Metlifecare Limited Group Financial Statements

for the year ended 30 June 2016

Financial Statements

For the year ended 30 June 2016

Directors' Report	3
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Movements in Equity	5
Consolidated Balance Sheet	6
Consolidated Cash Flow Statement	7
Notes to the Financial Statements	8
Independent Auditor's Report	36

Directors' Report

The directors have pleasure in presenting the Group Financial Statements of Metlifecare Limited for the year ended 30 June 2016.

The Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 24 August 2016.

K. R. Ellis
Chair
24 August 2016

A. B. Ryan
Director
24 August 2016

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

$000	Note	**30 June 2016**	30 June 2015
Income			
Operating revenue	2.1	**105,961**	99,332
Other income		**-**	2,000
Interest income		**228**	151
Total income		**106,189**	101,483
Change in fair value of investment properties	3.1	**237,241**	121,152
Share of profit arising from joint venture, net of tax	5.11	**403**	1,015
Expenses			
Employee costs		**(44,570)**	(38,284)
Property costs	2.2	**(24,093)**	(25,370)
Other expenses	2.2	**(25,761)**	(24,327)
Loss on sale of village	3.4	**(3,103)**	-
Depreciation	3.3	**(2,164)**	(1,775)
Amortisation		**(375)**	(215)
Finance costs	4.6	**(72)**	(171)
Total expenses		**(100,138)**	(90,142)
Profit before income tax		**243,695**	133,508
Income tax expense	5.1	**(15,036)**	(10,850)
Profit for the year		**228,659**	122,658
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Share of other comprehensive income arising from joint venture, net of tax		**21**	21
Gain on revaluation of care homes	3.3	**387**	178
Tax expense on revaluation of care homes	5.1	**(108)**	(50)
Other comprehensive income, net of tax		**300**	149
Total comprehensive income		**228,959**	122,807
Profit attributable to shareholders of the parent company		**228,659**	122,658
Total comprehensive income attributable to shareholders of the parent company		**228,959**	122,807
Profit per share for profit attributable to the equity holders of the company during the year			
Basic (cents)	4.2	**107.5**	57.9
Diluted (cents)	4.2	**107.5**	57.9

The above 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 2016

$000	Note	Contributed Equity	Retained Earnings	Revaluation Reserve	Employee Share Scheme Reserve	Total Equity
Balance at 1 July 2014		298,766	484,648	8,089	300	791,803
Comprehensive income						
Profit for the year		-	122,658	-	-	122,658
Other comprehensive income		-	-	149	-	149
Total comprehensive income		-	122,658	149	-	122,807
Dividend reinvestment plan - shares issued		4,929	-	-	-	4,929
Employee share scheme	4.4	-	-	-	357	357
Dividends paid to shareholders	4.3	-	(8,456)	-	-	(8,456)
Balance at 30 June 2015		303,695	598,850	8,238	657	911,440
Balance at 1 July 2015		**303,695**	**598,850**	**8,238**	**657**	**911,440**
Comprehensive income						
Profit for the year		**-**	**228,659**	**-**	**-**	**228,659**
Other comprehensive income		**-**	**-**	**300**	**-**	**300**
Total comprehensive income		**-**	**228,659**	**300**	**-**	**228,959**
Sale of retirement village	3.4	**-**	**253**	**(253)**	**-**	**-**
Dividend reinvestment plan - shares issued		**2,206**	**-**	**-**	**-**	**2,206**
Employee share scheme	4.4	**-**	**-**	**-**	**453**	**453**
Transfer from employee share scheme reserve on vesting	4.4	**475**	**-**	**-**	**(475)**	**-**
Dividends paid to shareholders	4.3	**-**	**(10,091)**	**-**	**-**	**(10,091)**
Balance at 30 June 2016		**306,376**	**817,671**	**8,285**	**635**	**1,132,967**

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

Consolidated Balance Sheet

As at 30 June 2016

$000	Note	**30 June 2016**	30 June 2015
Assets			
Cash and cash equivalents		**6,558**	1,194
Trade receivables and other assets	5.2	**9,548**	8,204
Property, plant and equipment	3.3	**36,424**	33,375
Intangible assets		**1,454**	462
Investment properties	3.1	**2,524,809**	2,176,556
Investment in joint venture	5.11	**7,651**	7,632
Total assets		**2,586,444**	2,227,423
Liabilities			
Trade and other payables	5.3	**31,347**	26,909
Interest bearing liabilities	4.6	**80,798**	60,070
Deferred membership fees	3.1	**93,520**	84,223
Refundable occupation right agreements	3.2	**1,154,136**	1,066,141
Deferred tax liability	5.1	**93,676**	78,640
Total liabilities		**1,453,477**	1,315,983
Net assets		**1,132,967**	911,440
Equity			
Contributed equity	4.1	**306,376**	303,695
Revaluation reserve	4.5	**8,285**	8,238
Employee share scheme reserve	4.4	**635**	657
Retained earnings		**817,671**	598,850
Total equity		**1,132,967**	911,440

