



2017 Interim Report

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State of the state

Underlying profit 1 \$38.6 m up 15%

Total assets \$2,805.9 mup 15%

\$251,000 up 40%

New units delivered 97 up 26%

Development margin 17% in 1H FY16

Net tangible assets per share \$6.04up 25%

2.25cents^{up 29%}

- 1. Underlying profit removes the impact of unrealised fair value movements on investment properties, impairment of property, plant & equipment and excludes one-off gains & losses and taxation. It is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. Underlying profit is a retirement village industry standard presented to assist in comparison of Metlifecare with its peers. Underlying profit is reconciled to the GAAP reported profit in note 2.2 of the Interim Financial Statements.
- 2. Embedded value, a non-GAAP financial measure, is calculated by taking the sum of the CBRE unit prices of units across our portfolio, deducting the resident refundable loan liability as per the balance sheet and company-owned stock items. The embedded value is a combination of Resale Gains and Deferred Membership Fee receivable. The value of the Deferred Membership Fee receivable is as per note 3.1 of the Financial Statements and the balance is Embedded Resale Gains. The per unit calculations have been adjusted for the Palmerston North joint venture accounting changes. Embedded value assists readers to understand the potential future cash flows from Realised Resale Gains & Deferred Management Fee Receivables.

Chair & CEO REPORT

MOMENTUM IS BUILDING

With our strategic goals clearly redefined,
Metlifecare is lifting its performance
across the business, and we are
already seeing the benefits.



\$2,805.9m

Welcome to Metlifecare's interim report for the first half of the 2017 financial year. Your board is pleased to report a record financial result for the six months to 31 December 2016, driven by continued gains in the fair value of assets and a solid operational performance.

We are on track to meet our 2017 delivery targets and, looking further out, have also made excellent progress on a number of strategic initiatives. These initiatives will enable the company to drive accelerated growth as well as creating a competitive edge in the markets we are targeting.

Financial review

Metlifecare recorded another creditable financial performance in the six-month period to 31 December 2016, with reported net profit after tax of \$165.0 million, 31% higher than the \$125.7 million recorded in the first half of FY16.

Underlying profit increased by 15% to \$38.6 million, propelled by a significant uplift in realised gains from resales and realised development margins, despite lower sales volumes during the period. Earnings per share for the period were 77.1 cents, 30% higher than last year's 59.2 cents.

Unrealised fair value movement was \$170.7 million, 33% higher than the same period last year, which increased the total company assets by 15% to

\$2,805.9 million. Net tangible assets per share were \$6.04, up 25% on the first half of FY16.

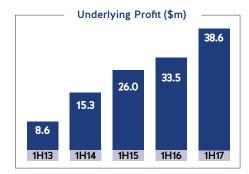
Operating revenue for the six-month period was up 4% to \$54.0 million. This reflected additional revenue from two new villages, but was partially offset by the revenue impact from the sale of the Wairarapa village, effective 30 June 2016.

Total expenses increased by 15% to \$54.7 million, due mainly to a \$4.5 million increase in residents' share of capital gains and a \$3.7 million increase in depreciation and impairment. Overall operating expenses were relatively stable, and have been managed well in light of the net increase in villages.

Reduced stock availability led to lower sales volumes of new units during the period, with 89 new units sold, down 14% against the prior corresponding



Chair & CEO REPORT



period. However, the impact of this was offset by an average price increase of 9% to \$638,000 and an increase in the development margin from 12% to 17%. As a result, the realised development margin for the half-year was \$9.6 million, 35% higher than last year.

Village occupancy increased to 97% compared to 96% in the same period last year. Resales volumes were 13% lower at 175 units, partly because 17 units at Pinesong village were unavailable for resale. These units were used by the company to rehouse residents of the Manukau building which is being replaced with a new apartment block. The average resale price increased by 16% to \$489,000, driven by a combination of increased list prices and the mix of units sold, and the realised resale gain per settlement increased by 36% to \$151,000.

Operating cash flow for the six-month period was \$79.0 million, 1% higher than last year, and operating cash flow

excluding development sales was \$22.3 million, 26% higher than last year.

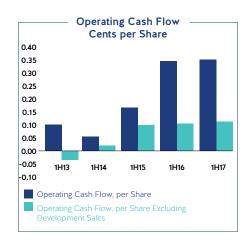
Embedded value is calculated by Metlifecare as a key indicator of future cash flow generated when a unit is reoccupied. Embedded value for the half-year period increased to \$251,000 per unit, 40% ahead of last year, reflecting continued house price growth and resale prices in the areas our villages are located, as well as the higher deferred management fee structure.

Metlifecare invested \$70.0 million into its villages over the six-month period, 26.5% higher than last year. Bank debt was \$76.1 million at 31 December 2016 and, while this amount was 56% higher than a year ago, it reduced by \$4.7 million or 6% during the six-month period under review. The debt to equity ratio moved from 7% to 6% during the six months to 31 December 2016.

