Metlifecare Limited

Interim Report 2009

Directors' Review

The current challenging market conditions have resulted in lower monthly volumes of residential property sales across New Zealand. As a result the Company has experienced a reduction in the volume of sales and resales of Occupation Rights in its retirement villages, and in the prices achieved.

While the total number of Occupation Right Agreements entered into by prospective residents remains at levels consistent with previous periods, the timeframe to sell their existing homes and reach settlement on signed Occupation Right Agreements has lengthened, resulting in the number of agreements achieving settlement reducing.

As a result of the lower level of settlements of Occupation Rights, there has been an increase in the level of stock of Occupation Rights for sale. However, the revenue and cash flows associated with the excess stock are expected to be realised over time.

The net operating cashflows of Metlifecare's remaining operations (excluding cashflows arising from sales and resales of Occupation Rights) remains comparable to prior periods.

The Company had positive total operating cash flows of $2.7m for the period ended 31 December 2008.

The carrying value of investment property of the Group has been written down by $55.3 million between the annual financial statements as at 30 June 2008 and the interim financial statements as at 31 December 2008. This reflects the change in market circumstances described above. As required by IFRS reporting standards, the negative revaluation has been reflected in the Income Statement. There has also been a write down of goodwill, between 30 June 2008 and 31 December 2008 of $2.5 million.

The loss for the period ended 31 December 2008 was $61.9 million.

The Company expects to benefit, in due course, from a recovery in the property market and the consequent selldown of excess stock of Occupation Rights. In addition, the Company benefits from diverse revenue streams from care fees, deferred management fees, capital gains on resales of Occupation Rights, and potential future income from property development.

The Company continues to have positive operating cash flows, however ongoing weakness in the property market has led the Directors to believe it prudent to strengthen the balance sheet. To this end the Board has initiated a capital raising with the proceeds to be used to reduce existing debt in the Company's bank facilities. Additionally, the Directors have suspended the Company's dividend until at least 30 June 2010 to retain cash flows and also reduce debt.

Hon. J K McLay CNZM, QSO
Chairman
Metlifecare Limited

12 February 2009

Directors' Report

The Directors have pleasure in presenting the Interim Financial Statements of Metlifecare Limited, for the half year ended 31 December 2008.

The Interim Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 12 February 2009.

Director	Director

Consolidated Cash Flow Statement

For the half year ended 31 December 2008

	Notes	Half year ended 31 December 2008 Unaudited $000	Half year ended 31 December 2007 Unaudited $000
Cash flows from operating activities			
Receipts from customers		**53,438**	68,653
Payments to customers		**(19,204)**	(27,107)
Payments to suppliers and employees		**(28,319)**	(25,131)
Interest received		**31**	46
Interest paid		**(3,208)**	(3,563)
Net cash inflow from operating activities	5	**2,738**	12,898
Cash flows from investing activities			
Payments for property, plant and equipment	6	**(26,258)**	(3,883)
Payments for investment properties		**(125)**	(14,256)
Payments for acquired village assets		**-**	(44,321)
Capitalised interest paid		**(2,538)**	(1,593)
Net cash outflow from investing activities		**(28,921)**	(64,053)
Cash flows from financing activities			
Proceeds from borrowings		**38,115**	61,700
Repayment of loan		**(4,325)**	-
Dividends paid		**(7,596)**	(10,994)
Net cash inflow from financing activities		**26,194**	50,706
Net increase (decrease) in cash and cash equivalents		**11**	(449)
Cash and cash equivalents at the beginning of the financial period		**1,146**	49
Cash and cash equivalents at end of period		**1,157**	(400)

