3	**52,727**	48,246
Intangible assets		**1,206**	1,453
Investment properties	3.1	**3,188,940**	2,889,369
Investment in joint venture		**10,929**	9,825
Total assets		**3,290,970**	2,960,592
Liabilities			
Trade and other payables	5.3	**72,034**	49,893
Derivative financial instruments	5.5	**434**	-
Interest bearing liabilities	4.6	**154,360**	72,632
Deferred management fees		**115,053**	104,613
Refundable occupation right agreements	3.2	**1,355,108**	1,260,187
Deferred tax liability	5.1	**117,706**	103,079
Total liabilities		**1,814,695**	1,590,404
Net assets		**1,476,275**	1,370,188
Equity			
Contributed equity	4.1	**307,024**	306,895
Reserves		**7,196**	7,387
Retained earnings		**1,162,055**	1,055,906
Total equity		**1,476,275**	1,370,188

The Financial Statements presented are signed for and on behalf of Metlifecare Limited and were authorised by the Board for issue on 27 August 2018.



K. R. Ellis
Chair
27 August 2018

A. B. Ryan
Director
27 August 2018

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 30 June 2018

$000	**30 June 2018**	30 June 2017
Cash flows from operating activities		
Receipts from residents for management fees, village and care fees	**88,065**	83,017
Receipts from residents for sale of new refundable occupation right agreements	**61,836**	82,498
Receipts from residents for resale of refundable occupation right agreements	**183,599**	163,187
Payments to residents for refundable occupation right agreements	**(111,009)**	(107,861)
Payments to suppliers and employees	**(99,779)**	(88,155)
Net GST received	**882**	1,210
Interest received	**114**	180
Interest paid	**(59)**	(260)
Buyback costs for off-market units associated with regeneration and remediation	**(12,975)**	(4,561)
Net cash inflow from operating activities	**110,674**	129,255
Cash flows from investing activities		
Net repayments from / (advances to) joint venture	**197**	(185)
Dividends received from joint venture	**875**	427
Proceeds from disposal of investment property	**-**	7,966
Payments for property, plant and equipment	**(11,463)**	(16,197)
Payments for intangibles	**(381)**	(551)
Payments for investment properties	**(143,570)**	(99,564)
Capitalised interest paid	**(5,453)**	(3,626)
Net cash outflow from investing activities	**(159,795)**	(111,730)
Cash flows from financing activities		
Dividends paid	**(19,281)**	(13,308)
Net proceeds from / (repayment of) borrowings	**81,767**	(7,842)
Net cash inflow / (outflow) from financing activities	**62,486**	(21,150)
Net increase / (decrease) in cash and cash equivalents	**13,365**	(3,625)
Cash and cash equivalents at the beginning of the financial year	**2,933**	6,558
Cash and cash equivalents at the end of the financial year	**16,298**	2,933

Reconciliation of Profit after Tax with Cash Inflow from Operating Activities

$000		
Profit after tax	**125,085**	251,543
Adjustments for:		
Change in fair value of investment properties	**(134,926)**	(258,757)
Change in the fair value of residents' share of capital gains	**4,663**	9,286
Employee share scheme	**210**	262
Depreciation and impairment	**7,005**	8,632
Amortisation	**631**	550
Deferred tax expense	**14,745**	9,967
Loss on disposal of property, plant and equipment	**471**	39
Share of profit arising from joint venture, net of tax	**(1,953)**	(2,561)
Changes in working capital relating to operating activities:		
Trade receivables and other assets	**(6,191)**	(727)
Trade and other payables	**910**	3,470
Deferred management fees	**10,440**	11,093
Refundable occupation right agreements	**89,584**	96,458
Net cash inflow from operating activities	**110,674**	129,255

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 GENERAL INFORMATION

This section outlines the basis upon which the Group's Financial Statements are prepared. Specific accounting policies are outlined in the note to which they relate.

1.1 Reporting entity

The consolidated financial statements presented are for Metlifecare Limited ("the Company") and its subsidiaries (together "the Group") as at 30 June 2018. The Group owns and operates retirement villages in New Zealand. Metlifecare Limited is a limited liability company, incorporated and domiciled in New Zealand. The address of its registered office is Level 4, 20 Kent Street, Newmarket, Auckland 1023.
The Group is designated as a 'for profit' entity for financial reporting purposes.

1.2 Going concern

In approving these financial statements for issue the directors have considered and concluded that in the absence of any unanticipated deterioration of the Group's operating performance the Group will continue to meet all obligations under the funding facilities, including compliance with financial covenants and maintaining sufficient levels of liquidity.

The directors, in concluding, considered the following:
- the Group's cash flow forecast for the period 12 months from the date of signing of the financial statements;
- recent past performance in light of the underlying economic environment;
- forecast covenant compliance; and
- available undrawn limits under the Core and Development Facilities.

Having regard to all the matters noted above, the directors believe it remains appropriate that the financial statements have been prepared under the going concern convention.

1.3 Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below and in the relevant note disclosures. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Statutory base

Metlifecare Limited is a company registered under the Companies Act 1993 and is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the NZX Main Board ("NZX"), and the Australian Securities Exchange ("ASX") as a Foreign Exempt Listing. The Group financial statements have been prepared in accordance with the requirements of the NZX and Part 7 of the Financial Markets Conduct Act 2013.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable New Zealand Financial Reporting Standards and authoritative notices, as appropriate for for-profit entities. They comply with International Financial Reporting Standards ("IFRS"). The Group is a Tier 1 for profit entity in accordance with XRB A1.

The balance sheet for the Group is presented on the liquidity basis where the assets and liabilities are presented in the order of their liquidity.

Notes to the Financial Statements

1 GENERAL INFORMATION (continued)

1.3 Basis of preparation (continued)

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, care homes and derivative financial instruments.

1.4 Goods and Services Tax (GST)

All amounts are shown exclusive of goods and services tax ("GST"), other than trade receivables and trade payables, except where the amount of GST incurred is not recoverable from the taxation authority. When this occurs the GST is recognised as part of the cost of the asset or as an expense, as applicable.

1.5 Standards, interpretations and amendments to published standards that are not yet effective

NZ IFRS 9 *Financial Instruments* replaces the guidance for the classification and measurement of financial instruments in NZ IAS 39. NZ IFRS 9 simplifies the mixed measurement model under NZ IAS 39 and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There are no material changes to the classification and measurement of financial liabilities under NZ IFRS 9, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit and loss.

The Group has completed its initial assessment of the impact of adopting this standard and has concluded that there are likely no material adjustments to the measurement of financial instruments held by the Group. There will likely be no change in the classification of financial assets and adoption of the impairment model is not likely to have a material impact. Existing derivative financial instruments in designated hedging relationships will continue to be accounted for under NZ IAS 39. There will be some enhanced disclosures relating to impairment provisions and hedging arrangements required. The Group will apply this standard from 1 July 2018.

NZ IFRS 15 *Revenue* from contracts with customers replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and is applicable to all entities with revenue. NZ IFRS 15 requires revenue recognition that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Group has completed its initial assessment of the impact of adopting this standard and there are likely to be no material adjustments to the recognition or measurement of revenue. There will be increased disclosures required.

The following is noted in relation to the main revenue streams:

- Rest home, hospital and service fee charges are governed by care admission agreements between individual care residents and Metlifecare. Fees are charged based on a daily rate, which reflects the point in time the goods or services are provided to the care resident;
- Villages fees are detailed within each village resident's occupation right agreement and relate to the operating costs of the village. Fees are charged on a weekly basis reflecting the period a resident has occupied a unit or serviced apartment.

Rest home, hospital and service fees, and village fees will continue to be recognised on an accrual basis at the point in time the goods or services are provided. The Group will apply this standard from 1 July 2018.

