

2018 Interim Report 
Metlifecare

**FORGING
AHEAD**



Greenwich Gardens - next stage
Artist Impression

6 MARCH 2018

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FIRST HALF FY18 HIGHLIGHTS

Net profit
after tax
\$56.4m

Underlying
operating cashflow¹
\$18.0m

Net tangible assets
per share
\$6.63

New units and
beds delivered
94

New village site
acquired*
1

Care Homes
opened
2

On track to deliver 254
units by 30 June 2018

Orion Point, Hobsonville
*conditional

Greenwich Gardens
and Somervale

Total assets
\$3,082.5m

Embedded value per unit²
\$277k

Development margin³
30%

Dividend
3.25 cents

1. Underlying operating cash flow removes the cash flows derived from the first time sale of occupation right agreements from statutory operating activities in the financial statements. Development sales cash flows are used to repay debt so underlying operating cash flow excluding development sales is a measure of the free cash flows. Underlying operating cash flow also excludes cash outflows associated with units bought back by the company to enable remediation and regeneration activities. These cash outflows are of an abnormal and temporary nature and will reverse in subsequent periods.

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 Management Fee receivable. The value of the Deferred Management 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.

3. Refer note 2.2 of the Financial Statements.

CHAIR & CEO REVIEW



Welcome to Metlifecare's interim report for the first half of the 2018 financial year. Your Board is pleased to report a solid financial result for the six months to 31 December 2017, driven by further gains in the fair value of assets, and continued strong margin uplift on sales and resales.

We are on track to meet our 2018 development delivery targets. During the six months under review, we have made excellent progress on a number of strategic initiatives which will enable Metlifecare to deliver sustained growth, while maintaining a strong competitive position.

Highlights for the half-year period included the opening of two new care homes, the settlement of a new village site at Botany, East Auckland, and the conditional purchase of a new village site in Hobsonville, West Auckland. Demand for our villages remains strong, as evidenced by continued high levels of occupancy in independent living units (98%) and care homes (93%).⁵

Financial review

Metlifecare recorded a reported net profit after tax of \$56.4 million, 66% lower than last year's \$165.0 million, primarily due to asset valuation growth returning to levels more reflective of long term averages. The unrealised fair value movement of investment properties was \$59.8 million during the period, compared to \$170.7 million during the first half of the previous year.

The company's total assets grew by 10% to \$3.1 billion, and net tangible assets per share were \$6.63, also 10% higher than last year.

Underlying operating cash flow, which excludes sales proceeds from development units, was \$18.0 million.

Underlying profit before tax⁴, which removes non-cash items from Metlifecare's earnings, was \$36.2 million, with improved revenue driven by increased village fees, realised resale gains, deferred management fees and care revenue. The impact of these gains was, however, offset by lower unit sales volumes during the period, partly driven by the buyback of 41 units by the company, largely for the temporary rehousing of residents during village remediation and regeneration activities.

The company also incurred higher operating expenses during the period, including the costs associated with village expansion, increased investments in property remediation and maintenance and the addition of further development capability and capacity to deliver the accelerated growth programme.

The first half was highlighted by excellent progress in the implementation of our growth strategy, including the opening of two new care homes and the acquisition of a prime village development site

**GROWTH
STRATEGY
ON TARGET**

\$56.4m

NET
PROFIT

\$18.0m

UNDERLYING
OPERATING
CASHFLOW

\$3,082.5m

TOTAL
ASSETS

\$6.63

NTA PER
SHARE

4. A non-GAAP measure defined on P29.

5. Excluding the new care homes at Greenwich Gardens and Somervale.

These are viewed by Metlifecare as necessary investments to support the company's strategic growth objectives and will deliver longer-term shareholder value.

Other non-cash expenses reduced during the period, including a \$3.5 million reduction in residents' share of capital gains. Impairment charges were \$3.5 million lower than last year.