In maintaining a conservative balance sheet, Metlifecare remains well-positioned to capture future investment opportunities and lift development activity, while at the same time managing risk in the event of softening market conditions.

Dividend

The Board has declared an interim dividend of 2.25 cents for the six months to 31 December 2016, which is 0.5 cents and 29% higher than last year. The dividend is un-imputed and



will be paid on 31 March 2017, with a record date of 17 March 2017. The Dividend Reinvestment Plan does not apply for this dividend.

People

An important part of what makes Metlifecare unique is its people. With substantial investment in developing and growing capability, the improvements over the first half have been largely due to the hard work and commitment of our wider Metlifecare team, and we sincerely thank them for their efforts.

After more than six years in his role as Chief Financial Officer, Tristram van der Meijden has made the decision to leave Metlifecare at the end of September 2017 to focus on his personal business interests. Tristram has made a significant and valuable contribution to Metlifecare over his

tenure providing leadership through the GFC, the recapitalisation of the company and the successful merger in 2012, and will leave the organisation in a strong position. An executive search process is now underway and we will work towards a smooth transition later in 2017.

In November 2016, we were pleased to appoint Huma Houghton to the role of General Manager Human Resources. Huma joined the team in January 2017 to lead the organisation's strategic people management initiatives. Huma and her team are responsible for the continued growth and development of Metlifecare's people and our focus on performance and exceptional service delivery.

Our investment in strengthening Metlifecare's development capability is largely complete, with the development team now wellestablished and achieving both its delivery targets and an increased development margin.

Solid progress was also made over the half-year on establishing and implementing a rigorous Health & Safety Management system, with Metlifecare recently being awarded N74801 certification.

Our increased focus on improving operating effectiveness is helping to establish a strong foundation on which Metlifecare can differentiate itself in the market and become an

Chair & CEO REPORT

employer of choice. It also reflects our unwavering commitment to the customer experience and empowering our people to innovate and contribute to overall business success. which we can evolve and expand our offering in a changing and competitive market place.

Outlook

Metlifecare has made solid progress over the half year. We have established and communicated our strategic goals and delivery targets, and have renewed focus in driving value improvement across the business. Demand for our villages remains strong, and we are seeing the benefits of increased commercial intensity through improved yields and consistently high occupancy levels.

The company accordingly advises that it anticipates underlying profit for the second half to be consistent with the first half.

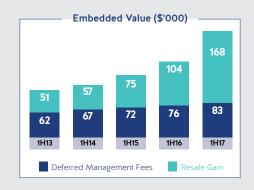
We will continue to invest in our existing village portfolio to ensure we remain competitive, and in some cases, lift the competitiveness and attractiveness of our mature villages. We are also continuing to seek growth opportunities that align with our strategic goals. Overall, the company remains very well-positioned to meet the opportunities and challenges of our sector, and we now have a robust platform from

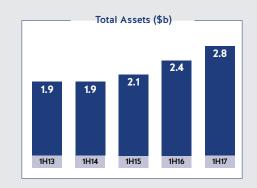
Kim Ellis
Chair

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Glen Sowry CEO



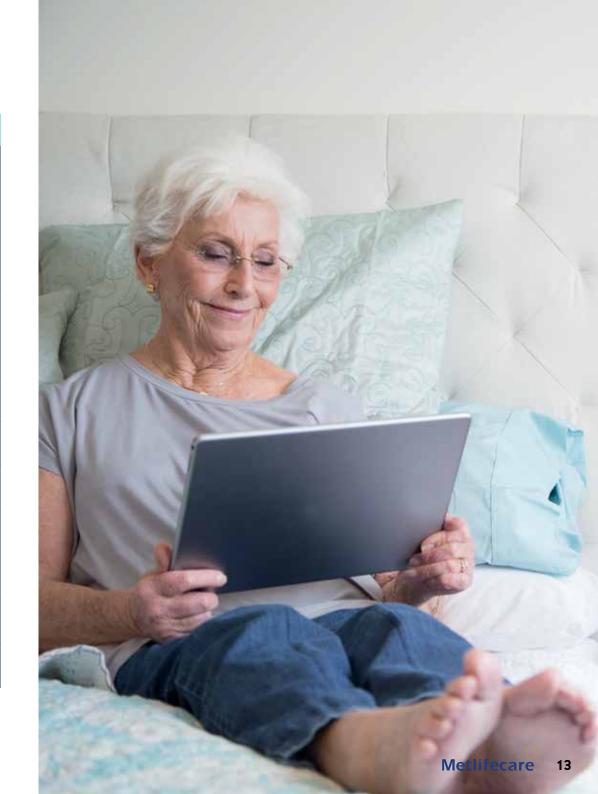






Financial **SUMMARY**

	1H FY17	1H FY16	CHANGE
Net profit after tax (\$m)	165.0	125.7	31%
Net operating cash flow (\$m)	79.0	78.0	1%
Net operating cash flow excluding development sales (\$m)	22.3	17.7	26%
Underlying profit (\$m)	38.6	33.5	15%
Earnings per share (cps)	77.1	59.2	30%
Dividend per share (cps)	2.25	1.75	29%
Total assets (\$m)	2,805.9	2,437.9	15%
Fair value movement during period (\$m)	170.7	128.5	33%
Total equity (\$m)	1,288.7	1,033.2	25%
Bank debt (\$m)	76.1	48.8 56%	
Net tangible assets per share (\$)	6.04	4.85 25 %	
Embedded value per unit (\$000)	251	180	40%