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

Consolidated Cash Flow Statement

For the year ended 30 June 2016

$000	**30 June 2016**	30 June 2015
Cash flows from operating activities		
Receipts from residents for membership fees, village and care fees	**87,755**	81,098
Other income	**-**	2,000
Receipts from residents for refundable occupation right agreements	**256,386**	196,209
Payments to residents for refundable occupation right agreements	**(130,426)**	(116,109)
Payments to suppliers and employees	**(84,033)**	(79,411)
Net GST received / (paid)	**286**	(614)
Interest received	**134**	100
Interest paid	**(64)**	-
Net cash inflow from operating activities	**130,038**	83,273
Cash flows from investing activities		
Payments for property, plant and equipment	**(6,957)**	(8,460)
Payments for intangibles	**(1,350)**	(439)
Net advances (from)/to joint venture	**(18)**	227
Dividends received from joint venture	**405**	450
Proceeds from disposal of retirement village net of disposal costs	**5,768**	-
Payments for investment properties	**(131,921)**	(84,525)
Capitalised interest paid	**(3,434)**	(4,182)
Net cash outflow from investing activities	**(137,507)**	(96,929)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**2,206**	4,929
Dividends paid	**(10,091)**	(8,456)
Net proceeds from borrowings	**20,718**	17,538
Net cash inflow from financing activities	**12,833**	14,011
Net decrease in cash and cash equivalents	**5,364**	355
Cash and cash equivalents at the beginning of the financial year	**1,194**	839
Cash and cash equivalents at the end of the financial year	**6,558**	1,194

Reconciliation of Profit after Tax with Cash Inflow from Operating Activities

$000		
Profit after tax	**228,659**	122,658
Adjustments for:		
Change in fair value of investment properties	**(237,241)**	(121,152)
Change in the fair value of residents' share of capital gains	**4,875**	3,187
Employee share scheme	**453**	357
Depreciation	**2,164**	1,775
Amortisation	**375**	215
Deferred tax expense	**15,026**	10,812
Loss on disposal of property, plant and equipment	**1**	190
Loss on sale of village	**3,103**	-
Impairment of property, plant and equipment	**-**	1,284
Share of profit arising from joint venture, net of tax	**(403)**	(1,015)
Changes in working capital relating to operating activities:		
Trade receivables and other assets	**(519)**	4,468
Trade and other payables	**4,351**	2,682
Deferred membership fees	**10,530**	6,369
Refundable occupation right agreements	**98,664**	51,443
Net cash inflow from operating activities	**130,038**	83,273

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

Notes to the Financial Statements

1 GENERAL INFORMATION

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

1.1 Reporting entity

The consolidated financial statements presented are for Metlifecare Limited ("the Company") and its subsidiaries (together "the Group") as at 30 June 2016. The Group owns and operates retirement villages in New Zealand. Metlifecare Limited is a limited liability company, incorporated and domiciled in New Zealand. The address of its registered office is Level 4, 20 Kent Street, Newmarket, Auckland 1023.

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

1.2 Going concern

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

The directors, in concluding, considered the following:

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

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

1.3 Basis of preparation

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

Statutory base

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

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

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

Notes to the Financial Statements

1 GENERAL INFORMATION (continued)

1.3 Basis of preparation (continued)

Historical cost convention

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

1.4 Goods and Services Tax (GST)

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

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

NZ IFRS 9, 'Financial instruments'*, addresses the classification, measurement and recognition of financial assets and financial liabilities.* The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

NZ IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to assess NZ IFRS 15's full impact. The Group will apply this standard from 1 July 2018.

NZ IFRS 16, 'Leases'. NZ IFRS 16 replaces the current guidance in NZ IAS 17. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Group has yet to assess the full impact of the changes and intends to adopt NZ IFRS 16 from 1 July 2019.

1.6 Comparative information

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

Notes to the Financial Statements

GENERAL INFORMATION (continued)

1.7 Critical judgements, estimates and assumptions

The preparation of financial statements in accordance with NZ GAAP requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Revenue recognition - membership fees (note 2.1, page 12)
- Fair value of investment properties (note 3.1, page 15) and care homes (note 3.3, page 19)
- Deferred tax (note 5.1, page 28)

1.8 Fair value hierarchy

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

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

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

1.9 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Notes to the Financial Statements

GENERAL INFORMATION (continued)

1.10 Notes to the Financial Statements

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Group.

The notes to the Financial Statements have been reordered and rewritten to provide more meaningful information to readers and are organised into the following sections:

2 Operating performance

2.1 Operating revenue	Page 12
2.2 Expenses	Page 13
2.3 Underlying Profit before taxation	Page 14

3 Investment property and other assets

3.1 Investment properties	Page 15
3.2 Refundable occupation right agreements	Page 18
3.3 Property, plant and equipment	Page 19
3.4 Disposal of Metlifecare Wairarapa	Page 21

4 Shareholders' equity and funding

4.1 Contributed equity	Page 22
4.2 Earnings per share	Page 23
4.3 Dividends	Page 23
4.4 Share-based payments	Page 23
4.5 Revaluation reserve	Page 25
4.6 Interest bearing liabilities	Page 25

5 Other disclosures

5.1 Income tax expense	Page 27
5.2 Trade receivables and other assets	Page 29
5.3 Trade and other payables	Page 29
5.4 Financial instruments	Page 30
5.5 Financial risk management	Page 30
5.6 Related party transactions	Page 32
5.7 Segment information	Page 33
5.8 Commitments	Page 33
5.9 Contingencies	Page 34
5.10 Subsequent events	Page 34
5.11 Subsidiaries of the Group and Joint Venture Investment	Page 34

Notes to the Financial Statements

2 OPERATING PERFORMANCE

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

This section also includes Underlying Profit before taxation, a non-GAAP financial measure, which is a retirement operator industry standard presented to assist in comparison of Metlifecare's performance with peers.