Embedded value is a key indicator of the potential future cash flow of the portfolio generated from resale gains and deferred management fees. In the half-year ended 31 December 2017, Embedded value increased to \$1.1 billion in total or \$277k per unit, 10% ahead of the same period last year.

Investment in our villages continued

The additional investment during the period contributed to the increase in net debt of \$65.2 million, bringing total debt to \$141.3 million. The company's balance sheet remains strong with gearing⁶ levels of 9%, and continues to provide ample headroom to fund future construction and development activity as well as providing a buffer in the event of softening market conditions.

Dividend

Consistent with Metlifecare's guideline to pay out 30% to 50% of underlying operating cash flows, the Board has declared an interim dividend of 3.25 cents per share for the six-month period ended 31 December 2017. The dividend is un-imputed and will be paid on 29 March 2018, with a record date of 15

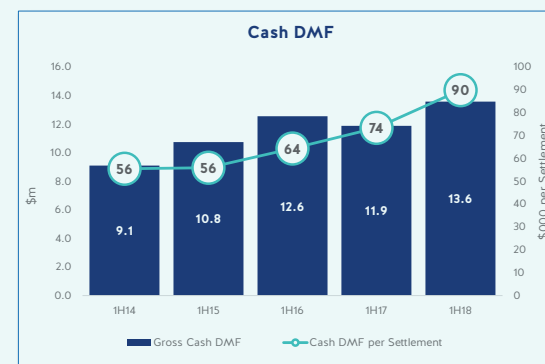
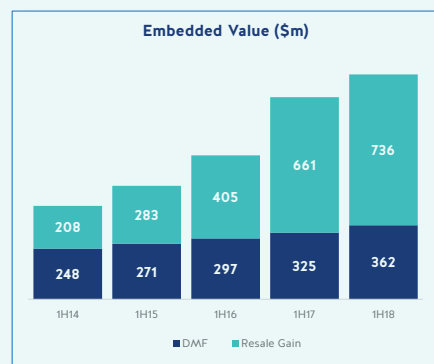
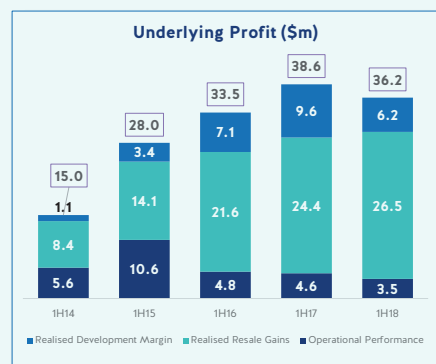
Development and operations

We are firmly on track to meet our increased development delivery targets this year and in the future. Continued strengthening of the development team during the period has significantly enhanced our in-house development capability and capacity, and we have also completed the implementation of robust contractor management programmes to ensure quality, speed of delivery, risk management and health and safety requirements are all strictly met.

This investment has also enabled the development team to further advance a range of long-term maintenance and refurbishment initiatives which will see our villages being refreshed, modernised and future-proofed over the next few

With housing market prices holding relatively firm, we achieved an average realised resale gain of \$175k per settlement, 16% higher than last year; and an average development margin of 30%, up from 17% last year.

These gains have, however, been offset by lower than expected sales volumes due to the slowing momentum of the housing market as well as the temporary removal of 41 units across three villages for remediation and regeneration work. Housing market sales volumes were down by approximately 20% in our village regions, due to a range of factors during the period which included an extended wet winter and the uncertainty of the general election. Settlement times were impacted by the length of time taken by



to increase in line with the accelerated construction, development and village maintenance programmes, and the company settled the acquisition of the new Botany site in East Auckland.

March 2018. In keeping with recent years, the dividend reinvestment plan does not apply for this dividend.

years to meet the increasing expectations of our future customers.

Demand for our villages has remained strong, with village occupancy (including contracted stock) remaining high at 98%.

new residents to sell their own houses.