Accelerated **GROWTH**

The six-month period under review saw momentum start to build as new supply chain and construction delivery processes were implemented, and the development of further initiatives continued. Consequently, the company is well on track to achieve its committed delivery target of 229 units and beds for the 2017 financial year, with 97 delivered during the period.

The emerging benefits of Metlifecare's changed approach to development are also showing in development margins, where the average margin of 17% over the six-month period exceeded the company's minimum target of 15% and last half year's 12%. The average realised development margin per unit sold during the period was up 56% on the same period last year.

There were no further land acquisitions made during the period, despite detailed reviews being conducted on a number of potential sites. We are taking a prudent and methodical approach to ensuring any new site is aligned with Metlifecare's vision for its future villages and meets our investment criteria, which include demographics, median market pricing, home ownership levels and growth rates. Whilst we remain focused on a land acquisition this calendar year, we continue to be careful that any

such acquisition is value-accretive and targeted.

Work continues towards achieving a resource consent for the development of a new village at our Red Beach site. While the initial application was declined in November 2016, we are in the appeal process and actively working with Auckland Council and affected parties to review what changes can be accommodated to mitigate Council and community concerns. We remain confident that we will ultimately provide a village that fits comfortably within the wider community character, as well as being commercially attractive and competitively well-positioned.

Looking ahead, we are also on track for the delivery of a further 233 units and care beds targeted for the 2018 financial year. We are also confident that, as our new systems and processes become embedded, we will continue to see ongoing improvement in delivery timeframes and the consistent achievement of margins.





Commercial INTENSITY

Demand for units at Metlifecare villages has remained strong, with 97% occupancy levels (1% up on the same period last year), and care home occupancy tracking above the national average. Despite resales volumes being 13% down on last year at 175 units, an increased focus on yield management has resulted in a 28% improvement in income per settlement from realised resale gains and deferred management fees.

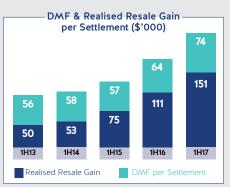
Metlifecare measures its portfolio quality and sales effectiveness by tracking its resale prices against the external market. Over the past six months there has been a strong lift in selling prices. We have increased the focus on real estate market monitoring to ensure the portfolio pricing is meeting or exceeding market movements which has delivered strong realised resale gains and valuation uplift.

During the half-year, a key area has been the refurbishment of units before resale. We have introduced a fit-for-purpose refurbishment approach, which better reflects the expectations and values of the local area. We have also implemented new processes and procurement relationships which have significantly improved the efficiency of unit refurbishment, with the average unit turnaround time reducing by 29% during the period. As well as providing a real benefit to the company through bringing the refurbished stock to market

sooner and maintaining occupancy levels, this also has a positive impact for our customers.











Competitive **POSITIONING**

The six months to December 2016 saw the launch of a number of initiatives designed to appreciably increase Metlifecare's market presence and resident satisfaction levels, and improve its competitive positioning.

We were delighted to recently announce a partnership with chef Simon Gault in which he will work with our villages to enhance the dining experience for our residents. This initiative is in response to customer feedback which has reinforced the importance of food in bringing families together. It also offers Metlifecare's own qualified village chefs the opportunity to work with Simon to create signature dishes bearing his name, and further lift our food offering as a point of competitive advantage.

With its premium care offering, The Orchards has demonstrated high levels of latent demand for an enhanced standard of care accommodation. Within a year of opening, the care home is one of the company's best-performing in both occupancy levels and profitability. Similar offerings will be available at the new Somervale and Greenwich Gardens' care homes, which are currently on track to open mid-2017.

Following a comprehensive market research and brand development programme, new branding was unveiled in November 2016. Brand

activity has since been increased through enhanced promotions, public relations, digital strategy and village events – all of which aim to build profile, drive enquiries and support sales.

The six-month period also saw the expansion of Metlifecare's long-term maintenance plan into a 10-year village regeneration programme, and the company is now well advanced in a company-wide review to assess what is required. By the end of 2017, all villages will have a 10-year plan in place which focuses on ensuring that they remain competitive and able to meet the future demands and expectations of residents.

In terms of remediation, a comprehensive review of all at-risk villages has now been completed and the company has accordingly increased the estimate of future remediation costs by \$23.5 million in its financial statements. This is in addition to the \$20.6 million estimated at 30 June 2016 (excluding \$1.4 million of earthquake works) and will occur over a period of seven years.

