

**Radius Residential Care
Limited and its Subsidiaries**

Consolidated financial statements
For the year ended 31 March 2018

TABLE OF CONTENTS

Financial statements

| | |
|--|---------|
| Consolidated statement of comprehensive income | 1 |
| Consolidated statement of changes in equity | 2 |
| Consolidated statement of financial position | 3 - 4 |
| Consolidated statement of cash flows | 5 |
| Notes to the financial statements | 6 - 50 |
| Independent auditor's report | 51 - 52 |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|-------------|-------------------------|-------------------------|
| Revenue and other income | | | |
| Fee income | 3 | 98,998 | 85,133 |
| Other income | 3 | 487 | 524 |
| Gain on fair value movement in investment properties | 3 | <u>684</u> | <u>1,302</u> |
| Total revenue | 3 | <u>100,169</u> | <u>86,959</u> |
| Less: expenses | | | |
| Employee benefits expense | | (58,361) | (50,192) |
| Facility operating expense | | (16,445) | (14,296) |
| Operating rental expense | | (12,039) | (10,835) |
| Administration expense | | (1,184) | (1,148) |
| Depreciation expense | 5 | (2,962) | (2,260) |
| Net finance costs | 5 | (543) | (1,044) |
| Other expenses | 5 | <u>(3,524)</u> | <u>(3,082)</u> |
| Total expenses | | <u>(95,058)</u> | <u>(82,857)</u> |
| Profit before income tax expense | | 5,111 | 4,102 |
| Income tax expense | 6 | <u>(1,336)</u> | <u>(610)</u> |
| Net profit from continuing operations | | <u>3,775</u> | <u>3,492</u> |
| Other comprehensive income for the year | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u><u>3,775</u></u> | <u><u>3,492</u></u> |

The accompanying notes form part of these financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | Contributed equity \$ '000 | Retained earnings \$ '000 | Total equity \$ '000 |
|---|-------|----------------------------------|---------------------------------|-------------------------|
| Balance as at 1 April 2016 | | 4,736 | 4,507 | 9,243 |
| Profit for the year | | <u>-</u> | <u>3,492</u> | <u>3,492</u> |
| Total comprehensive income for the year | | <u>-</u> | <u>3,492</u> | <u>3,492</u> |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends | 23,24 | <u>-</u> | <u>(900)</u> | <u>(900)</u> |
| Total transactions with owners in their capacity as owners | | <u>-</u> | <u>(900)</u> | <u>(900)</u> |
| Balance as at 31 March 2017 | | <u>4,736</u> | <u>7,099</u> | <u>11,835</u> |
| Balance as at 1 April 2017 | | 4,736 | 7,099 | 11,835 |
| Profit for the year | | <u>-</u> | <u>3,775</u> | <u>3,775</u> |
| Total comprehensive income for the year | | <u>-</u> | <u>3,775</u> | <u>3,775</u> |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends | 23,24 | <u>-</u> | <u>(900)</u> | <u>(900)</u> |
| Total transactions with owners in their capacity as owners | | <u>-</u> | <u>(900)</u> | <u>(900)</u> |
| Balance as at 31 March 2018 | | <u>4,736</u> | <u>9,974</u> | <u>14,710</u> |

The accompanying notes form part of these financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|------|-----------------|-----------------|
| Current assets | | | |
| Cash and cash equivalents | 8 | 1,768 | 2,524 |
| Receivables | 9 | 7,406 | 4,662 |
| Inventories | 10 | 181 | 165 |
| Other assets | 11 | <u>757</u> | <u>821</u> |
| | | 10,112 | 8,172 |
| Assets classified as held for sale | 15 | <u>-</u> | <u>4,287</u> |
| Total current assets | | <u>10,112</u> | <u>12,459</u> |
| Non-current assets | | | |
| Other assets | 11 | 191 | 232 |
| Investment properties | 12 | 20,058 | 17,746 |
| Property, plant and equipment | 13 | 17,836 | 12,170 |
| Intangible assets | 14 | 16,996 | 16,996 |
| Deferred tax assets | 6 | <u>1,531</u> | <u>1,067</u> |
| Total non-current assets | | <u>56,612</u> | <u>48,211</u> |
| Total assets | | <u>66,724</u> | <u>60,670</u> |
| Current liabilities | | | |
| Payables | 17 | 5,141 | 4,970 |
| Provisions | 19 | 6,556 | 5,391 |
| Current tax liabilities | | 904 | 66 |
| Borrowings | 18 | 5,067 | 25,748 |
| Other financial liabilities | 20 | 92 | 112 |
| Refundable occupation right agreements | 21 | 11,532 | 8,002 |
| Other liabilities | 22 | <u>324</u> | <u>434</u> |
| Total current liabilities | | <u>29,616</u> | <u>44,723</u> |
| Non-current liabilities | | | |
| Borrowings | 18 | 22,285 | 3,948 |
| Other liabilities | 22 | <u>113</u> | <u>164</u> |
| Total non-current liabilities | | <u>22,398</u> | <u>4,112</u> |
| Total liabilities | | <u>52,014</u> | <u>48,835</u> |
| Net assets | | <u>14,710</u> | <u>11,835</u> |

The accompanying notes form part of these financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---------------------|------|----------------------|----------------------|
| Equity | | | |
| Share capital | 23 | 4,736 | 4,736 |
| Retained earnings | 24 | <u>9,974</u> | <u>7,099</u> |
| Total equity | | <u><u>14,710</u></u> | <u><u>11,835</u></u> |

Signed on behalf of the board of directors, dated 29 June 2018


 Director: _____
 B H CREE


 Director: _____
 T J D SUMNER

The accompanying notes form part of these financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|-------|---------------------|---------------------|
| Cash flow from operating activities | | | |
| Receipts from customers | | 96,344 | 86,099 |
| Payments to suppliers and employees | | (90,296) | (77,819) |
| Interest received | | 47 | 47 |
| Interest paid | | (590) | (1,117) |
| Income tax paid | | (962) | (733) |
| Net cash provided by operating activities | 25(a) | <u>4,543</u> | <u>6,477</u> |
| Cash flow from investing activities | | | |
| Proceeds from the sale of property, plant and equipment | | 223 | 96 |
| Proceeds from the sale of licenses to occupy | | 3,795 | 2,434 |
| Payments for the purchase of plant and equipment | | (4,544) | (4,366) |
| Payments relating to the development of the Elloughton Grange Village | | <u>(1,471)</u> | <u>(4,437)</u> |
| Net cash used in investing activities | | <u>(1,997)</u> | <u>(6,273)</u> |
| Cash flow from financing activities | | | |
| Proceeds from borrowings | | (2,402) | 2,415 |
| Dividends paid | | <u>(900)</u> | <u>(900)</u> |
| Net cash (used in) / provided by financing activities | | <u>(3,302)</u> | <u>1,515</u> |
| Reconciliation of cash | | | |
| Cash at beginning of the financial year | | 2,524 | 805 |
| Net(decrease) / increase in cash held | | <u>(756)</u> | <u>1,719</u> |
| Cash at end of financial year | | <u><u>1,768</u></u> | <u><u>2,524</u></u> |

The accompanying notes form part of these financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Radius Residential Care Limited ('the Company') and its Subsidiaries (collectively referred to as 'the Group') have been prepared in accordance with the Financial Reporting Act 2013 and the Companies Act 1993.

The Company is incorporated and domiciled in New Zealand, and registered under the Companies Act 1993.

The Company is a reporting entity for the purposes of the Financial Reporting Act 2013.

The Group is a for-profit entity.

The principal activity of the Group is the care of the elderly including accommodation, meals and medical needs.

The following is a summary of the material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

Compliance with IFRS

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRS').

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies below.