People

We would like to acknowledge and thank Metlifecare's staff, management

6. Net Interest Bearing Liabilities/Net Interest Bearing Liabilities + Equity

and contractors for their efforts and ongoing commitment to enhance the lives of our residents across all aspects of our organisation. As part of our philosophy of continuous improvement, the company is continuing to invest in programmes that build organisational capability and enable our people to excel at their jobs, both now and in the future.

Consistent with our aim of providing a second-to-none customer experience, the first half saw an intense focus on staff training to support the introduction of new Customer Service Principles and the new Resident-directed care approach, with both programmes resulting in improved staff engagement and customer service.

We have also made significant progress in health and safety during the period, with a number of initiatives designed to ensure health and safety principles are at the forefront of all company operations. The period under review saw the engagement of an independent health and safety auditor to provide greater rigour in construction auditing and other internally-led health and safety leadership initiatives. We have been pleased to see improvements already in proactive health and safety behaviours and reporting across the company as a result of these initiatives.

Outlook

Around eighteen months ago we shared our growth strategy with investors, and since that time the

company has been working at pace to implement the strategy. This has included the decision to invest in modernising our villages and strengthening our competitive position. We are confident that this investment will achieve benefits for existing and future customers and our shareholders. The quality and location of our villages, in demographically attractive areas with high median house prices, remains a key strength, along with the quality of the service we provide to our customers on a daily basis.

Market conditions have firmed since December 2017. The company has signed more sales and resales applications for settlement in 2H18 than at the equivalent time last year.

The planned buyback of units for the remediation programme is now largely complete. These units will be returned to the market in due course.

The company expects to deliver a stronger second half performance. Underlying operating cash flow and underlying profit are expected to be in line with FY17 for the full year.



Kim Ellis
Chair



Glen Sowry
CEO



FINANCIAL SUMMARY

	1H FY18	1H FY17
FINANCIAL PERFORMANCE		
Net profit after tax (m)	\$56.4	\$165.0
Underlying Operating cash flow (m)	\$18.0	\$22.3
Fair value movement during period (m)	\$59.8	\$170.7
Underlying profit (m)	\$36.2	\$38.6
Dividend (cps)	3.25	2.25
FINANCIAL POSITION		
Total assets (m)	\$3,082.5	\$2,805.9
Total equity (m)	\$1,414.2	\$1,288.7
Borrowings (m)	\$141.3	\$76.1
Gearing ratio	9%	6%
Net tangible assets per share	\$6.63	\$6.04
Embedded value per unit (000)	\$277	\$251

OUR STRATEGIC GOALS

Accelerated
GROWTH

Commercial
INTENSITY

Customer
EXPERIENCE

Metlifecare will leverage the strengths of its portfolio and operating model to create future value, with particular focus on the following areas

ACCELERATED GROWTH

Our accelerated development programme in high-growth, strong-yield locations, will be achieved through targeted growth with a focus on:

1. A land acquisition strategy with clear investment parameters, targeting optimal locations and opportunities

At least one new site acquired	New Orion Point site*	*Conditional
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2. A robust and scalable development strategy matched by strong development capability

254 new units and beds delivered	94 units and beds delivered	On track to achieve 254 target
Development team with strong in-house capability	Management strengthening of development team	Complete

3. Optimised supply chain management and construction delivery

Minimum 15% margin on development units	30% margin achieved	On track
Contractor management and prequalification framework	In place	In progress
Rigorous audit process	Independent auditor appointed	In progress

OUR STRATEGIC GOALS

COMMERCIAL INTENSITY

We will capture maximum value from our existing portfolio through:

1. Superior sales capability and market knowledge		
Pricing uplift over list price/market average	4% achieved	On track

2. A fit-for-purpose refurbishment programme		
Reduced refurbishment turnaround times	Further reduction in turnaround days vs FY17	On track

OUR STRATEGIC GOALS

CUSTOMER EXPERIENCE

Our diverse and unique villages are underpinned by a high level of care and service, through:

1. Villages designed to integrate with their local communities and enhance our residents' experience

New homestead-style care homes opened at Greenwich Gardens and Somervale	Occupancy of new care homes ahead of target	On track
Enhancement and modernisation of common areas in identified villages	Investment in 9 villages including 4 lounges + 2 Hair Salons	On track

2. Highly engaged and qualified staff

Comprehensive training programmes to raise the bar on the customer experience	Customer Service Principles developed with staff training	Complete
New company-wide health and safety frameworks and processes introduced	Improved reporting and behaviour outcomes	On track
Collective bargaining agreement, including pay equity	Ratified November 2017	Complete
Staff sourcing and attraction strategy	Strategy complete	In progress

3. Understanding and meeting the needs of existing and future residents

New ORA terms (informed by resident input)	Announced February 2018	Complete
Resident-directed care philosophy provided throughout all our villages	In place across all villages with care services	Complete
Care cluster strategy for villages without care homes	In place	In progress

4. A significantly enhanced food and dining experience

Simon Gault training to upskill in food presentation and preparation, new menus	Completed for all kitchen teams	Complete
New texture-modified foods for care home residents on restricted diets	Across all villages	In progress
Increased dining facility use by residents and families	Extended hours in several villages	In progress



GROUP FINANCIAL STATEMENTS

for the half year ended
31 December 2017

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 2017.

The Interim Group Financial Statements presented are signed for and on behalf of Metlifecare Limited and were authorised for issue on 26 February 2018.



K. R. Ellis
Chair
26 February 2018



A. B. Ryan
Director
26 February 2018

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2017

\$000	Note	Half year ended 31 December 2017 Unaudited	Half year ended 31 December 2016 Unaudited
Income			
Operating revenue		56,501	53,899
Interest income		83	127
Total income		56,584	54,026
Change in fair value of investment properties	3.1	59,750	170,739
Share of profit arising from joint venture, net of tax		783	1,461
Expenses			
Employee costs		(23,840)	(20,814)
Property costs	2.1	(12,532)	(11,068)
Other expenses	2.1	(13,137)	(11,523)
Residents' share of capital gains		(2,454)	(5,990)
Depreciation and impairment	2.1	(1,739)	(4,873)
Amortisation		(315)	(223)
Finance costs		(18)	(182)
Total expenses		(54,035)	(54,673)
Profit before income tax		63,082	171,553
Income tax expense		(6,725)	(6,578)
Profit for the period		56,357	164,975
Other comprehensive loss, net of tax		-	(836)
Total comprehensive income		56,357	164,139
Profit attributable to shareholders of the parent company		56,357	164,975
Total comprehensive income attributable to shareholders of the parent company		56,357	164,139
Profit per share for profit attributable to the equity holders of the company during the period			
Basic (cents)		26.5	77.1
Diluted (cents)		26.5	77.1

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 2017

\$000	Contributed Equity	Retained Earnings	Revaluation Reserve	Employee Share Scheme Reserve	Total Equity
Half year ended 31 December 2016					
Balance at 1 July 2016 (audited)	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 scheme reserve on vesting	518	-	-	(518)	-
Dividends paid to shareholders	-	(8,515)	-	-	(8,515)
Balance at 31 December 2016 (unaudited)	306,894	974,131	7,449	241	1,288,715
Half year ended 31 December 2017					
Balance at 1 July 2017 (audited)	306,895	1,055,906	7,009	378	1,370,188
Comprehensive income					
Profit for the period	-	56,357	-	-	56,357
Other comprehensive loss	-	-	-	-	-
Total comprehensive income	-	56,357	-	-	56,357
Employee share scheme	-	-	-	57	57
Transfer from employee share scheme reserve on vesting	66	-	-	(66)	-
Dividends paid to shareholders	-	(12,354)	-	-	(12,354)
Balance at 31 December 2017 (unaudited)	306,961	1,099,909	7,009	369	1,414,248