The broader regeneration programme already has a number of initiatives under way. These include the replacement of a 19-unit apartment block with a modern 48-unit block at Pinesong in Titirangi. Another example is the recent announcement

of a planned village-wide regeneration at Pakuranga Village, including the replacement of the aging care home with a new state-of-the-art facility and further village-wide improvements to capture latent value. We are pleased with the progress being made in this area, as asset optimisation and protection are critical to our long-term sustainability and profitability.





Operating performance **SUMMARY**

ACCELERATED GROWTH	1H FY17	1H FY16	CHANGE
Development units delivered	97 77		26%
Development units sold	89 103		-14%
Development units sold (\$m)	56.8	60.3	-6%
Development units available at 31 December 2016	17 34		-50%
Development margin (%)	17	12	30%
Total land bank	1,647	1,647 2,184	
Retirement village units	1,260	1,580	-20%
Care beds	387	604	-36%
Average development sale price per unit (\$)	638,000	585,000	9%

Non-GAAP financial measures are used in this Report relating to development sales, resales and occupancy which primarily
assist the reader in understanding the volumes of units settled and the impact that development sales and resales had on
occupancy during the six months to 31 December 2016.

COMMERCIAL INTENSITY	1H FY17 1H FY16		CHANGE
Total occupancy (%)	97 96		1%
Resales units	175	200	-13%
Resales units (\$m)	79.2	82.5	-4%
Average resale price per unit (\$)	489,000	423,000	16%
Average realised resale gain per unit (\$)	151,000	111,000	36%

COMPETITIVE POSITIONING

Resident satisfaction* FY16	90%
Staff engagement* FY16	79%
Increased care offering	Opening two new care homes in 2017
Increased Health & Safety focus	Recently awarded NZ4801 certification

^{*}Metrics tracked annually and FY17 metrics will be disclosed in the Annual Report.



Directors' **REPORT**

The directors have pleasure in presenting the Interim Group Financial Statements for Metlifecare Limited on behalf of the Company for the half year ended 31 December 2016.

The Interim Group Financial Statements presented are signed for and on behalf of Metlifecare Limited and were authorised for issue on 27 February 2017.

K. R. Ellis Chair

27 February 2017

ABryan

A. B. Ryan Director 27 February 2017

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2016

	Half year ended	Half year ended
	31 December	31 December
\$000 Not	e 2016	2015
Income		
Operating revenue	53,899	51,958
Interest income	127	112
Total income	54,026	52,070
Change in fair value of investment properties 3	1 170,739	128,528
Share of profit arising from joint venture, net of tax	1,461	215
Expenses		
Employee costs	(20,814)	(21,744)
Property costs 2	1 (11,068)	(12,329)
Other expenses 2	1 (17,513)	(12,181)
Depreciation and impairment 2	1 (4,873)	(989)
Amortisation	(223)	(123)
Finance costs	(182)	(75)
Total expenses	(54,673)	(47,441)
Profit before income tax	171,553	133,372
Income tax expense	(6,578)	(7,681)
Profit for the period	164,975	125,691
Other comprehensive loss, net of tax	(836)	-
Total comprehensive income	164,139	125,691
Profit attributable to shareholders of the parent company	164,975	125,691
Total comprehensive income attributable to shareholders of the parent company	164,139	125,691
Profit per share for profit attributable to the equity holders of the company during the period		
Basic (cents)	77.1	
Diluted (cents)	77.1	59.2

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

Consolidated Statement of Movements in Equity

For the half year ended 31 December 2016

				Employee	
				Share	
	Contributed	Retained	Revaluation	Scheme	Total
\$000	Equity	Earnings	Reserve	Reserve	Equity
Six months to 31 December 2015					
Balance at 1 July 2015	303,695	598,850	8,238	657	911,440
•	ŕ	ŕ	,		,
Comprehensive income					
Profit for the period	-	125,691	-	-	125,691
Other comprehensive income	-	125 601	-	-	125 601
Total comprehensive income	-	125,691	-	-	125,691
Proceeds from shares issued	2,206	_	_	_	2,206
Employee share scheme	_,	_	_	249	249
Transfer from employee share					
scheme reserve on vesting	475	-	-	(475)	-
ŭ					
Dividends paid to shareholders	-	(6,366)	-	-	(6,366)
Balance at 31 December 2015	306,376	718,175	8,238	431	1,033,220
Six months to 31 December 2016					
Balance at 1 July 2016	306,376	817,671	8,285	635	1,132,967
Comprehensive income					
Profit for the period	-	164,975	-	-	164,975
Other comprehensive loss	-	-	(836)	-	(836)
Total comprehensive income	-	164,975	(836)	-	164,139
Employee share scheme	-	-	-	124	124
Transfer from employee share	518	_	-	(518)	-
scheme reserve on vesting				` '	
Dividends paid to shareholders	-	(8,515)	-	-	(8,515)
Balance at 31 December 2016	306,894	974,131	7,449	241	1,288,715

