# Metlifecare Limited Group Financial Statements

for the year ended 30 June 2019

# Group Financial Statements

**For the year ended 30 June 2019**


| | |
|---|---|
| Consolidated Statement of Comprehensive Income | 3 |
| Consolidated Statement of Movements in Equity | 4 |
| Consolidated Balance Sheet | 5 |
| Consolidated Cash Flow Statement | 6 |
| Notes to the Group Financial Statements | 8 |
| Independent Auditor's Report | 39 |

# Consolidated Statement of Comprehensive Income

## For the year ended 30 June 2019

| $000 | Note | **30 June 2019** | 30 June 2018 [1] |
|---|---|---|---|
| **Income** | | | |
| Operating revenue | 2.1 | **124,280** | 114,759 |
| Other income | 2.3 | **6,500** | - |
| Interest income | | **248** | 184 |
| **Total income** | | **131,028** | 114,943 |
| Change in fair value of investment properties | 3.1 | **53,860** | 132,696 |
| Share of profit arising from joint venture, net of tax | | **151** | 1,951 |
| **Expenses** | | | |
| Employee costs | | **(53,057)** | (49,656) |
| Property costs | 2.2 | **(28,933)** | (24,689) |
| Other expenses | 2.2 | **(29,242)** | (25,045) |
| Change in fair value of residents' share of capital gains | | **(3,644)** | (4,663) |
| Impairment | 3.3 | **(16,317)** | (3,849) |
| Depreciation | 3.3 | **(4,971)** | (3,539) |
| Amortisation | | **(833)** | (631) |
| Finance costs | 4.6 | **(1,874)** | (264) |
| **Total expenses** | | **(138,871)** | (112,336) |
| **Profit before income tax** | | **46,168** | 137,254 |
| Income tax expense | 6.1 | **(6,935)** | (14,672) |
| **Profit for the year** | | **39,233** | 122,582 |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Loss on cash flow hedges | 6.5 | **(799)** | (313) |
| **Items that will not be reclassified to profit or loss:** | | | |
| Share of other comprehensive income arising from joint venture, net of tax | | **(11)** | 22 |
| Gain on revaluation of care homes, net of tax | 4.5 | **498** | 364 |
| **Other comprehensive (loss) / income, net of tax** | | **(312)** | 73 |
| **Total comprehensive income** | | **38,921** | 122,655 |
| **Profit attributable to shareholders of the parent company** | | **39,233** | 122,582 |
| **Total comprehensive income attributable to shareholders of the parent company** | | **38,921** | 122,655 |
| **Profit per share for profit attributable to the equity holders of the company during the year** | | | |
| Basic (cents) | 4.2 | **18.4** | 57.6 |
| Diluted (cents) | 4.2 | **18.4** | 57.5 |

[1] See note 1.5 for details regarding the restatement of change in fair value of investment properties for the year ended 30 June 2018 and 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 year ended 30 June 2019

| $000 | Note | Contributed Equity | Retained Earnings | Hedging Reserve | Revaluation Reserve | Employee Share Scheme Reserve | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2017** | | 306,895 | 1,055,906 | - | 7,009 | 378 | 1,370,188 |
| Restatement [1] | 1.5 | - | (5,727) | - | - | - | (5,727) |
| Changes in accounting policies [1] | 5 | - | 87 | - | - | - | 87 |
| **Restated balance at 1 July 2017** | | 306,895 | 1,050,266 | - | 7,009 | 378 | 1,364,548 |
| **Comprehensive income / (loss)** | | | | | | | |
| Profit for the year [1] | | - | 122,582 | - | - | - | 122,582 |
| Other comprehensive income / (loss) | | - | - | (313) | 386 | - | 73 |
| Total comprehensive income / (loss) | | - | 122,582 | (313) | 386 | - | 122,655 |
| Employee share scheme | 4.4 | - | - | - | - | 210 | 210 |
| Transfer from employee share scheme reserve | 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 | 1,153,912 | (313) | 7,050 | 459 | 1,468,132 |
| **Balance at 1 July 2018** | | **307,024** | **1,153,912** | **(313)** | **7,050** | **459** | **1,468,132** |
| **Comprehensive income / (loss)** | | | | | | | |
| Profit for the year | | **-** | **39,233** | **-** | **-** | **-** | **39,233** |
| Other comprehensive income / (loss) | | **-** | **-** | **(799)** | **487** | **-** | **(312)** |
| Total comprehensive income / (loss) | | **-** | **39,233** | **(799)** | **487** | **-** | **38,921** |
| Employee share scheme | 4.4 | **-** | **-** | **-** | **-** | **307** | **307** |
| Transfer from employee share scheme reserve | 4.4 | **113** | **8** | **-** | **-** | **(121)** | **-** |
| Dividends paid to shareholders | 4.3 | **-** | **(22,385)** | **-** | **-** | **-** | **(22,385)** |
| **Balance at 30 June 2019** | | **307,137** | **1,170,768** | **(1,112)** | **7,537** | **645** | **1,484,975** |

[1] See note 1.5 for details regarding the restatement of change in fair value of investment properties and 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.

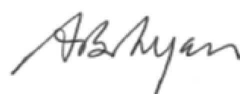
# Consolidated Balance Sheet

## As at 30 June 2019

| $000 | Note | 30 June 2019 | 30 June 2018 [1] | 1 July 2017 [1] |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | **3,431** | 16,298 | 2,933 |
| Trade receivables and other assets | 6.2 | **23,477** | 20,870 | 8,766 |
| Property, plant and equipment | 3.3 | **53,393** | 54,769 | 50,671 |
| Intangible assets | | **1,000** | 1,206 | 1,453 |
| Investment properties | 3.1 | **3,423,615** | 3,182,632 | 2,885,291 |
| Investment in joint venture | | **10,788** | 10,846 | 9,746 |
| **Total assets** | | **3,515,704** | 3,286,621 | 2,958,860 |
| **Liabilities** | | | | |
| Trade and other payables | 6.3 | **41,290** | 72,034 | 49,893 |
| Derivative financial instruments | 6.5 | **1,545** | 434 | - |
| Interest bearing liabilities | 4.6 | **279,208** | 156,787 | 75,410 |
| Deferred management fees | | **126,271** | 116,953 | 106,183 |
| Refundable occupation right agreements | 3.2 | **1,458,439** | 1,355,108 | 1,260,187 |
| Deferred tax liability | 6.1 | **123,976** | 117,173 | 102,639 |
| **Total liabilities** | | **2,030,729** | 1,818,489 | 1,594,312 |
| **Net assets** | | **1,484,975** | 1,468,132 | 1,364,548 |
| **Equity** | | | | |
| Contributed equity | 4.1 | **307,137** | 307,024 | 306,895 |
| Reserves | | **7,070** | 7,196 | 7,387 |
| Retained earnings | | **1,170,768** | 1,153,912 | 1,050,266 |
| **Total equity** | | **1,484,975** | 1,468,132 | 1,364,548 |

[1] See note 1.5 for details regarding the restatement of investment properties at 30 June 2018 and note 5 for details about restatements for changes in accounting policies.