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

Consolidated Balance Sheet

As at 31 December 2017

\$000	Note	31 December 2017 Unaudited	30 June 2017 Audited	31 December 2016 Unaudited
Assets				
Cash and cash equivalents		2,768	2,933	2,279
Trade receivables and other assets		10,357	8,766	8,036
Property, plant and equipment		52,443	48,246	41,172
Intangible assets		1,252	1,453	1,408
Investment properties	3.1	3,005,728	2,889,369	2,744,111
Investment in joint venture		9,981	9,825	8,857
Total assets		3,082,529	2,960,592	2,805,863
Liabilities				
Trade and other payables		26,523	49,893	23,064
Interest bearing liabilities	4.2	141,276	72,632	76,120
Deferred membership fees		109,754	104,613	99,058
Refundable occupation right agreements		1,280,934	1,260,187	1,218,990
Deferred tax liability		109,794	103,079	99,916
Total liabilities		1,668,281	1,590,404	1,517,148
Net assets		1,414,248	1,370,188	1,288,715
Equity				
Contributed equity	4.1	306,961	306,895	306,894
Revaluation reserve		7,009	7,009	7,449
Employee share scheme reserve		369	378	241
Retained earnings		1,099,909	1,055,906	974,131
Total equity		1,414,248	1,370,188	1,288,715

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 2017

	Half year ended 31 December 2017 Unaudited	Half year ended 31 December 2016 Unaudited
\$000		
Cash flows from operating activities		
Receipts from residents for membership fees, village and care fees	43,854	41,962
Receipts from residents for sale of new refundable occupation right agreements	20,273	56,755
Receipts from residents for resale of refundable occupation right agreements	80,690	79,172
Payments to residents for refundable occupation right agreements	(54,211)	(54,727)
Payments to suppliers and employees	(53,332)	(44,693)
Net GST received	970	678
Interest received	31	79
Interest paid	(20)	(196)
Buyback costs for off-market units associated with regeneration and remediation	(11,093)	(4,254)
Net cash inflow from operating activities	27,162	74,776
Cash flows from investing activities		
Payments for property, plant and equipment	(5,981)	(8,857)
Payments for intangibles	(110)	(179)
Net advances (from) / to joint venture	(136)	2
Dividends received from joint venture	625	255
Proceeds from disposal of investment property	-	1,203
Payments for investment properties	(75,612)	(56,857)
Capitalised interest paid	(2,398)	(1,334)
Net cash outflow from investing activities	(83,612)	(65,767)
Cash flows from financing activities		
Dividends paid	(12,354)	(8,515)
Net proceeds from / (repayment of) borrowings	68,639	(4,773)
Net cash inflow / (outflow) from financing activities	56,285	(13,288)
Net decrease in cash and cash equivalents	(165)	(4,279)
Cash and cash equivalents at the beginning of the period	2,933	6,558
Cash and cash equivalents at the end of the period	2,768	2,279
Reconciliation of Profit after Tax with Cash Inflow from Operating Activities		
\$000		
Profit after tax	56,357	164,975
Adjustments for:		
Change in fair value of investment properties	(59,750)	(170,739)
Change in the fair value of residents' share of capital gains	2,454	5,990
Employee share scheme	57	124
Depreciation and impairment	1,739	4,873
Amortisation	315	223
Deferred tax expense	6,715	6,566
Loss / (Gain) on disposal of property, plant and equipment	5	(1)
Share of profit arising from joint venture, net of tax	(783)	(1,461)
Changes in working capital relating to operating activities:		
Trade receivables and other assets	(731)	706
Trade and other payables	(2,650)	(886)
Deferred membership fees	5,141	5,538
Refundable occupation right agreements	18,293	58,868
Net cash inflow from operating activities	27,162	74,776

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 26 February 2018.

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 a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the NZX Main Board (NZX) and the Australian Securities Exchange (ASX) as a Foreign Exempt Listing. The group financial statements have been prepared in accordance with the requirements of the NZX listing rules and where required, the ASX listing rules.