Notes to the Financial Statements

1 GENERAL INFORMATION (continued)

1.5 Standards, interpretations and amendments to published standards that are not yet effective (continued)

NZ IFRS 16 *Leases* replaces the current guidance in NZ IAS 17. NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The Group has completed its evaluation of the impact of adopting this standard and the following is noted:

- Operating leases will be recognised on the balance sheet as a right-of-use asset and a corresponding lease liability based on the discounted value of the operating lease commitments of approximately $3.1m disclosed in note 5.8. The recognition exemption under NZ IFRS 16 for short-term or low-value assets of less than $0.3m will be applied, and these costs will continue to be recognised on a straight-line basis in the statement of comprehensive income;
- Rental and operating lease expenses previously recognised on a straight-line basis within other expenses will be recognised as amortisation for right-of-use assets and finance costs for lease liabilities in the statement of comprehensive income. The Group is still quantifying the impact on the statement of comprehensive income;
- Operating lease payments previously recognised within operating cash flows will be presented within financing cash flows for principal repayments of the lease liability. There will be no impact to cash payments.

Occupation right agreements confer the right to occupancy of a unit or serviced apartment and are considered leases under NZ IFRS 16. There is no change to the recognition or measurement of occupation right agreements and the associated management fee revenue. Management fee revenue will continue to be recognised on a straight-line basis in the statement of comprehensive income over the average expected length of stay of residents. There will be amendments to disclosures and presentation required. The Group has elected to early adopt NZ IFRS 16 and will apply this standard from 1 July 2018 using the full-retrospective approach.

1.6 Comparative information

Where necessary, certain comparative information has been reclassified to conform to changes in presentation in the current year. Buyback costs for off-market units associated with regeneration and remediation reflect the settlement of existing occupation right agreements and have been determined to be operating cash flows in nature. $4.6m of buyback costs have been reclassified in the prior period from investing activities to operating activities in the consolidated cash flow statement. Employee costs in the current year are stated net of capitalised labour costs. The comparatives have been presented on a basis consistent with the current year.

Notes to the Financial Statements

1 GENERAL INFORMATION (continued)

1.7 Critical judgements, estimates and assumptions

The preparation of financial statements in accordance with NZ GAAP requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Revenue recognition - management fees (note 2.1)
- Fair value of investment properties (note 3.1), care homes (note 3.3) and interest rate swaps (note 5.5)
- Deferred tax (note 5.1).

1.8 Fair value hierarchy

The Group measures investment property, care homes and interest rate swaps at fair value. The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest input to the fair value measurement. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, the measurement is a Level 3 measurement.

1.9 Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of Metlifecare Limited and its subsidiaries is New Zealand dollars ($).

Transactions and balances

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income of each Group entity.

Notes to the Financial Statements

1 GENERAL INFORMATION (continued)

1.10 Notes to the Financial Statements

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Group. The notes to the Financial Statements are organised into the following sections:

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3 Investment property and other assets

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Notes to the Financial Statements

2 OPERATING PERFORMANCE

This section provides additional information about individual line items in the Financial Statements that the directors consider most relevant in the context of the operating performance of the Group including: revenue, property, corporate and administration expenses.

This section also includes Underlying Profit before taxation, a non-GAAP financial measure. Retirement village operators may present Underlying Profit as an alternative profit measure to assist with measuring operating and development performance. As this is a non-GAAP financial measure, there are likely to be inconsistencies in the calculation of this alternative performance measure with other retirement village operators.

2.1 Operating Revenue

$000	**30 June 2018**	30 June 2017
Management fees	**52,371**	48,821
Rest home, hospital and service fees and village fees	**59,937**	56,003
Other operating revenue	**2,781**	2,913
	115,089	107,737

Revenue recognition

Revenue comprises the fair value of services provided, net of goods and services tax. Revenue is recognised as follows:

Management fees

A management fee is payable by the residents of the Group's independent living units and serviced apartments for the right to share in the use and enjoyment of common facilities. The management fee is calculated as a percentage of the occupation right agreement amount and accrues monthly, for a set period, based on the terms of the individual contracts. The current disclosure statement and occupation right agreement accrues management fees at the rate of 10% per annum for a maximum of three years.

The timing of the recognition of management fees is a critical accounting estimate and judgement. The management fee is recognised on a straight-line basis in the statement of comprehensive income over the average expected length of stay of residents, which is 8 years for independent living units and 4 years for serviced apartments in the years ended 30 June 2018 and 2017.

The management fee is payable in cash by the resident at the time of repayment (to the resident) of the refundable occupation right agreement amount due. The Group has the right of set-off of the refundable occupation right agreement amount and the management fee receivable.

At year end, the management fee receivable that has yet to be recognised in the statement of comprehensive income as management fee revenue is recognised as a deferred management fee liability on the balance sheet.

Notes to the Financial Statements

2 OPERATING PERFORMANCE (continued)

2.1 Operating Revenue (continued)

Rest home, hospital and service fees, and village fees

Rest home, hospital and service fees, and village fees are recognised on an accrual basis.

Other operating revenue

Other revenue for the Group includes resident refurbishment recoveries and administration fees collected on occupation right agreement contracts issued prior to 2006.

Information about major customers

Revenues from the Group's largest customer, the New Zealand Government, is included in total revenue. This includes care fee revenue from eligible Government subsidised aged care residents who receive rest home or hospital level care. Revenue received from the Ministry of Health included in rest home, hospital and service fees, and villages fees amounted to $10.4m (2017: $10.3m).

2.2 Expenses

$000	**30 June 2018**	30 June 2017
Profit before income tax includes the following expenses:		
Property costs		
Utilities and other property costs	**12,068**	10,994
Repairs and maintenance on investment properties	**11,660**	11,381
Repairs and maintenance on property, plant, furniture and equipment	**961**	760
Total property costs	**24,689**	23,135
Other expenses		
Resident costs	**6,256**	5,418
Marketing and promotion	**5,592**	5,000
Other employment costs	**3,314**	3,206
Communication costs	**2,920**	2,367
Rental and operating lease expenses	**569**	551
Loss on disposal of property, plant and equipment	**471**	39
Donations	**48**	41
Doubtful debts	**7**	(2)
Other (no items of individual significance)	**6,886**	6,662
Fees paid to PricewaterhouseCoopers New Zealand		
Audit and review of financial statements	**477**	461
Tax compliance services	**16**	16
Advisory services - executive remuneration benchmarking advice	**59**	41
Advisory services - strategic procurement advice	**23**	-
Total fees paid to PricewaterhouseCoopers New Zealand	**575**	518
Total other expenses	**26,638**	23,800

Other employment costs include staff related costs such as staff training, uniforms and commissions on sales.

Notes to the Financial Statements

2 OPERATING PERFORMANCE (continued)

2.3 Underlying Profit before taxation

$000	**30 June 2018**	30 June 2017
Profit for the year	**125,085**	251,543
Less non recurring items:		
Other income - gain on sale	**-**	(1,112)
Profit for the year excluding non recurring items	**125,085**	250,431
Less:		
Change in fair value of investment properties	**(134,926)**	(258,757)
Add:		
Impairment of property, plant and equipment	**3,849**	6,170
Realised resale gains	**62,309**	55,326
Realised development margin	**16,435**	18,957
Tax expense	**14,764**	9,979
Underlying Profit before taxation	**87,516**	82,106

Underlying Profit before taxation, calculated consistently year-on-year, is determined from the net profit after tax of the Group adjusted for the impact of the following:

(a) Non recurring items: those items that do not relate to the ordinary activities and are not expected to recur with regularity.

- Other income - gain on sale: a portion of land acquired for development was disposed of during the year ended 30 June 2017. The resulting gain does not form part of the recurring operating performance of the business (refer note 3.1).

(b) Change in fair value of investment properties: unrealised non-cash valuation changes (refer to note 3.1).

(c) Impairment of property, plant & equipment: impairments, and subsequent reversals of impairment losses, associated with care home valuation changes as the Group is in the business of owning and operating care homes, not constructing the asset for resale (refer to note 3.3).

(d) Realised resale gains: the realised increase in value from the resale of occupation right agreements during the period. Realised resale gains are a measure of the cash generated from increases in selling prices of occupation right agreements to incoming residents, less cash amounts paid or payable to vacated residents for repayment of refundable occupation right agreements from the pre-existing portfolio recognised at the date of settlement. The reported measure allows for amounts payable to the vacated resident at balance date on units that have been resettled in the year.