(b) Going concern

The financial statements have been prepared on a going concern basis.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity ('the Group'), comprising the financial statements of Radius Residential Care Limited and its Subsidiaries.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred by the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either through profit or loss or other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Functional and presentation currency

The financial statements of each entity within the consolidated Group is measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in New Zealand dollars which is the Group's functional and presentation currency. All financial information has been rounded to the nearest thousand dollars.

(e) Goods and services tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Inland Revenue Department ('IRD'). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(f) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Fee revenue

Service fee revenue is recognised upon the rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable. Unearned revenue is recorded on the statement of financial position as deferred income and subsequently recognised through profit or loss when the services are rendered.

(ii) Village contributions

The Group issues occupation right agreements (ORAs) to licensees to live in a dwelling, which is usually an attached unit. The licence entitles the resident to live in the dwelling in consideration of a capital payment. Upon termination of an ORA and the dwelling being resold, a refund of the capital payment is made to the outgoing licensee. This is made from the proceeds of the resale settlement and after the deduction of deferred management fees and for some ORAs, deferred administration fees, is made by the Group. The issue of any new ORA licences complies with the Retirement Villages Act 2003. Revenues from ORA licence village contributions and expenses are recognised as normal operating revenue and expenses in profit or loss. Over the period of each licence, the Group becomes entitled to a proportion of the capital payment at the date of cessation of the licence, subject to a specified maximum deferred management fee (DMF) and for some ORAs a deferred administration fee (DAF). Monies received from the issue of all licences are classified as liabilities and are reduced by the DMF and DAF. The income is recognised over the average term that the village resident occupies the unit based on the current occupancy tenure, estimated at 8 years (2017: 8 years).

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Revenue (Continued)

(iii) Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest method (also refer significant accounting policy (h) below).

(g) Expenses

Expenses are recognised as incurred in profit or loss on an accrual basis.

(h) Interest income and interest expense

Interest income and interest expense is recognised in profit or loss as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

(i) Income tax

Income tax on net profit for the period comprises current and deferred tax. Income tax is recognised in profit or loss except when it relates to items recognised outside profit or loss (equity or other comprehensive income), in which case it is also recognised outside profit or loss.

Current income tax is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred income tax liabilities are recognised when tax deductions have exceeded accounting expenditure for temporary differences and depreciation. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments

Classification and basis of recognition and measurement

The Group classifies financial instruments into one of the following categories at initial recognition: financial assets or liabilities at fair value through profit or loss, available for sale, loans and receivables, held to maturity, and financial liabilities measured at amortised cost.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows expire or if the Group transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has no financial instruments in the following categories: held-to-maturity financial assets, or available-for-sale financial assets.

Financial assets

Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

The Group's financial assets at fair value through profit or loss comprise derivative financial instruments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The Group's loans and receivables comprise cash and cash equivalents, trade and other receivables and related party receivables.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. When a financial asset carried at amortised cost is uncollectible, it is written off against the allowance account. A financial asset carried at amortised cost is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. Subsequent recoveries of financial assets carried at amortised cost previously written off are credited against the allowance account.

Financial liabilities

Financial liabilities at fair value through profit or loss

This category has two sub categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Liabilities in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

The Group's financial liabilities at fair value through profit or loss comprise derivative financial instruments.

Other financial liabilities

This category includes all financial liabilities other than those designated as fair value through profit or loss. Subsequent to initial recognition liabilities in this category are measured at amortised cost using the effective interest method.

The Group's other financial liabilities comprise trade and other payables and related party payables.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling costs.

(m) Property, plant and equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The carrying amount of property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

Initial recognition

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs

Subsequent costs are added to the carrying amount of an item of plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred. The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Property, plant and equipment (Continued)

| Class of fixed asset | Useful lives | Depreciation basis |
|--|---------------------|---------------------------|
| Buildings at cost | 10 - 50 years | Straight line |
| Motor vehicles at cost | 3 - 5 years | Straight line |
| Furniture, fixtures and fittings at cost | 5 - 10 years | Straight line |
| Information technology at cost | 3 - 4 years | Straight line |
| Medical equipment at cost | 5 - 7 years | Straight line |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(n) Investment property

Investment property, which is held to earn rental income or for capital appreciation or for both, comprises land and buildings intended to be held for the long term (relating to independent living units and common facilities in the retirement village), and land and buildings under construction.

Investment property is measured at cost on initial recognition, and thereafter at fair value with any change therein recognised in profit or loss. The fair value of investment properties is determined by a qualified independent external valuer using a discounted cash flow model. As required by NZ IAS 40 Investment Property, the fair value as determined by the independent valuer is adjusted for assets and liabilities already recognised in the balance sheet which are also reflected in the discounted cash flow model. These adjustments to derive the carrying value of investment properties are disclosed in note 12.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

If the fair value of investment property under development and construction cannot be reliably determined but it is expected the fair value of the property can be reliably determined when construction is complete, then investment property under construction will be measured as cost until either its fair value can be reliably determined or construction is complete.

(o) Assets held for sale

Assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets (or disposal group) is available for immediate sale in its present condition, and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangibles

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill has been assessed to be an indefinite useful life intangible.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ('CGUs'), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment, and is carried at cost less accumulated impairment losses. The impairment test involves comparing the carrying value of goodwill to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(q) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the consolidated statement of comprehensive income. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(t) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long-term employee benefit obligations

Liabilities arising in respect of long service leave and annual leave which are not expected to be settled within twelve months of the reporting date are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (Continued)

(ii) Long-term employee benefit obligations (continued)

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

Defined contribution superannuation plan

The Group makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the employee services are received.

(u) Share capital

Share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

(v) Distributions

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are paid.

(w) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(x) Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the expenses and the related costs for which the grants are intended to compensate.

Government grants are deferred where there are unfulfilled conditions or other contingencies attached to these grants.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Changes in accounting policies and new and amended standards and interpretations

Other than the adoption of new and amended standards and interpretations as outlined below, there were no other changes in accounting policies.

(i) New and amended standards adopted by the Group

There are a number of other new and amended standards, and interpretations mandatory for first time adoption for the current financial period ended but not currently relevant to the Group in preparing these financial statements. These other new and amended standards and interpretations are not expected to have an impact on the Group's financial statements.

(ii) New standards, amendments and interpretations issued but not yet effective for the current financial period ended and not early adopted by the Group

NZ IFRS 9, 'Financial instruments'

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

NZ IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39

The effective date is annual reporting periods beginning on or after 1 January 2018.

The adoption of NZ IFRS 9 is not expected to significantly impact the Group for the following reasons:

- the Group's financial assets include only those measured at amortised cost and fair value through profit and loss and their classification would not change under NZ IFRS 9;
- the Group's incurred credit losses from financial assets have historically been insignificant and therefore would not be impacted under NZ IFRS 9; and
- the Group does not have any hedging arrangements.

The Group will adopt NZ IFRS 9 no later than the accounting period beginning on 1 April 2018.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Changes in accounting policies and new and amended standards and interpretations (Continued)

(ii) New standards, amendments and interpretations issued but not yet effective for the current financial period ended and not early adopted by the Group (continued)

NZ IFRS 15 'Revenue from Contracts with Customers'

NZ IFRS 15 'Revenue from Contracts with Customers' provides a five-step model to be applied to the recognition of revenue arising from contracts with customers:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the entity satisfies a performance obligation.

NZ IFRS 15 also introduces new disclosures about revenue.

The Group is currently in the process of undertaking an assessment of the possible impact NZ IFRS 15 will have on the Group's financial statements.

Under NZ IFRS 15 the Group would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, the Group would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

The adoption of NZ IFRS 15 is not expected to significantly impact to have a material impact on the Group financial statements as the Group currently recognises revenue from its contracts with customers as it satisfies its performance obligation to its customers, being the provision of care to the elderly (including accommodation, meals and medical).