These consolidated interim financial statements for the half year reporting period ended 31 December 2017 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 2017, 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 2017 and comparatives for the six months ended 31 December 2016 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. Buyback costs for off-market units associated with regeneration and remediation reflect the settlement of existing occupation right agreements and have been determined to be operating cash flows in nature. \$4.254m of buyback costs have been reclassified in the prior period from investing activities to operating activities in the consolidated cash flow statement.

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 2017.

Notes to the Interim Financial Statements

2 OPERATING PERFORMANCE

2.1 Expenses

	Half year ended 31 December 2017 Unaudited	Half year ended 31 December 2016 Unaudited
Profit before income tax includes the following expenses:		
<i>Property costs</i>		
Utilities and other property costs	6,093	5,427
Repairs and maintenance on investment properties	5,988	5,300
Repairs and maintenance on property, plant, furniture and equipment	451	341
Total property costs	12,532	11,068
<i>Depreciation and impairment</i>		
Depreciation expense	1,530	1,130
Impairment of care homes	209	3,743
Total depreciation and impairment	1,739	4,873
<i>Other expenses</i>		
Resident costs	3,248	2,771
Marketing and promotion	2,653	2,236
Other employment costs	1,484	1,536
Communication costs	1,376	1,163
Rental and operating lease expenses	286	275
Other (no items of individual significance)	3,658	3,126
<i>Fees paid to PricewaterhouseCoopers New Zealand</i>		
Audit and review of financial statements	40	50
Tax compliance services	5	4
Advisory services - procurement processes	23	-
Total fees paid to PricewaterhouseCoopers New Zealand	68	54
Directors' fees	364	362
Total other expenses	13,137	11,523

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

Metlifecare's Pakuranga village care home was closed in the year ended 30 June 2017. Accordingly, the carrying value of the care home's buildings and fixtures were 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, was practically complete in June 2017. The estimated allocation of the total cost of construction to the care home exceeded the initial valuation of the care home on completion. Therefore an impairment of \$1.97m was 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

	Half year ended 31 December 2017 Unaudited	Half year ended 31 December 2016 Unaudited
Profit for the period	56,357	164,975
<i>Less:</i>		
Change in fair value of investment properties	(59,750)	(170,739)
<i>Add:</i>		
Impairment of care homes	209	3,743
Realised resale gains	26,479	24,445
Realised development margin	6,180	9,600
Tax expense	6,725	6,578
Underlying Profit before taxation	36,200	38,602

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.

Margins are calculated based on when a stage is completed.

Construction costs, land and infrastructure, non-recoverable GST and capitalised interest associated with common areas (including management offices), amenities and any care homes are excluded from the costs above when the development margin is calculated.

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

Notes to the Interim Financial Statements

3 INVESTMENT PROPERTY AND OTHER ASSETS

3.1 Investment Properties

	Half year ended 31 December 2017 Unaudited	Year ended 30 June 2017 Audited	Half year ended 31 December 2016 Unaudited
Opening balance	2,889,369	2,524,809	2,524,809
Capitalised subsequent expenditure	56,609	115,595	50,905
Investment properties under development transferred to property, plant and equipment	-	(3,245)	(1,111)
Investment properties disposed of	-	(6,547)	(1,231)
Change in fair value recognised during the period	59,750	258,757	170,739
Closing balance	3,005,728	2,889,369	2,744,111

Investment properties are categorised as follows:

	31 December 2017 Unaudited	30 June 2017 Audited	31 December 2016 Unaudited
Development land measured at fair value	86,969	84,463	64,471
Retirement villages under development measured at cost	74,450	36,879	42,673
Retirement villages measured at fair value	2,844,309	2,768,027	2,636,967
Total investment properties	3,005,728	2,889,369	2,744,111

Investment properties

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

Valuation processes

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

The movement in the carrying value of investment properties, net of disposals and additions to investment properties 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 2017 for the period from 1 July 2017 to 31 December 2017. This involved the Group confirming the movements in the sales, resales and repurchases of occupation right agreements during the period, an assessment by the valuer of the general market conditions and the provisions of the impact of the changes where appropriate on the completed value of investment properties. The "roll forward" provides an assessment by the valuer of the financial impact of the changes for the six month period since the most recent full valuation. CBRE will perform a full valuation as at 30 June 2018.

