Arvida

# 2019

ANNUAL REPORT
TO 31 MARCH 2019

# ABOUT THIS REPORT

## SCOPE, BOUNDARY AND REPORTING CYCLE

This Annual Report and Financial Statements (**Annual Report**) of Arvida Group Limited (**Arvida** or **Group**) is prepared in accordance with the International Financial Reporting Standards, NZX Listing Rules and Corporate Governance Code, Companies Act 1993 and with due consideration of the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework.

The report covers all business operations across our New Zealand subsidiaries for the financial year ended 31 March 2019. The information is supplemented by additional disclosures, including:

- 2019 Annual Results Presentation
- 2019 Notice of Annual General Meeting,

which are also available on the Group's website (www.arvida.co.nz) from the date of distribution of this Annual Report.

Additionally, audit reports for each of our care facilities are available at the Ministry of Health's website (www.health.govt.nz) along with audited financial statements for each of our retirement villages at the New Zealand Companies Office's website (www.companiesoffice.govt.nz).

The Integrated Reporting <IR> framework encourages businesses to consider what creates value for them and how this value contributes long term sustainable returns for stakeholders. We believe this 'integrated thinking' can ultimately contribute positively to our performance and our community. Our intention is to be a transparent organisation focused on creating long-term sustainable value. The pathway to our <IR> will evolve over time.

During the year we invested time in defining our business model and reviewing our strategy (page 8) and understanding our material risks and opportunities. This report gives an initial internal view of our most material matters affecting business activities (page 34).

For Arvida, <IR> is more than just disclosure; it is a process that supports changes to behaviour in the way that we manage the business and assets. This year, we have focused on selected elements of the <IR> framework in a pragmatic approach to improving our reporting.

We intend to build on this Annual Report and approach in next year's report as we consider integrated reporting is the right approach to engage with our stakeholders.

## TARGET AUDIENCE AND APPLICATION

The process of reporting publicly on an ongoing basis is evidence of our commitment to transparency, as well as our determination to back up our words with action. This report has been primarily prepared for current investors to outline how we are delivering on our strategy.  The report is also relevant for prospective investors or any other stakeholder who has an interest in our performance and prospects.

## EXTERNAL AUDIT AND ASSURANCE

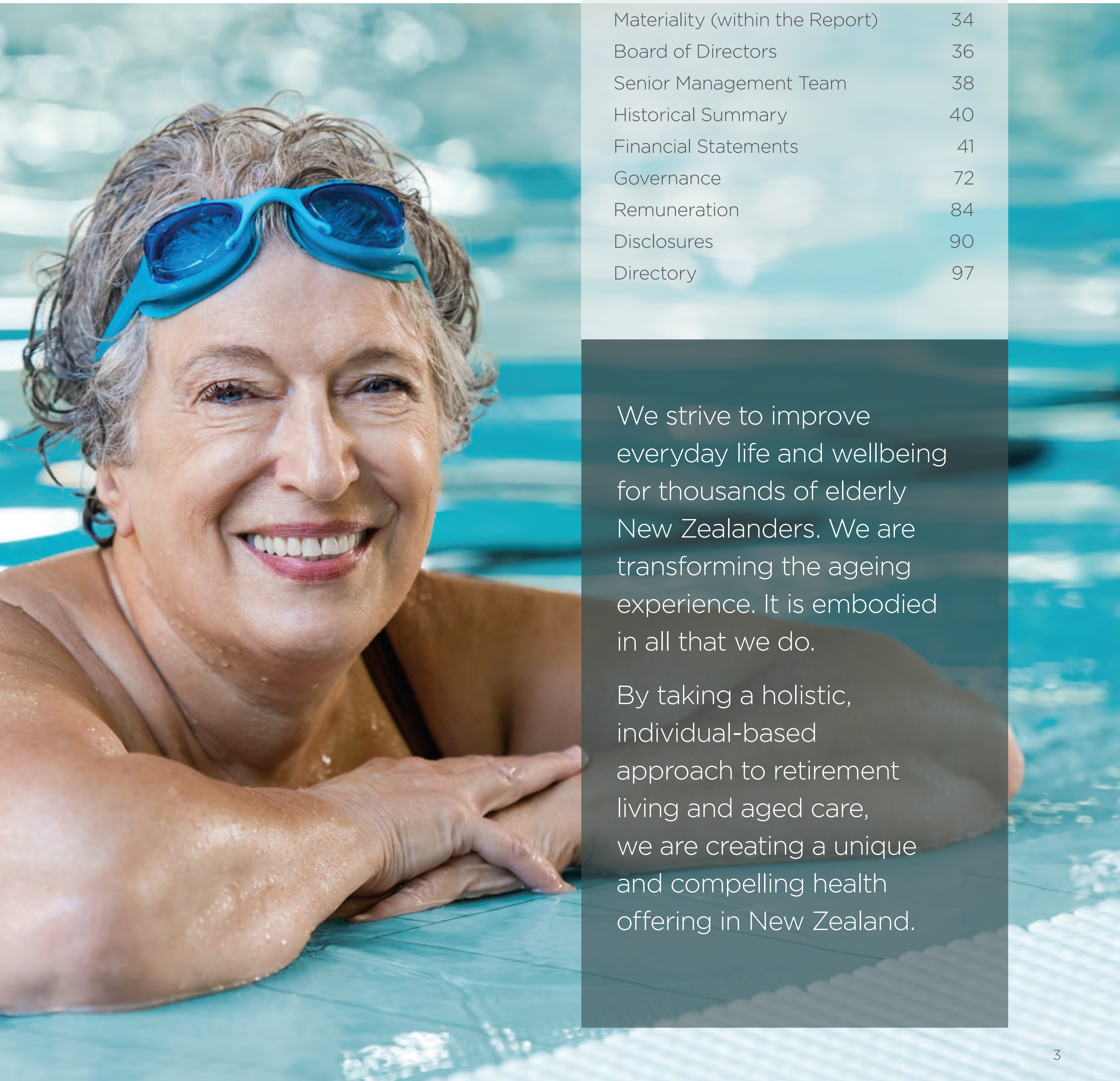
An independent audit of Arvida's consolidated annual financial statements was performed by the Group's independent external auditor, Ernst & Young in accordance with International Standards on Auditing (New Zealand). The rest of this Annual Report has not been subjected to independent audit or review. Information reported, other than that mentioned above, is derived from Arvida's own internal records and publicly disclosed information.

