Metlifecare Limited
Interim Group Financial Statements

for the half year ended 31 December 2018

Interim Group Financial Statements

For the half year ended 31 December 2018

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2018

$000	Note	Half year ended 31 December 2018 Unaudited	Half year ended 31 December 2017 * Unaudited
Income			
Operating revenue	2.1	**61,942**	56,476
Other income	6.2	**6,500**	-
Interest income		**132**	83
Total income		**68,574**	56,559
Change in fair value of investment properties	3.1	**29,579**	59,775
Share of (loss)/profit arising from joint venture, net of tax		**(459)**	783
Expenses			
Employee costs		**(26,500)**	(23,840)
Property costs	2.2	**(14,732)**	(12,532)
Other expenses	2.2	**(14,960)**	(12,865)
Residents' share of capital gains		**(1,576)**	(2,454)
Depreciation and impairment	2.2	**(9,933)**	(1,930)
Amortisation		**(319)**	(315)
Finance costs		**(1,314)**	(120)
Total expenses		**(69,334)**	(54,056)
Profit before income tax		**28,360**	63,061
Income tax expense		**(3,909)**	(6,718)
Profit for the period		**24,451**	56,343
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Loss on cash flow hedges		**(266)**	-
Other comprehensive loss, net of tax		**(266)**	-
Total comprehensive income		**24,185**	56,343
Profit attributable to shareholders of the parent company		**24,451**	56,343
Total comprehensive income attributable to shareholders of the parent company		**24,185**	56,343
Profit per share for profit attributable to the equity holders of the company during the period			
Basic (cents)		**11.5**	26.5
Diluted (cents)		**11.5**	26.4

* See note 5 for details about restatements for changes in accounting policies.

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

Consolidated Statement of Movements in Equity

For the half year ended 31 December 2018

$000	Contributed Equity	Retained Earnings	Hedging Reserve	Revaluation Reserve	Employee Share Scheme Reserve	Total Equity
Half year ended 31 December 2017						
Balance at 1 July 2017 (audited)	306,895	1,055,906	-	7,009	378	1,370,188
Changes in accounting policies *	-	87	-	-	-	87
Restated balance at 1 July 2017	306,895	1,055,993	-	7,009	378	1,370,275
Comprehensive income						
Profit for the period *	-	56,343	-	-	-	56,343
Other comprehensive loss	-	-	-	-	-	-
Total comprehensive income	-	56,343	-	-	-	56,343
Employee share scheme	-	-	-	-	57	57
Transfer from employee share scheme reserve on vesting	66	-	-	-	(66)	-
Dividends paid to shareholders	-	(12,354)	-	-	-	(12,354)
Balance at 31 December 2017 (unaudited)	306,961	1,099,982	-	7,009	369	1,414,321
Half year ended 31 December 2018						
Balance at 1 July 2018 (audited)	**307,024**	**1,162,055**	**(313)**	**7,050**	**459**	**1,476,275**
Changes in accounting policies *	**-**	**148**	**-**	**-**	**-**	**148**
Restated balance at 1 July 2018	**307,024**	**1,162,203**	**(313)**	**7,050**	**459**	**1,476,423**
Comprehensive income / (loss)						
Profit for the period	**-**	**24,451**	**-**	**-**	**-**	**24,451**
Other comprehensive loss	**-**	**-**	**(266)**	**-**	**-**	**(266)**
Total comprehensive income / (loss)	**-**	**24,451**	**(266)**	**-**	**-**	**24,185**
Employee share scheme	**-**	**-**	**-**	**-**	**189**	**189**
Transfer from employee share scheme reserve on vesting	**113**	**-**	**-**	**-**	**(113)**	**-**
Dividends paid to shareholders	**-**	**(14,386)**	**-**	**-**	**-**	**(14,386)**
Balance at 31 December 2018 (unaudited)	**307,137**	**1,172,268**	**(579)**	**7,050**	**535**	**1,486,411**

* See note 5 for details about restatements for changes in accounting policies.