2.1 Operating Revenue

$000	**30 June 2016**	30 June 2015
Membership fees	**44,574**	40,591
Rest home, hospital and service fees, and village fees	**57,507**	54,656
Other operating revenue	**3,880**	4,085
	105,961	99,332

Revenue recognition

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

Membership fees

A membership 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 membership 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 membership fees at the rate of 10% per annum for a maximum of three years.

The timing of the recognition of membership fees is a critical accounting estimate and judgement. The membership 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 2015 and 2016.

The membership 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 membership fee receivable.

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

Rest home, hospital and service fees, and village fees

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

Other operating revenue

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

Information about major customers

Revenues from the Group's largest customer, the 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 $12.8m (2015: $12.3m).

Notes to the Financial Statements

OPERATING PERFORMANCE (continued)

2.2 Expenses

$000	**30 June 2016**	30 June 2015
Profit before income tax includes the following expenses:		
Property costs		
Utilities and other property costs	**10,986**	10,937
Repairs and maintenance on investment properties	**12,511**	13,826
Repairs and maintenance on property, plant, furniture and equipment	**596**	607
Total property costs	**24,093**	25,370
Other expenses		
Resident costs	**5,625**	5,556
Marketing and promotion	**4,119**	4,014
Other employment costs	**3,109**	2,600
Communication costs	**2,085**	1,677
Rental and operating lease expenses	**480**	373
Loss on disposal of property, plant and equipment	**1**	190
Donations	**46**	41
Bad debts	**6**	6
Doubtful debts	**(22)**	20
Residents' share of capital gain	**4,875**	3,187
Impairment of property, plant and equipment	**-**	1,284
Other (no items of individual significance)	**4,247**	4,166
Fees paid to PricewaterhouseCoopers New Zealand		
Audit and review of financial statements	**423**	441
Other assurance related services	**14**	28
Tax compliance services	**33**	47
Advisory services on executive remuneration and directors' fees	**28**	78
Total fees paid to PricewaterhouseCoopers New Zealand	**498**	594
Directors' fees	**692**	619
Total other expenses	**25,761**	24,327

Fees paid to PricewaterhouseCoopers New Zealand by the Group for other assurance related services totalled $14,000 (2015: $28,000). These services included work performed at shareholder meetings, financial covenants of the bank facilities, interim testing of internal controls and compliance with the Group treasury policy.

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

Notes to the Financial Statements

OPERATING PERFORMANCE (continued)

2.3 Underlying Profit before taxation

$000	**30 June 2016**	30 June 2015
Profit for the year	**228,659**	122,658
Add / (less) non recurring items:		
Net settlement receipts	-	(918)
Loss on sale of Metlifecare Wairarapa Limited	**3,103**	-
Profit for the year excluding non recurring items	**231,762**	121,740
Less:		
Change in fair value of investment properties	**(237,241)**	(121,152)
Add:		
Impairment of property, plant and equipment	-	1,284
Realised resale gains	**46,460**	31,265
Realised development margin	**10,087**	8,459
Tax expense	**15,036**	10,850
Underlying Profit before taxation	**66,104**	52,446

Underlying Profit before taxation, a non-GAAP financial measure, is a retirement industry standard presented to assist in comparison of Metlifecare's performance with its peers. Underlying Profit before taxation, calculated consistently year-on-year, is determined from the net profit after tax of Metlifecare 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.

- **Net settlement receipts:** representing the settlement receipt recorded as 'Other income', less associated costs of the remedial works undertaken at Hibiscus Coast Villas.
- **Loss on sale of Metlifecare Wairarapa:** loss on the sale of the village is non-recurring and does not form part of the recurring operating performance of the business (refer to note 3.4).

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

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

(d) Realised resale gains: the realised increase in value from the resale of occupation right agreements during the period. Realised resale gains are a measure of the cash generated from increases in selling prices of occupation right agreements to incoming residents, less cash amounts paid to vacated residents for repayment of refundable occupation right agreements from the pre-existing portfolio recognised at the date of settlement.

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

- directly attributable construction costs;
- a 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.

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

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS

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

3.1 Investment Properties

$000	**30 June 2016**	30 June 2015
Opening balance	**2,176,556**	1,960,972
Capitalised subsequent expenditure	**132,344**	95,795
Investment properties under development transferred to property, plant and equipment	**-**	(1,363)
Investment properties disposed of (refer note 3.4)	**(21,332)**	-
Change in fair value recognised during the year	**237,241**	121,152
Closing balance	**2,524,809**	2,176,556

Investment properties are categorised as follows:

$000	**30 June 2016**	30 June 2015
Development land measured at fair value	**47,084**	23,850
Retirement villages under development measured at cost	**46,255**	42,348
Retirement villages measured at fair value	**2,431,470**	2,110,358
Total investment properties	**2,524,809**	2,176,556

Investment properties

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

Valuation processes

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

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

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.1 Investment Properties (continued)

Development land

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

Development land is valued based on recent comparable transactions. The Group's land values range between $50 per square metre (psm) and $888 psm (2015: $45 psm and $837 psm).