The Group Financial Statements presented are signed for and on behalf of Metlifecare Limited and were authorised by the Board for issue on 26 August 2019.



K. R. Ellis
Chair
26 August 2019

A. B. Ryan
Director
26 August 2019

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

# Consolidated Cash Flow Statement

For the year ended 30 June 2019

| $000 | 30 June 2019 | 30 June 2018 [1] |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from residents for management fees | **29,937** | 26,205 |
| Receipts from residents for village and care fees | **69,041** | 61,860 |
| Receipts from residents for sale of new refundable occupation right agreements | **74,437** | 61,836 |
| Receipts from residents for resale of refundable occupation right agreements | **207,585** | 183,599 |
| Payments to residents for refundable occupation right agreements | **(146,802)** | (111,009) |
| Payments to suppliers and employees | **(112,354)** | (99,230) |
| Net GST received | **976** | 882 |
| Interest received | **346** | 114 |
| Interest paid | **(1,955)** | (256) |
| Net buyback costs for off-market units associated with regeneration and remediation | **(1,308)** | (12,975) |
| **Net cash inflow from operating activities** | **119,903** | 111,026 |
| **Cash flows from investing activities** | | |
| Net (advances to) / repayments from joint venture | **(106)** | 197 |
| Dividends received from joint venture | **75** | 875 |
| Payments for property, plant and equipment | **(16,652)** | (11,463) |
| Payments for intangibles | **(627)** | (381) |
| Payments for investment properties | **(213,742)** | (143,570) |
| Capitalised interest paid | **(8,415)** | (5,453) |
| Receipts from settlement income | **6,500** | - |
| **Net cash outflow from investing activities** | **(232,967)** | (159,795) |
| **Cash flows from financing activities** | | |
| Dividends paid | **(22,385)** | (19,281) |
| Net proceeds from borrowings | **123,135** | 81,767 |
| Principal payments of lease liabilities | **(553)** | (352) |
| **Net cash inflow from financing activities** | **100,197** | 62,134 |
| **Net (decrease) / increase in cash and cash equivalents** | **(12,867)** | 13,365 |
| Cash and cash equivalents at the beginning of the financial year | **16,298** | 2,933 |
| **Cash and cash equivalents at the end of the financial year** | **3,431** | 16,298 |

[1] 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.

# Consolidated Cash Flow Statement (continued)

For the year ended 30 June 2019

### Reconciliation of Profit after Tax with Net Cash Inflow from Operating Activities

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| **Profit after tax** | **39,233** | 122,582 |
| **Adjustments for:** | | |
| Change in fair value of investment properties | **(53,860)** | (132,696) |
| Change in the fair value of residents' share of capital gains | **3,644** | 4,663 |
| Employee share scheme | **307** | 210 |
| Depreciation and impairment | **21,288** | 7,388 |
| Amortisation | **833** | 631 |
| Deferred tax expense | **6,921** | 14,652 |
| Loss on disposal of property, plant and equipment | **201** | 471 |
| Share of profit arising from joint venture, net of tax | **(151)** | (1,951) |
| **Items classified as investing activities:** | | |
| Other income | **(6,500)** | - |
| **Changes in working capital relating to operating activities:** | | |
| Trade receivables and other assets | **(2,621)** | (6,191) |
| Trade and other payables | **917** | 910 |
| Deferred management fees | **9,311** | 10,773 |
| Refundable occupation right agreements | **100,380** | 89,584 |
| **Net cash inflow from operating activities** | **119,903** | 111,026 |

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

# Notes to the Group Financial Statements

## 1 GENERAL INFORMATION

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

### 1.1 Reporting entity

The Group Financial Statements presented are for Metlifecare Limited ("the Company") and its subsidiaries (together "the Group") as at 30 June 2019. 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 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.

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, Development and Working Capital Facilities.

Having regard to all the matters noted above, the directors believe it remains appropriate that the Group 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 Group 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 Part 7 of the Financial Markets Conduct Act 2013, the NZX Main Board Listing Rules and the ASX Listing Rules.

These Group 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.

#### Historical cost convention

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

# Notes to the Group Financial Statements

### 1 GENERAL INFORMATION (continued)

### 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 Comparative information

Where necessary, certain comparative information has been reclassified to conform to changes in presentation in the current year. Refer to note 5 for the impact of the changes in accounting policies on the adoption of mandatory new and amended NZ IFRS Standards and Interpretations during the year.

The valuation of investment properties incorporates cash flows for certain assets and liabilities within the Valuer's discounted cash flow model that are already recognised separately on the balance sheet and accordingly need to be adjusted for in determining the fair value of investment properties. The Group has identified in the current year that the fair value of investment properties determined by the Valuer included loans extended to residents to help facilitate their transfer from independent living units to serviced apartments. The value of the loans was separately recognised on the balance sheet but not adjusted for in determining the fair value of investment properties in the prior periods. As a consequence, the comparative periods have been restated as summarised by the following: the fair value of investment properties at 30 June 2018 has decreased by $8.2m (1 July 2017: decreased by $5.6m), the change in fair value of investment properties for the year ended 30 June 2018 has decreased by $2.6m with a reduction in retained earnings at 30 June 2018 of $8.3m (1 July 2017: decreased by $5.7m). This adjustment has reduced net tangible assets at 30 June 2018 by 4 cents per share, and basic and diluted earnings per share by 1.2 cents. There was no impact on the cash flows or underlying profit for the year ended 30 June 2018.

### 1.6 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 Group Financial Statements are as follows:

- Revenue recognition - management fees (note 2.1)
- Fair value of investment properties (note 3.1) and care homes (note 3.3)
- Deferred tax (note 6.1).

### 1.7 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.

# Notes to the Group Financial Statements

## 1 GENERAL INFORMATION (continued)

### 1.8 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 consolidated statement of comprehensive income of each Group entity.