The Group will adopt NZ IFRS 15 no later than the accounting period beginning on 1 April 2018

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Changes in accounting policies and new and amended standards and interpretations (Continued)

(ii) New standards, amendments and interpretations issued but not yet effective for the current financial period ended and not early adopted by the Group (continued)

NZ IFRS 16 Leases

NZ IFRS 16 will replace NZ IAS 17 Leases. NZ IFRS 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their Statements of Financial Position.

The main changes affect lessee accounting only – lessor accounting is mostly unchanged from NZ IAS 17.

NZ IFRS 16 introduces the following:

- Use of a control model for the identification of leases:
This model distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.
- Distinction between operating and finance leases removed:
Assets (a right-of-use asset) and liabilities (a lease liability reflecting future lease payments) will now be recognised in respect of all leases, with the exception of certain short-term leases and leases of low value assets.

NZ IFRS 16 supersedes NZ IAS 17 and associated interpretative guidance.

The effective date is annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, if NZ IFRS 15 'Revenue from Contracts with Customers' has also been adopted.

The indicative impacts of implementing NZ IFRS 16 are as follows:

The adoption of NZ IFRS 16's is expected to result in the recognition of the following for all operating leases that Group is a party to:

- Initial recognition and measurement:
 - ◆ Recognition of a right of use ('ROU') asset. Initial measurement of the ROU asset would include the initial present value of the lease liability, the initial direct costs, prepayments made to lessor, less any lease incentives received from the lessor and restoration, removal and dismantling costs; and
 - ◆ Recognition of a lease liability, which would reflect the initial measurement of the present value of lease payments, including reasonably certain renewal.
- Subsequent measurement:
 - ◆ ROU asset: Depreciate the ROU asset based on NZ IAS 16 *Property, plant and equipment*.
 - ◆ Lease liability: Accumulated liability based on the interest method, using a discount rate determined at lease commencement (As long as a reassessment and a change in the discount rate have not occurred). Reduce the liability by payments made.

NZ IFRS 16 will have a material impact on the Group's financial statements and will be dependent on the leases that the Group is a party to as at the beginning of the comparative accounting period presented in the Group's financial statements for the year ended 31 March 2020. The Group's operating lease commitments as at 31 March 2018 are set out in note 29, however, measurement of the lease liability and

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Changes in accounting policies and new and amended standards and interpretations (Continued)
asset under NZ IFRS 16 is yet to be fully assessed.

The Group will adopt NZ IFRS 16 no later than the accounting period beginning 1 April 2019. The impact of NZ IFRS 16 has not yet been quantified and will be dependent on the leases that the Group is a party to as at the beginning of the comparative accounting period presented in the Group's financial statements for the year ended 31 March 2020.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of NZ IFRS and IFRS, the Board of Directors and management are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from the estimates, judgements and assumptions made by the Board of Directors and management.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of NZ IFRS and IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

In particular, information about significant areas of estimation uncertainty that have the most significant effect on the amount recognised in the financial statements is outlined below:

(a) Impairment of goodwill

The recoverability of the carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by the cash generating unit, which entails making judgements, including the expected rate of growth of revenues, margins expected to be achieved, the level of future capital expenditure required to support these outcomes and the appropriate discount rate to apply when valuing future cash flows. Refer also Note 14.

(b) Valuation of investment properties

The fair value of completed investment properties have been determined by an independent qualified valuer. Note 12 sets out the valuation processes, key assumptions and sensitivity analysis. The fair value of investment properties and care facilities is subjective and changes to the assumptions can have a significant impact on profit and the fair value.

(c) Current and deferred income taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made. Refer also Note 6.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest forecasts of future earnings of the Group. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Refer also to Note 6.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|-------------|-------------------------|-------------------------|
| NOTE 3: REVENUE AND OTHER INCOME | | | |
| Operating income | | | |
| Fee income | | 98,998 | 85,133 |
| Other income | | | |
| Administration fee income | | 17 | 7 |
| Rental income | | 83 | 169 |
| Recoveries income | | <u>387</u> | <u>348</u> |
| | | <u>487</u> | <u>524</u> |
| Gain on fair value adjustments | | | |
| Gain on revaluation of investment properties | | | |
| - Windsor Lifestyle Estate Village | 12 | 652 | (21) |
| - Elloughton Grange Village | 12 | <u>32</u> | <u>1,323</u> |
| | | <u>684</u> | <u>1,302</u> |
| | | <u>684</u> | <u>1,302</u> |
| | | <u>100,169</u> | <u>86,959</u> |
| NOTE 4: REMUNERATION OF AUDITORS | | | |
| Remuneration of auditors for: | | | |
| <i>Staples Rodway Auckland</i> | | | |
| Audit and assurance services | | | |
| - Audit of financial statements | | 47 | 46 |
| Other non-audit services | | | |
| - Compilation of financial statements | | 4 | 4 |
| - Tax compliance services | | <u>44</u> | <u>74</u> |
| | | <u>95</u> | <u>124</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|------|-----------------|-----------------|
| NOTE 5: EXPENSES | | | |
| Depreciation expense: | | | |
| - buildings | 13 | 119 | 55 |
| - buildings - assets held for sale | | - | 92 |
| - motor vehicles | 13 | 158 | 132 |
| - furniture, fixtures and fittings | 13 | 2,152 | 1,669 |
| - information technology | 13 | 475 | 281 |
| - medical equipment | 13 | 58 | 31 |
| Total depreciation | | <u>2,962</u> | <u>2,260</u> |
| Net finance costs: | | | |
| Finance income: | | | |
| - interest - bank | | (47) | (47) |
| Total finance income | | <u>(47)</u> | <u>(47)</u> |
| Finance costs: | | | |
| - interest - bank | | 590 | 1,091 |
| Total finance costs | | <u>590</u> | <u>1,091</u> |
| Net finance costs | | <u>543</u> | <u>1,044</u> |
| Other expenses: | | | |
| Audit and assurance services | 4 | 51 | 50 |
| Charges to provision for impairment | 9 | 4 | - |
| Directors' fees | | 44 | 44 |
| Donations and sponsorships | | 12 | 12 |
| (Gain) / loss on sale of property, plant and equipment | | 25 | (20) |
| (Gain) / loss on derivative financial instruments | | (21) | 23 |
| Other | | 3,409 | 2,973 |
| Total other expenses | | <u>3,524</u> | <u>3,082</u> |
| Government Grants | | | |
| Government grant income | | - | 834 |
| Expenses related to government grants | | - | (729) |
| Deferred government grants income | 22 | - | 105 |

The Group did not benefit directly from any other forms of government assistance.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|------|---------------------|---------------------|
| NOTE 6: INCOME TAX | | | |
| (a) Components of tax expense | | | |
| Current tax | | 872 | 561 |
| Deferred tax | | <u>464</u> | <u>49</u> |
| | | <u><u>1,336</u></u> | <u><u>610</u></u> |
| (b) Prima facie tax payable | | | |
| The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows: | | | |
| Prima facie income tax payable on profit before income tax at 28.0% | | 1,431 | 1,149 |
| - Permanent differences | | (108) | (355) |
| - Under/(Over) provision for income tax in prior year | | <u>13</u> | <u>(184)</u> |
| Income tax expense attributable to profit | | <u><u>1,336</u></u> | <u><u>610</u></u> |
| (c) Deferred tax | | | |
| Deferred tax relates to the following: | | | |
| <i>Deferred tax assets</i> | | | |
| The balance comprises: | | | |
| Property, plant and equipment | | 114 | 127 |
| Provisions | | <u>1,467</u> | <u>984</u> |
| | | <u><u>1,581</u></u> | <u><u>1,111</u></u> |
| <i>Deferred tax liabilities</i> | | | |
| The balance comprises: | | | |
| Investment properties | | <u>50</u> | <u>44</u> |
| | | <u><u>50</u></u> | <u><u>44</u></u> |
| Net deferred tax assets | | <u><u>1,531</u></u> | <u><u>1,067</u></u> |
| (d) Deferred income tax (revenue) / expense included in income tax expense comprises | | | |
| (Increase) / decrease in deferred tax assets | | (470) | 42 |
| Increase in deferred tax liabilities | | <u>6</u> | <u>7</u> |
| | | <u><u>(464)</u></u> | <u><u>49</u></u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|-------------|-------------------------|-------------------------|
| NOTE 7: IMPUTATION CREDIT ACCOUNT | | | |
| Balance as at the beginning of the year | | 1,435 | 1,023 |
| Dividends paid | | (321) | (321) |
| New Zealand tax payments, net of refunds | | <u>634</u> | <u>733</u> |
| Balance as at the end of the year | | <u><u>1,748</u></u> | <u><u>1,435</u></u> |