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

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

Retirement villages under development measured at cost

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

Retirement villages measured at fair value

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

Unobservable Input	**2016**	2015
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	**2.2% - 3.3%**	1.8% - 3.4%
Pre-tax discount rate	**12.3% - 15.8%**	12.3% - 16.5%

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

30 June 2016	Adopted value * (ILU, SA, ILA)	Discount rate + 50 bp	Discount rate – 50 bp	Growth rates + 50 bp	Growth rates – 50 bp
Valuation ($000)	**1,104,000**				
Difference ($000)		**(40,700)**	**43,460**	**81,712**	**(55,211)**
Difference (%)		**(4%)**	**4%**	**7%**	**(5%)**

30 June 2015	Adopted value * (ILU, SA, ILA)	Discount rate + 50 bp	Discount rate – 50 bp	Growth rates + 50 bp	Growth rates – 50 bp
Valuation ($000)	895,100				
Difference ($000)		(34,220)	36,560	64,128	(57,932)
Difference (%)		(4%)	4%	7%	(6%)

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

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.1 Investment Properties (continued)

The occupancy period is a significant component of the CBRE valuation and is driven from a Monte Carlo simulation. The simulations are dependent on the demographic profile of the village (age and gender of residents) and a death and non-death probability as 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 (2015: 20 years) with stabilised departing occupancy assumptions set out below.

	2016	2015
Stabilised departing occupancy - serviced apartments (years)	**3.8 - 4.8**	4.1 - 4.7
Stabilised departing occupancy - independent living units (years)	**6.7 - 8.9**	6.9 - 8.7

The CBRE valuation also includes within its 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 $22.0m over a six year period (2015: $21.9m over a ten year period). The estimates are based on currently available information.

Other relevant information

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

$000	**30 June 2016**	30 June 2015
Development land measured at fair value	**47,084**	23,850
Retirement villages under development measured at cost	**46,255**	42,348
Retirement villages measured at fair value	**1,180,981**	957,552
Investment properties at valuation	**1,274,320**	1,023,750
Plus: Refundable occupation right agreements	**1,437,483**	1,324,866
Plus: Residents' share of capital gains	**30,590**	29,625
Plus: Deferred membership fees	**93,520**	84,223
Less: Membership fees receivable	**(307,781)**	(282,645)
Less: Occupation right agreement receivables	**(3,323)**	(3,263)
Total investment properties	**2,524,809**	2,176,556

Borrowing costs of $3.8m (2015: $4.2m) arising from financing specifically entered into for the construction of investment properties under development were capitalised during the year. Average capitalisation rates of 4.46% pa (2015: 5.95% pa) were used, representing the borrowing costs of the loans used to finance the projects.

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

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

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.2 Refundable Occupation Right Agreements

$000	30 June 2016	30 June 2015
Refundable security deposits	**1,437,483**	1,324,866
Residents' share of capital gains	**30,590**	29,625
Loans to residents	**(6,156)**	(5,705)
Membership fees receivable	**(307,781)**	(282,645)
Total refundable occupation right agreements	**1,154,136**	1,066,141

Occupation right agreements (ORAs) confer the right to occupancy of the unit or serviced apartment. A new resident is charged a refundable security deposit, on being issued the right to occupy one of the Group's units or serviced apartments, which is refunded to the resident subject to a new occupation right agreement for the unit or serviced apartment being issued to an incoming resident, net of any amount owing to the Group. The Group has a legal right to set off any amounts owing to the Group by a resident against that resident's security deposit. Such amounts include membership 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 ORA 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 demanded.

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

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

Expected maturity

In determining the fair value of the Group's investment properties CBRE estimates the established length of stay to be 6.7 - 8.9 years for independent living units and apartments (2015: 6.9 - 8.7 years) and 3.8 - 4.8 years for serviced apartments (2015: 4.1 - 4.7 years). Therefore, it is not expected that the full obligation to residents will fall due within one year. Based on historical turnover calculations the expected maturity of the total refundable obligation to refund residents is as follows:

$000	30 June 2016	30 June 2015
Within 12 months	**101,045**	97,316
Beyond 12 months	**1,053,091**	968,825
	1,154,136	1,066,141

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.3 Property, Plant and Equipment

$000	Freehold Land & Buildings	Construction Work in Progress	Plant, Furniture & Equipment and Motor Vehicles	Total
At 30 June 2014				
Cost or valuation	23,395	-	19,920	43,315
Accumulated depreciation	-	-	(15,449)	(15,449)
Net book value	23,395	-	4,471	27,866
Year ended 30 June 2015				
Opening net book amount	23,395	-	4,471	27,866
Revaluation of Care Homes	178	-	-	178
Additions	23	4,269	2,980	7,272
Transferred from Investment Properties	346	1,017	-	1,363
Impairment loss	-	(1,284)	-	(1,284)
Depreciation	(391)	-	(1,384)	(1,775)
Disposals	-	-	(245)	(245)
Closing net book amount	23,551	4,002	5,822	33,375
At 30 June 2015				
Cost or valuation	23,551	5,286	20,324	49,161
Accumulated depreciation and impairment losses	-	(1,284)	(14,502)	(15,786)
Net book value	23,551	4,002	5,822	33,375
Year ended 30 June 2016				
Opening net book amount	**23,551**	**4,002**	**5,822**	**33,375**
Revaluation of Care Homes	**387**	**-**	**-**	**387**
Additions	**-**	**4,899**	**2,016**	**6,915**
Transferred from construction work in progress	**4,904**	**(4,954)**	**50**	**-**
Depreciation	**(545)**	**-**	**(1,619)**	**(2,164)**
Disposals	**(1,710)**	**-**	**(379)**	**(2,089)**
Closing net book amount	**26,587**	**3,947**	**5,890**	**36,424**
At 30 June 2016				
Cost or valuation	**27,541**	**3,947**	**21,917**	**53,405**
Accumulated depreciation and impairment losses	**(954)**	**-**	**(16,027)**	**(16,981)**
Net book value	**26,587**	**3,947**	**5,890**	**36,424**