(e) Realised development margin: represents the development margins delivered from the first time sale of occupation right agreements. Realised development margin is the margin obtained on cash settlement from the first time sale of an occupation right agreement following the development of the unit. The margin calculation is based on the actual selling price of individual units settled during the period and includes the following costs:

- directly attributable construction costs;
- a prorata apportionment of land on the basis of the historical cost or purchase price of the land;
- a prorata share of infrastructure costs specific to a stage;
- non-recoverable GST; and
- capitalised interest to the date of completion on costs attributed to the unit.

Margins are calculated based on when a stage is completed.

Construction costs, land and infrastructure, non-recoverable GST and capitalised interest associated with common areas (including management offices), amenities and any care facilities are excluded from the costs above when the development margin is calculated.

(f) Tax expense: the impact of current and deferred taxation is removed (refer to note 5.1).

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS

This section shows the retirement village investment property assets, related liabilities for resident occupation right agreements and other property assets which are considered to be the most relevant to the operations of the Group.

3.1 Investment Properties

$000	30 June 2018	30 June 2017
Opening balance	**2,889,369**	2,524,809
Capitalised subsequent expenditure	**166,837**	115,595
Investment properties under development transferred to property, plant and equipment	**(1,353)**	(3,245)
Investment property disposed of	**(839)**	(6,547)
Change in fair value recognised during the year	**134,926**	258,757
Closing balance	**3,188,940**	2,889,369

Investment properties are categorised as follows:

$000	30 June 2018	30 June 2017
Development land measured at fair value	**122,987**	84,463
Retirement villages under development measured at cost	**36,551**	36,879
Retirement villages measured at fair value	**3,029,402**	2,768,027
Total investment properties	**3,188,940**	2,889,369

Investment properties

Investment properties include completed freehold land and buildings, freehold development land and buildings under development comprising independent living units, serviced apartments and common facilities, provided for use by residents under the terms of the occupation right agreement. Investment properties are held for long-term yields.

Valuation processes

CBRE Limited ("CBRE") undertook the valuation of investment property for all the reporting periods presented. CBRE's principal valuer, Michael Gunn, is an independent registered valuer and associate of the New Zealand Institute of Valuers and is appropriately qualified and experienced in valuing retirement village properties in New Zealand. The Group verifies all major inputs to the independent valuation reports. The fair value as determined by CBRE is adjusted for assets and liabilities already recognised in the balance sheet which are also reflected in the discounted cash flow model.

Disposals

In the year ended 30 June 2018 the New Zealand Transport Authority requisitioned small parcels of land owned by the Group located in Albany and at the Greenwich Gardens village. In the year ended 30 June 2017 the Group disposed of a portion of the development land located in Albany that was surplus to the proposed retirement village development for the site.

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.1 Investment Properties (continued)

Development land

Development land is comprised of a standalone title and/or part of the principal site. Where the development land is a standalone title CBRE has ascribed a value which can be captured independently, if desired, from the overall village. Where the development land is part of the principal site, CBRE has identified if there is potential, be it planning or economic, to expand the village and has assessed a value accordingly. This latter value, whilst identified as surplus land value, cannot be independently captured.

Development land is valued based on recent comparable transactions. The Group's land values range between $52 per square metre (psm) and $1,000 psm (2017: $52 psm and $901 psm).

An increase (decrease) in the psm rate would result in a higher (lower) fair value of development land.

As a general rule, CBRE has treated units in the early stages of construction, land with approvals and other vacant land clearly identified for future development as land for development in its highest and best use.

Retirement villages under development measured at cost

Where the staged development still requires substantial work such that practical completion will not be achieved at or close to balance date, or the fair value of investment properties under development cannot be reliably determined at this point in time, it is carried at cost less any impairment. Impairment is determined by considering the value of work in progress and management's estimate of the asset value on completion.

Retirement villages measured at fair value

To assess the market value of the Group's interest in a retirement village, CBRE has undertaken a cash flow analysis to derive a net present value. As the fair value of investment property is determined using inputs that are significant and unobservable, the Group has categorised investment property as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 *Fair Value Measurement.* The following significant assumptions have been used to determine the fair value:

Unobservable Input	**2018**	2017
Nominal growth rate - anticipated annual property price growth over the cash flow period 0 - 5 years	**0% - 3.5%**	0% - 3.5%
Nominal compound growth rate - anticipated annual property price growth over the cash flow period > 5 years	**2.6% - 3.1%**	2.6% - 3.1%
Pre-tax discount rate	**12.5% - 15.0%**	12.5% - 15.5%

The sensitivity of the fair value of investment property to changes in significant assumptions is set out in the table below.

30 June 2018	Adopted value * (ILU, SA, ILA)	Discount rate + 50 bp	Discount rate – 50 bp	Growth rates + 50 bp	Growth rates – 50 bp
Valuation ($000)	**1,425,030**				
Difference ($000)		**(51,370)**	**54,820**	**82,652**	**(82,652)**
Difference (%)		**(4%)**	**4%**	**6%**	**(6%)**

30 June 2017	Adopted value * (ILU, SA, ILA)	Discount rate + 50 bp	Discount rate – 50 bp	Growth rates + 50 bp	Growth rates – 50 bp
Valuation ($000)	1,318,100				
Difference ($000)		(46,800)	49,920	90,949	(68,541)
Difference (%)		(4%)	4%	7%	(5%)

* ILU (Independent Living Unit), SA (Serviced Apartment), ILA (Independent Living Apartment) excluding unsold stock. Retirement villages measured at fair value on pages 15 and 17 includes unsold stock.

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.1 Investment Properties (continued)

The occupancy period is a significant component of the CBRE valuation and is driven from a Monte Carlo simulation. The simulations are dependent on the demographic profile of the village (age and gender of residents) and the reason for departing a unit. The resulting stabilised departing occupancy period is an estimate of the long run occupancy term for residents. An increase in the stabilised departing occupancy period will have a negative impact on the valuation and a decrease in the stabilised departing occupancy will have a positive impact on the valuation.

The valuation calculates the expected cash flows for a 20 year period (2017: 20 years) with stabilised departing occupancy assumptions set out below.

Stabilised departing occupancy - years	**2018**	2017
Serviced apartments	**4.0 - 4.9**	3.5 - 4.7
Independent living units and apartments	**6.7 - 9.0**	6.7 - 8.9

The CBRE valuation also includes within the forecast cash flows the Group's expected costs relating to any known or anticipated remediation works. The estimate of the gross cash flows included for remediation works is $44.1m over a five year period (2017: $44.1m over a six year period). The increase in the allowance for remediation works reflects further investigative work conducted over the period across the portfolio and updated estimates of the cost of the required works. The estimates are based on currently available information. CBRE has also included within the forecast cash flows the Group's expected costs associated with seismic strengthening works of $1.4m (2017: $1.4m).

Other relevant information

The valuation of investment properties is adjusted for cash flows relating to refundable occupation right agreements, residents' share of capital gains, deferred management fees and management fee receivables which are already recognised separately on the balance sheet and also reflected in the cash flow model. A reconciliation between the valuation amount and the amount recognised on the balance sheet as investment properties is as follows:

$000	**30 June 2018**	30 June 2017
Development land measured at fair value	**122,987**	84,463
Retirement villages under development measured at cost	**36,551**	36,879
Retirement villages measured at fair value per CBRE	**1,556,450**	1,398,941
Investment properties at valuation	**1,715,988**	1,520,283
Plus: Refundable occupation right agreements	**1,713,214**	1,577,075
Plus: Residents' share of capital gains	**35,465**	35,193
Plus: Deferred management fees	**115,053**	104,613
Less: Management fees receivable	**(381,408)**	(344,433)
Less: Occupation right agreement receivables	**(9,372)**	(3,362)
Total investment properties	**3,188,940**	2,889,369

Borrowing costs of $5.5m (2017: $3.6m) arising from financing specifically entered into for the construction of investment properties and care homes under development were capitalised during the year. Average capitalisation rates of 3.55% pa (2017: 3.60% pa) were used, representing the borrowing costs of the loans used to finance the projects.