### 1.9 Notes to the Group Financial Statements

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

***2 Operating performance***

2.1 Operating revenue — Page 11
2.2 Expenses — Page 12
2.3 Underlying Profit before taxation — Page 13

***3 Investment property and other assets***

3.1 Investment properties — Page 14
3.2 Refundable occupation right agreements — Page 17
3.3 Property, plant and equipment — Page 18

***4 Shareholders' equity and funding***

4.1 Contributed equity — Page 21
4.2 Earnings per share — Page 22
4.3 Dividends — Page 22
4.4 Share-based payments — Page 23
4.5 Reserves — Page 24
4.6 Interest bearing liabilities — Page 24

***5 Changes in Accounting Policies***

5.1 NZ IFRS 9 *Financial Instruments* — Page 26
5.2 NZ IFRS 15 *Revenue from Contracts with Customers* — Page 26
5.3 NZ IFRS 16 *Leases* — Page 26

***6 Other disclosures***

6.1 Income tax expense — Page 29
6.2 Trade receivables and other assets — Page 32
6.3 Trade and other payables — Page 32
6.4 Financial instruments — Page 33
6.5 Financial risk management — Page 33
6.6 Related party transactions — Page 36
6.7 Segment information — Page 37
6.8 Commitments — Page 37
6.9 Contingencies — Page 37
6.10 Subsequent events — Page 37
6.11 Subsidiaries of the group and joint venture investment — Page 37

# Notes to the Group Financial Statements

## 2 OPERATING PERFORMANCE

This section provides additional information about individual line items in the Group 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 2019** | 30 June 2018 |
|---|---|---|
| Management fees | **55,460** | 52,041 |
| Rest home, hospital and service fees | **35,783** | 31,097 |
| Village fees | **29,615** | 28,840 |
| Other revenue | **3,422** | 2,781 |
| | **124,280** | 114,759 |

#### Revenue recognition

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

***Management fees***

Occupation right agreements confer the right to occupancy of a unit or serviced apartment and are considered leases under NZ IFRS 16. 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 as lease income 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 2019 and 2018. At 30 June 2019, it is estimated that an increase of the average expected length of stay of residents by one year would reduce management fee revenue by $1.2m (2018: $1.2m) and a decrease of one year would increase management fee revenue by $1.8m (2018: $1.2m).

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.

***Rest home, hospital and service fees***

Rest home, hospital and service fee charges are governed by the individual care admission agreements of each care resident. Revenue is recognised based on the daily fees charged, which reflects the point in time the goods or services are provided to the care resident.

# Notes to the Group Financial Statements

## 2 OPERATING PERFORMANCE (continued)

### 2.1 Operating Revenue (continued)

***Village fees***

Village fees are detailed within each resident's occupation right agreement and relate to the operating costs of the village. Revenue is recognised based on the weekly fees charged, reflecting the period a resident has occupied a unit or serviced apartment.

***Other revenue***

Other revenue for the Group includes resident refurbishment recoveries and administration fees collected on occupation right agreement contracts issued prior to 2006. Revenue is recognised at the point in time the services are provided and agreed to by the resident.

**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 $12.2m (2018: $10.4m).

### 2.2 Expenses

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| **Profit before income tax includes the following expenses:** | | |
| *Property costs* | | |
| Utilities and other property costs | **12,436** | 12,068 |
| Repairs and maintenance on investment properties | **15,246** | 11,660 |
| Repairs and maintenance on property, plant, furniture and equipment | **1,251** | 961 |
| Total property costs | **28,933** | 24,689 |
| *Other expenses* | | |
| Resident costs | **6,488** | 6,256 |
| Marketing and promotion | **7,643** | 5,592 |
| Other employment costs | **2,816** | 2,268 |
| Communication costs | **3,310** | 2,920 |
| Loss on disposal of property, plant and equipment | **201** | 471 |
| Donations | **38** | 48 |
| Other village operating expenses | **3,798** | 3,336 |
| Other operating expenses | **4,390** | 3,579 |
| *Fees paid to PricewaterhouseCoopers New Zealand* | | |
| Audit and review of financial statements | **469** | 477 |
| Debt and treasury advisory services | **114** | - |
| Tax compliance services | **35** | 16 |
| Executive remuneration benchmarking advisory services | **54** | 59 |
| Strategic procurement advisory services | **-** | 23 |
| Total fees paid to PricewaterhouseCoopers New Zealand | **672** | 575 |
| Debt and treasury advisory services costs capitalised | **(114)** | - |
| Total expensed fees paid to PricewaterhouseCoopers New Zealand | **558** | 575 |
| Total other expenses | **29,242** | 25,045 |

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

Fees paid to PricewaterhouseCoopers New Zealand for the audit and review of financial statements include $113,000 of incremental audit fees for the separate audit of each individual retirement village within the consolidated group using materiality thresholds based on the financial result of each individual retirement village.

# Notes to the Group Financial Statements

## 2 OPERATING PERFORMANCE (continued)

### 2.3 Underlying Profit before taxation

| $000 | 30 June 2019 | 30 June 2018 |
|---|---|---|
| **Profit for the year** | **39,233** | 122,582 |
| *Less non-recurring items:* | | |
| Other income - settlement receipt | **(6,500)** | - |
| Profit for the year excluding non-recurring items | **32,733** | 122,582 |
| *Less:* | | |
| Change in fair value of investment properties | **(53,860)** | (132,696) |
| *Add:* | | |
| Impairment of property, plant and equipment | **16,317** | 3,849 |
| Realised resale gains | **71,489** | 62,309 |
| Realised development margin | **16,883** | 16,435 |
| Tax expense | **6,935** | 14,672 |
| **Underlying Profit before taxation** | **90,497** | 87,151 |

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 receipt:** in December 2018 an agreement was reached for a settlement of $6.5m associated with building matters on certain buildings. The settlement amount of $6.5m was received in January 2019. The resulting income does not form part of the recurring operating performance of the business.

(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:** impairments, and subsequent reversals of impairment losses, 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 3.3).

(d) **Realised resale gains:** the realised increase in value from the resale of occupation right agreements during the year. 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. Realised resale gains exclude deferred management fees and refurbishment costs.

(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 year and includes the following costs:
- directly attributable construction costs;
- a prorate apportionment of land on the basis of the historical cost or purchase price of the land;
- a prorate 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. These areas are excluded as they are assets that support the sale of occupation rights for all subsequent resales, rather than just the first time sale.

(f) **Tax expense:** the impact of current and deferred taxation is removed (refer to note 6.1).