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

Consolidated Balance Sheet

As at 31 December 2018

$000	Note	**31 December 2018 Unaudited**	30 June 2018 * Audited	31 December 2017 * Unaudited
Assets				
Cash and cash equivalents		**2,357**	16,298	2,768
Trade receivables and other assets		**31,540**	20,870	10,357
Property, plant and equipment		**50,497**	54,769	54,677
Intangible assets		**1,189**	1,206	1,252
Investment properties	3.1	**3,320,140**	3,190,840	3,007,323
Investment in joint venture		**10,396**	10,929	9,981
Total assets		**3,416,119**	3,294,912	3,086,358
Liabilities				
Trade and other payables		**31,984**	72,034	26,523
Derivative financial instruments		**805**	434	-
Interest bearing liabilities	4.2	**256,567**	156,787	143,884
Deferred management fees		**121,875**	116,953	111,349
Refundable occupation right agreements		**1,397,507**	1,355,108	1,280,934
Deferred tax liability		**120,970**	117,173	109,347
Total liabilities		**1,929,708**	1,818,489	1,672,037
Net assets		**1,486,411**	1,476,423	1,414,321
Equity				
Contributed equity	4.1	**307,137**	307,024	306,961
Reserves		**7,006**	7,196	7,378
Retained earnings		**1,172,268**	1,162,203	1,099,982
Total equity		**1,486,411**	1,476,423	1,414,321

* See note 5 for details about restatements for changes in accounting policies.

The Interim Group Financial Statements presented are signed for and on behalf of Metlifecare Limited and were authorised for issue on 25 February 2019.

K. R. Ellis
Chair
25 February 2019

A. B. Ryan
Director
25 February 2019

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

Consolidated Cash Flow Statement

For the half year ended 31 December 2018

$000	Half year ended 31 December 2018 Unaudited	Half year ended 31 December 2017 * Unaudited
Cash flows from operating activities		
Receipts from residents for management fees, village and care fees	**50,046**	43,854
Receipts from residents for sale of new refundable occupation right agreements	**37,376**	20,273
Receipts from residents for resale of refundable occupation right agreements	**100,952**	80,690
Payments to residents for refundable occupation right agreements	**(79,248)**	(54,211)
Payments to suppliers and employees	**(59,814)**	(53,060)
Net GST received	**497**	970
Interest received	**83**	31
Interest paid	**(1,522)**	(122)
Net buyback costs for off-market units associated with regeneration and remediation	**(977)**	(11,093)
Net cash inflow from operating activities	**47,393**	27,332
Cash flows from investing activities		
Net advances to joint venture	**(508)**	(136)
Dividends received from joint venture	**-**	625
Payments for property, plant and equipment	**(4,703)**	(5,981)
Payments for intangibles	**(302)**	(110)
Payments for investment properties	**(138,243)**	(75,612)
Capitalised interest paid	**(3,296)**	(2,398)
Net cash outflow from investing activities	**(147,052)**	(83,612)
Cash flows from financing activities		
Dividends paid	**(14,386)**	(12,354)
Net proceeds from borrowings	**100,293**	68,639
Principal payments of lease liabilities	**(189)**	(170)
Net cash inflow from financing activities	**85,718**	56,115
Net decrease in cash and cash equivalents	**(13,941)**	(165)
Cash and cash equivalents at the beginning of the period	**16,298**	2,933
Cash and cash equivalents at the end of the period	**2,357**	2,768

Reconciliation of Profit after Tax with Cash Inflow from Operating Activities

$000		
Profit after tax	**24,451**	56,343
Adjustments for:		
Change in fair value of investment properties	**(29,579)**	(59,775)
Change in the fair value of residents' share of capital gains	**1,576**	2,454
Employee share scheme	**189**	57
Depreciation and impairment	**9,933**	1,930
Amortisation	**319**	315
Deferred tax expense	**3,892**	6,707
Loss on disposal of property, plant and equipment	**23**	5
Share of loss/(profit) arising from joint venture, net of tax	**459**	(783)
Changes in working capital relating to operating activities:		
Trade receivables and other assets	**(5,969)**	(731)
Trade and other payables	**(3,639)**	(2,650)
Deferred management fees	**4,915**	5,167
Refundable occupation right agreements	**40,823**	18,293
Net cash inflow from operating activities	**47,393**	27,332

* See note 5 for details about restatements for changes in accounting policies.