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

Consolidated Balance Sheet

As at 31 December 2016

		31 December	30 June	31 December
\$000	Note	2016	2016	2015
Assets				
Cash and cash equivalents		2,279	6,558	6,266
Trade receivables and other assets		8,036	9,548	9,553
Property, plant and equipment		41,172	36,424	32,852
Intangible assets		1,408	1,454	941
Investment properties	3.1	2,744,111	2,524,809	2,380,646
Investment in joint venture		8,857	7,651	7,645
Total assets		2,805,863	2,586,444	2,437,903
Liabilities				
Trade and other payables		23,064	31,347	45,224
Interest bearing liabilities		76,120	80,798	48,760
Deferred membership fees		99,058	93,520	89,481
Refundable occupation right agreements		1,218,990	1,154,136	1,134,907
Deferred tax liability		99,916	93,676	86,311
Total liabilities		1,517,148	1,453,477	1,404,683
Net assets		1,288,715	1,132,967	1,033,220
Equity				
Contributed equity	4.1	306,894	306,376	306,376
Revaluation reserve		7,449	8,285	8,238
Employee share scheme reserve		241	635	431
Retained earnings		974,131	817,671	718,175
Total equity		1,288,715	1,132,967	1,033,220

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

Consolidated Cash Flow Statement

For the half year ended 31 December 2016

\$000	Half year ended 31 December 2016	Half year ended 31 December 2015
Cash flows from operating activities		
Receipts from residents for membership fees, village and care fees	41,962	42,251
Receipts from residents for refundable occupation right agreements	135,927	142,831
Payments to residents for refundable occupation right agreements	(54,727)	(60,949)
Payments to suppliers and employees	(44,693)	(46,411)
Net GST received	678	436
Interest received	79	68
Interest paid	(196)	(184)
Net cash inflow from operating activities	79,030	78,042
Cash flows from investing activities		
Payments for property, plant and equipment	(8,857)	(628)
Payments for intangibles	(179)	(585)
Net advances to / (from) joint venture	2	(119)
Dividends received from joint venture	255	203
Proceeds on disposal of investment properties	1,203	_
Payments for investment properties	(61,111)	(54,676)
Capitalised interest paid	(1,334)	(1,778)
Net cash outflow from investing activities	(70,021)	(57,583)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	_	2,206
Dividends paid	(8,515)	(6,366)
Net repayment of borrowings	(4,773)	(11,227)
Net cash outflow from financing activities	(13,288)	(15,387)
Net (decrease) / increase in cash and cash equivalents	(4,279)	5,072
Cash and cash equivalents at the beginning of the period	6,558	1,194
Cash and cash equivalents at the end of the period	2,279	6,266

Reconciliation of Profit after Tax with Cash Inflow from Operating Activities

\$000		
Profit after tax	164,975	125,691
Adjustments for:		•
Change in fair value of investment properties	(170,739)	(128,528)
Change in the fair value of residents' share of capital gains	5,990	1,488
Employee share scheme	124	249
Depreciation and impairment	4,873	989
Amortisation	223	123
Deferred tax expense	6,566	7,671
Loss on disposal of property, plant and equipment	(1)	(1)
Share of profit arising from joint venture, net of tax	(1,461)	(215)
Changes in working capital relating to operating activities:		
Trade receivables and other assets	706	(298)
Trade and other payables	(886)	(1,618)
Deferred membership fees	5,538	5,258
Refundable occupation right agreements	63,122	67,233
Net cash inflow from operating activities	79,030	78,042

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

Notes to the Interim Financial Statements

1 GENERAL INFORMATION

1.1 Reporting entity

Metlifecare Limited ("the Company") and its subsidiaries (together "the Group") own and operate retirement villages in New Zealand. Metlifecare Limited is a limited liability company, incorporated and domiciled in New Zealand. The address of its registered office is Level 4, 20 Kent Street, Newmarket, Auckland 1023. The interim financial statements are for the consolidated group comprising Metlifecare Limited and its subsidiaries (together "the Group").

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

These financial statements have been approved for issue by the Board of Directors on 27 February 2017.

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 a period of 12 months from the date of signing 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

Metlifecare Limited is a company registered under the Companies Act 1993 and is an 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 listing rules.

These consolidated interim financial statements for the half year reporting period ended 31 December 2016 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalent to International Accounting Standard 34 and International Accounting Standard 34, Interim Financial Reporting.

The interim group financial statements do not include all the notes of the type normally included in the annual group financial statements. Accordingly, these consolidated interim group financial statements are to be read in conjunction with the annual group financial statements for the year ended 30 June 2016, prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The interim group financial statements for the six months ended 31 December 2016 and comparatives for the six months ended 31 December 2015 are unaudited. The interim group financial statements are presented in New Zealand Dollars (\$), which is the Group's functional and presentation currency. All financial information has been presented in thousands, unless stated otherwise.