NOTE 8: CASH AND CASH EQUIVALENTS

| | | |
|--------------|---------------------|---------------------|
| Cash on hand | 5 | 5 |
| Cash at bank | <u>1,763</u> | <u>2,519</u> |
| | <u><u>1,768</u></u> | <u><u>2,524</u></u> |

NOTE 9: RECEIVABLES

CURRENT

| | | |
|-----------------|---------------------|---------------------|
| Trade debtors | 7,615 | 4,867 |
| Impairment loss | <u>(209)</u> | <u>(205)</u> |
| | <u>7,406</u> | <u>4,662</u> |
| | <u><u>7,406</u></u> | <u><u>4,662</u></u> |

Impairment of trade receivables

Trade receivables are receivable in advance, non-interest bearing up to 60 days and then interest bearing at the Group's discretion. An impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. The impairment losses have been included within administration expenses in the consolidated statement of comprehensive income. All trade receivables that are not impaired are expected to be received within trading terms.

Movements in the accumulated impairment losses were:

| | | | |
|-----------------------------|---|-------------------|-------------------|
| Opening balance at 1 April | | 205 | 206 |
| Charge for the year | 5 | 4 | - |
| Amounts written off | | <u>-</u> | <u>(1)</u> |
| Closing balance at 31 March | | <u><u>209</u></u> | <u><u>205</u></u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 9: RECEIVABLES (CONTINUED)

Aged analysis

Consolidated

Trade receivables ageing analysis at 31 March is:

| | Gross 2018 \$ '000 | Impairment 2018 \$ '000 | Gross 2017 \$ '000 | Impairment 2017 \$ '000 |
|----------------------------|-----------------------------------|--|-----------------------------------|--|
| Not past due | 4,931 | - | 4,522 | - |
| Past due 0-30 days | 656 | - | 41 | - |
| Past due 31-90 days | 516 | - | 79 | - |
| Past due more than 91 days | <u>1,512</u> | <u>(209)</u> | <u>225</u> | <u>(205)</u> |
| | <u><u>7,615</u></u> | <u><u>(209)</u></u> | <u><u>4,867</u></u> | <u><u>(205)</u></u> |

**2018
\$ '000**

**2017
\$ '000**

NOTE 10: INVENTORIES

| | | |
|-------------|-------------------|-------------------|
| Inventories | <u>181</u> | <u>165</u> |
| | <u><u>181</u></u> | <u><u>165</u></u> |

NOTE 11: OTHER ASSETS

CURRENT

| | | |
|--------------------|-------------------|-------------------|
| Prepayments | 634 | 435 |
| Accrued income | 37 | 83 |
| Development costs: | | |
| - Other facilities | <u>86</u> | <u>303</u> |
| | <u><u>757</u></u> | <u><u>821</u></u> |

NON-CURRENT

| | | |
|----------------|-------------------|-------------------|
| Prepayments | 29 | 35 |
| Accrued income | <u>162</u> | <u>197</u> |
| | <u><u>191</u></u> | <u><u>232</u></u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|------|-----------------|-----------------|
| NOTE 12: INVESTMENT PROPERTIES | | | |
| <i>Investment properties</i> | | | |
| Opening carrying amount | | 17,746 | 11,997 |
| Development expenditure - Elloughton Grange Village | | 2,302 | 4,444 |
| Development expenditure transfer - Elloughton Grange Village | | (3,537) | (2,387) |
| Net fair value gain / (loss) - Elloughton Grange Village | | 32 | 1,323 |
| Occupation right agreements settled - Elloughton Grange Village | | - | (390) |
| Occupation right agreements entered - Elloughton Grange Village | | 3,555 | 2,770 |
| Transferred to property, plant and equipment | | (848) | - |
| Net fair value gain / (loss) - Windsor Lifestyle Estate Village | | 411 | (21) |
| Occupation right agreements settled - Windsor Lifestyle Estate Village | | (405) | (170) |
| Occupation right agreements entered - Windsor Lifestyle Estate Village | | <u>802</u> | <u>180</u> |
| Closing carrying amount | | <u>20,058</u> | <u>17,746</u> |

(a) Details for measurement of fair value

Windsor Lifestyle Estate Village:

The Windsor Lifestyle Estate Village investment property was valued at reporting date by a Property Institute of New Zealand registered valuer, CBRE Limited. CBRE Limited, an external independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's Windsor Lifestyle Estate Village investment property on an annual basis. Fair values have been determined using a discounted cash flow model applied to the expected future cash flows generated by the properties. The valuation calculates the expected cash flows for a period of 20 years based on an average occupancy turnover of 8 years (2017: 8 years) for independent living units. The cash flows are extrapolated at a growth rate from 0.0% - 3.0% (2017: 0.0% - 3.0%) and discounted to present value at a pre-tax discount rates of 18.0% (2017: 18.0%). The net Group's interest in the investment properties were \$1,030k (2017: \$480k). The valuation of investment properties is then grossed up for cash flows relating to refundable occupation right agreements, which are recognised separately in the Statement of Financial Position (refer also Note 21).

Elloughton Grange Village:

The Group is currently developing a retirement village in Marchwiell, Timaru. There are three stages to the development, being stages 1, 2 and 3.

As at 31 March 2018, construction was still underway. Stage 1 of the village was completed in the prior financial year and 19 of the 22 villas in Stage 2 were completed by 31 March 2018. Stage 1 and the Stage 2 completed villas were valued at reporting date by a Property Institute of New Zealand registered valuer, CBRE Limited, an external independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The fair values of Stage 1 and the completed villas in Stage 2 have been determined using a discounted cash flow model applied to the expected future cash flows generated by these villas. The valuation calculates the expected cash flows for a period of 20 years (2017: 20 years) based on an average occupancy turnover of 8 years

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 12: INVESTMENT PROPERTIES (CONTINUED)

(a) Details for measurement of fair value (Continued)

(2017: 8 years) for independent living units. The cash flows are extrapolated at a growth rate from 0.0 - 3.0% (2017: 0.0 - 3.0%) and discounted to present value at a pre-tax discount rates of 16.00% (2017: 16.00%).

The fair value of the unused land relating to Stage 3 has been determined on there being the equivalent of 18 undeveloped villa sites available, referenceable market subdivisional costs and returns and having regard to the intensity of development in a retirement village situation, underpinned by subdivisional land sales. The fair value of the remaining villas to be constructed in Stage 2 and development of Stage 3 to date could not be reliably determined. Accordingly, development costs relating to these Stages 2 and 3 were measured at cost.

Fair value hierarchy

The fair values of the investment properties represent the estimated price for which a property could be sold on the date of valuation in an orderly transaction between market participants. The valuation techniques and inputs are summarised above.

Investment property measurements are categorised as level 3 in the following fair value measurement hierarchy:

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

During the year there were no transfers of investment properties between levels of the fair value hierarchy.

(i) Windsor Lifestyle Estate Village

The sensitivity analysis in the valuation report shows that a change in the discount rate applied by +/- 0.5% would (decrease)/increase the total fair value of investment property and profit or loss by (\$20,000)/\$20,000 (2017: (\$20,000)/ \$15,000).