The Executive management and the Board have collectively reviewed the contents of this Annual Report and agree that it reflects a balanced view of business performance and outlook.

## FORWARD LOOKING STATEMENTS

The Annual Report contains certain forward-looking statements with respect to Arvida's financial position and operational results. This involves a degree of risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Factors that could cause our actual results to differ materially from those in the forward-looking statements include global, national and regional economic conditions; levels of securities markets; interest rates; exchange rates; credit or other risks of lending and investment activities; as well as competitive and regulatory factors. Because of this uncertainty, all forward-looking statements have not been reviewed or reported on by our auditor.

We welcome your feedback on this report.
Please address any queries or comments to the Investor Relations team at info@arvida.co.nz



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We strive to improve everyday life and wellbeing for thousands of elderly New Zealanders. We are transforming the ageing experience. It is embodied in all that we do.

By taking a holistic, individual-based approach to retirement living and aged care, we are creating a unique and compelling health offering in New Zealand.

# ARVIDA AT A GLANCE

ARVIDA GROUP
TO 31 MARCH 2019

**29**

LOCATIONS NATIONALLY

**4,000 +**

RESIDENTS

**2,500**

ARVIDA TEAM MEMBERS

## Arvida is transforming the ageing experience.

We were formed in 2014 when we listed on the New Zealand stock exchange with 18 retirement villages. Since then, we have grown to become a group spread across 29 locations nationally, with greenfield development underway adding two more locations. We now offer retirement living accommodation and aged care services to over 4,000 residents. We are one of the largest providers of aged care services in New Zealand.

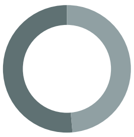
Everyday almost 2,500 team members strive to improve the lives and wellbeing of our residents. With this vision, we are reimagining how communities will age and setting strategy accordingly. Our focus is on the resident – we are resident-led in our outcomes. This resonates through strategy from new builds and acquisitions, to our care model which we call The Attitude of Living Well.

## TOTAL AGED CARE BEDS

722 Rest Home

733 Hospital

267 Dementia Care

887 North Island

835 South Island

96%

Occupancy of Aged Care Beds

## TOTAL RETIREMENT UNITS

1,266 Villas/Apartments

664 Serviced Apartments

25 Care Suites


1,298 North Island

657 South Island

82 years Current Average Age of Independent Living Residents

87 years Current Average Age of Serviced Apartment Residents

## AGED CARE

Aged care is an integral part of Arvida's continuum of care offering with 21 co-located and five standalone care facilities.

With most of Arvida's care facilities located within the retirement villages, residents can move through the village and receive support as their care needs change.

Options include rest home, hospital, and secure dementia care. Respite care facilities are also available at many Arvida locations.

*Note: Includes units at Village at the Park in which Arvida has a 50% interest.*

## RETIREMENT LIVING

### Independent Living

Accommodation options that typically provide for residents who wish to continue living independently but want to enjoy a retirement village lifestyle and facilities knowing that care is available if and when they should need it. Options include villas and apartments.