Registered mortgages or an encumbrance in favour of the statutory supervisors of the village-owning subsidiary companies are recognised as first charges over the freehold land of those companies to protect the interests of the residents in the event of failure by the subsidiary companies as operators of the villages to observe obligations under the deeds of supervision, occupation right agreements and lifecare agreements.

Metlifecare Limited holds a second registered mortgage and second registered general security agreement over its wholly-owned operating subsidiaries not currently engaged in the development of retirement villages to secure funding made available to each of these subsidiaries.

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.2 Refundable Occupation Right Agreements

$000	**30 June 2018**	30 June 2017
Refundable occupation right agreements	**1,713,214**	1,577,075
Residents' share of capital gains	**35,465**	35,193
Loans to residents	**(12,163)**	(7,648)
Management fees receivable	**(381,408)**	(344,433)
Total refundable occupation right agreements	**1,355,108**	1,260,187

Occupation right agreements confer the right to occupancy of the unit or serviced apartment. A new resident is charged a refundable security deposit, on being issued the right to occupy one of the Group's units or serviced apartments, which is refunded to the resident subject to a new occupation right agreement for the unit or serviced apartment being issued to an incoming resident, net of any amount owing to the Group. The Group has a legal right to set off any amounts owing to the Group by a resident against that resident's security deposit. Such amounts include management fees, rest home/hospital fees, loans receivable, service fees and village fees. As the refundable occupation right is repayable to the resident upon vacation (subject to a new occupation right agreement for the unit or serviced apartment being issued to an incoming resident), the fair value is equal to the face value, being the amount that can be refunded.

The right of residents to occupy the investment properties of the Group are protected by the statutory supervisor restricting the ability of the Group to fully control these assets without undergoing a consultation process with all affected parties.

Certain older occupation right agreements include the right to a proportion of the capital gain arising on resale. The amount of the capital gain relating to these agreements is recognised by way of a liability on the balance sheet.

Expected maturity

In determining the fair value of the Group's investment properties CBRE estimates the established length of stay to be 6.7 - 9.0 years for independent living units (2017: 6.7 - 8.9 years); 7.2 - 8.7 years for independent living apartments (2017: 7.3 - 8.8 years); and 4.0 - 4.9 years for serviced apartments (2017: 3.5 - 4.7 years). Therefore, it is not expected that the full obligation to residents will fall due within one year. Based on historical turnover calculations the expected maturity of the total refundable obligation to refund residents is as follows:

$000	**30 June 2018**	30 June 2017
Within 12 months	**142,712**	106,342
Beyond 12 months	**1,212,396**	1,153,845
	1,355,108	1,260,187

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.3 Property, Plant and Equipment

$000	Freehold Land & Buildings	Construction Work in Progress	Plant, Furniture & Equipment and Motor Vehicles	Total
At 30 June 2016				
Cost or valuation	27,541	3,947	21,917	53,405
Accumulated depreciation and impairment losses	(954)	-	(16,027)	(16,981)
Net book value	26,587	3,947	5,890	36,424
Year ended 30 June 2017				
Opening net book amount	26,587	3,947	5,890	36,424
Revaluation of Care Homes	1,084	-	-	1,084
Additions and transfers from investment properties	4	18,675	3,917	22,596
Transferred from construction work in progress	8,015	(9,089)	1,074	-
Disposals	(39)	-	(177)	(216)
Reduction in the revaluation of care homes	(2,974)	-	(35)	(3,009)
Depreciation and impairment	(5,059)	(1,200)	(2,374)	(8,632)
Closing net book amount	27,618	12,333	8,295	48,246
At 30 June 2017				
Cost or valuation	36,043	13,533	25,622	75,198
Accumulated depreciation and impairment losses	(8,425)	(1,200)	(17,327)	(26,952)
Net book value	27,618	12,333	8,295	48,246
Year ended 30 June 2018				
Opening net book amount	**27,618**	**12,333**	**8,295**	**48,246**
Revaluation of Care Homes	**414**	**-**	**-**	**414**
Transfers from investment properties	**173**	**-**	**-**	**173**
Additions	**-**	**7,497**	**3,469**	**10,966**
Transferred from construction work in progress	**12,351**	**(13,318)**	**967**	**-**
Disposals	**-**	**-**	**(13)**	**(13)**
Reduction in the revaluation of care homes	**(54)**	**-**	**-**	**(54)**
Depreciation and impairment	**(4,135)**	**(209)**	**(2,661)**	**(7,005)**
Closing net book amount	**36,367**	**6,303**	**10,057**	**52,727**
At 30 June 2018				
Cost or valuation	**50,125**	**6,512**	**29,956**	**86,593**
Accumulated depreciation and impairment losses	**(13,758)**	**(209)**	**(19,899)**	**(33,866)**
Net book value	**36,367**	**6,303**	**10,057**	**52,727**

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.3 Property, Plant and Equipment (continued)

All property, plant and equipment is initially recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes material and direct labour, and any other costs directly attributable to bringing the asset to its working condition for its intended use. Plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Subsequent to initial recognition, freehold land and buildings for care homes are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses, if any, since the assets were last revalued. Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation surplus is recognised in other comprehensive income unless it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income. Any revaluation deficit is recognised in the statement of comprehensive income unless it directly offsets a previous surplus in the same asset in other comprehensive income. Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Independent valuations are performed annually at the balance sheet date.

The Group's care homes encompassing freehold land and buildings were valued by the independent registered valuer, CBRE, for all reporting periods presented.

CBRE determined the fair value of all care home assets using an earnings-based multiple approach where the lower of actual or projected earnings before interest, tax, depreciation, amortisation and rent is capitalised at rates of between 11% to 14% (2017: 12.0% to 14.25%). The valuation prepared has been split between land, improvements, chattels, plant and goodwill to determine the fair value of the assets. The revaluation, net of applicable deferred income taxes, was recognised in other comprehensive income and is shown in the Revaluation Reserve in shareholders equity.

As the fair value of freehold land and buildings is determined using inputs that are unobservable, the Group has categorised property, plant and equipment as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 *Fair Value Measurement.*

The significant unobservable inputs used in the fair value measurement of the Group's portfolio of land and buildings are the capitalisation rates applied to individual unit earnings. A significant decrease (increase) in the capitalisation rate would result in a significantly higher (lower) fair value measurement.

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.3 Property, Plant and Equipment (continued)

If freehold land and buildings were stated on a historical cost basis, the amounts would be as follows:

$000	**30 June 2018**	30 June 2017
Cost	**37,700**	24,034
Accumulated depreciation	**(4,071)**	(3,422)
Net book value	**33,629**	20,612

Depreciation is provided on a straight line basis on property, plant and equipment, other than freehold land, at rates calculated to allocate the assets' cost or valuation, less estimated residual value, over their estimated useful lives, commencing from the time the assets are held ready for use, as follows:

- Freehold buildings 25 - 50 years
- Plant, furniture and equipment 3 - 10 years
- Motor vehicles 5 - 7 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount, after reducing the carrying amount by any amount that the asset has been revalued. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income within other expenses.

An impairment loss, after reducing the carrying value of the assets by any associated revaluation, was recognised in the statement of comprehensive income in the depreciation and impairment line in respect to the following care homes:

$000		**30 June 2018**	30 June 2017
The Avenues	Reduction in the value of land related to the new care home being constructed.	**209**	-
Somervale	The final construction costs for the new care home opened in November 2017 exceeded the initial valuation performed by CBRE.	**3,919**	1,200
Somervale	The existing care home was decommissioned resulting in an impairment loss.		1,118
Greenwich Gardens	Final costs attributed to the construction of the care home exceeded the initial valuation performed by CBRE.	**-**	2,563
Pakuranga	Decommissioned in March 2017 in preparation for the construction of a new care home at the Village.	**-**	1,736
	Total	**4,128**	6,617

In the year ended 30 June 2018 an impairment loss of $279,000 in respect to a previously recognised impairment was reversed to reflect the increase in the valaution of the care home (2017: $446,000).