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 planned or economic, to expand the village and has assessed a value accordingly. This latter value, whilst identified as surplus land value, cannot be independently captured.

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

Retirement villages under development measured at cost

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

Retirement villages measured at fair value

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

Unobservable Input	31 December 2017	30 June 2017	31 December 2016
Nominal growth rate - anticipated annual property price growth over the cash flow period 0 - 5 years	0% - 3.5%	0% - 3.5%	0% - 3.5%
Nominal compound growth rate - anticipated annual property price growth over the cash flow period > 5 years	2.6% - 3.1%	2.6% - 3.1%	2.2% - 3.2%
Pre-tax discount rate	12.5% - 15.5%	12.5% - 15.5%	12.3% - 15.8%

The occupancy period is a significant component of the CBRE valuation and is driven from a Monte Carlo simulation. The simulations are dependent on the demographic profile of the village (age and gender of residents) and the reason for departing a unit. The resulting stabilised departing occupancy period is an estimate of the long run occupancy term for residents. An increase in the stabilised departing occupancy period will have a negative impact on the valuation and a decrease in the stabilised departing occupancy will have a positive impact on the valuation.

The valuation calculates the expected cash flows for a 20 year period with stabilised departing occupancy set out below.

	31 December 2017	30 June 2017	31 December 2016
Stabilised departing occupancy - years			
Serviced apartments	3.8 - 4.7	3.5 - 4.7	3.8 - 4.7
Independent living units and apartments	6.7 - 8.8	6.7 - 8.9	6.7 - 8.9

Notes to the Interim Financial Statements

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 \$47.4m over a six year period (30 June 2017: \$44.1m over a six year period; 31 December 2016: \$44.1m over a seven year period). The increase in the allowance for remediation works reflects updated estimates of the remaining cost of the required works. The estimates are based on currently available information.

CBRE has also included within its forecast cash flows the Group's expected costs associated with seismic strengthening works of \$1.4m (30 June 2017: \$1.4m; 31 December 2016: \$1.4m).

Other relevant information

The valuation of investment properties is adjusted for cash flows relating to refundable occupation right agreements, residents' share of capital gains, deferred 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 2017	30 June 2017	31 December 2016
\$000	Unaudited	Audited	Unaudited
Development land measured at fair value	86,969	84,463	64,471
Retirement villages under development measured at cost	74,450	36,879	42,673
Retirement villages measured at fair value	1,447,356	1,398,941	1,314,880
Investment properties at valuation	1,608,775	1,520,283	1,422,024
Plus: Refundable occupation right agreements	1,617,846	1,577,075	1,517,788
Plus: Residents' share of capital gains	34,722	35,193	33,469
Plus: Deferred membership fees	109,754	104,613	99,058
Less: Membership fees receivable	(361,859)	(344,433)	(325,333)
Less: Occupation right agreement receivables	(3,510)	(3,362)	(2,895)
Total investment properties	3,005,728	2,889,369	2,744,111

Borrowing costs of \$2.2m (30 June 2017: \$3.8m; 31 December 2016: \$1.9m) arising from financing specifically entered into for the construction of investment properties under development were capitalised during the year. Average capitalisation rates of 3.50% pa (30 June 2017: 3.6%; 31 December 2016: 3.76% 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

	Half year ended 31 December 2017	Year ended 30 June 2017	Half year ended 31 December 2016
Shares	Unaudited	Audited	Unaudited
Issued and fully paid up capital			
Balance at beginning of the period	213,005,909	212,882,855	212,882,855
Shares issued net of transactions costs	126,381	123,792	123,792
Shares cancelled	-	(738)	(738)
Balance at end of period	213,132,290	213,005,909	213,005,909