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

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

Notes to the Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.3 Property, Plant and Equipment (continued)

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 12% to 17% (2015: 11% to 17%). The valuation prepared has been split between land, improvements, chattels, plant and goodwill to determine the fair value of the assets. The revaluation, net of applicable deferred income taxes, was recognised in other comprehensive income and is shown in the Revaluation Reserve in shareholders equity.

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

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

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

$000	Freehold Land & Buildings
At 30 June 2015	
Cost	18,024
Accumulated depreciation	(4,983)
Net book value	13,041
At 30 June 2016	
Cost	**21,951**
Accumulated depreciation	**(4,742)**
Net book value	**17,209**

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

Notes to the Financial Statements

3. INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.3 Property, Plant and Equipment (continued)

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. 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.

No impairment loss was recognised in the year ended 30 June 2016. In the year ended 30 June 2015 an impairment loss of $1.284m was recognised in respect of the construction of Metlifecare The Orchards Limited's care home.

3.4 Disposal of Metlifecare Wairarapa

The assets and liabilities of Metlifecare Wairarapa Limited, a subsidiary company, were disposed of on 30 June 2016. Allocation of the proceeds from sale is set out below.

	$000
Sale price	**6,000**
Less adjustments on disposal	**(142)**
Net sale price prior to disposal costs	**5,858**
Less costs associated with sale	**(90)**
Less assets and liabilities disposed of:	
Investment properties	**21,332**
Property, plant & equipment	**2,086**
Refundable occupation right agreements	**(14,512)**
Other assets	**292**
Other liabilities	**(327)**
Net assets and liabilities disposed of	**8,871**
Total loss on sale of village	**(3,103)**

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 2016 Shares	30 June 2015 Shares	30 June 2016 $000	30 June 2015 $000
Total Issued and fully paid up capital (including treasury shares)				
Balance at beginning of the year	**212,190,658**	211,107,094	**303,695**	298,766
Shares issued net of transaction costs	**692,197**	1,216,525	**2,681**	4,929
Shares cancelled	**-**	(132,961)	**-**	-
Balance at end of the year	**212,882,855**	212,190,658	**306,376**	303,695

	30 June 2016 Shares	30 June 2015 Shares
Treasury shares		
Balance at beginning of the year	**779,430**	796,919
Shares issued under the senior executive share plan	**161,245**	115,472
Shares vesting under the senior executive share plan	**(430,000)**	-
Shares cancelled under the senior executive share plan	**-**	(132,961)
Balance at end of the year	**510,675**	779,430

	30 June 2016	30 June 2015
Net tangible assets per share (basic)	**$5.32**	$4.29

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

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

	Shares issued
Opening balance as at 1 July 2014	211,107,094
17 October 2014 - dividend reinvestment plan - $4.39 per share	787,800
1 April 2015 - cancelled treasury shares under the senior executive share plan	(132,961)
1 April 2015 - treasury shares under the senior executive share plan	115,472
17 April 2015 - dividend reinvestment plan - $4.87 per share	313,253
Balance as at 30 June 2015	**212,190,658**
1 October 2015 - dividend reinvestment plan - $4.20 per share	**530,952**
2 November 2015 - treasury shares under the senior executive share plan	**161,245**
Balance as at 30 June 2016	**212,882,855**

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 transaction costs of $23,926 issuing shares during the year (2015: $55,109).

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 are subject to achievement of performance hurdles.

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.2 Earnings Per Share

	30 June 2016	30 June 2015
Profit attributable to equity holders ($000)	**228,659**	122,658
Basic and Diluted		
Weighted average number of ordinary shares on issue (thousands)	**212,693**	211,719
Earnings per share (cents)	**107.5**	57.9

Basic

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

Diluted

Diluted earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares on issue during the year. The Group does not have any options or convertible shares on issue, therefore the weighted average number of shares on issue is the same for the calculation of basic and diluted earnings per share.

4.3 Dividends

	Cents per share	**30 June 2016 $000**	30 June 2015 $000
Recognised amounts			
Final dividend for 2014	2.50	**-**	5,278
Interim dividend for 2015	1.50	**-**	3,178
Final dividend for 2015	3.00	**6,366**	-
Interim dividend for 2016	1.75	**3,725**	-
Total dividends paid		**10,091**	8,456

On 24 August 2016 the directors approved a dividend of 4.0 cents per share amounting to $8.5m. The dividend record date is 9 September 2016 and payment will occur on 23 September 2016.