Fair value hierarchy

(ii) Elloughton Grange Village

The sensitivity analysis in the valuation report shows that a change in the key assumptions would (decrease)/increase the total fair value of Stages 1 and 2 and Stage 3 unused land as follows:

A change in the discount rate applied by +/- 0.5% would increase/(decrease) the total fair value and profit or loss by (\$140,000)/ \$140,000 (2017: (\$110,000)/ \$110,000).

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|------|-----------------|-----------------|
| NOTE 12: INVESTMENT PROPERTIES (CONTINUED) | | | |
| (b) Investment properties | | | |
| Windsor Lifestyle Estate Village: | | | |
| - Valuation of operator's interest | | 1,030 | 480 |
| - Refundable occupancy right agreements | | <u>2,233</u> | <u>1,974</u> |
| | | <u>3,263</u> | <u>2,454</u> |
| Elloughton Grange Village: | | | |
| - Valuation of operator's interest - Stages 1 & 2 | | 5,394 | 5,925 |
| - Refundable occupancy right agreements - Stages 1 & 2 | | 9,299 | 6,028 |
| - Development/excess land - fair value | | 1,000 | 1,325 |
| - Investment property under development - at cost | | <u>1,102</u> | <u>2,014</u> |
| | | <u>16,795</u> | <u>15,292</u> |
| Total investment properties | | <u>20,058</u> | <u>17,746</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|-------------|-------------------------|-------------------------|
| NOTE 13: PROPERTY, PLANT AND EQUIPMENT | | | |
| Buildings | | | |
| At cost | | 4,498 | 764 |
| Accumulated depreciation | | <u>(531)</u> | <u>(217)</u> |
| | | <u>3,967</u> | <u>547</u> |
| Plant and equipment | | | |
| Motor vehicles at cost | | 1,260 | 1,088 |
| Accumulated depreciation | | <u>(641)</u> | <u>(629)</u> |
| | | 619 | 459 |
| Furniture, fixtures and fittings at cost | | 26,053 | 22,857 |
| Accumulated depreciation | | <u>(14,760)</u> | <u>(12,608)</u> |
| | | 11,293 | 10,249 |
| Information technology at cost | | 3,827 | 2,367 |
| Accumulated depreciation | | <u>(2,085)</u> | <u>(1,611)</u> |
| | | 1,742 | 756 |
| Medical equipment at cost | | 392 | 277 |
| Accumulated depreciation | | <u>(177)</u> | <u>(118)</u> |
| | | <u>215</u> | <u>159</u> |
| Total plant and equipment | | <u>13,869</u> | <u>11,623</u> |
| Total property, plant and equipment | | <u>17,836</u> | <u>12,170</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|------|-----------------|-----------------|
| NOTE 13: PROPERTY, PLANT AND EQUIPMENT (CONTINUED) | | | |
| (a) Reconciliations | | | |
| Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the financial year: | | | |
| <i>Land and buildings</i> | | | |
| Opening carrying amount | | 547 | 594 |
| Additions | | 67 | 8 |
| Depreciation expense | | (119) | (55) |
| Transferred from investment properties under development | | 656 | - |
| Transferred from assets held for sale | 15 | <u>2,816</u> | <u>-</u> |
| Closing carrying amount | | <u>3,967</u> | <u>547</u> |
| <i>Motor vehicles</i> | | | |
| Opening carrying amount | | 459 | 354 |
| Additions | | 437 | 279 |
| Disposals | | (119) | (42) |
| Depreciation expense | | <u>(158)</u> | <u>(132)</u> |
| Closing carrying amount | | <u>619</u> | <u>459</u> |
| <i>Furniture, fixtures and fittings</i> | | | |
| Opening carrying amount | | 10,249 | 8,368 |
| Additions | | 3,009 | 3,648 |
| Disposals | | (5) | (98) |
| Depreciation expense | | (2,152) | (1,669) |
| Transferred from investment properties under development | | <u>192</u> | <u>-</u> |
| Closing carrying amount | | <u>11,293</u> | <u>10,249</u> |
| <i>Information technology</i> | | | |
| Opening carrying amount | | 756 | 709 |
| Additions | | 1,468 | 328 |
| Disposals | | (7) | - |
| Depreciation expense | | <u>(475)</u> | <u>(281)</u> |
| Closing carrying amount | | <u>1,742</u> | <u>756</u> |
| <i>Medical equipment</i> | | | |
| Opening carrying amount | | 159 | 84 |
| Additions | | 114 | 106 |
| Depreciation expense | | <u>(58)</u> | <u>(31)</u> |
| Closing carrying amount | | <u>215</u> | <u>159</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|-----------------------------------|------|-----------------|-----------------|
| NOTE 14: INTANGIBLE ASSETS | | | |
| Goodwill at cost | | <u>16,996</u> | <u>16,996</u> |

(a) Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year

| | | | |
|-------------------------|--|---------------|---------------|
| <i>Goodwill at cost</i> | | | |
| Opening balance | | <u>16,996</u> | <u>16,996</u> |
| Closing balance | | <u>16,996</u> | <u>16,996</u> |

(b) Impairment loss

Impairment losses in relation to intangible assets are included within depreciation and amortisation expense in the consolidated statement of comprehensive income. The Directors have assessed goodwill for impairment at reporting date and have determined that no adjustment to goodwill is required for the current year (2017: \$Nil).

For those CGU's not requiring impairment, the preparation of a monthly financial analysis for each CGU ensures management is in a position to identify those that are not performing satisfactorily and put in place a proactive response to improve.

(c) Impairment tests for goodwill and intangible assets with indefinite useful lives

The following intangibles have been assessed as having indefinite useful lives:

- goodwill allocated to individual CGU's within the residential care business

These assets have been determined to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflow for the Group.

Goodwill and intangibles with indefinite useful lives are allocated to the following cash generating units (CGU):

| | | |
|---|---------------|---------------|
| - individual CGU's within the residential care business | <u>16,996</u> | <u>16,996</u> |
| | <u>16,996</u> | <u>16,996</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 14: INTANGIBLE ASSETS (CONTINUED)

(c) Impairment tests for goodwill and intangible assets with indefinite useful lives (Continued)

Individual CGU's within the residential care business

Goodwill is allocated to individual CGU's within the residential care business (various acquired residential care facilities). Corporate office cash flows incurred by the Group as a whole cannot be allocated to individual CGU's on a reasonable basis. Therefore, these cashflows and related corporate assets are impairment tested at the overall Group level.

The recoverable amount of business goodwill as at reporting date is determined using a value-in-use cash flow projection that includes Management's estimates based on past performance and its expectation for the future performance for up to 5 years. These estimates are based on budgeted projections of occupancy levels, sales growth and changes to cost structures. Cash flows from performance thereafter are estimated using a standard growth rate deemed to be reasonable by management.

The key assumptions used for value in use calculations are as follows:

- The year 1 forecast cashflows are based on Management forecasts approved by the Board
- The cash flow period growth rate used in the calculations was 3.0% (2017: 3.0%)
- The cash flow period used in the calculations was 5 years (2017: 5 years)
- The pre-tax discount rate applied in the calculations was 18.1% (2017: 18.1%)
- The terminal growth rate applied in the calculations was 2.0% (2017: 2.0%)
- Occupancy projections vary between CGU.

Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the goodwill to be materially lower than its recoverable amount.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 15: ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale relates to the Group's facilities being actively marketed for sale.

| | 2018 \$ '000 | 2017 \$ '000 |
|---------------------------------------|-----------------|-----------------|
| (a) Carrying amounts of assets | | |
| Property, plant and equipment: | | |
| - Thornleigh | - | 2,816 |
| - Seaview | - | 1,471 |
| Assets classified as held for sale | <u>-</u> | <u>4,287</u> |

On 8 April 2015, Seaview Park Limited entered into an agreement for the sale of the Seaview land and buildings for \$1.45m and the Seaview business for \$230k. Both agreements were unconditional, the sale of the business settled on 8 May 2015 and the sale of the land and buildings settled on 28 April 2017.