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

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

All accounting policies that materially affect the measurement of the consolidated statement of comprehensive income, consolidated balance sheet and the consolidated cash flow statement have been applied on a basis consistent with those used in the audited financial statements for the year ended 30 June 2016.

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

There are no new standards or amendments to existing standards effective for the financial year ending 30 June 2017 which have a material impact on the Group.

2 OPERATING PERFORMANCE

2.1 Expenses

	Half year ended	Half year ended
	31 December	31 December
\$000	2016	2015
Profit before income tax includes the following expenses:		
Property costs		
Utilities and other property costs	5,427	5,545
Repairs and maintenance on investment properties	5,300	6,513
Repairs and maintenance on property, plant, furniture and equipment	341	271
Total property costs	11,068	12,329
Depreciation and impairment		
Depreciation and impairment Depreciation expense	1,130	989
Impairment of care homes	3,743	363
Total depreciation and impairment	4,873	989
Total depreciation and impairment	4,673	363
Other expenses		
Resident costs	2,771	2,908
Marketing and promotion	2,236	1,840
Other employment costs	1,536	1,527
Communication costs	1,163	996
Rental and operating lease expenses	275	223
Residents' share of capital gain	5,990	1,488
Other (no items of individual significance)	3,126	2,783
Fees paid to PricewaterhouseCoopers New Zealand		
Audit and review of financial statements	50	50
Other assurance related services		7
Tax compliance services	4	4
Advisory services on executive remuneration and directors' fees	-	28
Total fees paid to PricewaterhouseCoopers New Zealand	54	89
Directors' fees	362	328
Total other expenses	17,513	12,181
Total other experied	17,313	12,101

A decision has been made to close the care home at Metlifecare's Pakuranga village by 30 June 2017. Accordingly, the carrying value of the care home's buildings and fixtures have been written down in the period ended 31 December 2016 and an impairment of \$1.77m recognised.

The staged construction of the building at Metlifecare's Greenwich Gardens village, which includes the care home, is due to be practically complete in June 2017. The estimated allocation of the total cost of construction to the care home is expected to exceed the initial valuation of the care home on completion. Therefore an impairment of \$1.97m has been recognised in the period ended 31 December 2016.

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

Notes to the Interim Financial Statements

2 OPERATING PERFORMANCE (continued)

2.2 Underlying Profit before taxation

\$000	Half year ended 31 December 2016	Half year ended 31 December 2015
Profit for the period	164,975	125,691
Less: Change in fair value of investment properties	(170,739)	(128,528)
Add:		
Impairment of care homes	3,743	-
Realised resale gains	24,445	21,561
Realised development margin	9,600	7,113
Tax expense	6,578	7,681
Underlying Profit before taxation	38,602	33,518

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) Change in fair value of investment properties: unrealised non-cash valuation changes (refer to note 3.1).
- **(b) Impairment of care homes:** impairment associated with care home valuation changes are excluded as the Group is in the business of owning and operating care homes not constructing the asset for resale (refer to note 2.1).
- (c) 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.
- (d) 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.

Costs are estimated and 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.

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

3 INVESTMENT PROPERTY AND OTHER ASSETS

3.1 Investment Properties

\$000	Half year ended	Year ended	Half year ended
	31 December	30 June	31 December
	2016	2016	2015
Opening balance Capitalised subsequent expenditure Investment properties under development transferred to property, plant and equipment Investment properties disposed of Change in fair value recognised during the year	2,524,809	2,176,556	2,176,556
	50,905	132,344	75,562
	(1,111)	-	-
	(1,231)	(21,332)	-
	170,739	237,241	128,528
Closing balance	2,744,111	2,524,809	2,380,646

Investment properties are categorised as follows:

	31 December	30 June	31 December
\$000	2016	2016	2015
Development land measured at fair value	64,471	47,084	49,836
Retirement villages under development measured at cost	42,673	46,255	61,821
Retirement villages measured at fair value	2,636,967	2,431,470	2,268,989
Total investment properties	2,744,111	2,524,809	2,380,646

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.

CBRE performed a "roll forward" of the valuation that was completed at 30 June 2016 for the period from 1 July 2016 to 31 December 2016. This involved the Company confirming the movements in the sales, resales and repurchases of occupation right agreements during the period, an assessment by the valuer of the general market conditions and the provisions of the impact of the changes where appropriate on the completed value of investment properties. The "roll forward" provides an assessment by the valuer of the financial impact of the changes for the six month period since the most recent full valuation. CBRE will perform a full valuation as at 30 June 2017 which will be assessed and subject to audit.

Notes to the Interim 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.

CBRE undertook the valuation of all development land, except that for the period ended 31 December 2015 the Albany site at McClymonts Road was measured at cost which was considered a reasonable approximation of the fair value of this parcel of land given the date of acquisition and the proximity to the reporting date of 31 December 2015.