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING

This section includes disclosures related to the Group's capital structure and external funding arrangements.

4.1 Contributed Equity

	30 June 2018 Shares	30 June 2017 Shares	**30 June 2018 $000**	30 June 2017 $000
Total Issued and fully paid up capital (including treasury shares)				
Balance at beginning of the year	**213,005,909**	212,882,855	**306,895**	306,376
Shares issued net of transaction costs	**126,381**	123,792	**129**	519
Shares cancelled	**-**	(738)	**-**	-
Balance at end of the year	**213,132,290**	213,005,909	**307,024**	306,895

	30 June 2018 Shares	30 June 2017 Shares
Treasury shares		
Balance at beginning of the year	**320,319**	510,675
Shares issued under the senior executive share plan	**126,381**	123,792
Shares vesting under the senior executive share plan	**(49,672)**	(313,410)
Shares cancelled under the senior executive share plan	**-**	(738)
Balance at end of the year	**397,028**	320,319

	30 June 2018	30 June 2017
Net tangible assets per share (basic)	**$6.92**	$6.43

Net tangible assets represents total assets less total liabilities less intangible assets. The shares on issue at the end of the year is used to calculate the net tangible assets per share.

Movements in the Company's issued share capital are set out below.

	Shares issued
Balance as at 30 June 2016	212,882,855
12 October 2016 - shares cancelled under the senior executive share plan	(738)
2 November 2016 - treasury shares under the senior executive share plan	123,792
Balance as at 30 June 2017	**213,005,909**
12 October 2017 - shares issued under the senior executive share plan	**126,381**
Balance as at 30 June 2018	**213,132,290**

All ordinary shares are authorised and rank equally with one vote attached to each fully paid ordinary share. The shares have no par value. Ordinary shares are classified as equity and are recognised net of incremental costs directly attributable to the issue of new shares. The Company incurred no transaction costs issuing shares during the year (2017: nil).

Treasury shares relate to shares issued under the senior executive share plan that are held on trust by the Group. These shares are accounted for as treasury shares by the Group until such time as they are cancelled or vest to members of the senior executive team. The vesting of these shares is subject to achievement of performance hurdles.

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.2 Earnings Per Share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares excluding treasury shares on issue during the year.

	30 June 2018	30 June 2017
Profit attributable to equity holders ($000)	**125,085**	251,543
Weighted average number of ordinary shares on issue ('000s)	**212,704**	212,704
Basic earnings per share (cents)	**58.8**	118.3

Diluted

Diluted earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares adjusted for any shares to be issued under the share right scheme for which performance hurdles would have been met based upon the Company's performance up to the reporting date and to the extent to which they are dilutive.

	30 June 2018	30 June 2017
Profit attributable to equity holders ($000)	**125,085**	251,543
Diluted weighted average number of ordinary shares on issue ('000s)	**213,096**	212,975
Diluted earnings per share (cents)	**58.7**	118.1

4.3 Dividends

	Cents per share	**30 June 2018 $000**	30 June 2017 $000
Recognised amounts			
Final dividend for 2016	4.00	**-**	8,515
Interim dividend for 2017	2.25	**-**	4,793
Final dividend for 2017	5.80	**12,354**	-
Interim dividend for 2018	3.25	**6,927**	-
Total dividends paid		**19,281**	13,308

On 27 August 2018 the directors approved a dividend of 6.75 cents per share amounting to $14.4m. The dividend record date is 14 September 2018 and payment will occur on 21 September 2018.

Provision is made for the amount of any dividend declared on or before the balance date but not distributed at balance date.

Imputation credits

The imputation credit balance for the Group at 30 June 2018 is nil (2017: nil). No tax payments were made during the year and dividends paid were unimputed.

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.4 Share-based Payments

Share Scheme

The Company operates a Senior Management Share Scheme ("the Scheme") which is intended to align the interests of executives and other senior management with the interests of shareholders and provide a continuing incentive to these employees over the long term.

Awards of shares depend on satisfaction of performance hurdles and an assessment of Total Shareholder Return by comparison with the peer group (being members of the NZX50 Index at the date of grant and, in the future, other listed retirement village operators). Shares issued under the Scheme are entitled to dividends.

Share rights issued

The Scheme is accounted for as an in-substance share rights scheme. A reconciliation of the share rights on issue is provided below:

	30 June 2018	30 June 2017
Share rights outstanding at 1 July	**320,319**	510,675
Granted during the year	**126,381**	123,792
Vested during the year	**(49,672)**	(313,410)
Cancelled during the year	**-**	(738)
Share rights outstanding at 30 June	**397,028**	320,319

The table below sets out amounts recognised in respect to share based payments.

$000	**30 June 2018**	30 June 2017
Share based payment expense recognised in the consolidated statement of comprehensive income within 'employee expenses'	**210**	262
Accumulated employee share based payment expense recognised in the employee share scheme reserve	**459**	378

During the year ended 30 June 2018, 49,672 shares vested (2017: 313,410). $129,000 of the previously recognised share based payment expense was transferred to share capital (2017: $519,000).

The fair value of the in-substance share rights granted is recognised as an employee expense in the profit or loss component of the statement of comprehensive income with a corresponding entry in the employee share scheme reserve. The total amount to be expensed over the vesting period is determined by reference to the fair value of the in-substance share rights granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of in-substance share rights that are expected to become exercisable.

At each balance sheet date, the Group revises its estimates of the number of in-substance share rights that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit or loss component of the statement of comprehensive income, and a corresponding adjustment to equity over a three year period.

As part of this Scheme, interest-free loans are provided to the executives and senior management at grant dates which will be settled for in-substance share rights that vest, by a cash bonus (forfeited in-substance share rights offset the remaining loan balance). The PAYE element of this bonus will be treated as a cash-settled share-based payment transaction with a liability for PAYE accruing over the vesting period. After vesting, to the date of exercise, this liability is adjusted by reference to the market value of the shares. Changes in the fair value of this liability will be recognised in profit or loss.

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.5 Reserves

Revaluation Reserve

$000	30 June 2018	30 June 2017
Balance at beginning of the year	**7,009**	8,285
Share of gain on revaluation of care home arising from joint venture, net of tax	**22**	40
Gain on revaluation of care homes	**414**	1,084
Tax on revaluation of care homes	**4**	(234)
Reduction in the revaluation of care homes (refer note 3.3)	**(54)**	(3,009)
Tax on reversal of revaluation of care homes	**-**	843
Transfer on reclassification of development land	**(345)**	-
Balance at end of the year	**7,050**	7,009

The revaluation reserve records changes in the value of property, plant and equipment.

Hedging Reserve

The hedging reserve records the effective portion of accumulated changes in the fair value of interest rate swaps used in cash flow hedges. This is recognised in the profit or loss when the hedged item affects the profit or loss (refer note 5.5).

4.6 Interest Bearing Liabilities

$000	30 June 2018	30 June 2017
Bank loans	**154,668**	72,902
Capitalised debt costs	**(308)**	(372)
	154,360	72,530
Finance leases	**-**	102
Total interest bearing liabilities	**154,360**	72,632

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

Bank loans

The bank loans comprise the Core Revolving Credit Facility, Development Facility and Working Capital Facility, effective 8 March 2012 as amended from time to time as detailed below.

On 15 December 2017 the bank facilities were renegotiated and extended. The maturities of the Core Revolving Credit Facility of $175m (2017: $75m), the Development Facility of $175m (2017: $175m) and the Working Capital Facility of $2.0m (2017: $2.0m) as detailed on page 26.

Proceeds from the sale of units that are funded from the Development Facility are required to be repaid against the Development Facility.