During the year ended 31 Mar 2018, the Thornleigh land and builds ceased being held as held for sale and are now recognised as property, plant and equipment (refer Note 13).

(b) Details of the disposal of the Seaview Park Limited business

| | | |
|---|----------|----------|
| Consideration received or receivable | - | - |
| Less net assets disposed of | <u>-</u> | <u>-</u> |
| Gain on disposal of division before tax | - | - |
| Income tax expense | <u>-</u> | <u>-</u> |
| Profit / (loss) on disposal | <u>-</u> | <u>-</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 16: INTERESTS IN SUBSIDIARIES

(a) Subsidiaries

The following are the Group's subsidiaries:

| | Country of incorporation | Ownership interest held by the group | |
|---|--------------------------|--------------------------------------|------|
| | | 2018 | 2017 |
| | | % | % |
| Subsidiaries of Radius Residential Care Limited: | | | |
| Radius Arran Court Limited | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |
| Radius Health Limited | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |
| Windsor Lifestyle Estate Limited | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |
| Glenbrae Lifestyle Estate Limited | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |
| Radius Care Limited (non-trading) | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |
| Seaview Park Limited | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |
| Elloughton Grange Village Limited | New Zealand | 100 | 100 |
| Ownership interest are the same as voting rights. | | | |

All of the entities above have a balance date of 31 March, which is consistent with that of the Group.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|------|-----------------|-----------------|
| NOTE 17: PAYABLES | | | |
| CURRENT | | | |
| <i>Unsecured liabilities</i> | | | |
| Trade creditors | | 3,592 | 2,911 |
| Radius Waipuna facility development retention | | - | 201 |
| GST payable | | 819 | 500 |
| Other payables | | 12 | 12 |
| Accrued expenses | | <u>718</u> | <u>1,346</u> |
| | | <u>5,141</u> | <u>4,970</u> |
| NOTE 18: BORROWINGS | | | |
| CURRENT | | | |
| <i>Secured liabilities</i> | | | |
| Bank loans | | - | 20,677 |
| Shareholder loans | | 5,030 | 5,030 |
| Finance lease liability | | <u>37</u> | <u>41</u> |
| | | <u>5,067</u> | <u>25,748</u> |
| NON-CURRENT | | | |
| <i>Secured liabilities</i> | | | |
| Bank loans | | 22,125 | 3,850 |
| Finance lease liability | | <u>160</u> | <u>98</u> |
| | | <u>22,285</u> | <u>3,948</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 18: BORROWINGS (CONTINUED)

(a) Terms and conditions and assets pledged as security relating to the above financial instruments

Bank loans comprise the following facilities with ASB Bank Limited:

| | Current \$ | Non-current \$ | Facility Limit \$ | Effective Interest Rate % | Expiry Date |
|---|---------------|-------------------|----------------------|---------------------------------|-------------|
| 31 March 2018 | | | | | |
| Committed Cash Advance | - | 17,900 | 17,900 | 3.46% | 29 Apr 2020 |
| Revolving Committed Cash Advance - EGV | - | 4,225 | 7,000 | 3.30% | 3 Jun 2020 |
| | <u>-</u> | <u>22,125</u> | <u>24,900</u> | | |
| 31 March 2017 | | | | | |
| Committed Cash Advance | 4,700 | - | 4,700 | 3.26% | 29 Mar 2018 |
| Committed Cash Advance | - | 3,850 | 3,850 | 3.81% | 30 Apr 2018 |
| Committed Cash Advance | 9,100 | - | 9,900 | 3.26% | 29 Mar 2018 |
| Committed Cash Advance | 600 | - | 600 | 3.25% | 29 Mar 2018 |
| Committed Cash Advance | 300 | - | 300 | 3.25% | 29 Mar 2018 |
| Revolving Committed Cash Advance - EGV | 5,977 | - | 7,000 | 3.25% | 3 Jun 2017 |
| | <u>20,677</u> | <u>3,850</u> | <u>26,350</u> | | |

All of these ASB Bank Limited loan facilities are secured over the assets of the Group and guaranteed by certain Group entities.

A large portion of the 31 March 2017 CCAF balance was classified as current, this would have normally been classified as non-current. ASB was unable to confirm the amendment to extend the loan facility to 29 March 2019 until after 31 March 2017, this was confirmed through a letter dated 30 May 2017.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 18: BORROWINGS (CONTINUED)

(a) Terms and conditions and assets pledged as security relating to the above financial instruments (continued)

Shareholder loans are comprised as follows:

There were shareholder loans to a total of \$5.03m as at 31 March 2018 (2017: \$5.03m). The loans relate to net dividends that the shareholders have unanimously agreed be held as loans. The shareholders have irrevocably agreed that each loan shall not accrue any interest or other form of accumulated benefit. The shareholder loans can only be repaid under certain conditions set out in the "Loan Agreement" between the Group and each of the shareholders, that requires a unanimous decision. One of these conditions has the effect of enabling the shareholders to demand the loans at any time, accordingly these loans have been classified as being on demand. The balances owing to each shareholder are as follows: Wave Rider Holdings Limited \$2.72m (2017: \$2.72m) and Knox Radius L. P. \$2.31m (2017: \$2.31m).

Other

The Group entered into a Corporate Banking Overdraft Facility Agreement with ASB Bank New Zealand on 19 December 2013 for \$1.5m (2017: \$1.0m) that has an expiry date on 31 March 2049 (2017: 31 March 2049). This loan bears interest at an effective interest rate of 5.21% (2017: 5.05%) and is secured over the assets of the Group and guaranteed by certain Group entities. At reporting date this overdraft facility was not drawn (2017: \$Nil).

(b) Defaults and breaches

During the year the Group complied with all externally imposed banking covenant requirements to which it is subject (2017: complied with all).

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|-----------------------------|------|-----------------|-----------------|
| NOTE 19: PROVISIONS | | | |
| CURRENT | | | |
| Annual leave | | 3,598 | 2,905 |
| Other employee entitlements | | <u>2,958</u> | <u>2,486</u> |
| | | <u>6,556</u> | <u>5,391</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

| Note | 2018 \$ '000 | 2017 \$ '000 |
|------|-----------------|-----------------|
|------|-----------------|-----------------|

NOTE 20: OTHER FINANCIAL LIABILITIES

CURRENT

Other derivative instruments at fair value through profit and loss

| | | |
|---------------|-----------|------------|
| Interest rate | <u>92</u> | <u>112</u> |
|---------------|-----------|------------|

All financial liabilities at fair value through profit and loss are held for trading.

The Group's interest rate swaps measurements are categorised as level 2 in the following fair value measurement hierarchy:

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

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|--|------|-----------------|-----------------|
| NOTE 21: REFUNDABLE OCCUPATION RIGHT AGREEMENTS | | | |
| Windsor Lifestyle Estate Limited | | 2,233 | 1,974 |
| Elloughton Grange Village Limited | | <u>9,299</u> | <u>6,028</u> |
| | | <u>11,532</u> | <u>8,002</u> |

Windsor Lifestyle Estate Limited

A resident is charged a village contribution fee in consideration for the right to occupy one of the Company's units or apartments, to a maximum of 20% of the entry payment. The village contribution is payable by the resident on termination of the occupancy right agreement. Village contribution revenue is recognised in accordance with the accounting policy on revenue recognition (Note 1 (f) (ii)). Amounts which are payable under occupation right agreements, which are firm monetary obligations are shown in the statement of financial position as other liabilities. Licence fees are refundable to the residents on vacating the unit or apartment, or on termination of the licence to occupy (subject to new licence rights being issued). The estimate for the established length of stay for the Group's units is 8 years (2017: 8.3 years). Therefore, the fair value is equal to the face value of the amount being demanded. The expected maturity of the refundable obligations to residents is beyond 12 months.