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

Consolidated Balance Sheet

As at 31 December 2008

	Notes	As at 31 December 2008 Unaudited $000	As at 31 December 2007 Unaudited $000	As at 30 June 2008 Audited $000
ASSETS				
Cash and cash equivalents		**1,157**	-	1,146
Trade and other receivables		**24,939**	32,832	26,006
Derivative financial instruments		**-**	1,238	531
Property, plant and equipment	6	**127,204**	80,965	98,478
Intangible assets	7	**3,734**	5,627	6,151
Investment properties	8	**1,120,368**	1,208,776	1,175,551
Total assets		**1,277,402**	1,329,438	1,307,863
LIABILITIES				
Bank overdraft		**-**	400	-
Trade and other payables		**15,194**	12,844	14,192
Bank loans		**199,986**	142,000	161,871
Other loans		**-**	4,325	4,325
Derivative financial instruments		**1,170**	-	-
Finance leases		**454**	79	65
Deferred membership fees		**37,321**	32,222	34,983
Refundable occupation right agreements		**561,649**	555,154	561,325
Total liabilities		**815,774**	747,024	776,761
Net assets		**461,628**	582,414	531,102
EQUITY				
Contributed equity		**44,596**	44,596	44,596
Retained profits		**409,791**	529,920	478,645
Minority interest		**7,241**	7,898	7,861
Total equity		**461,628**	582,414	531,102
Net Tangible assets per security ($)		**5.24**	6.93	6.00

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

Consolidated Income Statement

For the half year ended 31 December 2008

	Notes	Half year ended 31 December 2008 Unaudited $000	Half year ended 31 December 2007 Unaudited $000
Revenue			
Operating revenue		**29,994**	28,294
Change in fair value of investment properties		**(55,308)**	(10,719)
Finance income		**70**	96
Total income		**(25,244)**	17,671
Expenses	4		
Employee costs		**(14,660)**	(12,485)
Depreciation		**(927)**	(796)
Amortisation		**(72)**	(91)
Impairment of goodwill		**(2,468)**	-
Finance costs		**(6,990)**	(3,913)
Other expenses		**(11,517)**	(12,733)
Total expenses		**(36,634)**	(30,018)
Loss before income tax		**(61,878)**	(12,347)
Income tax expense		**-**	-
Loss for the period		**(61,878)**	(12,347)
Attributable to:			
Shareholders of the parent company		**(61,858)**	(11,414)
Minority interest		**(20)**	(933)
Loss per share for loss attributable to the equity holders of the Company during the period			
- Basic and Diluted (cents)		**(70.74)**	(13.05)

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

Consolidated Statement of Movements in Equity

For the half year ended 31 December 2008

	Contributed Equity Unaudited $000	Retained Earnings Unaudited $000	Minority Interest Unaudited $000	Total Equity Unaudited $000
Balance at 1 July 2007	**44,596**	**551,828**	**9,331**	**605,755**
Loss for the period	-	(11,414)	(933)	**(12,347)**
Total recognised income and expenses for the period	-	(11,414)	(933)	**(12,347)**
Dividends paid	-	(10,494)	(500)	**(10,994)**
Balance at 31 December 2007	**44,596**	**529,920**	**7,898**	**582,414**
Loss for the period	-	(41,656)	(37)	**(41,693)**
Total recognised income and expenses for the period	-	(41,656)	(37)	**(41,693)**
Dividends paid	-	(9,619)	-	**(9,619)**
Balance at 30 June 2008	**44,596**	**478,645**	**7,861**	**531,102**
Loss for the period	-	(61,858)	(20)	**(61,878)**
Total recognised income and expenses for the period	-	(61,858)	(20)	**(61,878)**
Dividends paid	-	(6,996)	(600)	**(7,596)**
Balance at 31 December 2008	**44,596**	**409,791**	**7,241**	**461,628**

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2008

1 General information

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 2, Metlifecare House, 302 Great South Road, Greenlane, Auckland.

The interim financial statements have been approved for issue by the Board of Directors on 12 February 2009.

The group's owners do not have the power to amend these interim financial statements once issued.

2 Summary of significant accounting policies

Entities reporting
The interim financial statements are for the consolidated group comprising Metlifecare Limited and its subsidiaries.

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

Statutory base
Metlifecare Limited is a company registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The Company is also listed on the New Zealand Stock Exchange (NZX). The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

These consolidated interim financial statements for the half year reporting period ended 31 December 2008 have been prepared in accordance with generally accepted accounting practice in New Zealand, New Zealand equivalents to International Accounting Standard 34 and International Accounting Standard 34, Interim Financial Reporting.

The accounting policies that materially affect the measurement of the Income Statement, Balance Sheet and the Cash Flow Statement have been applied on a basis consistent with those used in the audited financial statements for the year ended 30 June 2008 and unaudited interim financial statements for the six months ended 31 December 2007.

The interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these consolidated interim financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2008, prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The investment properties balance reported for the six months ended 31 December 2007 has been restated following the finalisation of the transition adjustments to New Zealand equivalents to International Financial Reporting Standards that were included in the financial statements for the year ended 30 June 2008. This has resulted in the redirection of the investment properties balance as at 31 December 2007 and 30 June 2007 by $23.65 million.

The interim financial statements for the six months ended 31 December 2008 are unaudited. The interim financial statements are presented in New Zealand Dollars ($), which is the Group's functional 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 liquidity.

Changes in accounting policies
There have been no changes in accounting policies during the current financial period. Accounting policies have been applied on a basis consistent with the prior half year and annual financial statements.

3 Segment information

The Group operates in one business segment. The chief operating decision maker reviews the operating results on a regular basis and makes decisions on resource allocation based on the review of Group results.

4 Expenses

	Half year ended 31 December 2008 Unaudited $000	Half year ended 31 December 2007 Unaudited $000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant, furniture and equipment	**568**	509
Motor vehicles	**46**	45
Freehold buildings	**313**	242
Total depreciation	**927**	796
Impairment of goodwill	**2,468**	-
Amortisation of intangible assets	**72**	91
Changes in fair value of derivatives	**1,701**	(16)
Loss on disposal of property, plant and equipment	**-**	5
Rental and operating lease expenses	**117**	198
Repairs and maintenance on plant, furniture and equipment	**318**	357
Repairs and maintenance on investment properties	**940**	1,690
Directors fees		
- Parent	**78**	63
- 50% subsidiary	**25**	13
Fees paid to Auditors		
- Audit	**21**	76
- Taxation	**56**	-
- Other assurance services	**-**	14

5 Cash generated from operations

	Half year ended 31 December 2008 Unaudited $000	Half year ended 31 December 2007 Unaudited $000
Net loss after tax	**(61,858)**	(11,414)
Adjustments for:		
Change in fair value of investment properties	**55,308**	10,719
Change in fair value of derivative financial instruments	**1,701**	(16)
Depreciation	**927**	796
Amortisation	**72**	91
Impairment of goodwill	**2,468**	-
Loss on disposal of property, plant and equipment	**-**	5
Changes in working capital:		
Debtors and prepayments	**1,050**	(9,915)
Creditors and accruals	**418**	914
Deferred membership fees	**2,338**	3,227
Refundable occupation right agreements	**324**	19,429
Working capital relating to investing or financing activities	**(10)**	(938)
Net cash flow from operating activities	**2,738**	12,898

6 Property, plant and equipment

The increase in property, plant and equipment during the period is due to the construction of a retirement village in Takapuna. At 31 December 2008 the WIP balance for this capital project was $70.5m (June 2008: $42.8m, Dec 2007: $20.1m).

7 Intangible assets

	Half year ended 31 December 2008 Unaudited $000	Half year ended 31 December 2007 Unaudited $000	Year ended 30 June 2008 Audited $000
Goodwill			
Opening balance	**5,982**	-	-
Additions	**-**	5,413	5,982
Impairment	**(2,468)**	-	-
Closing balance	**3,514**	5,413	5,982
Computer Software			
Opening balance	**169**	290	290
Additions	**123**	15	59
Amortisation charge	**(72)**	(91)	(180)
Closing balance	**220**	214	169
Total intangible assets	**3,734**	5,627	6,151

Goodwill impairment test

The goodwill arose in the acquisition of the business of Merivale Retirement Village by Metlifecare Merivale Limited. The recoverable amount of the goodwill is assessed on a 'fair value less cost to sell' basis and is tested for impairment by assessing the cash flow for each cash generating unit that the intangible relates to. These calculations use cash flow projections based on management forecasts to the maturity of the village. Cash flows beyond this are extrapolated using growth rates of 6.05% (2008: 6.45%, 2007: 5.25%). The discount rate used is 14.6% (2008: 14.0%, 2007: 12.0%). The impairment charge recognised above is the difference between the carrying value and the recoverable amount of the goodwill on the acquisition of Merivale Retirement Village.