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.6 Interest Bearing Liabilities (continued)

Drawn Balances

$000	Facility Limit	30 June 2018	30 June 2017
Core Facility	**175,000**	**15,000**	8,400
Development Facility	**175,000**	**139,668**	64,502
Working Capital Facility	**2,000**	**-**	-
Total	**352,000**	**154,668**	72,902
Investment property valuation (refer note 3.1)		**1,715,988**	1,520,283
Loan to Valuation Ratio		**9.0%**	4.8%

Maturities

$000	Facility Limit	30 June 2018	30 June 2017
On demand	**2,000**	**-**	-
Between one and two years	**83,333**	**70,333**	66,733
Between two and three years	**83,333**	**61,333**	6,168
More than three years	**183,334**	**23,002**	-
Total	**352,000**	**154,668**	72,902

Security

A Negative Pledge Deed has been entered into by the operating subsidiaries in favour of the banks in which the subsidiaries have undertaken not to create or permit to exist any mortgage or other charge over their assets or revenues without obtaining the prior written consent of the Group's Lenders.

Metlifecare Limited has issued a letter of support for the bank borrowings of the 50% joint venture entity Metlifecare Palmerston North Limited.

Financial covenants

The financial covenants that the Group must comply with include Interest Cover Ratios and a Loan to Value Ratio. During the year ended 30 June 2018, the Group was in compliance with its financial covenants (2017: in compliance).

Finance Costs

$000	30 June 2018	30 June 2017
Interest expense	**3,708**	2,419
Facility costs	**1,812**	1,434
Less: interest expense and facility costs capitalised	**(5,453)**	(3,627)
Total finance costs	**67**	226

Interest on borrowings are charged using the BKBM Bill Rate plus a margin and line fees. Interest rates applicable in the year to 30 June 2018 ranged from 3.46% to 3.66% per annum (2017: 3.17% to 3.98% per annum). Derivative financial instruments used to manage interest rate risk are set out in note 5.5.

Notes to the Financial Statements

5 OTHER DISCLOSURES

This section includes additional information that is considered less significant in understanding the financial performance and position of the Group, but must be disclosed to comply with New Zealand equivalents to International Financial Reporting Standards.

5.1 Income Tax Expense

$000	**30 June 2018**	30 June 2017
(a) Income tax expense		
Current tax	**19**	12
Deferred tax	**14,745**	9,967
Income tax expense	**14,764**	9,979
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**139,849**	261,522
Tax at the New Zealand tax rate of 28%	**39,158**	73,226
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non taxable income and non deductible expenditure	**1,113**	1,936
Capitalised interest	**(1,527)**	(1,016)
Non taxable impact of investment property revaluation	**(37,779)**	(72,452)
Movement in property valuations for deferred tax	**13,462**	9,769
Tax impact of change in depreciable tax base	**(989)**	42
Share of profit arising from joint venture	**(547)**	(717)
Other adjustments	**(173)**	(1,068)
Prior period adjustment	**2,046**	259
Income tax expense	**14,764**	9,979

The applicable tax rate was 28% (2017: 28%).

(c) Recognised deferred tax liability

The movement in the deferred tax balance comprises:

$000	**Balance 1 July 2017**	**Recognised in income**	**Recognised in Reserves**	**Balance 30 June 2018**
Property, plant and equipment	**(29)**	**(5,808)**	**(4)**	**(5,841)**
Investment property	**(132,185)**	**(10,342)**	**-**	**(142,527)**
Deferred management fees	**4,322**	**(2,501)**	**-**	**1,821**
Recognised tax losses	**21,050**	**4,205**	**-**	**25,255**
Other items	**3,763**	**(299)**	**122**	**3,586**
Net deferred tax liability	**(103,079)**	**(14,745)**	**118**	**(117,706)**

$000	Balance 1 July 2016	Recognised in income	Recognised in Reserves	Balance 30 June 2017
Property, plant and equipment	(2,138)	1,545	564	(29)
Investment property	(117,890)	(14,295)	-	(132,185)
Deferred management fees	8,034	(3,712)	-	4,322
Recognised tax losses	14,249	6,801	-	21,050
Other items	4,069	(306)	-	3,763
Net deferred tax liability	(93,676)	(9,967)	564	(103,079)

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.1 Income Tax Expense (continued)

No income tax was paid or payable during the year. There are no unrecognised tax losses for the Group at 30 June 2018 (2017: nil).

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and changes to available tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at balance date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The Group recognises tax losses in the balance sheet to the extent that tax losses offset deferred income tax liabilities arising from temporary differences and the requirements of income tax legislation can be satisfied.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts as usual.

Key assumptions related to deferred tax

Deferred tax - recognition based on 'value-in-use'

NZ IAS 12 *Income Taxes* provides that there is a rebuttable presumption that investment property measured at fair value under NZ IAS 40 and NZ IFRS 13 is recovered entirely through sale. This presumption is rebutted if: the investment property is depreciable; and the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group rebuts the presumption and considers the held for use methodology more appropriately represents the Group’s business model. The Group is a long-term operator of a portfolio of integrated care facilities and villages and consumes substantially all of the economic benefits of its investment property through operating the villages and/or redeveloping these villages over time. Furthermore, the objective of the business model is not to sell investment property sites.

Deferred tax in respect of investment properties has been assessed on the basis of the asset value being realised through use. If the asset value was realised by sale, the sale would trigger a $103.9m (2017: $98.7m) tax liability in relation to tax depreciation recovered prior to the utilisation of any available tax losses at the time. This compares to the "in use" deferred tax net liability of $124.3m (2017: $116.1m) included in the adopted treatment prior to the utilisation of any available tax losses at the time.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.1 Income Tax Expense (continued)

Deferred tax - recognition based on contractual cash flows

In calculating deferred tax under the held for use methodology, the Group has made significant judgements to determine taxable temporary differences. The carrying value of the Group's investment property is determined on a discounted cash flow basis and includes cash flows that are both taxable and non-taxable in the future. Only those cash flows with a future tax consequence, primarily in respect of management fees, result in a taxable temporary difference. In determining the taxable temporary difference, the directors have used the contractual cash flows on the basis that the contractual arrangements for an occupation right agreement comprise two gross cash flows (being an occupation right agreement deposit upon entering the unit and the refund of this deposit upon exit) that are non-taxable and need to be excluded to determine the taxable temporary differences arising on investment properties.

The Group has recognised deferred tax against the present value of cash flows with a future tax consequence as provided by CBRE Limited that arise from the depreciable components (i.e. buildings) of the investment property. Included within the CBRE valuation is also the present value of the capital gains associated with the investment property which are non-taxable and primarily attributable to the capital growth of the non-depreciable components (i.e. land). No deferred tax has been recognised against these amounts.

The Group considered whether deferred tax should be recognised on the basis that management fees are received at the end of the ORA period (i.e. upon refund of the ORA deposit by way of set off on exit by a resident) or at the beginning of the ORA period (i.e. at time of the receipt of the ORA deposit). The Group considers it appropriate to recognise and measure deferred tax based on the management fee being receivable at the end of the ORA period as they believe it best represents the Group's contractual entitlement. Should the management fee be treated as received at the beginning of the ORA period an additional deferred tax liability of $50.1m (2017: $60.0m) would be recognised in the balance sheet. An additional current year tax expense of $50.1m (2017: $60.0m) and a corresponding reduction in net profit after tax of $50.1m (2017: $60.0m) would also be recognised.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.2 Trade Receivables and Other Assets

$000	**30 June 2018**	30 June 2017
Trade receivables	**5,290**	4,673
Occupation right agreement receivables	**9,372**	3,362
Prepayments	**720**	174
Amounts due from related parties	**15**	212
Deposits paid for land acquisitions	**2,790**	-
Other receivables	**2,683**	345
Total receivables and other assets	**20,870**	8,766
Past due but not impaired receivables		
1 to 3 months	**83**	200
Over 3 months	**305**	170
	388	370

All trade receivables and other assets are expected to mature within 12 months of balance date.

Trade receivables are recognised initially at fair value plus transaction costs.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income within 'other expenses'. When a trade receivable is uncollectible, it is written off against the trade receivable. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of comprehensive income.