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 2016 is nil (2015: nil). No tax payments were made during the year and dividends paid were unimputed.

4.4 Share-Based Payments

Senior Executive Share Scheme

The Company operates a Senior Executive Share Scheme (the Scheme) which is intended to align the interests of senior executives with the interests of shareholders and provide a continuing incentive to the senior executives over the long term horizon.

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). Shares issued under the senior executive share scheme are entitled to dividends.

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.4 Share-based Payments (continued)

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 2016	30 June 2015
Share rights outstanding at 1 July	**779,430**	796,919
Granted during the year	**161,245**	115,472
Vested during the year	**(430,000)**	-
Cancelled during the year	**-**	(132,961)
Share rights outstanding at 30 June	**510,675**	779,430

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

$000	30 June 2016	30 June 2015
Share based payment expense recognised in the consolidated statement of comprehensive income within 'employee expenses'	**453**	357
Accumulated employee share based payment expense recognised in the employee share scheme reserve	**635**	657

During the year ended 30 June 2016 430,000 shares vested (2015: Nil). $475,000 of the previously recognised share based payment expense was transferred to share capital.

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

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.5 Revaluation reserve

$000	**30 June 2016**	30 June 2015
Balance at beginning of the year	**8,238**	8,089
Share of gain on revaluation of care home arising from joint venture, net of tax	**21**	21
Gain on revalution of care home	**387**	178
Tax expense on revaluation of care home	**(108)**	(50)
Transfer on disposal of retirement village (note 3.4)	**(253)**	-
Balance at end of the year	**8,285**	8,238

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

4.6 Interest Bearing Liabilities

$000	**30 June 2016**	30 June 2015
Bank loans	**80,744**	60,026
Capitalised debt costs	**(140)**	(233)
	80,604	59,793
Finance leases	**194**	277
Total interest bearing liabilities	**80,798**	60,070
Maturity profile		
Within one year	**92**	83
Later than one year	**80,846**	60,220
Total interest bearing liabilities excluding capitalised debt costs	**80,938**	60,303

Borrowings

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

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

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

Bank loans

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

On 14 October 2015 the bank facilities were renegotiated and extended. The maturities of the Core Revolving Credit Facility of $75m and the Development Facility of $175m are three, four and five years from 14 October 2015 in three equal tranches.

The working capital facility of $12.0m is repayable on demand (2015: $10.0m, repayable on demand).

At 30 June 2016, the Group had $262.0m (2015: $180.0m) of committed bank facilities, including the overdraft, of which $181.3m was undrawn (2015: $120.0m). No amounts were drawn under the Core Revolving Credit Facility at 30 June 2016 (2015: Nil); $80.7m was drawn under the Development Facility (2015: $55.6m). No amounts were drawn under the Working Capital Facility (2015: $4.4m).

Notes to the Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.6 Interest Bearing Liabilities (continued)

Security

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

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

Financial covenants

The financial covenants that the Group must comply with include Interest Cover Ratios and a Loan to Value Ratio. During the year ended 30 June 2016, the Group was in compliance with its financial covenants (2015: in compliance).

Finance Costs

$000	**30 June 2016**	30 June 2015
Interest expense	**2,216**	2,712
Facility costs	**1,618**	1,641
Less: interest expense and facility costs capitalised	**(3,762)**	(4,182)
Total finance costs	**72**	171

Interest on borrowings are charged using the BKBM Bill Rate plus a margin and line fees. Interest rates applicable in the year to 30 June 2016 ranged from 3.51% to 4.56% pa (2015: 4.56% to 4.92% pa).

Notes to the Financial Statements

5 OTHER DISCLOSURES

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

5.1 Income Tax Expense

$000	30 June 2016	30 June 2015
(a) Income tax expense		
Current tax	**10**	38
Deferred tax	**15,026**	10,812
Income tax expense	**15,036**	10,850
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**243,695**	133,508
Tax at the New Zealand tax rate of 28%	**68,235**	37,382
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non taxable income and non deductible expenditure	**(237)**	(342)
Non taxable impact of investment property revaluation	**(66,427)**	(33,923)
Movement in property valuations for deferred tax	**12,449**	7,655
Tax impact of change in investment property depreciable tax base	**(271)**	(868)
Share of profit arising from joint venture	**(113)**	(284)
Other adjustments	**1,153**	2,326
Prior period adjustment	**247**	(1,096)
Income tax expense	**15,036**	10,850

The applicable tax rate was 28% (2015: 28%).

(c) Recognised deferred tax liability

The movement in the deferred tax balance comprises:

$000	**Balance 1 July 2015**	**Recognised in income**	**Recognised in Reserves**	**Balance 30 June 2016**
Property, plant and equipment	**116**	**(2,761)**	**(10)**	**(2,655)**
Investment property	**(104,924)**	**(12,449)**	**-**	**(117,373)**
Deferred membership fees	**12,692**	**(4,658)**	**-**	**8,034**
Recognised tax losses	**9,103**	**5,146**	**-**	**14,249**
Other items	**4,373**	**(304)**	**-**	**4,069**
Net deferred tax liability	**(78,640)**	**(15,026)**	**(10)**	**(93,676)**

$000	Balance 1 July 2014	Recognised in income	Recognised in Reserves	Balance 30 June 2015
Property, plant and equipment	4,661	(4,495)	(50)	116
Investment property	(97,269)	(7,655)	-	(104,924)
Deferred membership fees	16,716	(4,024)	-	12,692
Recognised tax losses	3,276	5,827	-	9,103
Other items	4,838	(465)	-	4,373
Net deferred tax liability	(67,778)	(10,812)	(50)	(78,640)

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.1 Income Tax Expense (continued)

No income tax was paid or payable during the year. There are no unrecognised tax losses for the Group at 30 June 2016 (2015: nil).