8 Investment properties

	Half year ended 31 December 2008 Unaudited $000	Half year ended 31 December 2007 Unaudited $000	Year ended 30 June 2008 Audited $000
Fair Value			
Opening balance	**1,175,551**	1,155,095	1,155,095
Capitalised subsequent expenditure	**125**	64,400	64,862
Change in fair value during the period	**(55,308)**	(10,719)	(44,406)
Closing balance	**1,120,368**	1,208,776	1,175,551

Investment properties were valued at 31 December 2008 by the Directors, at a total of $532.2m (2007: $639.7m). The fair values are based on a discounted cash flow model applied to the expected future cash flows generated by the investment properties. The valuation calculates the expected cash flows for a 40 year period (2008: 40 years, 2007: 40 years), based on occupancy turnover of 8-20% pa (2008: 8-20%, 2007: 8-16% pa) for units and 15-23% pa (2008: 15-23%, 2007: 14-23% pa) for serviced apartments which is extrapolated at a real growth rate of 0-4% (2008: 0-4%, 2007: 0-4%) and discounted to present value at pre-tax discount rates of 11.1%-15.1% (2008: 10.5-14.5%, 2007: 10.0-14.0%).

The valuation of investment properties is grossed up for cash flows relating to refundable occupation right agreements recognised separately on the balance sheet. Reconciliation between the valuation amount and the amount recognised on the balance sheet as investment properties is as follows:

	As at 31 December 2008 Unaudited $000	As at 31 December 2007 Unaudited $000	As at 30 June 2008 Audited $000
Valuation of investment properties	**532,212**	639,665	591,833
Plus: Refundable occupation right agreement amounts	**635,669**	613,031	626,109
Residents' share of capital gains	**35,364**	33,041	35,817
Deferred membership fee	**37,321**	32,222	34,983
Less: Membership fee receivables	**(106,227)**	(88,019)	(97,518)
Less: Occupation right agreement receivables	**(19,008)**	(27,680)	(20,621)
Plus: First time occupation right agreement receivables	**5,037**	6,516	4,948
	1,120,368	1,208,776	1,175,551

Memoranda of encumbrance in favour of the statutory supervisors of the village owning subsidiary companies are recognised as a first charge 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.

In relation to Metlifecare Greenwood Park Limited, freehold land is subject to a first registered mortgage charge to the statutory supervisor, Covenant Trustee Company Limited, to secure the amounts payable to residents under repurchase arrangements.

In relation to Metlifecare Powley Limited, a first mortgage in favour of the statutory supervisor is registered over the freehold land of the company to protect the interests of residents in the event of failure by Metlifecare Powley Limited, as operator of the village, to observe obligations under the deed of supervision and occupation right agreements.

9 Contingencies

Contingent liabilities

There are no contingent liabilities as at 31 December 2008 (2007: nil).

10 Commitments

	As at 31 December 2008 Unaudited $000	As at 31 December 2007 Unaudited $000	As at 30 June 2008 Audited $000
Capital commitments			
Estimated capital commitments contracted for at balance date but not provided for	**16,904**	49,186	40,963
Operating lease commitments			
Non-cancellable			
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows			
Within one year	**200**	262	279
Later than one year but not later than five years	**120**	299	181
Later than five years	**-**	-	-
	320	561	460

11 Subsequent event

Capital Raising

On 23 December 2008, the company announced the intention to strengthen its balance sheet through a capital raising, as a result of the impact of ongoing weakness in the New Zealand property market.

The company is considering raising up to $37.8m through the issue of new shares by way of a renounceable pro rata rights issue. Our largest shareholder, Retirement Villages New Zealand, which holds an 82% shareholding, has confirmed it will participate in the raising. No money is currently being sought and no applications for securities will be accepted or money received unless subscribers have received an investment statement.

The net proceeds of the raising will be used for the purpose of reducing the Company's bank debt. The company is currently negotiating new banking facilities to apply from 1 April 2009 and expects to be required to suspend the payment of dividends until 30 June 2010.

Banking Facility Arrangements

In November 2008, the Company identified the possibility that it might not meet financial ratios under its banking facility, and approached its bankers to seek a waiver of certain covenants in that facility. The bankers agreed to this, on the condition (amongst others) that the term of the facility has been shortened so that it expires on 31 March 2009. The Company is currently renegotiating with its bankers to set revised banking facility arrangements, including revised covenants, to extend the facility arrangement beyond 31 March 2009. The Interim Financial Statements have been prepared on the basis that the banking facility arrangements are extended past 31 March 2009.

Dividend

The Directors have suspended its dividend for the foreseeable future to retain cash flows and reduce debt.