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

Notes to the Interim Group Financial Statements

1 GENERAL INFORMATION

1.1 Reporting entity

Metlifecare Limited ("the Company") and its subsidiaries (together "the Group") own and operate 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 interim group financial statements are for the consolidated group comprising Metlifecare Limited and its subsidiaries (together "the Group").

The Group is designated as a 'for profit' entity for financial reporting purposes.

These financial statements have been approved for issue by the Board of Directors on 25 February 2019.

1.2 Going concern

In approving these interim group 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. On this basis, the directors believe it remains appropriate that the interim group financial statements have been prepared under the going concern convention.

1.3 Basis of preparation

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 interim group financial statements have been prepared in accordance with the requirements of the NZX listing rules and where required, the ASX listing rules.

These interim group financial statements for the half year reporting period ended 31 December 2018 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalent to International Accounting Standard 34 and International Accounting Standard 34 *Interim Financial Reporting.*

The interim group financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these interim group financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2018, prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The interim group financial statements for the six months ended 31 December 2018 and comparatives for the six months ended 31 December 2017 are unaudited. The interim group financial statements are presented in New Zealand Dollars ($), which is the Group's functional and presentation currency. All financial information has been presented in thousands, unless stated otherwise.

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

Where necessary, certain comparative information has been reclassified in order to conform to changes in presentation in the current period.

All accounting policies that materially affect the measurement of the consolidated statement of comprehensive income, the consolidated balance sheet and the consolidated cash flow statement have been applied on a basis consistent with those used in the audited financial statements for the year ended 30 June 2018, except for the adoption of new and amended standards as summarised in note 5.

Notes to the Interim Group Financial Statements

1 GENERAL INFORMATION (continued)

1.4 New Accounting Standards

The Group adopted all mandatory new and amended NZ IFRS Standards and Interpretations during the period including NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers,* with no material impact on the accounting policies or disclosures of the Group. The Group elected to early adopt NZ IFRS 16 *Leases* from 1 July 2018. The impact of the changes in accounting policies on adoption of this new standard is summarised in note 5.

NZ IFRS 9 *Financial Instruments* replaces the guidance in NZ IAS 39 for the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

NZ IFRS 9 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. Trade and other receivables, and cash and cash equivalents that were previously classified as loans and other receivables under NZ IAS 39 are now classified at amortised cost.

Impairment of financial assets is assessed based on the expected credit loss model under NZ IFRS 9. The Group has applied the simplified approach permitted under NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of trade receivables. Expected lifetime losses have been measured by reviewing trade receivables based on type of debtor and days since resident departure. Application of the new impairment model has not had a material impact on the carrying value of expected credit losses and no adjustments have been made to the opening impairment provision balance.

The hedge accounting requirements of NZ IAS 39 will continue to be applied to existing derivative financial instruments in designated hedging relationships on transition.

NZ IFRS 15 *Revenue from Contracts with Customers* 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.

Adoption of NZ IFRS 15 has not had a material impact on the recognition or measurement of revenue by the Group. 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 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;
- Village 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.

2 OPERATING PERFORMANCE

2.1 Operating Revenue

$000	**Half year ended 31 December 2018 Unaudited**	Half year ended 31 December 2017 Unaudited
Management fees	**27,036**	25,705
Rest home, hospital and service fees and village fees	**32,946**	29,153
Other operating revenue	**1,960**	1,618
	61,942	56,476