### Assisted Living

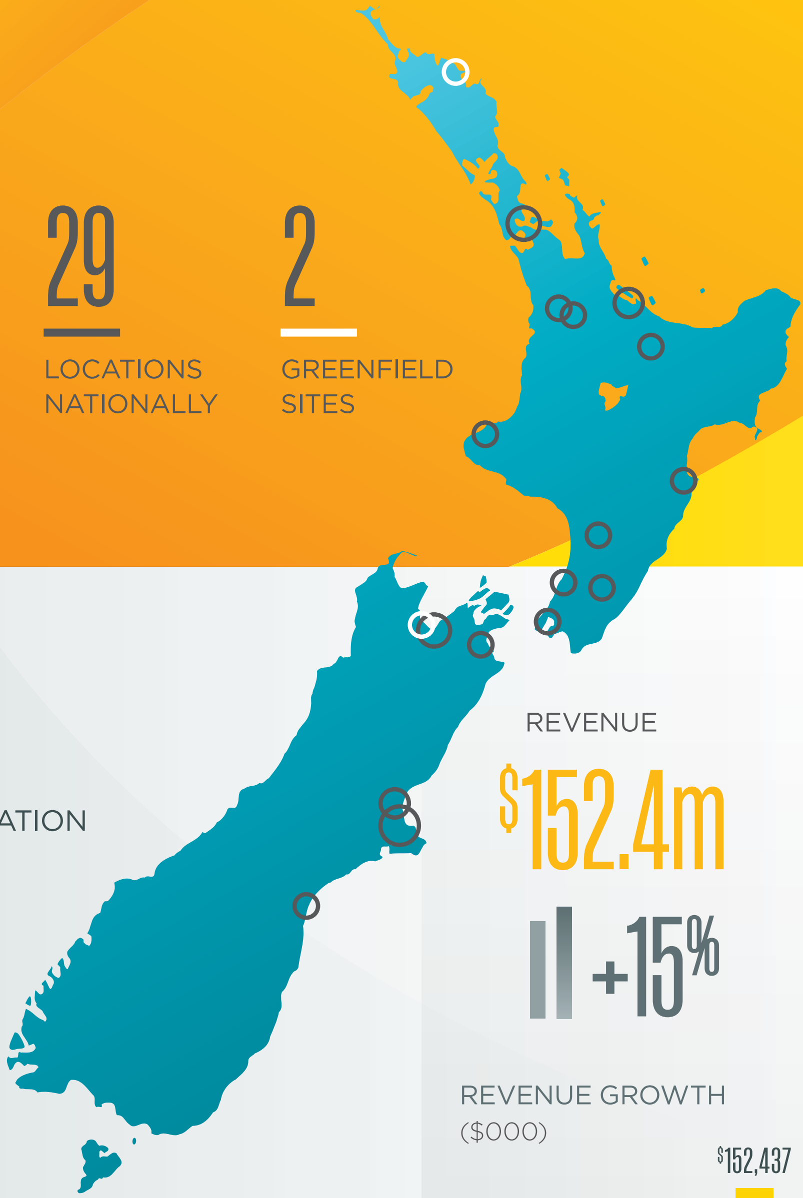
Assisted living options (serviced apartments and care suites) are designed to provide residents with the support and care they require. Arvida offers a range of care packages in conjunction with an Occupation Right Agreement.

# 2019 HIGHLIGHTS

THE YEAR IN BRIEF

**29**
LOCATIONS NATIONALLY

**2**
GREENFIELD SITES

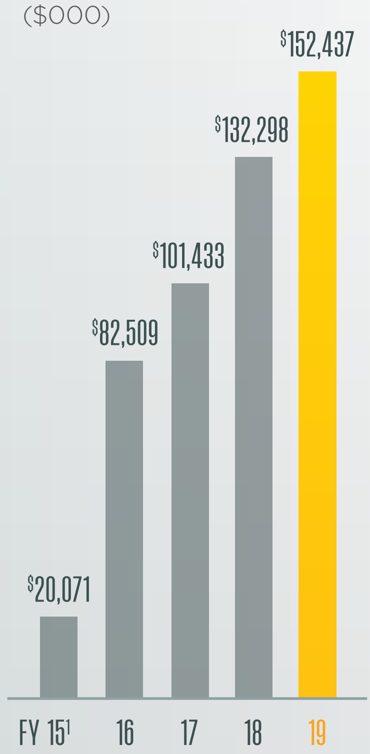


REVENUE

**$152.4m**

**+15%**

REVENUE GROWTH
($000)




### CARE OCCUPANCY
maintained at 96%.

### MINISTRY OF HEALTH CERTIFICATION
17 of our 26 care facilities now have four-year certification.

### NET PROMOTER SCORES
of +58 and +51 in our villages and care facilities respectively.

### STAFF ENGAGEMENT INDEX
at 78% in inaugural survey.

### CONSTRUCTION
of 113 new units completed during the year.

### OCCUPATION RIGHTS SALES
of 328, including 258 resales and 70 new unit sales.

### DEVELOPMENT ACTIVITY
across ten brownfield and one greenfield site.

### ACQUISITION
of 18 hectares of land in Kerikeri to build a new broad acre village with integrated care and community facilities.