# Notes to the Group 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 2019** | 30 June 2018 [1] |
|---|---|---|
| Opening balance | **3,182,632** | 2,885,291 |
| Capitalised subsequent expenditure | **187,304** | 166,837 |
| Transfer to property, plant and equipment | **-** | (1,353) |
| Investment property disposed of | **(181)** | (839) |
| Change in fair value recognised during the year | **53,860** | 132,696 |
| Closing balance | **3,423,615** | 3,182,632 |

[1] See note 1.5 for details regarding the restatement of change in fair value of investment properties for the year ended 30 June 2018.

Investment properties are categorised as follows:

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Development land | **147,098** | 122,987 |
| Retirement villages under development | **72,550** | 36,551 |
| Retirement villages | **3,203,967** | 3,023,094 |
| Total investment properties | **3,423,615** | 3,182,632 |

#### 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 properties in accordance with professional valuation standards 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.

#### 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.

# Notes to the Group Financial Statements

## 3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

### 3.1 Investment Properties (continued)

#### Development land (continued)

Development land is valued based on recent comparable transactions. The Group's land values range between $53 per square metre (psm) and $1,201 psm (2018: $52 psm and $1,000 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

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, the carrying amount of cost less any impairment is considered to be the fair value. Impairment is determined by considering the value of work in progress and management's estimate of the asset value on completion.

#### Unsold stock

Any developed but not yet sold stock (unsold stock) is valued based on recent comparable transactions, adjusted for disposal costs, holding costs and an allowance for profit and risk. This represents the fair value of the Group's interest in unsold stock at 30 June.

#### Retirement villages

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 | **2019** | 2018 |
|---|---|---|
| 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% - 16.5%** | 12.5% - 15.0% |

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

| **30 June 2019** | Adopted value * (ILU, SA, ILA) | Discount rate + 50 bp | Discount rate – 50 bp | Growth rates + 50 bp | Growth rates – 50 bp |
|---|---|---|---|---|---|
| Valuation ($000) | **1,479,170** | | | | |
| Difference ($000) | | **(53,640)** | **57,260** | **98,595** | **(77,287)** |
| Difference (%) | | **(4%)** | **4%** | **7%** | **(5%)** |

| 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%) |

* ILU (Independent Living Unit), SA (Serviced Apartment), ILA (Independent Living Apartment) excluding unsold stock. Retirement villages measured at fair value on pages 14 and 16 includes unsold stock.

# Notes to the Group 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 (2018: 20 years) with stabilised departing occupancy assumptions set out below.

| Stabilised departing occupancy - years | **2019** | 2018 |
|---|---|---|
| Serviced apartments | **3.8 - 4.9** | 4.0 - 4.9 |
| Independent living units and apartments | **6.3 - 9.0** | 6.7 - 9.0 |

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 $45.0m over a four year period (2018: $44.1m over a five 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 (2018: $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, loans to residents, deferred management fees and management fee receivables which are already recognised separately on the balance sheet and also reflected in the discounted 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 2019** | 30 June 2018 |
|---|---|---|
| Development land | **147,098** | 122,987 |
| Retirement villages under development | **72,550** | 36,551 |
| Retirement villages measured at fair value per CBRE | **1,620,131** | 1,556,450 |
| Investment properties at valuation | **1,839,779** | 1,715,988 |
| Plus: Liability to residents | **2,022,260** | 1,865,632 |
| Less: Receivable from residents | **(438,424)** | (398,988) |
| Total investment properties | **3,423,615** | 3,182,632 |

Borrowing costs of $8.4m (2018: $5.5m) arising from financing drawn for the construction of investment properties and care homes under development were capitalised during the year. Average capitalisation rates of 3.64% per annum (2018: 3.55% per annum) 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 Group Financial Statements

## 3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

### 3.2 Refundable Occupation Right Agreements

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Refundable occupation right agreements | **1,859,679** | 1,713,214 |
| Residents' share of capital gains | **34,927** | 35,465 |
| Loans to residents | **(19,775)** | (12,163) |
| Management fees receivable | **(416,392)** | (381,408) |
| Total refundable occupation right agreements | **1,458,439** | 1,355,108 |

Occupation right agreements confer the right to occupancy of the unit or serviced apartment and are considered leases under NZ IFRS 16. 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.

#### Estimated maturity

In determining the fair value of the Group's investment properties CBRE estimates the established length of stay to be 6.3 - 9.0 years for independent living units (2018: 6.7 - 9.0 years); 7.4 - 8.7 years for independent living apartments (2018: 7.2 - 8.7 years); and 3.8 - 4.9 years for serviced apartments (2018: 4.0 - 4.9 years). Therefore, it is not expected that the full obligation to residents will fall due within one year. Based on historical and expected turnover calculations the estimated maturity of the total obligation refundable to residents is as follows:

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Within 12 months | **123,756** | 142,712 |
| Beyond 12 months | **1,334,683** | 1,212,396 |
| | **1,458,439** | 1,355,108 |

# Notes to the Group 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 | Right of Use Assets | Total |
|---|---|---|---|---|---|
| **At 30 June 2017** | | | | | |
| Cost or valuation | 27,618 | 13,533 | 25,622 | 3,447 | 70,220 |
| Accumulated depreciation and impairment losses | - | (1,200) | (17,327) | (1,022) | (19,549) |
| Net book value | 27,618 | 12,333 | 8,295 | 2,425 | 50,671 |
| **Year ended 30 June 2018** | | | | | |
| Opening net book amount | 27,618 | 12,333 | 8,295 | 2,425 | 50,671 |
| 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) |
| Impairment | (3,544) | (209) | (96) | - | (3,849) |
| Depreciation | (591) | - | (2,565) | (383) | (3,539) |
| Closing net book amount | 36,367 | 6,303 | 10,057 | 2,042 | 54,769 |
| **At 30 June 2018** | | | | | |
| Cost or valuation | 36,367 | 6,512 | 29,956 | 3,447 | 76,282 |
| Accumulated depreciation and impairment losses | - | (209) | (19,899) | (1,405) | (21,513) |
| Net book value | 36,367 | 6,303 | 10,057 | 2,042 | 54,769 |
| **Year ended 30 June 2019** | | | | | |
| Opening net book amount | **36,367** | **6,303** | **10,057** | **2,042** | **54,769** |
| Revaluation of Care Homes | **691** | **-** | **-** | **-** | **691** |
| Additions | **1,001** | **15,673** | **2,612** | **-** | **19,286** |
| Transferred from construction work in progress | **13,721** | **(13,990)** | **269** | **-** | **-** |
| Disposals | **-** | **-** | **(65)** | **-** | **(65)** |
| Impairment | **(8,062)** | **(7,986)** | **(269)** | **-** | **(16,317)** |
| Depreciation | **(576)** | **-** | **(4,012)** | **(383)** | **(4,971)** |
| Closing net book amount | **43,142** | **-** | **8,592** | **1,659** | **53,393** |
| **At 30 June 2019** | | | | | |
| Cost or valuation | **43,142** | **-** | **32,772** | **3,447** | **79,361** |
| Accumulated depreciation and impairment losses | **-** | **-** | **(24,180)** | **(1,788)** | **(25,968)** |
| Net book value | **43,142** | **-** | **8,592** | **1,659** | **53,393** |