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

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

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

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

Key assumptions related to deferred tax

Deferred tax - recognition based on contractual cash flows

NZ IAS 12 requires deferred tax to be recognised in respect of taxable temporary differences. The carrying value of the Group's investment properties 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 membership 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. Contractually, membership fees are received upon refund of the occupation right agreement deposit by way of set-off on exit of a unit by a resident and this is the basis for the recognition and measurement of deferred tax in the Group's financial statements.

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

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 $94.1m (2015: $94.4m) 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 $105.5m (2015: $92.2m) included in the adopted treatment prior to the utilisation of any available tax losses at the time.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.2 Trade Receivables and Other Assets

$000	30 June 2016	30 June 2015
Trade receivables	**4,698**	4,229
Provision for doubtful receivables	**(2)**	(24)
	4,696	4,205
Occupation right agreement receivables	**3,323**	3,262
Prepayments	**458**	307
Amounts due from related parties	**27**	9
Other receivables	**1,044**	421
Total receivables and other assets	**9,548**	8,204
Past due but not impaired receivables		
1 to 3 months	**136**	129
Over 3 months	**167**	123
	303	252

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

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

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

5.3 Trade and Other Payables

$000	30 June 2016	30 June 2015
Trade creditors	**6,217**	3,277
Sundry creditors and accruals	**20,707**	18,574
Employee entitlements	**4,423**	5,058
Total trade and other payables	**31,347**	26,909

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

Creditors and other accruals

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

Employee benefits

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

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.4 Financial Instruments

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

The Group holds the following categories of financial instruments:

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

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

5.5 Financial Risk Management

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

The Group uses different methods to measure different types of risk to which it is exposed including sensitivity analysis in the case of interest rates to determine market risk and ageing analysis for credit risk. From time to time the Group uses derivative financial instruments such as interest rate swap contracts to manage certain interest rate risk exposures. Derivatives are exclusively used for economic hedging purposes (while hedge accounting is not applied as the Group does not meet the hedge accounting criteria) 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 2016, it is estimated that a general increase of one percentage point in interest rates would reduce the Group's profits after tax by approximately $0.8m (2015: $0.6m) and would decrease equity by $0.8m (2015: $0.6m).

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.5 Financial Risk Management (continued)

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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

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

Maturity profile of financial liabilities

The maturity of the bank loans drawn down from the committed bank facilities are shown in note 4.6. The bank loans are typically drawn down for fixed periods of 1 - 3 months and renewed at the conclusion of each fixed period.

Total amounts payable within one year under finance leases total $92,000 (2015: $83,000) and $103,000 (2015: $194,000) between 1 and 5 years.

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 which reflects historical turnover calculations.

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.5 Financial Risk Management (continued)

(d) Capital risk management

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

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

(e) Fair value estimation

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

5.6 Related Party Transactions

The following transactions were carried out with related parties:

(a) Key management personnel compensation

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

$000	**30 June 2016**	30 June 2015
Salaries and other short-term employee benefits	**3,303**	2,969
Senior executive long term share plan	**933**	844
Termination benefits	**135**	433
Total	**4,371**	4,246

(b) Transactions and balances

During the year ended 30 June 2016 the Group advanced the joint venture company, Metlifecare Palmerston North Limited, $18,000 (2015: the Group received $227,000 of advances from the joint venture company).

As at 30 June 2016 the joint venture company owed $27,000 to the Company (2015: $9,000).

(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 2016 ranged from 4.01% to 5.28% (2015: 5.84% to 6.16%).

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.7 Segment information

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

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

5.8 Commitments

$000	**30 June 2016**	30 June 2015
Capital commitments		
Estimated commitments contracted for at balance date but not yet incurred	**21,542**	75,578
	21,542	75,578

In addition to the capital commitments noted above, in January 2015 the Group entered into a conditional contract for the purchase of 5 hectares of land at Red Beach, Auckland. The purchase was completed in August 2016 (refer to note 5.10).

$000	**30 June 2016**	30 June 2015
Operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**588**	462
Later than one year but not later than five years	**2,193**	1,781
Later than five years	**1,255**	1,461
	4,036	3,704

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

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

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

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

5.9 Contingencies

There are no material contingent liabilities as at 30 June 2016 (2015: nil).

5.10 Subsequent Events

On 22 July 2016 the Group's purchase of its Red Beach site on the Hibiscus Coast became unconditional and the purchase was settled on 19 August 2016 for $17.8m.

On 24 August 2016, the directors approved a dividend of 4.0 cents per share amounting to $8.5m. The dividend record date is 9 September 2016 and payment will occur on 23 September 2016.

There are no further subsequent events between 30 June 2016 and the date that the financial statements were authorised by the directors.