### DIVIDEND
of 1.45 cents per share declared for 4th quarter, bringing total FY2019 dividends to 5.35 cents per share.

3,677

TOTAL UNITS

66%

NEEDS-BASED COMPOSITION

1,357

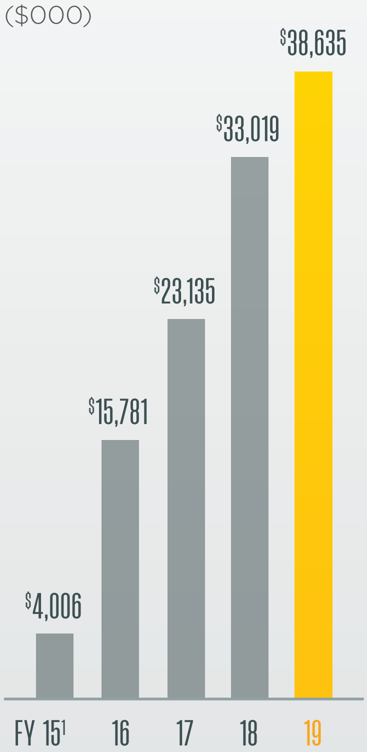
UNIT DEVELOPMENT PIPELINE

UNDERLYING PROFIT[2]

$38.6m

+17%

EARNINGS GROWTH
($000)

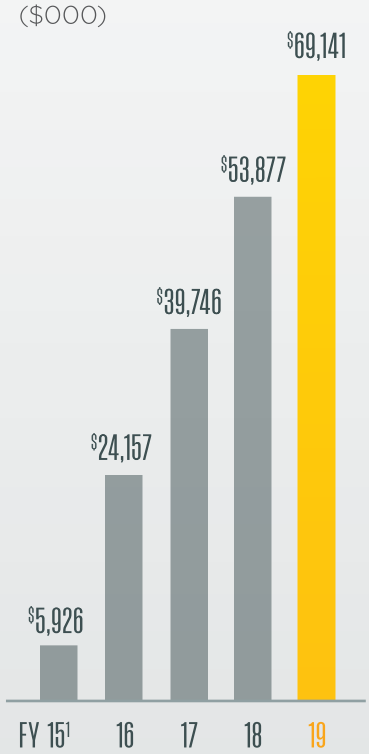



OPERATING CASH FLOW

$69.1m

+28%

CASHFLOW GROWTH
($000)

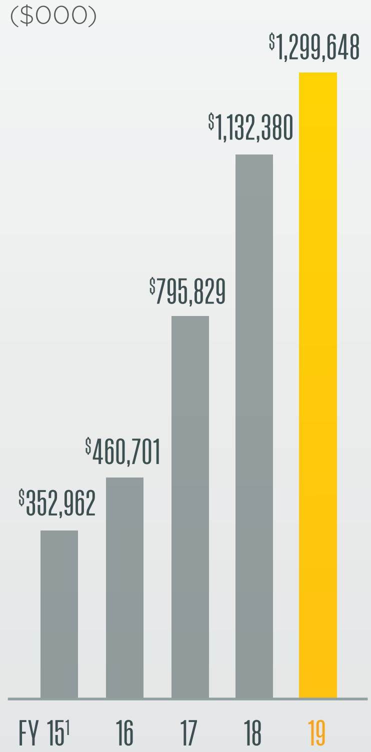



TOTAL ASSETS

$1.3b

+15%

ASSET GROWTH
($000)




1. Financial statistics for FY2015 represent a part period with village operations commencing on 18 December 2014.
2. Underlying Profit is a non-GAAP (unaudited) financial measure and differs from NZ IFRS net profit after tax. Please refer to page 16 for a reconciliation to Reported Profit under IFRS.

# OUR STRATEGY

We have a clear and simple strategy: to sustain and enhance our core business; to develop quality villages; to acquire complementary villages; and to deliver quality services to ageing communities.

The Arvida strategy feeds into our vision and is underpinned by our values and provides focus on where we are going, why we are going there and what we have to do to get there.

Through this strategy, we aim to deliver quality resident-led services, returns for our shareholders and value for all Arvida stakeholders.

## EVOLVING TOWARDS A FOCUSED COMMUNITY CENTRIC STRATEGY

Over the last year, we have made progress in evolving our strategy to better reflect areas of key focus across the business. The new theme introduced last year is now better defined and forms a key part of strategy for the Group. We have also sharpened our strategy to focus our effort going forward.