Elloughton Grange Village Limited

A resident is charged a village contribution fee in consideration for the right to occupy one of the Company's units or apartments, to a maximum of 25% of the entry payment. A resident is also charged an administration fee of 5% of the entry payment. The village contribution and the administration fee are payable by the resident on termination of the occupancy right agreement. Village contribution revenue and administration fee is recognised in accordance with the accounting policy on revenue recognition (Note 1 (f) (ii)). Amounts which are payable under occupation right agreements, which are firm monetary obligations are shown in the statement of financial position as other liabilities. Licence fees are refundable to the residents on vacating the unit or apartment, or on termination of the licence to occupy (subject to new licence rights being issued). The estimate for the established length of stay for the Group's units is 8 years (2017: 8 years). Therefore, the fair value is equal to the face value of the amount being demanded. The expected maturity of the refundable obligations to residents is beyond 12 months.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|-------------|-------------------------|-------------------------|
| NOTE 22: OTHER LIABILITIES | | | |
| CURRENT | | | |
| Deferred management fee income: | | | |
| - unit titles - Windsor Lifestyle Estate Limited | | 24 | 27 |
| Deferred management fee income: | | | |
| - occupancy right agreements - Windsor Lifestyle Estate Limited | | 33 | 35 |
| Deferred lease incentive | | 267 | 267 |
| Deferred government grants income | 5 | <u>-</u> | <u>105</u> |
| | | <u>300</u> | <u>407</u> |
| | | <u>324</u> | <u>434</u> |
| NON-CURRENT | | | |
| Deferred management fee income: | | | |
| - unit titles - Windsor Lifestyle Estate Limited | | 49 | 71 |
| Deferred management fee income: | | | |
| - occupancy right agreements - Windsor Lifestyle Estate Limited | | <u>64</u> | <u>93</u> |
| | | <u>113</u> | <u>164</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

| Note | 2018 \$ '000 | 2017 \$ '000 |
|------|-----------------|-----------------|
|------|-----------------|-----------------|

NOTE 23: SHARE CAPITAL

Issued and paid-up capital

| | | | |
|-----------------|-----|--------------|--------------|
| Ordinary Shares | (a) | <u>4,736</u> | <u>4,736</u> |
|-----------------|-----|--------------|--------------|

| | 2018 | | 2017 | |
|----------------------------|-------------------|--------------|-------------------|--------------|
| | Number | \$ '000 | Number | \$ '000 |
| (a) Ordinary Shares | | | | |
| Opening balance | <u>12,500,000</u> | <u>4,736</u> | <u>12,500,000</u> | <u>4,736</u> |
| At reporting date | <u>12,500,000</u> | <u>4,736</u> | <u>12,500,000</u> | <u>4,736</u> |

Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital management

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cashflows.

The total dividend proposed or declared before the financial statements were authorised for issue and recognised as a distribution to owners during the period was \$900,000 (2017: \$900,000).

| | 2018 \$ '000 | 2017 \$ '000 |
|--|-----------------|-----------------|
| NOTE 24: RETAINED EARNINGS | | |
| Retained earnings at beginning of year | 7,099 | 4,507 |
| Net profit | 3,775 | 3,492 |
| Dividends paid | <u>(900)</u> | <u>(900)</u> |
| | <u>9,974</u> | <u>7,099</u> |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

| | Note | 2018 \$ '000 | 2017 \$ '000 |
|---|------|-----------------|-----------------|
| NOTE 25: CASH FLOW INFORMATION | | | |
| (a) Reconciliation of cash flow from operations with profit after income tax | | | |
| Profit from ordinary activities after income tax | | 3,775 | 3,492 |
| Adjustments and non-cash items | | | |
| Depreciation of property, plant and equipment | | 2,962 | 2,260 |
| Revaluation of investment properties | | (443) | (1,302) |
| Disposal of property, plant and equipment | | (20) | 20 |
| Revaluation of interest rate swaps | | (21) | (3) |
| Movement in deferred tax | | (464) | 49 |
| Changes in assets and liabilities | | | |
| (Increase) / decrease in receivables and other assets | | (3,036) | 935 |
| (Increase) in inventories | | (16) | (4) |
| Increase in payables and other liabilities | | 910 | 1,287 |
| Increase / (decrease) in income tax payable | | 838 | (216) |
| Increase / (decrease) in finance lease liability | | 58 | (41) |
| Cash flows from operating activities | | <u>4,543</u> | <u>6,477</u> |

NOTE 26: RELATED PARTY TRANSACTIONS AND BALANCES

The Group had dealings with the following related parties during the year:

| Related Party | Relationship |
|-----------------------------------|--------------------------------------|
| Radius Arran Court Limited | Subsidiary company |
| Radius Health Limited | Subsidiary company |
| Windsor Lifestyle Estate Limited | Subsidiary company |
| Glenbrae Lifestyle Estate Limited | Subsidiary company |
| Seaview Park Limited | Subsidiary company |
| Elloughton Grange Village Limited | Subsidiary company |
| Duncan Robert COOK | Director |
| Brien Herbert CREE | Director |
| Bret Paul JACKSON | Director |
| Timothy James Duncan SUMNER | Director |
| Wave Rider Holdings Limited | Shareholder |
| Knox Radius LP | Shareholder |
| Healthpoint Investments LP | Shareholder |
| Sharp Tudhope Lawyers Limited | Common director (Duncan Robert COOK) |

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 26: RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Balances with shareholders

| | | 2018 \$ '000 | 2017 \$ '000 |
|-------------------------------|----|-----------------|-----------------|
| Shareholder loans | | | |
| - Wave Rider Holdings Limited | 18 | 2,720 | 2,720 |
| - Knox Radius LP | 18 | <u>2,310</u> | <u>2,310</u> |
| | 18 | <u>5,030</u> | <u>5,030</u> |

(b) Transactions with directors

| | | | |
|---------------------------------|--|------------|-----------|
| Directors fees | | | |
| - Duncan Robert COOK | | 44 | 51 |
| Legal fees | | | |
| - Sharp Tudhope Lawyers Limited | | <u>182</u> | <u>52</u> |

(c) Related party transactions

| | | | |
|-------------------------|--|------------|------------|
| Management fee expense: | | | |
| - Knox Radius LP | | <u>250</u> | <u>250</u> |

During the years ended 31 March 2017 and 2018, the Group undertook no other transactions with Directors in their personal capacity other than the payment of items noted above and key management personnel compensation (refer Note 27).

NOTE 27: KEY MANAGEMENT PERSONNEL COMPENSATION

Compensation received by key management personnel of the group

| | | |
|--------------------------------|--------------|--------------|
| - short-term employee benefits | <u>1,198</u> | <u>1,329</u> |
| | <u>1,198</u> | <u>1,329</u> |

Key management personnel include the Managing Director, the Chief Financial Officer and the General Manager of Operations. Compensation includes base salaries and bonuses.

The names of Directors who have held office during the year are:

Name

Duncan Robert COOK
Brien Herbert CREE
Bret Paul JACKSON
Timothy James Duncan SUMNER

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 28: FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks comprising:

- (a) Credit risk
- (b) Liquidity risk
- (c) Interest rate risk
- (d) Fair values compared with carrying amounts

The board of directors have overall responsibility for identifying and managing operational and financial risks.

The Group holds the following financial instruments:

| | | 2018 \$ '000 | 2017 \$ '000 |
|------------------------------|----|-----------------|-----------------|
| Financial assets | | | |
| Cash and cash equivalents | 8 | 1,768 | 2,524 |
| Receivables | 9 | <u>7,406</u> | <u>4,662</u> |
| | | <u>9,174</u> | <u>7,186</u> |
| Financial liabilities | | | |
| Bank and other loans | 18 | 27,155 | 29,557 |
| Payables | 17 | 3,592 | 3,112 |
| Finance leases | 18 | <u>197</u> | <u>139</u> |
| | | <u>30,944</u> | <u>32,808</u> |

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk, or the risk of counterparties defaulting arises mainly from cash at bank, trade and other receivables.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to financial statements.