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	31 December 2016	30 June 2016	31 December 2015
Nominal growth rate - anticipated annual property price growth over the cash flow period 0 - 5 years	0% - 3.5%	0% - 3.5%	0% - 3.5%
Nominal compound growth rate - anticipated annual property price growth over the cash flow period > 5 years	2.2% - 3.2%	2.2% - 3.3%	1.8% - 3.4%
Pre-tax discount rate	12.3% - 15.8%	12.3% - 15.8%	12.3% - 16.5%

The occupancy period is a significant component of the CBRE valuation and is driven from a Monte Carlo simulation. The simulations are dependent on the demographic profile of the village (age and gender of residents) and 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 at each reporting date calculates the expected cash flows for a 20 year period with stabilised departing occupancy set out below.

	31 December	30 June	31 December
Stabilised departed occupancy - years	2016	2016	2015
Serviced apartments Independent living units	3.8 - 4.7 6.7 - 8.9	3.8 - 4.8 6.7 - 8.9	3.7 - 4.7 7.2 - 8.9

3 INVESTMENT PROPERTY AND OTHER ASSETS (continued)

3.1 Investment Properties (continued)

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 \$44.1m over a seven year period (30 June 2016: \$20.6m over a six year period; 31 December 2015: \$20.6m over a ten 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 its forecast cash flows the Group's expected costs associated with seismic strengthening works of \$1.4m (30 June 2016: \$1.2m; 31 December 2015: \$1.2m).

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:

	31 December	30 June	31 December
\$000	2016	2016	2015
Development land measured at fair value	64,471	47,084	49,836
Retirement villages under development measured at cost	42,673	46,255	61,821
Retirement villages	1,314,880	1,180,981	1,041,973
Investment properties at valuation	1,422,024	1,274,320	1,153,630
Plus: Refundable occupation right agreements	1,517,788	1,437,483	1,408,111
Plus: Residents' share of capital gains	33,469	30,590	30,153
Plus: Deferred membership fees	99,058	93,520	89,481
Less: Membership fees receivable	(325,333)	(307,781)	(297,430)
Less: Occupation right agreement receivables	(2,895)	(3,323)	(3,299)
Total investment properties	2,744,111	2,524,809	2,380,646

Borrowing costs of \$1.9m (2015: \$1.8m) arising from financing specifically entered into for the construction of investment properties under development were capitalised during the year. Average capitalisation rates of 3.76% pa (2015: 4.19% pa) were used, representing the borrowing costs of the loans used to finance the projects.

Notes to the Interim Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING

4.1 Contributed Equity

Shares	Half year ended	Year ended	Half year ended
	31 December	30 June	31 December
	2016	2016	2015
Issued and fully paid up capital			
Balance at beginning of the period	212,882,855	212,190,658	212,190,658
Shares issued net of transactions costs	123,792	692,197	692,197
Shares cancelled	(738)	-	-
Balance at end of period	213,005,909	212,882,855	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.

Treasury shares at 31 December 2016 of 320,319 (30 June 2016: 510,675; 31 December 2015: 510,675) 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.

	Half year ended	Year ended	Half year ended
	31 December	30 June	31 December
\$000	2016	2016	2015
Issued and fully paid up capital			
Balance at beginning of the period	306,376	303,695	303,695
Shares issued	518	2,681	2,681
Balance at end of period	306,894	306,376	306,376
	31 December	30 June	31 December
Net tangible assets per share	2016	2016	2015
	·		
Net tangible assets per share - basic (\$)	6.04	5.32	4.85

5 OTHER DISCLOSURES

5.1 Segment information

The Group operates in one operating segment. The chief operating decision maker ("the Board"), reviews the operating results on a regular basis and makes decisions on resource allocation based on the review of Group results. The Board makes resource allocation decisions on the basis of expected cash flows and the results of the Group as a whole.

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

Information about major customers

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

The Group derives care fee revenue in respect of eligible Government subsidised aged care residents who receive rest home or hospital level care. Government aged care subsidies received from the Ministry of Health included in rest home, hospital and service fees, and villages fees amounted to \$5.5m (31 December 2015: \$5.9m). There are no other individually significant customers.

5.2 Contingencies

Contingent liabilities

There are no material contingent liabilities as at 31 December 2016 (30 June 2016; nil. 31 December 2015; nil).

5.3 Commitments

\$000	31 December 2016	30 June 2016	31 December 2015
Capital commitments Estimated commitments contracted for at balance date but not provided for to purchase, construct or develop investment properties	53,948	21,542	68,424
	53,948	21,542	68,424

5.4 Subsequent Events

On 27 February 2017, the directors approved an unimputed dividend of 2.25 cents per share amounting to \$4.8m. The dividend record date is 17 March 2017 with payment to be made on 31 March 2017.