We have initiated a process that will lead to engaging with external stakeholders this year with the objective of receiving their feedback on key aspects of our strategy. Through engaged teams, happier residents and stronger communities, we aim to deliver change, shape our culture and prepare for the future challenges and opportunities facing us and the sector.

Our ability to execute the strategy is articulated in our business model (page 18) which provides a clear depiction of the significant input, business activities and related outputs that will support Arvida in achieving our desired outcomes.

## OUR VISION

To improve the lives and wellbeing of our residents by transforming the ageing experience.

We create value for our investors through our focus on four **strategic pillars** that meet the needs of our people, customers and communities.

### LIVING WELL

Create a profitable and sustainable retirement and aged care business that leads the sector through actively improving the lives and wellbeing of our residents.

### BUILDING WELL

Develop integrated retirement living communities for the future, either by adding to or improving existing villages or through acquiring bare land and building villages.

### BUYING WELL

Acquire quality retirement villages that are complementary to the overall portfolio composition and deliver long term value through operations or by adding opportunities.

### ENGAGING WELL

Deliver quality healthcare and wellbeing services to ageing communities by using our expertise and assets to explore new growth opportunities for the future of our business.

**The Attitude of Living Well** drives our responsibility as a business for...

### ENGAGED TEAMS

Creating and nurturing a culture that attracts and rewards an engaged workforce, aligned with our strategy and delivering excellent outcomes for our residents.

### HAPPIER RESIDENTS

Our residents are at the heart of what we do. We challenge ourselves to make our residents' lives better with everything we do.

### STRONGER COMMUNITIES

By developing vibrant and sustainable engagement and support programmes, we improve connections across our ageing communities.

Our approach is underpinned by our **core values**...

### PASSIONATE

We love what we do; our residents are our family.

### AUTHENTIC

We are genuine and real.

### FAIRNESS

We act with integrity and respond fairly and consistently in all interactions.

### CAN DO

We are empowered to get things done; we start with 'yes' and focus on solutions.

### INNOVATIVE

We constantly search for better outcomes; we challenge 'normal'.

### NIMBLE & FLEXIBLE

We change things when it makes sense to create great resident outcomes.

# CHAIR'S LETTER

PETER WILSON

**On behalf of the Directors, I am pleased to present the company's annual report for the financial year ended 31 March 2019 which includes the financial statements and shareholder review.**

## FINANCIAL PERFORMANCE

Arvida delivered a very solid performance for the financial year ended 31 March 2019, with underlying profit of $38.6 million, up from $33.0 million in the prior financial year. The performance of our core business remains strong and continues to generate increasing cash flows. Our cash flow profile is underpinned by $130.9 million of cash generated from our care and village operations and $115.9 million delivered from the sale of occupation rights agreements.

Shareholders will receive a final dividend for the quarter of 1.45 cents per share, taking the full year cash dividend to 5.35 cents per share. The dividend payout ratio for the year was 57 percent, within the Board's target payout range of 50 to 70 percent of underlying profit.

## FINANCIAL POSITION

Net bank debt was $185.5 million at the end of the financial year with the balance sheet conservatively geared at 25 percent. This enables construction to continue across eleven development sites, including new integrated care facilities at existing villages in Tauranga and Auckland. Headroom is maintained to enable the Company to consider new opportunities that meet our criteria including location, quality and adaptability to community care initiatives.

## STRATEGY

We have defined our strategy through four core pillars: to sustain and enhance our core business; to develop quality villages; to acquire complementary villages; and to deliver quality services to ageing communities.

To achieve our goals we need to invest in our people at all levels in the company through training and development programmes. We also need to promote our values and culture to achieve our vision. Feedback from our first staff engagement survey was excellent with positive feedback on the work place and staff motivation. Investment in our customer-led care offering – The Attitude of Living Well, is being achieved with investment in leadership programmes, staffing structures and product design. Results received across key stakeholder groups – our people, our residents and our community – support continued investment with focus on the four value pillars driving excellent outcomes.

## YOUR BOARD

Best practice governance guidelines recommend boards implement formal processes for evaluating their performance along with that of committees and individual directors. We have adopted a policy of having Board performance reviewed every two years by an external consultant.

Having conducted the inaugural external review in 2017, Propero Consulting was again engaged to run a board evaluation programme. This provided an independent lens on Board functioning, capability, and future learning areas. Data was gathered through surveys and interviews with directors and key executive members. Overall, progress was found against the 2017 review.

The key findings centred on stronger Board and executive succession planning, and continuing to implement our long-term strategy. An overview of the Board skills matrix provided by Propero is also included on page 36.