2 OPERATING PERFORMANCE (continued)

2.2 Expenses

$000	**Half year ended 31 December 2018 Unaudited**	Half year ended 31 December 2017 Unaudited
Profit before income tax includes the following expenses:		
Property costs		
Utilities and other property costs	**6,393**	6,093
Repairs and maintenance on investment properties	**7,778**	5,988
Repairs and maintenance on property, plant, furniture and equipment	**561**	451
Total property costs	**14,732**	12,532
Depreciation and impairment		
Depreciation expense	**1,947**	1,721
Impairment of care homes		
The Avenues	**4,702**	209
Papamoa Beach	**3,284**	-
Total depreciation and impairment	**9,933**	1,930
Other expenses		
Resident costs	**3,415**	3,248
Marketing and promotion	**3,840**	2,653
Other employment costs	**1,644**	1,484
Communication costs	**1,500**	1,376
Other (no items of individual significance)	**4,521**	4,036
Fees paid to PricewaterhouseCoopers New Zealand		
Review of interim group financial statements	**40**	40
Debt and treasury advisory services	**114**	-
Strategic procurement advisory services	**-**	23
Tax compliance services	**-**	5
Total fees paid to PricewaterhouseCoopers New Zealand	**154**	68
Debt and treasury advisory services costs capitalised	**(114)**	-
Total expensed fees for PricewaterhouseCoopers New Zealand	**40**	68
Total other expenses	**14,960**	12,865

The Avenues and Papamoa Beach care homes are expected to complete in June 2019. Impairment losses recognised in the period ended 31 December 2018 represent the impairment based on costs incurred to date and the expected valuation at completion.

A reduction in the value of land related to The Avenues care home resulted in an impairment loss of $0.2m in the period ended 31 December 2017.

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

Other expenses include Directors' fees. During the period ended 31 December 2018, $378,000 of Directors' fees were paid (2017: $364,000). This includes the amount of any GST incurred that is not recoverable from the taxation authority.

Notes to the Interim Group Financial Statements

2 OPERATING PERFORMANCE (continued)

2.3 Underlying Profit before taxation

$000	**Half year ended 31 December 2018 Unaudited**	Half year ended 31 December 2017 Unaudited
Profit for the period	**24,451**	56,343
Less non-recurring items:		
Other income - settlement receivable	**(6,500)**	-
Profit for the period excluding non-recurring items	**17,951**	56,343
Less:		
Change in fair value of investment properties	**(29,579)**	(59,775)
Add:		
Impairment of property, plant and equipment	**7,986**	209
Realised resale gains	**32,147**	26,479
Realised development margin	**9,252**	6,180
Tax expense	**3,909**	6,718
Underlying Profit before taxation	**41,666**	36,154

Underlying Profit before taxation, is 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.

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 - settlement receivable:** refer to note 6.2 for further details.

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

(c) Impairment of property, plant and equipment: impairment associated with care home valuation changes are excluded as the Group is in the business of owning and operating care homes, not constructing the asset for resale (refer to note 2.2).

(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 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 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 homes are excluded from the costs above when the development margin is calculated.

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

Notes to the Interim Group Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS

3.1 Investment Properties

$000	**Half year ended 31 December 2018 Unaudited**	Year ended 30 June 2018 Audited	Half year ended 31 December 2017 Unaudited
Opening balance	**3,190,840**	2,890,939	2,890,939
Capitalised subsequent expenditure	**99,744**	166,837	56,609
Investment properties under development transferred to property, plant and equipment	-	(1,353)	-
Investment properties disposed of	**(23)**	(839)	-
Change in fair value recognised during the period	**29,579**	135,256	59,775
Closing balance	**3,320,140**	3,190,840	3,007,323

Investment properties are categorised as follows:

$000	**31 December 2018 Unaudited**	30 June 2018 Audited	31 December 2017 Unaudited
Development land measured at fair value	**155,914**	122,987	86,969
Retirement villages under development measured at cost	**80,120**	36,551	74,450
Retirement villages measured at fair value	**3,084,106**	3,031,302	2,845,904
Total investment properties	**3,320,140**	3,190,840	3,007,323

Investment properties

Investment properties include completed freehold land and buildings, freehold development land and buildings under development comprising independent living units and apartments, 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 properties 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.

The movement in the carrying value of investment properties, net of disposals and additions to investment properties is recognised as a fair value movement in the statement of comprehensive income.