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 2017 of 420,401 (30 June 2017: 320,319; 31 December 2016: 320,319) 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 31 December 2017	Year ended 30 June 2017	Half year ended 31 December 2016
\$000	Unaudited	Audited	Unaudited
Issued and fully paid up capital			
Balance at beginning of the period	306,895	306,376	306,376
Shares issued	66	519	518
Balance at end of period	306,961	306,895	306,894
	31 December 2017	30 June 2017	31 December 2016
Net tangible assets per share	Unaudited	Audited	Unaudited
Net tangible assets per share (basic)	\$6.63	\$6.43	\$6.04

Notes to the Interim Financial Statements

4 SHAREHOLDERS' EQUITY AND FUNDING (continued)

4.2 Interest Bearing Liabilities

The bank loans comprises 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 15 December 2017 the bank facilities were renegotiated and extended. The maturities of the Core Revolving Credit Facility of \$175m (30 June 2017 & 31 December 2016: \$75m), the Development Facility of \$175m (30 June 2017 & 31 December 2017: \$175m) and the Working Capital Facility of \$2.0m (30 June 2017 & 31 December 2017: \$2.0m) are detailed below.

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

	31 December 2017	31 December 2017	30 June 2017	31 December 2016
\$000	Facility Limit	Unaudited	Audited	Unaudited
Core Facility	175,000	52,000	8,400	26,500
Development Facility	175,000	89,541	64,502	49,471
Working Capital Facility	2,000	-	-	-
Total	352,000	141,541	72,902	75,971
Contractual maturity and drawn amounts				
On demand	2,000	-	-	-
1 - 2 years	83,333	83,333	66,733	74,471
2 - 3 years	83,333	56,208	6,168	1,500
Later than 3 years	183,334	2,000	-	-
Total	352,000	141,541	72,902	75,971

Notes to the Interim Financial Statements

5 OTHER DISCLOSURES

5.1 Segment information

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

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

Information about major customers

Included in total income are operating revenues derived from the 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 \$4.7m (31 December 2016: \$5.5m). There are no other individually significant customers.

5.2 Contingencies

Contingent liabilities

There are no material contingent liabilities as at 31 December 2017 (30 June 2017: nil, 31 December 2016: nil).

5.3 Commitments

	31 December 2017	30 June 2017	31 December 2016
\$000	Unaudited	Audited	Unaudited
Capital commitments			
Estimated commitments contracted for at balance date but not provided for to purchase, construct or develop investment properties	31,361	47,989	53,948
	31,361	47,989	53,948

5.4 Subsequent Events

On 26 February 2018, the directors approved an unimputed dividend of 3.25 cents per share amounting to \$6.9m. The dividend record date is 15 March 2018 with payment to be made on 29 March 2018.

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 23 to 35, which comprise the consolidated balance sheet as at 31 December 2017, 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 notes to the interim financial statements.

Directors' responsibility for the financial statements

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

Our responsibility

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

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

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

Conclusion

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

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Who we report to

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

For and on behalf of:



Chartered Accountants
26 February 2018

Auckland

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

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

Directors

Kim Ellis - Chair
Chris Aiken
Mark Binns
Alistair Ryan
Rod Snodgrass
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
Julie Garlick
General Manager Marketing

Huma Houghton
General Manager
Human Resources
Jan Martin
General Manager Sales
Andrew Peskett
General Counsel &
Company Secretary
Richard Thomson
Chief Financial Officer

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Auditor

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PwC Tower
188 Quay Street, Auckland 1142

Bankers

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

Share Registrar New Zealand

Computershare Investor Services Limited
 Level 2, 159 Hurstmere Road,
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 Postal Address: Private Bag 92119
Victoria Street West, Auckland 1142
 Investor Enquiries:
 Telephone: 09 488 8700
computershare.co.nz/investorcentre

Share Registrar Australia

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enquiry@computershare.co.nz

Solicitors

Chapman Tripp

Stock Exchange Listings

NZX Main Board
ASX Official List
 - ASX Foreign Exempt Listing




Metlifecare
RETIREMENT VILLAGES