## CORPORATE RESPONSIBILITY

We elected to adopt the changes to the NZX Listing Rules early. The new Listing Rules were the first major revision undertaken by the NZX in many years and represented a comprehensive update. A number of amendments are required to our constitution in order to comply with the new Listing Rules. The amendments are procedural in nature and will be put to shareholders for approval at the Annual Meeting of Shareholders to be held on 5 July in Christchurch.

Increasing the disclosure and presentation of non-financial information is a main tenant of the new Listing Rules. In last year's annual report, we included a number of new non-financial disclosures. While we are in the early stages of developing our reporting framework that will address our Environmental, Social and Governance objectives, this report has been prepared with reference to the Integrated Reporting <IR> framework. Environmental, social and economic factors already form an integral part of the management and value creation process across the Group. A continuing focus will deliver benefits to performance and contribute positively to our communities.

## THE OUTLOOK

The retirement and aged care sectors are highly regulated and this last year has seen new challenges in retaining qualified staff who with training and support will deliver quality care to our residents. Arvida is well placed to maintain its position as a leading operator in the sector. Maintenance of ethical standards and integrity do position us well.

Both our care operations and retirement villages continue to perform strongly, and our development pipeline continues to grow. We expect further earnings growth in the coming year.

Over the period from 1 April 2016 to 31 March 2019, our total shareholder returns of 57 percent ranked 12th out of 41 companies that were in the NZ50 Index at both the commencement and conclusion of the period. We also delivered the highest total shareholder returns over this period out of the four listed retirement village operators.

We are satisfied with the progress we are making in implementing our strategy. Providing aged care services successfully requires a genuine commitment to the care and wellbeing of our residents and we are proud of the contribution from all of the Arvida team.

Peter Wilson
Chair, Arvida Group Limited

# CEO'S REPORT

BILL MCDONALD

**We celebrated the achievement of several milestones this year which concluded in reporting financial performance significantly ahead of last year.**

A different approach has been taken in reviewing our milestones and progress in this year's reporting. We have looked to present the outcomes of our strategy in a manner that more clearly identifies how our vision has translated into the value we are creating as we execute our strategy.

## OUR STRATEGY

The four pillars of our strategy remain – living well, building well, buying well and engaging well. However, consistent with an evolving strategy we have sought to better define focus areas for the business direction, allowing them to be clearly and simply communicated. We remain focused on improving the lives and wellbeing of our residents by transforming the ageing experience. Through this strategy we aim to deliver excellent service, returns for our shareholders and value for all of Arvida's stakeholders.

Our integrated business model is defined by our ability to fund, manage, grow and enhance a resident-led service offering that improves their lives and wellbeing.

We believe this business model will create a sustainable and enduring competitive advantage that positions the business well for the long term, driving significant value for our stakeholders. That value will be measured both in economic terms as well as social benefits.

## OUR BUSINESS

The investment in bringing 'The Attitude of Living Well' to life across the business has been a standout success.

The model comprises five components and articulates how we deliver care. The aim is to support residents to live their best life in a home-like environment where they set the pace and rhythm of their day. It creates a mindset of customer experience. It says that, not only are we focused on providing excellent clinical care, we are also focused on the holistic wellbeing of every resident across the continuum by providing normality, choice and independence.

The mindset that has evolved from The Attitude of Living Well has underpinned the development of our culture and led a marked change in thinking across the business on many different levels – even to the design of our new buildings where we are planning to incorporate mixed-use community facilities.

Staff are being empowered to act as support partners, providing help and support where needed and allowing choice and autonomy as much as practicable. We have actively determined to move away from the traditional hierarchical structures that are pervasive in the healthcare sector and have rather focused on instilling The Attitude of Living Well and empowering teams to contribute to customer happiness and wellbeing. Small changes such as allowing staff to wear their own choice of clothes rather than uniforms and removing the ever-present buzzers and bells of a healthcare system, have all contributed to this continuous improvement.

The 'customer' experience is critical to any organisation with a customer or end user. By giving teams strategic direction and fostering the right culture, we are delivering value to both our people and our residents. This has translated into high occupancy rates, transformed our ability to gain extended certifications and enabled premium pricing structures. The results link directly to business and shareholder value.

By refocusing on indicators and measures not customary in the industry, teams are now able to define and deliver better experiences for our residents. We track progress using Net Promoter Scores, the results of which continue to exceed expectations. Our first staff survey also provided insights into how this focus on the customer experience is impacting staff wellbeing. We found it to be having a hugely positive contribution to staff engagement.

Through leveraging purpose, vision and culture we are delivering measurable value. Our strategy will continue to focus on customer experience outcomes and embedding the mindset in our culture.