# Notes to the Group Financial Statements

### 3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

### 3.3 Property, Plant and Equipment (continued)

Right-of-use assets relating to leases of office premises are capitalised and recognised within property, plant and equipment 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.

All other 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 11.0% to 14.0% (2018: 11.0% to 14.0%). The valuation prepared has been split between land, improvements, chattels, plant and goodwill to determine the fair value of the assets. Goodwill of $8.2m (2018: $5.6m) in respect of care home assets included in the CBRE valuation is not recognised in the Group Financial Statements. 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 Group 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 2019** | 30 June 2018 |
|---|---|---|
| Net book value | **32,201** | 27,392 |

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 2019** | 30 June 2018 |
|---|---|---|---|
| Papamoa Beach | Final costs attributed to the construction of the care home exceeded the valuation performed on completion by CBRE excluding goodwill of $1.1m. | **7,508** | - |
| The Avenues | Final costs attributed to the construction of the care home exceeded the valuation performed on completion by CBRE excluding goodwill of $0.7m. | **8,688** | - |
| 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 valuation performed on completion by CBRE. | **633** | 3,919 |
| | **Total** | **16,829** | 4,128 |

In the year ended 30 June 2019 an impairment loss of $512,000 in respect to a previously recognised impairment was reversed to reflect the increase in the valuation of the care home (2018: $279,000).

# Notes to the Group 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 2019 Shares | 30 June 2018 Shares | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|---|---|
| **Total Issued and fully paid up capital (including treasury shares)** | | | | |
| Balance at beginning of the year | **213,132,290** | 213,005,909 | **307,024** | 306,895 |
| Shares issued net of transaction costs | **172,432** | 126,381 | **113** | 129 |
| Balance at end of the year | **213,304,722** | 213,132,290 | **307,137** | 307,024 |

| | 30 June 2019 Shares | 30 June 2018 Shares |
|---|---|---|
| **Treasury shares** | | |
| Balance at beginning of the year | **397,028** | 320,319 |
| Shares issued under the senior executive share plan | **172,432** | 126,381 |
| Shares vesting under the senior executive share plan | **(46,532)** | (49,672) |
| Balance at end of the year | **522,928** | 397,028 |

| | 30 June 2019 | 30 June 2018 [1] |
|---|---|---|
| Net tangible assets per share (basic) | **$6.96** | $6.88 |

[1] See note 1.5 for details of the impact on net tangible assets per share relating to the restatement of change in fair value of investment properties for the year ended 30 June 2018.

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.

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 (2018: 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 Group 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 2019** | 30 June 2018 [1] |
|---|---|---|
| Profit attributable to equity holders ($000) | **39,233** | 122,582 |
| Weighted average number of ordinary shares on issue ('000s) | **212,760** | 212,704 |
| Basic earnings per share (cents) | **18.4** | 57.6 |

**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 2019** | 30 June 2018 [1] |
|---|---|---|
| Profit attributable to equity holders ($000) | **39,233** | 122,582 |
| Diluted weighted average number of ordinary shares on issue ('000s) | **213,264** | 213,096 |
| Diluted earnings per share (cents) | **18.4** | 57.5 |

[1] See note 1.5 for details of the impact on basic and diluted earnings per share relating to the restatement of change in fair value of investment properties for the year ended 30 June 2018.

### 4.3 Dividends

| | Cents per share | **30 June 2019 $000** | 30 June 2018 $000 |
|---|---|---|---|
| **Recognised amounts** | | | |
| Final dividend for 2017 | 5.80 | **-** | 12,354 |
| Interim dividend for 2018 | 3.25 | **-** | 6,927 |
| Final dividend for 2018 | 6.75 | **14,386** | - |
| Interim dividend for 2019 | 3.75 | **7,999** | - |
| Total dividends paid | | **22,385** | 19,281 |

On 26 August 2019 the directors approved a dividend of 7.25 cents per share amounting to $15.5m. The dividend record date is 13 September 2019 and payment will occur on 20 September 2019.

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 2019 is nil (2018: nil). No tax payments were made during the year and dividends paid were unimputed.

# Notes to the Group 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 2019** | 30 June 2018 |
|---|---|---|
| Share rights outstanding at 1 July | **397,028** | 320,319 |
| Granted during the year | **172,432** | 126,381 |
| Vested during the year | **(46,532)** | (49,672) |
| Share rights outstanding at 30 June | **522,928** | 397,028 |

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

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Share based payment expense recognised in the consolidated statement of comprehensive income within 'employee expenses' | **307** | 210 |
| Accumulated employee share based payment expense recognised in the employee share scheme reserve | **645** | 459 |

During the year ended 30 June 2019, 46,532 shares vested (2018: 49,672). $113,000 of the previously recognised share based payment expense was transferred to share capital (2018: $129,000).

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 Group Financial Statements

## 4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

### 4.5 Reserves

#### Revaluation Reserve

| $000 | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Balance at beginning of the year | **7,050** | 7,009 |
| Share of (loss)/gain on revaluation of care home arising from joint venture, net of tax | **(11)** | 22 |
| Gain on revaluation of care homes | **691** | 414 |
| Tax on revaluation of care homes | **(193)** | 4 |
| Reduction in the revaluation of care homes (refer note 3.3) | **-** | (54) |
| Transfer on reclassification of development land | **-** | (345) |
| Balance at end of the year | **7,537** | 7,050 |

The revaluation reserve records changes in the revaluation 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 6.5).