Independent review report

to the shareholders of Metlifecare Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Metlifecare Limited (the "Company") and its controlled entities (the "Group") on pages 30 to 42, which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated cash flow statement for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Our responsibility

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

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax compliance and other agreed upon procedures related to the audit. The provision of these other services has not impaired our independence.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on distribution or use

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

For and on behalf of:

Chartered Accountants

27 February 2017

Auckland

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The Avenues	Cnr Tenth Avenue & Devonport Road, Tauranga	Ph 07 571 0400
Bayswater	60 Maranui Street, Mt Maunganui	Ph 07 547 4047
Coastal Villas	Spencer Russell Drive, Paraparaumu	Ph 04 296 6333
Crestwood	38 Golf Road, New Lynn, Auckland	Ph 09 826 2000
Dannemora Gardens	30 Matarangi Road, Botany Downs, Auckland	Ph 09 272 2467
Forest Lake Gardens	2 Minogue Drive, Te Rapa, Hamilton	Ph 07 849 8243
Greenwich Gardens	5 Greenwich Way, Unsworth Heights, Auckland	Ph 09 440 6790
Greenwood Park	10 Welcome Bay Road, Welcome Bay, Tauranga	Ph 07 544 7500
Hibiscus Coast Village	101 Red Beach Road, Red Beach	Ph 09 421 9718
Hillsborough Heights	1381 Dominion Road Extension, Mt Roskill, Auckland	Ph 09 626 8060
Highlands	49 Aberfeldy Avenue, Highland Park, Auckland	Ph 09 533 0600
Kapiti Village	1 Henley Way, Paraparaumu	Ph 04 296 1790
Longford Park Village	1 Longford Park Drive, Takanini, Auckland	Ph 09 295 0040
The Orchards	123 Stanley Road, Glenfield, Auckland	Ph 09 444 4010
Oakridge Villas	30 Oakridge Drive, Kerikeri	Ph 09 407 8549
Pakuranga Village	14 Edgewater Drive, Pakuranga, Auckland	Ph 09 577 1600
Palmerston North Village*	Cnr Carroll & Fitchett Streets, Palmerston North	Ph 06 350 6400
Papamoa Beach Village	Cnr Parton Road & Te Okuroa Drive, Papamoa	Ph 07 542 1933
Powley	135 Connell Street, Blockhouse Bay, Auckland	Ph 09 627 0700
The Poynton	142 Shakespeare Road, Takapuna, Auckland	Ph 09 488 5700
Pinesong	66 Avonleigh Road, Titirangi, Auckland	Ph 09 817 1800
Somervale	33 Gloucester Road, Mt Maunganui	Ph 07 572 9020
7 Saint Vincent	7 St Vincent Avenue, Remuera, Auckland	Ph 09 524 1420
Waitakere Gardens	15 Sel Peacock Drive, Henderson, Auckland	Ph 09 837 0512

metlifecare.co.nz

Metlifecare **DIRECTORY** as at March 2017

Directors

Kim Ellis - Chair Chris Aiken Kevin Baker Alistair Ryan William Smales Carolyn Steele Dr Noeline Whitehead

Executive Team

Glen Sowry Chief Executive Officer

Charlie Anderson General Manager Property & Development

Tanya Bish Clinical Nurse Director

Richard Callander General Manager Operations

Huma Houghton (Commenced 12 January 2017) General Manager Human Resources

Jan Martin

General Manager Sales

Andrew Peskett General Counsel & Company Secretary

Blanka Ros

General Manager Marketing

Tristram van der Meijden Chief Financial Officer

Registered Office (New Zealand)

Level 4, 20 Kent Street Newmarket, Auckland 1023

Postal Address: PO Box 37463 Parnell, Auckland 1151 Telephone: 09 539 8000

Facsimile: 09 539 8001

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Registered Office (Australia)

Level 61. Governor Philip Tower 1 Farrer Place, Sydney NSW 2000. Australia

Telephone: +61 2 9296 2000 Facsimile: +61 2 9296 3999

Share Registrar New Zealand

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road. Takapuna, Auckland 0622 Postal Address: Private Bag 92119 Victoria Street West, Auckland 1142

Investor Enquiries: Telephone: 09 488 8700

computershare.co.nz/investorcentre

Share Registrar Australia

Computershare Investor Services Pty Limited

Postal Address: GPO Box 2975 Melbourne, Victoria 3001, Australia

Investor Enquiries:

Telephone: +61 03 9415 4062 enquiry@computershare.co.nz

Auditor

PricewaterhouseCoopers

PwC Tower 188 Quay Street, Auckland 1142

Bankers

ANZ Bank New Zealand Limited Bank of New Zealand **ASB Bank Limited** Westpac New Zealand Limited

Solicitors

Chapman Tripp

Minter Ellison Rudd Watts

King & Wood Mallesons (Australian legal advisors)

Stock Exchange Listings

NZX Main Board

ASX Official List

- ASX Foreign Exempt Listing

^{*} Palmerston North Village is owned by Metlifecare Palmerston North Limited, a joint venture company 50% owned by Metlifecare Limited.