## OUR SUSTAINABILITY FOCUS

Our strategy covers financial performance as well as managing our social impacts and conducting business in an ethical manner in creating sustainable value. Not only do we strive to be transparent about our business activities and finances, we also aim to be a responsible business by supporting our people, our residents and our community.

During the year we spent some time understanding and identifying issues considered important internally. Interestingly the survey highlighted several macro related issues as material topics currently. As the next step we intend to refine this view in conjunction with external stakeholders. Conducting a sustainability materiality review helps us focus on the issues that are most relevant for our key stakeholders. It is important that we minimise any potential gaps between our stakeholders' expectations and our actions and performance. Identifying material issues ensures the right mechanisms are put in place to measure what matters to stakeholders and focus our attention on the areas that will help us achieve our vision. This process will better assist us to form a sustainability framework and policy.

We recognise the benefits of sustainability extend beyond a reduction in environmental footprint. Given we are fortunate to be involved in a sector where the work we do has a direct impact on improving people's lives, community aspects will form a key part of our sustainability focus. Long term measurable goals will likely be established for health and wellbeing, staff development and community welfare.

We now have more than 4,000 residents and 2,500 staff as part of our immediate community. Many more indirectly form part of that community through family and social relationships and networks that our residents and staff bring to Arvida. We believe in playing a positive role in our communities, supporting positive interactions and developing vibrant communities. Each of our villages is involved in numerous partnerships that assist to create that link to community engagement.

## OUR DEVELOPMENT MILESTONES

In FY2019 we progressed our key developments and further established our future development pipeline. In total we built 113 new retirement homes across five of our existing villages, in line with guidance provided to the investment community. We also acquired a greenfield site in Kerikeri where we plan to develop a broad acre village that will include independent living, integrated care and a range of community facilities.

Construction activity continues across eleven of our villages including our new village in Richmond – Waimea Plains. With the first villas at Waimea Plains due for completion later this year, a launch event was held at the end of April to unveil the village to the local community. This received an outstanding reception with more than 300 people visiting the village over the course of the weekend. There was plenty of interest in our outwardly facing community concept, which is a key offering incorporated in all new villages. It forms part of the village and helps make that connection to the community by creating a neighbourhood that includes a health and fitness centre, hospitality, allied health and mixed retail. In only three weeks, contracts for 10 of the 38 villas available in the first stage are already held.

The current development programme schedules the delivery of 170 new retirement homes in this financial year. Our build rate will progressively lift to an average of over 200 new retirement homes constructed annually as we develop our existing land bank over the next six to seven years. Most of this development will occur in regional centres and include a diversity of product type from independent living villas to assisted living serviced apartments and care suites. We continue to see value in maintaining a high needs-based composition of product in our portfolio.

Capacity constraints in the construction sector remain acute. With growth in input prices for both residential and non-residential building construction now outpacing output prices, we see the potential for elevated risk around construction contractors. Inhousing some head contractor functions has allowed greater development oversight and additional margin to be captured. Arvida has established governance processes in place and maintains sufficient balance sheet capacity to deliver our current development programme.

## LOOKING AHEAD

The current economic outlook is relatively uncertain with near-term indicators suggesting a continued slowing of the economy.

Property price growth has been a key driver of retirement village sector returns in recent years. The REINZ March house price index for New Zealand (excluding Auckland) was 7.2 percent higher year-on-year highlighting the overall continued property market strength in the regions. With 95 percent of Arvida's retirement village portfolio located outside of Auckland, sales activity benefited last year. However, we are now in a softer residential housing market than at this time last year. Despite this change in market conditions, continued momentum in pricing for units sold since balance date is evident across our portfolio. We continue to monitor the market and will take a disciplined approach to the management of risks that may emerge.

Business performance is tracking well to our lead demand indicators as we head into a new financial year. The New Zealand retirement sector broadly is in a significant and prolonged growth phase, fuelled by a well-known and much publicised demographic shift to an older New Zealand population. While estimates vary across market commentators, they are all in general agreement there is a shortage of retirement village stock to cater for the demographic change.

With the delivery of our fifth annual report, I am extremely proud of the progress we have made to deliver engaged teams, happier residents and strong communities.

Bill McDonald
Chief Executive Officer

# FINANCE UPDATE

ARVIDA GROUP
TO 31 MARCH 2019

## FINANCIAL PERFORMANCE OVERVIEW

Revenue for the year grew 15% to $152.4 million (2018: $132.3 million) reflecting continuing strong financial performance across core operations and full year contributions from two of the villages acquired in the second half of the 2018 financial year[3].