### 4.6 Interest Bearing Liabilities

| $000 | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Bank loans | **277,803** | 154,668 |
| Capitalised debt costs | **(637)** | (308) |
| | **277,166** | 154,360 |
| Lease liabilities | **2,042** | 2,427 |
| Total interest bearing liabilities | **279,208** | 156,787 |

#### 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.

#### Lease liabilities

Lease liabilities relating to leases of office premises 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. Lease payments associated with low-value assets, and for lease terms of 12 months or less, are recognised on a straight-line basis as an expense in profit or loss.

# Notes to the Group Financial Statements

## 4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

### 4.6 Interest Bearing Liabilities (continued)

#### 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 20 December 2018 the bank facilities were renegotiated and extended. The maturities of the Core Revolving Credit Facility of $175m (2018: $175m), the Development Facility of $275m (2018: $175m) and the Working Capital Facility of $2m (2018: $2m) are detailed below.

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

#### Drawn Balances

| $000 | Facility Limit | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| Core Facility | 175,000 | 144,333 | 15,000 |
| Development Facility | 275,000 | 133,470 | 139,668 |
| Working Capital Facility | 2,000 | - | - |
| Total | 452,000 | 277,803 | 154,668 |
| Investment property valuation (refer note 3.1) | | 1,839,779 | 1,715,988 |
| Loan to Valuation Ratio | | 15.1% | 9.0% |

#### Maturities

| $000 | Facility Limit | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| On demand | 2,000 | - | - |
| Between one and two years | 83,333 | 83,333 | 70,333 |
| Between two and three years | 141,667 | 141,667 | 61,333 |
| More than three years | 225,000 | 52,803 | 23,002 |
| Total | 452,000 | 277,803 | 154,668 |

#### 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 Group must comply with certain financial covenants under the debt facility agreements. During the year ended 30 June 2019, the Group was in compliance with its financial covenants (2018: in compliance).

#### Finance Costs

| $000 | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Interest expense | 7,472 | 3,905 |
| Facility costs | 2,817 | 1,812 |
| Less: interest expense and facility costs capitalised | (8,415) | (5,453) |
| Total finance costs | 1,874 | 264 |

Interest on borrowings is charged using the BKBM Bill Rate plus a margin and line fees. Interest rates applicable in the year to 30 June 2019 ranged from 3.49% to 3.77% per annum (2018: 3.46% to 3.66% per annum). Derivative financial instruments used to manage interest rate risk are set out in note 6.5.

# Notes to the Group Financial Statements

## 5 CHANGES IN ACCOUNTING POLICIES

The Group adopted all mandatory new and amended NZ IFRS Standards and Interpretations during the year including NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers.* 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 these new standards is summarised below.

### 5.1 NZ IFRS 9 *Financial Instruments*

NZ IFRS 9 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 has been adopted retrospectively and in accordance with the transitional provisions of NZ IFRS 9, comparative figures have not been restated.

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. Financial assets that were previously classified as loans and receivables under NZ IAS 39 are now categorised as financial assets at amortised cost. The change in classification has not affected the measurement of these assets.

Impairment of financial assets is assessed based on the expected credit loss model under NZ IFRS 9, rather than the incurred loss model that was previously used. 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 based on current, historic and forward-looking information. Expected lifetime losses have been measured by reviewing trade receivables based on the type of debtor and days since resident departure. Cash and cash equivalents are also subject to the impairment requirements of NZ IFRS 9. 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. Disclosure in relation to the Group's hedging relationships is included in note 6.5.

### 5.2 NZ IFRS 15 *Revenue from Contracts with Customers*

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. NZ IFRS 15 has been adopted using the full retrospective approach and no practical expedients have been applied.

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 continue to be recognised at the point in time the goods or services are provided to residents.

### 5.3 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. Comparatives for the year ended 30 June 2018 and the opening balance sheet at 1 July 2017, have been restated.

#### (a) New accounting policy

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.

# Notes to the Group Financial Statements

## 5 CHANGES IN ACCOUNTING POLICIES (continued)

### 5.3 NZ IFRS 16 *Leases* (continued)

### (a) New accounting policy (continued)

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.

The recognition exemptions available under NZ IFRS 16 have been applied to lease payments associated with low-value assets, and for lease terms of 12 months or less, which are recognised on a straight-line basis as an expense in profit or loss.

### (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 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 30 June 2019, a right-of-use asset of $1.7m and a corresponding lease liability of $2.0m have 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 continues 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.

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 these Group Financial Statements, including the opening balance sheet at 1 July 2017, are presented on page 28.

A reconciliation between the operating lease commitments disclosed as at 30 June 2017 and the lease liabilities recognised on adoption of NZ IFRS 16 on 1 July 2017 is provided below.

| $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 already 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 liabilities recognised as at 1 July 2017 | 2,880 |

# Notes to the Group Financial Statements

## 5 CHANGES IN ACCOUNTING POLICIES (continued)

### 5.3 NZ IFRS 16 *Leases* (continued)

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

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 | 1 July 2017 |
|---|---|---|---|
| Property, plant and equipment | Increase | 2,042 | 2,425 |
| Investment properties | Increase | 1,900 | 1,570 |
| **Total assets** | Increase | 3,941 | 3,995 |
| Interest bearing liabilities | Increase | 2,427 | 2,778 |
| Deferred management fees | Increase | 1,900 | 1,570 |
| Deferred tax liability | Decrease | 533 | 440 |
| **Total liabilities** | Increase | 3,794 | 3,908 |
| **Net assets** | Increase | 147 | 87 |
| Retained earnings | Increase | 147 | 87 |
| **Total equity** | Increase | 147 | 87 |

**Consolidated Statement of Comprehensive Income**

| $000 | | Year ended 30 June 2018 |
|---|---|---|
| Operating revenue | Decrease | 330 |
| **Total income** | Decrease | 330 |
| Change in fair value of investment properties | Increase | 330 |
| Other expenses | Decrease | 549 |
| Depreciation | Increase | 383 |
| Finance costs | Increase | 197 |
| **Total expenses** | Increase | 31 |
| **Profit before income tax** | Decrease | 31 |
| Income tax expense | Decrease | 92 |
| **Profit for the year** | Increase | 61 |
| **Total comprehensive income** | Increase | 61 |

**Consolidated Cash Flow Statement**

| $000 | | Year ended 30 June 2018 |
|---|---|---|
| Payments to suppliers and employees | Decrease | 549 |
| Interest Paid | Increase | 197 |
| **Net cash inflow from operating activities** | Decrease | 352 |
| Principal payments of lease liabilities | Increase | 352 |
| **Net cash inflow from financing activities** | Decrease | 352 |