CBRE performed a "roll forward" of the valuation that was completed at 30 June 2018 for the period from 1 July 2018 to 31 December 2018. This involved the Group confirming the movements in the sales, resales and repurchases of occupation right agreements during the period, an assessment by the valuer of the general market conditions and the provisions of the impact of the changes where appropriate on the completed value of investment properties. The "roll forward" provides an assessment by the valuer of the financial impact of the changes for the six month period since the most recent full valuation. CBRE will perform a full valuation as at 30 June 2019.

Notes to the Interim Group 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 planned 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.

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 properties is determined using inputs that are significant and unobservable, the Group has categorised investment properties 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	**31 December 2018**	30 June 2018	31 December 2017
Nominal growth rate - anticipated annual property price growth over the cash flow period 0 - 5 years	**0% - 3.5%**	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%	2.6% - 3.1%
Pre-tax discount rate	**12.5% - 15.0%**	12.5% - 15.0%	12.5% - 15.5%

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 with stabilised departing occupancy set out below.

Stabilised departing occupancy - years	**31 December 2018**	30 June 2018	31 December 2017
Serviced apartments	**3.8 - 4.9**	4.0 - 4.9	3.8 - 4.7
Independent living units and apartments	**6.4 - 8.9**	6.7 - 9.0	6.7 - 8.8

Notes to the Interim Group Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.1 Investment Properties (continued)

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 $47.3m over a five year period (30 June 2018: $44.1m over a five year period; 31 December 2017: $47.4m 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 remaining cost of the required works. The estimates are based on currently available information.

CBRE has also included within its forecast cash flows the Group's expected costs associated with seismic strengthening works of $1.4m (30 June 2018: $1.4m; 31 December 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 fees receivable 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	**31 December 2018 Unaudited**	30 June 2018 Audited	31 December 2017 Unaudited
Development land measured at fair value	**155,914**	122,987	86,969
Retirement villages under development measured at cost	**80,120**	36,551	74,450
Retirement villages measured at fair value	**1,553,533**	1,556,450	1,447,356
Investment properties at valuation	**1,789,567**	1,715,988	1,608,775
Plus: Refundable occupation right agreements	**1,779,037**	1,713,214	1,617,846
Plus: Residents' share of capital gains	**35,163**	35,465	34,722
Plus: Deferred management fees	**121,875**	116,953	111,349
Less: Management fees receivable	**(397,797)**	(381,408)	(361,859)
Less: Occupation right agreement receivables	**(7,705)**	(9,372)	(3,510)
Total investment properties	**3,320,140**	3,190,840	3,007,323

Borrowing costs of $3.3m (30 June 2018: $5.5m; 31 December 2017: $2.2m) arising from financing specifically entered into for the construction of investment properties under development were capitalised during the year. Average capitalisation rates of 3.57% pa (30 June 2018: 3.55% pa; 31 December 2017: 3.50% pa) were used, representing the borrowing costs of the loans used to finance the projects.

Notes to the Interim Group Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING

4.1 Contributed Equity

Shares	**Half year ended 31 December 2018 Unaudited**	Year ended 30 June 2018 Audited	Half year ended 31 December 2017 Unaudited
Issued and fully paid up capital			
Balance at beginning of the period	**213,132,290**	213,005,909	213,005,909
Shares issued net of transactions costs	**172,432**	126,381	126,381
Balance at end of period	**213,304,722**	213,132,290	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.

Treasury shares at 31 December 2018 of 522,928 (30 June 2018: 397,028; 31 December 2017: 420,401) 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.

$000	**Half year ended 31 December 2018 Unaudited**	Year ended 30 June 2018 Audited	Half year ended 31 December 2017 Unaudited
Issued and fully paid up capital			
Balance at beginning of the period	**307,024**	306,895	306,895
Shares issued	**113**	129	66
Balance at end of period	**307,137**	307,024	306,961

Net tangible assets per share	**31 December 2018 Unaudited**	30 June 2018 Audited	31 December 2017 Unaudited
Net tangible assets per share (basic)	**$6.97**	$6.93	$6.63

4.2 Interest Bearing Liabilities

$000	**31 December 2018 Unaudited**	30 June 2018 Audited	31 December 2017 Unaudited
Bank loans	**254,961**	154,668	141,541
Capitalised debt costs	**(632)**	(308)	(317)
	254,329	154,360	141,224
Lease Liability	**2,238**	2,427	2,660
Total interest bearing liabilities	**256,567**	156,787	143,884

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.