Villages and Care Facilities

31 December 2008

1. **METLIFECARE BAYSWATER**
   60 Maranui Street, Mt Maunganui
   - 159 villas
   - 56 apartments
   - 17 serviced apartments
   - 6 care suites

2. **METLIFECARE COASTAL VILLAS**
   Spencer Russell Drive, off Rimu Road, Paraparaumu
   - 131 villas
   - 50 serviced apartments
   - 7 bed rest home
   - 23 bed hospital

3. **METLIFECARE CRESTWOOD**
   38 Golf Road, Titirangi, Auckland
   - 121 villas
   - 14 serviced apartments
   - 41 bed rest home

4. **METLIFECARE GREENWOOD PARK**
   10 Welcome Bay Road, Welcome Bay, Tauranga
   - 143 villas
   - 80 apartments
   - 15 serviced apartments

5. **METLIFECARE HIGHLANDS**
   49 Aberfeldy Avenue, Highland Park, Auckland
   - 129 villas
   - 70 serviced apartments
   - 25 bed rest home
   - 16 bed hospital

6. **METLIFECARE KAPITI**
   1 Henley Way, off Guildford Drive, Paraparaumu
   - 225 villas

7. **METLIFECARE MERIVALE**
   60 Browns Road, Merivale, Christchurch
   - 29 villas
   - 32 serviced apartments
   - 47 bed rest home
   - 33 bed hospital

8. **METLIFECARE OAKWOODS**
   357 Lower Queen Street, Richmond, Nelson
   - 92 villas
   - 49 serviced apartments
   - 18 bed rest home
   - 30 bed hospital

9. **METLIFECARE PAKURANGA**
   14 Edgewater Drive, Pakuranga, Auckland
   - 69 villas
   - 18 serviced apartments
   - 60 bed rest home

10. **METLIFECARE PINESONG**
    66 Avonleigh Road, Titirangi, Auckland
    - 100 villas
    - 232 apartments
    - 27 serviced apartments
    - 10 care suites

11. **METLIFECARE POWLEY**
    135 Connell Street, Blockhouse Bay, Auckland
    - 46 villas
    - 34 serviced apartments
    - 18 bed rest home
    - 27 bed hospital

12. **METLIFECARE 7 SAINT VINCENT**
    7 St Vincent Avenue, Remuera, Auckland
    - 81 apartments
    - 12 serviced apartments
    - 2 care suites

13. **METLIFECARE SOMERVALE**
    33 Gloucester Road, Mt Maunganui
    - 83 villas
    - 11 serviced apartments
    - 18 bed rest home
    - 22 bed hospital

14. **METLIFECARE THE AVENUES**
    Cnr Tenth Avenue & Devonport Road, Tauranga
    - 87 apartments

15. **METLIFECARE WAIRARAPA**
    140 Chapel Street, Masterton
    - 56 villas
    - 25 serviced apartments
    - 26 bed rest home
    - 17 bed hospital

16. **METLIFECARE PALMERSTON NORTH**
    (50% owned)
    Cnr Carroll & Fitchett Streets, Palmerston North
    - 49 villas
    - 50 serviced apartments
    - 18 bed rest home
    - 20 bed hospital

Directory
31 December 2008

DIRECTORS

Hon. James Kenneth McLay, CNZM, QSO
Chairman
Peter Ross Brown
Mark Alexander Gibson
Darryl Leonard Guihot
Phillip Brent Harman
John James Loughlin
Paul Victor Cochrane (Alternate for D.L. Guihot)
John Andrew Perry (Alternate for M.A. Gibson)
Michael Tucker (Alternate for P.R. Brown)

AUDIT COMMITTEE

Darryl Leonard Guihot
Chairman
Phillip Brent Harman
John James Loughlin

REMUNERATION COMMITTEE

Hon. James Kenneth McLay, CNZM, QSO
Chairman
Phillip Brent Harman
John James Loughlin

NOMINATIONS & CORPORATE GOVERNANCE COMMITTEE

Hon. James Kenneth McLay, CNZM, QSO
Chairman
Phillip Brent Harman
John James Loughlin

ACQUISITION & DEVELOPMENT COMMITTEE

Peter Ross Brown
Chairman
John James Loughlin

CHIEF EXECUTIVE OFFICER

Richard Jan Anthony de Haast

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