The Group has no material credit risk exposure to a single debtor under financial instruments entered into by the Group (refer Note 9).

(i) Cash deposits and other receivables

Credit risk for cash deposits is managed by holding all cash deposits with high credit rating financial institutions i.e. major registered New Zealand banks.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Trade receivables

Credit risk with respect to trade receivables is limited due to the large number of customers which qualify for Ministry of Health funding in relation to payment of our services. Amounts owned by trade receivables are generally unsecured.

Credit risk is managed through the use of admission agreements for all residents, which gives contractual rights to the Group in relation to security and collection of debts in circumstances where there is no entitlement to Ministry of Health funding. All admissions are reviewed to ensure a duly completed admission agreement is available.

Outstanding receivables are regularly monitored for payment in accordance with credit terms.

The aging analysis of trade and other receivables is provided in Note 9. As the Group undertakes transactions with a large number of customers and regularly monitors payment in accordance with credit terms, the financial assets that are neither past due nor impaired, are expected to be received in accordance with the credit risk.

(iii) Other receivables

Credit risk for trade receivables is managed by dealing exclusively with high credit rating counterparties. Outstanding receivables are regularly monitored for payment in accordance with credit terms.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has liquidity risk with respect to its repayment obligations of financial liabilities.

The Group maintains a rolling 90 day forecast of daily cash flows to ensure it will have sufficient liquidity to meet its liabilities as they fall due. This is linked to a monthly rolling forecast which provides directional liquidity expectations for a minimum of a further twelve months.

The Group has a bank facility which is subject to certain covenant clauses, whereby it is required to meet certain key performance indicators. This bank facility is provided by the ASB Bank.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

Maturity analysis

The table below represents the undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

| Year ended 31 March 2018 | < 6 months \$ '000 | 6-12 months \$ '000 | 1-5 years \$ '000 | Total contractual cash flows \$ '000 | Carrying amount \$ '000 |
|-------------------------------------|----------------------------------|--------------------------------|------------------------------|---|--|
| Payables | 3,592 | - | - | 3,592 | 3,592 |
| Borrowings | - | - | 27,155 | 27,155 | 27,155 |
| Leases | 18 | 19 | 160 | 197 | 197 |
| Total | 3,610 | 19 | 27,315 | 30,944 | 30,944 |

| Year ended 31 March 2017 | | | | | |
|-------------------------------------|---------------|-----------|--------------|---------------|---------------|
| Payables | 3,112 | - | - | 3,112 | 3,112 |
| Borrowings | 25,707 | - | 3,850 | 29,557 | 29,557 |
| Other financial liabilities | 20 | 21 | 98 | 139 | 139 |
| Net maturities | 28,839 | 21 | 3,948 | 32,808 | 32,808 |

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Group's exposure to interest rate risk arises mainly from its interest earning cash deposits and its interest bank borrowings. The Group is exposed to interest rate risk to the extent that it invests for a fixed term at fixed rates or borrows for a fixed term at fixed rates. The Group's policy is to obtain the most favourable term and interest rate available.

Interest rates on cash at bank are subject to market risk in the event of changes in interest rates. As these securities are carried at net market value, the effective interest rate is reflected in the market price.

Interest rates on non-current bank borrowings are generally subject to review annually or at shorter intervals and interest rates on current borrowings can be reviewed at the lender's discretion.

The Group's exposure to interest rate risk in relation to future cashflows and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

2018

| Financial instruments | Interest bearing | Non-interest bearing | Total carrying amount | Weighted average effective interest rate |
|------------------------------|-------------------------|-----------------------------|------------------------------|---|
| | \$ '000 | \$ '000 | \$ '000 | |
| <i>Financial assets</i> | | | | |
| Cash | <u>1,768</u> | <u>-</u> | <u>1,768</u> | 0.9 % Fixed |
| <i>Financial liabilities</i> | | | | |
| Bank and other loans | (22,125) | (5,030) | (27,155) | 2.8 % Fixed |
| Leases | <u>(197)</u> | <u>-</u> | <u>(197)</u> | 8.3 % Fixed |
| | <u>(22,322)</u> | <u>(5,030)</u> | <u>(27,352)</u> | |

2017

| | | | | |
|------------------------------|-----------------|----------------|-----------------|-------------|
| <i>Financial assets</i> | | | | |
| Cash | <u>2,524</u> | <u>-</u> | <u>2,524</u> | 0.9 % Fixed |
| <i>Financial liabilities</i> | | | | |
| Bank and other loans | (24,527) | (5,030) | (29,557) | 2.8 % Fixed |
| Leases | <u>(139)</u> | <u>-</u> | <u>(139)</u> | 8.3 % Fixed |
| | <u>(24,666)</u> | <u>(5,030)</u> | <u>(29,696)</u> | |

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

Sensitivity

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

| | 2018 \$ '000 | 2017 \$ '000 |
|----------------------------|-------------------------|-------------------------|
| + / - 100 basis points | | |
| Impact on profit after tax | (254) | (222) |
| Impact on equity | (183) | (160) |

(d) Fair values compared with carrying amounts

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in consolidated statement of financial position and notes to financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

| Note | 2018 \$ '000 | 2017 \$ '000 |
|------|-----------------|-----------------|
|------|-----------------|-----------------|

NOTE 29: CAPITAL AND LEASING COMMITMENTS

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable

| | | |
|---|----------------|----------------|
| - not later than one year | 12,297 | 11,150 |
| - later than one year and not later than five years | 43,302 | 34,361 |
| - later than five years | <u>82,266</u> | <u>62,178</u> |
| | <u>137,865</u> | <u>107,689</u> |

Contingent rental expenses

The Group leases various residential facilities under operating lease agreements. The lease terms are between 3 and 30 years, and the majority of lease agreements are renewable at the end of the lease at market rates.

(b) Capital expenditure commitments contracted for:

| | | |
|------------------------------|------------|------------|
| Capital expenditure projects | 267 | 285 |
| Payable | | |
| - not later than one year | <u>267</u> | <u>285</u> |
| | <u>267</u> | <u>285</u> |

Capital expenditure commitments contracted for related to expenditure committed at reporting date but not reflected in the financial statements.

RADIUS RESIDENTIAL CARE LIMITED AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

NOTE 30: CONTINGENT LIABILITIES

Lester Heights business

On 26 June 2013, the Radius Residential Care Limited entered into an agreement to sell the Lester Heights business. The sale was settled on the 31 August 2013. One of the conditions of sale is that in the event that the new business owner defaults on the rental payments, the Group is required to guarantee the rent. For the years ended 31 March 2017 and 2018, no amounts were paid, but in the event that a default occurs, the potential cost to Radius Residential Care Limited is an annual rent of \$237,744 per annum until 2029.

Other

There were no other material contingent liabilities at reporting date (2017: Nil).

NOTE 31: CONTINGENT ASSETS

There were no material contingent assets at reporting date (2017: Nil).

NOTE 32: EVENTS SUBSEQUENT TO REPORTING DATE

There has been no matter or circumstance, which has arisen since 31 March 2018 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 31 March 2018, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 31 March 2018, of the Group.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Radius Residential Care Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Radius Residential Care Limited and its subsidiaries ('the Group') on pages 1 to 50, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS').

Our report is made solely to the Shareholders of Radius Residential Care Limited, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Radius Residential Care Limited and the Shareholders of Radius Residential Care Limited, for our audit work, for our report or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor, our firm carries out other assignments for Radius Residential Care Limited and its subsidiaries in the area of taxation compliance services and financial statement compilation services. The provision of these other services has not impaired our independence.

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

A handwritten signature in blue ink that reads 'Staples Rodway'.

STAPLES RODWAY AUCKLAND

Auckland, New Zealand

29 June 2018