5.3 Trade and Other Payables

$000	**30 June 2018**	30 June 2017
Trade creditors	**7,249**	5,746
Sundry creditors and accruals	**58,692**	38,974
Employee entitlements	**6,093**	5,173
Total trade and other payables	**72,034**	49,893

Recognised within sundry creditors and accruals at 30 June 2018 is the balance of the purchase price for Orion Point, Hobsonville (2017: the Botany site).

All trade and other payables are expected to mature within 12 months of balance date.

Creditors and other accruals

Expenses are brought to account on an accruals basis and, if not paid at the end of the reporting period, are reflected in the Consolidated Balance Sheet as a payable. These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee entitlements

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the amounts paid or payable.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.4 Financial Instruments

Financial assets and liabilities are classified in accordance with the purpose for which they were acquired at initial recognition.

The Group holds the following categories of financial instruments:

Loans and receivables - financial assets comprising Cash and Cash Equivalents, and Trade Receivables and Other Assets (excluding prepayments). Loans and receivables are recognised at fair value on trade date plus transaction costs and derecognised when the right to receive cash flows is discharged.

Financial liabilities at amortised cost - financial liabilities comprising Trade and Other Payables (excluding employee entitlements), Interest Bearing Liabilities and Refundable Occupation Right Agreements.

Financial liabilities at fair value through profit and loss - financial liabilities comprising Interest Rate Swaps. Interest Rate Swaps are recognised at fair value on the date a contract is entered into and are subsequently measured at fair value on each reporting date.

5.5 Financial Risk Management

The Group is exposed to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme considers the volatility of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out under policies approved by the Board of Directors covering overall risk management and treasury and financial markets risks.

The Group uses different methods to measure different types of risk to which it is exposed including sensitivity analysis in the case of interest rates to determine market risk and ageing analysis for credit risk. From time to time the Group uses derivative financial instruments such as interest rate swap contracts to manage certain interest rate risk exposures. Derivatives are exclusively used for economic hedging purposes and not as trading or other speculative instruments.

(a) Market risk

(i) Foreign exchange risk

The Group does not have a material exposure to foreign exchange risk.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The cash flow and fair value interest rate risks are monitored by the Board on a monthly basis. Management monitors the existing interest rate profile and as appropriate presents interest rate hedging analysis and strategies to the Board for consideration and approval prior to entering into any interest rate swaps. The position is managed depending on the timeframe, underlying interest rate exposure and the economic conditions.

Derivative financial instruments

The Group has entered into interest rate swaps to reduce its exposure to variability in floating rate interest payments for long term borrowings.

Interest rate swaps are recognised at fair value on the date a contract is entered into and are subsequently measured at fair value on each reporting date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows discounted using market rates at balance date. The Group has categorised interest rate swaps as Level 2 under the fair value hierarchy.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.5 Financial Risk Management (continued)

Cash flow hedges

The interest rate swaps are designated in cash flow hedging relationships. When an interest rate swap meets the criteria for hedge accounting, the effective portion of changes in the fair value of the interest rate swap is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the interest rate swap is recognised in profit and loss. The amount accumulated in equity is expected to be reclassified to finance costs at the same time as interest payments for long term borrowings are made.

At 30 June 2018, the Group has interest rate swap agreements in place with a total notional principal amount of $55m (2017: nil), which are being used to cover approximately 36% (2017: nil) of the outstanding principal of bank loans. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating-rate position to a fixed-rate position, with an average contracted fixed interest rate of 2.57%.

The notional values of interest rate swaps outstanding at 30 June 2018 and their maturities are as follows:

$000	**30 June 2018**	30 June 2017
Between one and two years	**20,000**	-
Between two and five years	**35,000**	-
Total interest rate swaps	**55,000**	-

The fair value losses of $0.3m relating to the effective portion of cash flow hedges were recognised in other comprehensive income (2017: nil), with the corresponding amount recognised as a liability in the consolidated balance sheet at 30 June 2018 (2017: nil). The value of amounts reclassified from the hedging reserve to profit and loss was nil.

At 30 June 2018, it is estimated that a general increase of one percentage point in interest rates would reduce the Group's profits after tax by approximately $1.3m (2017: $0.7m) and would decrease equity by $1.3m (2017: $0.7m).

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure from trade receivables.

The Group has no significant concentrations of credit risk. The Group's policy requires a security deposit from new residents before they are granted the right to occupy a unit, therefore, the Group does not face significant credit risk. The values attached to each financial asset in the balance sheet represent the maximum credit risk. No collateral is held with respect to any financial assets. The Group enters into financial instruments with various counterparties in accordance with established limits as to credit rating and dollar limits, and does not require collateral or other security to support the financial instruments.

The Group's cash and cash equivalents are deposited with one of the major trading banks. Non performance of obligations by the bank is not expected due to the Standard & Poor's AA- credit rating of the counterparty considered.

The Group receivables represent distinct trading relationships with each of the residents. There are no concentrations of credit risk with residents. The only large receivables relate to the residential care subsidies which are received in aggregate via the various District Health Boards and Work and Income New Zealand. None of these entities are considered a credit risk.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.5 Financial Risk Management (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Cash flow forecasting is regularly performed by the Group. The Group monitors rolling forecasts of liquidity requirements to ensure sufficient cash to meet operational needs, while maintaining headroom on undrawn committed borrowing facilities at all times so that it does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans and covenant compliance. Surplus cash held by the operating entities is used to repay debt in the Working Capital Facility.

As part of the Group's treasury activities and liquidity management, all subsidiaries interact through intercompany accounts with Metlifecare Limited on a daily basis and without restriction. This encompasses receipts from residents, payments to suppliers, and receipts and payments to residents under occupation right agreements.

Maturity profile of financial liabilities

The table below shows the maturity analysis of the Group's contractual undiscounted cash flows relating to financial liabilities.

$000	Less than 1 year	Later than 1 year
30 June 2018		
Trade and other payables	**72,034**	**-**
Bank loans	**350**	**154,668**
Derivative financial instruments	**347**	**694**
Refundable occupation right agreements	**1,355,108**	**-**
	1,427,839	**155,362**
30 June 2017		
Trade and other payables	49,893	-
Bank loans	156	72,902
Finance leases	102	-
Refundable occupation right agreements	1,260,187	-
	1,310,338	72,902

The bank loans drawn under the committed bank facilities are typically drawn down for fixed periods of 1 to 3 months and renewed at the conclusion of each fixed period.

Occupation right agreements are repayable to the resident on vacation of the unit or serviced apartment. It is not anticipated that all amounts will be immediately repayable on occupational right agreements. The expected maturity of the refundable occupation right agreement liability is shown in note 3.2 and reflects historical turnover calculations.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.5 Financial Risk Management (continued)

(d) Capital risk management

The Group manages its capital risk with regard to its gearing ratios (net debt to total capital), as a guide to capital adequacy, borrowing ratios such as interest cover and loan to value ratios, exposure to liquidity and credit risk and exposures to financial markets volatility.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or disclosure purposes. The carrying value of financial assets and financial liabilities are assumed to approximate their fair values unless otherwise disclosed.

5.6 Related Party Transactions

The following transactions were carried out with related parties:

(a) Key management personnel compensation

The key management personnel are all executives with the authority for the strategic direction and management of the Group. Their compensation paid or payable is set out below. The directors are remunerated through directors' fees and expenses.

$000	**30 June 2018**	30 June 2017
Salaries and other short-term employee benefits	**3,809**	3,307
Senior executive long term share plan	**477**	455
Total	**4,286**	3,762

(b) Transactions and balances

During the year ended 30 June 2018 the Group received repayment of $15,000 from the joint venture company, Metlifecare Palmerston North Limited (2017: the Group advanced $185,000 to the joint venture company).
As at 30 June 2018 the joint venture company owed $197,000 to the Company (2017: $212,000).

(c) Terms and conditions

Joint venture company advances

Advances due from the joint venture company are secured by way of a General Security Agreement and are repayable with a minimum of 12 months' notice. At balance date, notice had not been given in relation to these advances. Interest charges are calculated monthly based on the Group Treasury average cost of funds. Interest rates applicable in the 12 month period to 30 June 2018 ranged from 3.46% to 3.66% per annum (2017: 3.17% to 3.53% per annum).