5.11 Subsidiaries of the Group and Joint Venture Investment

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

Operating entities

Forest Lake Gardens Limited
Hibiscus Coast Village Holdings Limited
Hillsborough Heights Village Holdings Limited
Longford Park Village Holdings Limited
Metlifecare 7 Saint Vincent Limited
Metlifecare Bayswater Limited
Metlifecare Coastal Villas Limited
Metlifecare Crestwood Limited
Metlifecare Greenwich Gardens Limited
Metlifecare Greenwood Park Limited
Metlifecare Highlands Limited
Metlifecare Kapiti Limited
Metlifecare Pakuranga Limited
Metlifecare Pinesong Limited
Metlifecare Powley Limited
Metlifecare Somervale Limited
Metlifecare The Avenues Limited
Metlifecare The Orchards Limited
Metlifecare The Poynton Limited
Metlifecare Wairarapa Limited (refer note 3.4)
Private Life Care Holdings Limited
Metlifecare Oakridge Limited
Metlifecare Dannemora Gardens Limited
Metlifecare Papamoa Beach Limited
Vision Senior Living Investments Limited
Vision Senior Living Limited
Waitakere Group Limited

Dormant entities

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

All subsidiaries, except the dormant 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 (2015: 50%). The joint venture company, Metlifecare Palmerson North Limited, is incorporated in New Zealand and has a balance date of 30 June.

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

Notes to the Financial Statements

5 OTHER DISCLOSURES (continued)

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

Principles of consolidation

Subsidiaries

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

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

Intercompany

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

Joint venture entities

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

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

Independent auditor's report

to the shareholders of Metlifecare Limited

Our opinion

In our opinion, the financial statements of Metlifecare Limited (the Company), including its controlled entities (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs).

What we have audited

The financial statements comprise:

- the consolidated balance sheet as at 30 June 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of movements in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ). 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 and directors' fees advisory and other audit related non-assurance services. The provision of these other services has not impaired our independence.

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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 $2.1 million, which represents 2% of operating revenue.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $150,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have 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 financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in the aggregate on the financial statements as a whole.

Overall group materiality	$2.1 million
How we determined it	2% of operating revenue
Rationale for the materiality benchmark applied	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 and loss measures.

Audit scope

We designed our audit by assessing the risks of material misstatement in the 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 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 judgement, were of most significance in our audit of the financial statements of the current year. We have one key audit matter: valuation of investment properties and care homes. This was addressed in the context of our audit of the 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 The Group's investment properties (refer to note 3.1 of the financial statements) and care homes (refer to note 3.3 of the financial statements) comprise a portfolio of retirement villages in the North Island of New Zealand and at $2.6 billion represent the majority of the Group's assets as at 30 June 2016. Investment property and care homes are carried at fair value. For investment properties or care homes under development that are not sufficiently progressed to enable fair value to be reliably determined, they are carried at the cost spent on the development to date, less any impairment. The valuation of the Group's retirement village portfolio is inherently subjective due to inputs into the valuations that are unobservable through market available information and also considers the individual characteristics of each village, its resident profile and the expected future cash flows for that particular village. The existence of significant estimation uncertainty arising from unobservable inputs, coupled with the fact that only a small percentage difference in individual village valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area. The valuations were carried out by an independent third party valuer, CBRE Limited (the Valuer). The valuation processes for investment properties and care homes are described in notes 3.1 and 3.3 of the financial statements, respectively. Investment properties are recorded in the financial statements at the value determined by the Valuer, adjusted for refundable occupational right agreements, residents' share of capital gains, deferred membership fees, membership fees receivable and occupational right agreement receivables which are recognised separately on the balance sheet but reflected in CBRE's cash flow model to determine each village's valuation.	*External valuations* We read and discussed the external valuation reports with the Valuer. We confirmed that the valuation approach for each village was in accordance with NZ IFRS 13 *Fair Value Measurement* and suitable for use in determining the carrying value of investment properties and care homes at 30 June 2016. It was evident from our review of the valuation reports and our discussions with management and the Valuer that close attention had been paid to each village's individual characteristics and its overall quality, geographic location and desirability as a whole. There was no evidence of management bias or influence on the Valuer. We assessed the Valuer's qualifications, expertise and their objectivity and found no evidence to suggest that the objectivity of the Valuer in their performance of the valuations was compromised. On a sample basis, we agreed village-specific information supplied to the Valuer by the Group to the underlying records held by the Group. For the items tested, the information was consistent. *Assumptions* Our work over assumptions focused on those villages where the assumptions used and/or year-on-year fair value movement suggested a possible outlier compared to the rest of the portfolio and the wider retirement village sector. We engaged our own in-house valuation expert to challenge the valuations and the assumptions used by the Valuer. We have agreed the estimated costs of remediation works included in the valuations to third party assessments commissioned by management. We concluded that the assumptions used in the valuations were supportable. *Overall valuation estimates* Given that there is significant estimation uncertainty when the Valuer derives a value, we consider it reasonable to apply a tolerable allowance of +/- 5.0% to allow for the inherent level of precision and subjectivity of the valuations. We have assessed that the values adopted for investment properties and care homes as at 30 June 2016 in the Group's financial statements are all within an acceptable range.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report. The other information included in the annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information included in the annual report and we will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the other information in the annual report, if we conclude that there is a material misstatement of this other information, we are required to communicate the matter to the directors and consider further appropriate actions.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRSs, 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 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 August 2016

Auckland