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.2 Interest Bearing Liabilities (continued)

On 20 December 2018 the bank facilities were renegotiated and extended. The maturities of the Core Revolving Credit Facility of $175m (30 June 2018: $175m; 31 December 2017: $175m) and the Development Facility of $275m (30 June 2018: $175m; 31 December 2017: $175m) are detailed below. At 30 June 2018 and 31 December 2017, a Working Capital Facility of $2.0m was available, repayable on demand and undrawn.

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

$000	**31 December 2018 Facility Limit**	**31 December 2018 Unaudited**	30 June 2018 Audited	31 December 2017 Unaudited
Core Facility	**175,000**	**123,333**	15,000	52,000
Development Facility	**275,000**	**131,628**	139,668	89,541
Total	**450,000**	**254,961**	154,668	141,541
Contractual maturity and drawn amounts				
Between one and two years	**83,333**	**83,333**	70,333	83,333
Between two and three years	**141,667**	**141,667**	61,333	56,208
More than three years	**225,000**	**29,961**	23,002	2,000
Total	**450,000**	**254,961**	154,668	141,541

5 CHANGES IN ACCOUNTING POLICIES

5.1 NZ IFRS 16 *Leases*

The Group has elected to early adopt NZ IFRS 16 *Leases* with a date of initial application of 1 July 2018. NZ IFRS 16 has been adopted using the full retrospective approach, as permitted under the specific transition provisions in the standard. Where presented in these interim group financial statements, comparatives for the year ended 30 June 2018 and 31 December 2017, and the opening balance sheet at 1 July 2017, have been restated.

(a) New accounting policy with effect from 1 July 2018

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.

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are capitalised at the commencement date of the lease and comprise the initial lease liability, plus any initial indirect costs incurred and restoration costs, less any lease incentives received. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities are measured based on the present value of the fixed and variable lease payments, less any cash lease incentives receivable. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period.

Payments associated with leases of low-value assets, and for leases with a lease term of 12 months or less are recognised on a straight-line basis as an expense in profit or loss.

Notes to the Interim Group Financial Statements

5 CHANGES IN ACCOUNTING POLICIES (continued)

5.1 NZ IFRS 16 *Leases* (continued)

(b) Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, the Group has recognised a right-of-use asset within property, plant and equipment and a corresponding lease liability within interest bearing liabilities in relation to leases which had previously been classified as operating leases under the principles of NZ IAS 17 *Leases,* except where the recognition exemptions were applied to short-term leases and leases of low-value assets. The liabilities were measured at the present value of the remaining lease payments, discounted at a rate of 7.5%. This is an estimated discount rate based on similar assets with similar tenure in proximity to the office premises. At 31 December 2018, a right-of-use asset of $1.9m and a corresponding lease liability of $2.2m has been recognised.

Occupation right agreements confer the right to occupancy of a unit or serviced apartment and are considered leases under NZ IFRS 16. On adoption of NZ IFRS 16, the Group has recognised an adjustment for recognition of management fees relating to transfers from an independent living unit or apartment to another independent living unit or apartment or a serviced apartment, deferring the management fees historically recognised into later periods. 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. As a result, investment properties and deferred management fees have been impacted.

$000	1 July 2017
Operating lease commitments disclosed as at 30 June 2017	2,823
Discounted at the date of initial application	2,101
Add: finance lease liabilities recognised as at 30 June 2017	102
Add: adjustment for lease variations	724
(Less): low-value and short-term leases recognised on a straight-line basis as expense	(47)
Lease liability recognised as at 1 July 2017	2,880

The impact of the adoption of NZ IFRS 16 on the Group's consolidated balance sheet, consolidated statement of comprehensive income and consolidated cash flow statement for those comparatives presented within the interim group financial statements, including the opening balance sheet at 1 July 2017, are presented below. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Consolidated Balance Sheet