# Notes to the Group Financial Statements

## 6 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.

### 6.1 Income Tax Expense

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax | **14** | 20 |
| Deferred tax | **6,921** | 14,652 |
| Income tax expense | **6,935** | 14,672 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax** | | |
| Profit before income tax | **46,168** | 137,254 |
| Tax at the New Zealand tax rate of 28% | **12,927** | 38,431 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non taxable income and non deductible expenditure | **3,315** | 1,114 |
| Capitalised interest | **(2,356)** | (1,527) |
| Non taxable impact of investment property revaluation | **(15,080)** | (37,155) |
| Movement in property valuation | **7,086** | 11,995 |
| Share of profit arising from joint venture | **(42)** | (547) |
| Adjustment for timing difference of provisions | **1,009** | 347 |
| Prior period adjustment | **76** | 2,014 |
| Income tax expense | **6,935** | 14,672 |

**(c) Recognised deferred tax liability**

| $000 | **Balance 1 July 2018** | **Recognised in income** | **Recognised in Reserves** | **Balance 30 June 2019** |
|---|---|---|---|---|
| Property, plant and equipment | **(5,841)** | **(286)** | **(193)** | **(6,320)** |
| Investment property | **(142,026)** | **(12,247)** | **-** | **(154,273)** |
| Deferred management fees | **1,821** | **(1,382)** | **-** | **439** |
| Recognised tax losses | **25,180** | **7,165** | **-** | **32,345** |
| Other items | **3,693** | **(171)** | **311** | **3,833** |
| Net deferred tax liability | **(117,173)** | **(6,921)** | **118** | **(123,976)** |

| $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 | (131,684) | (10,342) | - | (142,026) |
| Deferred management fees | 4,229 | (2,408) | - | 1,821 |
| Recognised tax losses | 20,975 | 4,205 | - | 25,180 |
| Other items | 3,870 | (299) | 122 | 3,693 |
| Net deferred tax liability | (102,639) | (14,652) | 118 | (117,173) |

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.1 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 2019 (2018: nil).

The income tax expense for the year is the tax payable on the current year'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 Group 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.

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 $91.6m (2018: $103.9m) 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 $131.4m (2018: $124.3m) included in the adopted treatment prior to the utilisation of any available tax losses at the time.

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.1 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 in relation to 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 Occupation Right Agreement (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 $50.7m (2018: $50.1m) would be recognised in the balance sheet. An additional current year tax expense of $50.7m (2018: $50.1m) and a corresponding reduction in net profit after tax of $50.7m (2018: $50.1m) would also be recognised.

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.2 Trade Receivables and Other Assets

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Trade receivables | **6,056** | 5,290 |
| Occupation right agreement receivables | **9,833** | 9,372 |
| Prepayments | **2,335** | 720 |
| Amounts due from related parties | **246** | 15 |
| Deposits paid for land acquisitions | **820** | 2,790 |
| Retentions and other receivables | **4,187** | 2,683 |
| Total receivables and other assets | **23,477** | 20,870 |

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

Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for the impairment of trade receivables is assessed based on the simplified approach of the expected credit loss model, which requires expected lifetime losses to be recognised from initial recognition of trade receivables based on current, historic and forward-looking information. Expected lifetime losses are 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 adjustment has been made to the opening impairment provision balance.

### 6.3 Trade and Other Payables

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Trade creditors | **4,244** | 7,249 |
| Sundry creditors and accruals | **26,782** | 55,039 |
| Revenue in advance | **3,855** | 3,653 |
| Employee entitlements | **6,409** | 6,093 |
| Total trade and other payables | **41,290** | 72,034 |

Recognised within sundry creditors and accruals at 30 June 2018 is the balance of the purchase price for Orion Point, Hobsonville.

All trade and other payables are expected to mature within 12 months of balance date. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 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 Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.4 Financial Instruments

The Group holds the following categories of financial instruments:

***Financial assets at amortised cost -*** financial assets comprising Cash and Cash Equivalents, and Trade Receivables and Other Assets (excluding prepayments).

***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 or loss*** - financial liabilities comprising Interest Rate Swaps.

### 6.5 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.

At 30 June 2019, it is estimated that a general increase of one percentage point in interest rates would reduce the Group's profits after tax by approximately $2.4m (2018: $1.3m) and would decrease equity by $2.4m (2018: $1.3m).

#### Derivative financial instruments

The Group has entered into interest rate swaps to reduce it's 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 Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.5 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 or loss. In these hedge relationships, ineffectiveness may arise due to changes in the counterparty and Metlifecare's own credit risk on the fair value of the derivatives, and differences in critical terms between the swaps and the bank loans. 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 2019, the Group has interest rate swap agreements in place with a total notional principal amount of $55m (2018: $55m), which are being used to cover approximately 20% (2018: 36%) 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% (2018: 2.57%). Derivatives in hedging relationships are designated based on a hedge ratio of 1:1. The hedge ratio is based on the interest rate swap notional amount to hedge the same notional amount of bank loans.

The notional values of interest rate swaps outstanding at 30 June 2019 and their maturities are as follows:

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| Between one and two years | **20,000** | 20,000 |
| Between two and five years | **35,000** | 35,000 |
| Total interest rate swaps | **55,000** | 55,000 |

The net fair value losses of $0.8m relating to the effective portion of cash flow hedges were recognised in other comprehensive income (2018: $0.3m), with the corresponding amount recognised as a $1.5m liability in the consolidated balance sheet at 30 June 2019 (2018: $0.4m). The value of amounts reclassified from the hedging reserve to profit or loss was nil.

#### (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. Assessment of any provision required for the impairment of trade receivables is detailed in note 6.3. 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.

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.5 Financial Risk Management (continued)

#### (c) Liquidity risk

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.

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 and Core Facilities.

As part of the Group's treasury activities and liquidity management, all wholly-owned subsidiaries interact through intercompany accounts with Metlifecare Limited on a daily basis. 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 2019** | | |
| Trade and other payables | **34,881** | **-** |
| Bank loans | **8,410** | **291,449** |
| Derivative financial instruments | **452** | **543** |
| Lease liabilities | **617** | **2,056** |
| Refundable occupation right agreements | **1,458,439** | **-** |
| | **1,502,799** | **294,048** |
| **30 June 2018** | | |
| Trade and other payables | 65,941 | - |
| Bank loans | 5,133 | 159,338 |
| Derivative financial instruments | 347 | 694 |
| Lease liabilities | 714 | 2,672 |
| Refundable occupation right agreements | 1,355,108 | - |
| | 1,427,243 | 162,704 |

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 and expected turnover calculations.