(d) Directors' fees

During the year ended 30 June 2018, $741,000 of Directors' fees were paid (2017: $686,000). This includes the amount of any unrecoverable GST. Directors' fees are included within 'Other expenses' in note 2.2.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.7 Segment information

The Group operates in one operating segment being that of retirement villages. The chief operating decision maker, the Board of Directors, reviews the operating results on a regular basis and makes decisions on resource allocation based on the review of Group results and cash flows as a whole.

The nature of the products and services provided and the type and class of customers have similar characteristics within the operating segment.

5.8 Commitments

$000	**30 June 2018**	30 June 2017
Capital commitments		
Estimated commitments contracted for at balance date but not yet incurred	**81,732**	47,989
	81,732	47,989

$000	**30 June 2018**	30 June 2017
Operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**647**	477
Later than one year but not later than five years	**2,301**	1,762
Later than five years	**184**	584
	3,132	2,823

The Group leases support office premises and various property, plant and equipment under non-cancellable operating lease agreements. The leases reflect normal commercial arrangements with varying terms, escalation clauses and renewal rights.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.9 Contingencies

There are no material contingent liabilities as at 30 June 2018 (2017: nil).

5.10 Subsequent Events

On 19 July 2018 the Group settled the land purchase at Orion Point, Hobsonville for $37.0m.

On 27 August 2018, the directors approved a dividend of 6.75 cents per share amounting to $14.4m. The dividend record date is 14 September 2018 and payment will occur on 21 September 2018.

There are no further subsequent events between 30 June 2018 and the date that the financial statements were authorised by the directors.

5.11 Subsidiaries of the Group and Joint Venture Investment

All subsidiary companies are 100% owned and incorporated in New Zealand with a balance date of 30 June.

Operating entities

Forest Lake Gardens Limited
Hibiscus Coast Village Holdings Limited
Hillsborough Heights Village Holdings Limited
Longford Park Village Holdings Limited
Metlifecare 7 Saint Vincent Limited
Metlifecare Bayswater Limited
Metlifecare Coastal Villas Limited
Metlifecare Crestwood Limited
Metlifecare Dannemora Gardens Limited
Metlifecare Greenwich Gardens Limited
Metlifecare Greenwood Park Limited
Metlifecare Gulf Rise Limited (previously Metlifecare Red Beach Limited)
Metlifecare Highlands Limited
Metlifecare Kapiti Limited
Metlifecare Oakridge Limited
Metlifecare Edgewater Limited (previously Metlifecare Pakuranga Limited)
Metlifecare Papamoa Beach Limited
Metlifecare Pinesong Limited
Metlifecare Powley Limited
Metlifecare Somervale Limited
Metlifecare The Avenues Limited
Metlifecare The Orchards Limited
Metlifecare The Poynton Limited
Private Life Care Holdings Limited
Vision Senior Living Investments Limited
Vision Senior Living Limited
Waitakere Group Limited

Dormant and non operating entities

Bay of Plenty Retirement Village Limited
Longford Park Village Limited
Metlifecare Merivale Limited
Metlifecare Oakwoods Limited
Metlifecare Wairarapa Limited
Provider Care NZ Limited
Vision (Christchurch) Limited

All subsidiaries, except the dormant and non operating entities, own and manage retirement villages.

Investment in Joint Venture - Palmerston North

The Group has a 50% interest in joint venture company Metlifecare Palmerston North Limited (2017: 50%). The joint venture company, Metlifecare Palmerston North Limited, is incorporated in New Zealand and has a balance date of 30 June.

The principal activity of Metlifecare Palmerston North Limited is the ownership and management of a retirement village.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.11 Subsidiaries of the Group and Joint Venture Investment (continued)

Principles of consolidation

Subsidiaries

Subsidiaries are those entities (including special purpose entities) controlled by the Company. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control potential voting rights that are substantive are taken into account.

The financial results of subsidiaries included in the consolidated financial statements from the date on which control commences until the date that control ceases.

Intercompany

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Joint venture entities

Joint venture entities are accounted for using the equity method. Interests in joint venture entities are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Unrealised gains on transactions between the Group and its joint venture entities are eliminated to the extent of the Group's interest in the joint venture entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Independent auditor's report

To the shareholders of Metlifecare Limited

The group financial statements comprise:

- the consolidated balance sheet as at 30 June 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of movements in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the group financial statements of Metlifecare Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the group financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of tax compliance, strategic procurement advice and executive remuneration benchmarking advice. The provision of these other services has not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

For the purpose of our audit, we used a threshold for overall Group materiality of $2.3 million which represents approximately 2% of operating revenue. We applied this benchmark because, in our view, it is a key financial metric used in assessing the performance of the Group and is not as volatile as other profit or loss measures.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $230,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have determined that there is one key audit matter:

- valuation of investment properties and care homes.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the group financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the group financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the group financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the group financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group financial statements of the current year. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there is one key audit matter: valuation of investment properties and care homes.

pwc

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties and care homes The Group's investment properties (refer to note 3.1 of the group financial statements) and care homes (refer to note 3.3 of the group financial statements) comprise a portfolio of retirement villages in the North Island of New Zealand and at $3.2 billion represent the majority of the Group's assets as at 30 June 2018. Investment properties and care homes are carried at fair value. Investment properties under development that are not sufficiently progressed to enable fair value to be reliably determined are carried at cost spent on the development to date, less any impairment. The valuation of the Group's retirement village portfolio is inherently subjective due to inputs into the valuation that are unobservable through available market information and also considers the individual characteristics of each village, its resident profile and the expected future cash flows for that particular village. The valuations were carried out by an independent third party valuer, CBRE Limited (the Valuer). The valuation processes and related assumptions for investment properties and care homes are described in notes 3.1 and 3.3 of the group financial statements, respectively. Investment properties are recorded in the group financial statements at the value determined by the Valuer, adjusted for refundable occupation right agreements, residents' share of capital gains, deferred management fees, management fee receivables and occupation right agreement receivables, which are recognised separately on the balance sheet but reflected in CBRE's cash flow model valuation. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in assumptions on individual properties, when aggregated, could result in material differences, is why we have given specific audit focus and attention to this area.	Our audit procedures included the following: *External valuations* We received and discussed the external valuation report with the Valuer. We confirmed that the valuation approach for each village was in accordance with the accounting standards and suitable for use in determining the carrying value of investment properties and care homes at 30 June 2018. We also assessed the Valuer's qualifications, expertise and their objectivity. From our discussions with management and the Valuer, and from our review of the valuation report, assumptions (including the discount rate, property price growth rate, stabilised occupancy periods, care home proforma earnings and capitalisation rates) were made to reflect each village's individual characteristics and its overall quality, geographic location and desirability as a whole. On a sample basis, we agreed village specific information supplied to the Valuer by the Group against underlying records held by the Group. *Assumptions* Our work over assumptions referenced above focused on villages where those assumptions used and/or year-on-year fair value movement suggested a possible outlier versus the rest of the portfolio and the wider retirement village sector. We have assessed the estimated cost of remediation works based on the reasonableness of calculations and assumptions used and corroborating the relevant information with third party assessments commissioned by management. We also assessed the reasonableness of management estimates of costs to complete developments that are practically complete and valued by the Valuer at 30 June 2018. We engaged our own in-house valuation expert to challenge the work performed by the Valuer and assess the reasonableness of the assumptions used based on his knowledge gained from reviewing valuations of similar properties, known transactions and market data. *Overall valuation estimates* Because of the subjectivity involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, we determined a tolerable allowance when considering the valuation of an individual investment property and care home's value to evaluate the valuations used by management. We also considered whether or not there was bias in determining individual valuations. Our audit procedures did not identify any issues that would indicate that the valuations adopted by the Group were outside an acceptable range.

Information other than the group financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the group financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the group financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the group financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the group financial statements

Our objectives are to obtain reasonable assurance about whether the group financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these group financial statements.

A further description of our responsibilities for the audit of the group financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Richard Day. For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 August 2018

Auckland