$000		30 June 2018	31 December 2017	1 July 2017
Property, plant and equipment	Increase	2,042	2,234	2,425
Investment properties	Increase	1,900	1,595	1,570
Total assets	Increase	3,942	3,829	3,995
Interest bearing liabilities	Increase	2,427	2,608	2,778
Deferred management fees	Increase	1,900	1,595	1,570
Deferred tax liability	Decrease	533	447	440
Total liabilities	Increase	3,794	3,756	3,908
Net assets	Increase	148	73	87
Retained earnings	Increase	148	73	87
Total equity	Increase	148	73	87

Notes to the Interim Group Financial Statements

5 CHANGES IN ACCOUNTING POLICIES (continued)

(b) Adjustments recognised on adoption of NZ IFRS 16 (continued)

Consolidated Statement of Comprehensive Income

$000		Half year ended 31 December 2017
Operating revenue	Increase	25
Total income	Increase	25
Change in fair value of investment properties	Decrease	25
Other expenses	Decrease	272
Depreciation and impairment	Increase	191
Finance costs	Increase	102
Total expenses	Increase	21
Profit before income tax	Decrease	21
Income tax expense	Decrease	7
Profit for the year	Decrease	14
Total comprehensive income	Decrease	14
Profit per share for profit attributable to the equity		
Diluted (cents)	Decrease	0.1

Consolidated Cash Flow Statement

$000		Half year ended 31 December 2017
Payments to suppliers and employees	Decrease	272
Interest Paid	Increase	102
Net cash inflow from operating activities	Decrease	170
Principal payments of lease liabilities	Increase	170
Net cash inflow from financing activities	Increase	170

Notes to the Interim Group Financial Statements

6 OTHER DISCLOSURES

6.1 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.

Information about major customers

Included in total income are operating revenues derived from the New Zealand Government being the Group's largest single source of income.

The Group derives care fee revenue in respect of eligible Government subsidised aged care residents who receive rest home or hospital level care. Government aged care subsidies received from the Ministry of Health included in rest home, hospital and service fees, and villages fees amounted to $6.0m (31 December 2017: $4.7m). There are no other individually significant customers.

6.2 Other Income - Settlement Receivable

In December 2018 an agreement was reached for a settlement payment of $6.5m associated with building matters on certain buildings. The settlement amount of $6.5m was received in January 2019.

6.3 Contingencies

Contingent liabilities

There are no material contingent liabilities as at 31 December 2018 (30 June 2018: nil; 31 December 2017: nil).

6.4 Commitments

$000	**31 December 2018 Unaudited**	30 June 2018 Audited	31 December 2017 Unaudited
Capital commitments			
Estimated commitments contracted for at balance date but not provided for to purchase, construct or develop investment properties	**90,357**	81,732	31,361
	90,357	81,732	31,361

6.5 Subsequent Events

On 25 February 2019, the directors approved an unimputed dividend of 3.75 cents per share amounting to $8.0m. The dividend record date is 15 March 2019 with payment to be made on 22 March 2019.

6.6 Subsidiaries of the Group

On 7 December 2018, the following subsidiaries were amalgamated into Metlifecare Holdings Limited (previously Vision Senior Living Limited), with no impact on the transactions or balances presented in the interim group financial statements.

Bay of Plenty Retirement Village Limited
Metlifecare Merivale Limited
Metlifecare Oakwoods Limited
Metlifecare Wairarapa Limited
Private Life Care Holdings Limited
Provider Care NZ Limited
Vision (Christchurch) Limited
Vision Senior Living Investments Limited

Independent review report

To the shareholders of Metlifecare Limited

Report on the interim group financial statements

We have reviewed the accompanying interim group financial statements of Metlifecare Limited (the Company) and its controlled entities (the Group) on pages 3 to 18, which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated cash flow statement for the period ended on that date, selected accounting policies and notes to the interim group financial statements.

Directors' responsibility for the interim group financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these interim group financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of interim group financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying interim group financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim group financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim group financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim group financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax compliance and debt and treasury advisory services. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim group financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and of its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

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Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's Shareholders. those matters which we are required to state to them in our review 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 Shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
25 February 2019