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.5 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.

### 6.6 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 2019** | 30 June 2018 |
|---|---|---|
| Salaries and other short-term employee benefits | **3,885** | 3,809 |
| Senior executive long term share plan | **657** | 477 |
| Total | **4,542** | 4,286 |

#### (b) Transactions and balances

During the year ended 30 June 2019 the Group advanced $231,000 to the joint venture company, Metlifecare Palmerston North Limited (2018: the Group received repayment of $197,000 from the joint venture company).

As at 30 June 2019 the joint venture company owed $246,000 to the Company (2018: $15,000).

#### (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 2019 ranged from 3.49% to 3.77% per annum (2018: 3.46% to 3.66% per annum).

#### (d) Directors' fees

During the year ended 30 June 2019, $755,000 of Directors' fees were paid (2018: $741,000). This includes the amount of any unrecoverable GST. Directors' fees are included within 'Other expenses' in note 2.2.

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.7 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.

### 6.8 Commitments

| $000 | **30 June 2019** | 30 June 2018 |
|---|---|---|
| **Capital commitments** | | |
| Estimated commitments contracted for at balance date but not yet incurred | **53,782** | 81,732 |
| | **53,782** | 81,732 |

### 6.9 Contingencies

The main contractor has submitted a final claim for works at Metlifecare Somervale Limited which exceeds the Group's initial assessment of the amount due. The potential impact on the Group Financial Statements based on the information available is not considered material (2018: nil).

### 6.10 Subsequent Events

Subsequent to balance date, the Group received a conditional offer for the purchase of its Albany site. The Group is currently considering the merits of this offer.

On 26 August 2019, the directors approved a dividend of 7.25 cents per share amounting to $15.5m. The dividend record date is 13 September 2019 and payment will occur on 20 September 2019.

There are no further subsequent events between 30 June 2019 and the date that the financial statements were authorised by the directors.

### 6.11 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 Botany Limited
Metlifecare Coastal Villas Limited
Metlifecare Crestwood Limited
Metlifecare Dannemora Gardens Limited
Metlifecare Edgewater Limited
Metlifecare Greenwich Gardens Limited
Metlifecare Greenwood Park Limited
Metlifecare Gulf Rise Limited
Metlifecare Highlands Limited
Metlifecare Kapiti Limited
Metlifecare Oakridge Limited
Metlifecare Orion Point Limited
Metlifecare Papamoa Beach Limited
Metlifecare Pinesong Limited
Metlifecare Pohutukawa Landing Limited
Metlifecare Powley Limited
Metlifecare Somervale Limited
Metlifecare The Avenues Limited
Metlifecare The Orchards Limited
Metlifecare The Poynton Limited
Waitakere Group Limited

# Notes to the Group Financial Statements

## 6 OTHER DISCLOSURES (continued)

### 6.11 Subsidiaries of the Group and Joint Venture Investment (continued)

#### Dormant and non operating entities

Longford Park Village Limited

Metlifecare Holdings Limited (formerly Vision Senior Living 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 (2018: 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.

#### 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

We have audited the group financial statements which comprise:

- the consolidated balance sheet as at 30 June 2019;
- 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 group financial statements, which include significant accounting policies.

## *Our opinion*

In our opinion, the accompanying 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 2019, 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 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, executive remuneration benchmarking advisory services and debt and treasury advisory services. 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 $2,485,000 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 $124,000 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 matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current year. We have one key audit matter, which is the valuation of investment properties and care homes. This matter was 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 this matter.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Valuation of investment properties and care homes*<br><br>The Group’s retirement village portfolio, as disclosed in note 3.1 and 3.3 of the group financial statements, includes investment properties of $3,423,615,000 and care homes (encompassing freehold land and buildings) of $43,142,000 and represents the majority of the assets held by the Group as at 30 June 2019.<br><br>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 less any impairment.<br><br>The valuation of the Group's retirement village portfolio is inherently subjective due to, amongst other factors, inputs into the valuations that are unobservable through available market information and also considers the individual characteristics of each village, its location, its resident profile and the expected future cash flows for that particular village.<br><br>The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuation assumptions, when aggregated, could result in material misstatement, is why we have given specific audit focus and attention to this area.<br><br>The valuations were carried out by an independent third party valuer, CBRE Limited (the Valuer).<br><br>The Valuer engaged by the Company is a well known firm, with experience in the sector in which the Group operates. | *External valuations*<br><br>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 2019.<br><br>It was evident from our discussions with management and the Valuer, and from our review of the valuation report that close attention had been paid to each village's individual characteristics and its overall quality, geographic location and desirability as a whole.<br><br>We assessed the Valuer's qualifications, expertise and their objectivity and we found no evidence to suggest that the objectivity of the Valuer, in their performance of the valuations, was compromised.<br><br>We carried out procedures, on a sample basis, to test whether specific information supplied to the Valuer by the Group reflected the underlying records held by the Group. For the items tested, the information was consistent.<br><br>*Assumptions*<br>Our work over assumptions focused on villages where the 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.<br><br>We have reviewed the estimated cost of remediation works by assessing the reasonableness of calculations and assumptions used and corroborating the relevant information with third party assessments commissioned by management, where applicable. 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 2019.<br><br>We also engaged our own in-house valuation specialist to challenge the work performed and assumptions used by the Valuer on a sample basis. In particular, we compared the assumptions used by the Valuer to our |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| In determining a valuation, the Valuer took into account property specific information such as current unit pricing, current and anticipated residential property growth, capitalisation rates and resident profiles for investment properties and capitalisation rates and proforma earnings for care homes. The Valuer then applied these assumptions in conjunction with available market data and transactions, to arrive at a range of valuation outcomes, from which a point estimate was derived. Due to the unique nature of each property, the assumptions applied took into consideration the individual property characteristics at a resident level, as well as the qualities of the property as a whole, including estimates for forecast remediation works. | in-house valuation specialist's knowledge gained from reviewing valuations of similar properties, known transactions and market data.<br><br>*Overall valuation estimates*<br>Because of the subjectivity involved in determining valuations for individual properties with the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the valuations used by the Group. If we find an error in a valuation or determine that the valuation is outside the reasonable range, we would evaluate the error or difference against our overall materiality to determine if there is a material misstatement in the group financial statements.<br><br>The valuations adopted by the Group were all within an acceptable range. We also considered whether or not there was bias in determining individual valuations and found no evidence of bias. |

## *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 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 Samuel Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 August 2019

Auckland