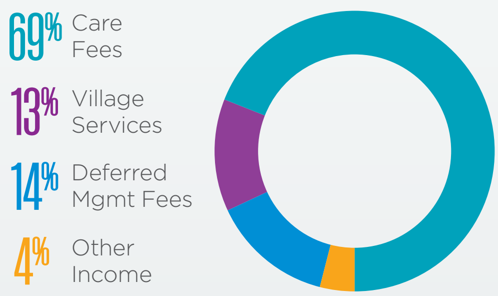
Underlying profit of $38.6 million (2018: $33.0 million) was reported for the financial year ended 31 March 2019 and underlying earnings per share of 9.33 cents (2018: 8.90 cents) delivering annual growth of 16% in earnings per share over the last four years.

High care facility occupation continues to underpin care fee revenue, which increased 14% to $108.3 million (2018: $94.7 million). Full year contributions from the acquired villages, a 4% increase in DHB funding rates during the year, the use of swing beds for higher acuity care and an increase in premium care fee revenue contributed to the growth in care fees. The redevelopment of Aria Bay commenced in December 2018 and required the decommissioning of 20 beds. This had a nominal impact on care fee revenue in the fourth quarter.

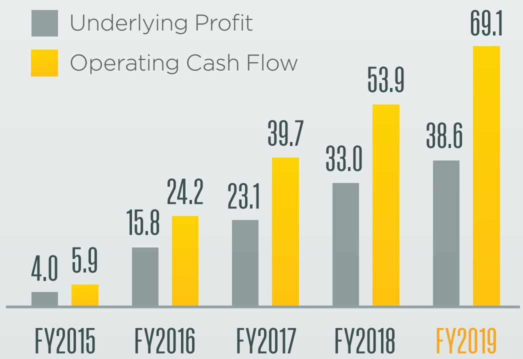
Deferred management fees relative to last year, were up 18% which reflected full year contributions from two of the villages acquired in 2018. Second half deferred management fees were up 7% from half year highlighting underlying growth through high occupancy across our villages, increased pricing and the addition of new stock to the portfolio.

A 17% lift in underlying profit included $19.5 million (2018: $13.3 million) of resale gains and $7.5 million (2018: $6.5 million) from the sale of occupation rights to 70 new units.

REVENUE COMPOSITION ($M)




OPERATING PERFORMANCE ($M)




3. *In October 2017, Arvida acquired 100% of the shares in Mary Doyle and Strathallan and 50% of the shares in Village at the Park. Mary Doyle and Strathallan are fully consolidated into the group's financial statements and they have made a full year contribution to this year's performance. Village at the Park is accounted for using the equity method and its full year contribution has been included within "Share of profit arising from joint venture".*

4. *Underlying Profit is a non-GAAP (unaudited) financial measure and differs from NZ IFRS net profit after tax by replacing the unrealised fair value adjustment in property values with the Board's estimate of realised components of movements in investment property value and to eliminate other unrealised, deferred tax and one-off items.*

## UNDERLYING PROFIT RECONCILIATION ($000)[4]

| Unaudited $000 | FY2019 | FY2018 | Variance |
|---|---|---|---|
| **Reported net profit after tax (NZIFRS)** | **59,075** | **57,637** | **1,438** |
| Changes in fair values | (49,087) | (46,974) | (2,113) |
| Deferred tax | (201) | 327 | (528) |
| Impairment of goodwill | 1,512 | 1,213 | 299 |
| One-off costs | 276 | 980 | (704) |
| **Underlying Operating Profit** | **11,575** | **13,183** | **(1,608)** |
| Gain on resales | 19,514 | 13,299 | 6,215 |
| Development margin on new units | 7,546 | 6,537 | 1,009 |
| **Underlying Profit** | **38,635** | **33,019** | **5,616** |

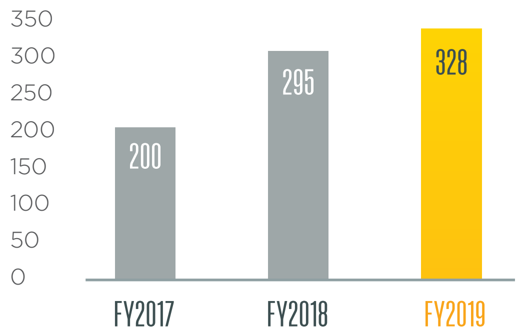
Resale activity continued to settle at pricing levels above last year on higher volumes. Prices achieved were on average 7% above valuer estimates assumed at 31 March 2018. The average margin on resale increased from 20% to 23%.

The increase in gross cash proceeds from new ORA sales was mainly driven by higher average prices. New sales activity was steady throughout the year, with ORAs now settled on all new units delivered in FY2018 and the majority of new units delivered in the first half of FY2019. New unit inventory at year end was 72 units, of which 15 are subject to contract. Pre-sales programmes at Village at the Park and Lauriston have already delivered 35 contracts for the 36 new units to be delivered later this year. Interest for our accommodation product remains strong across our villages.

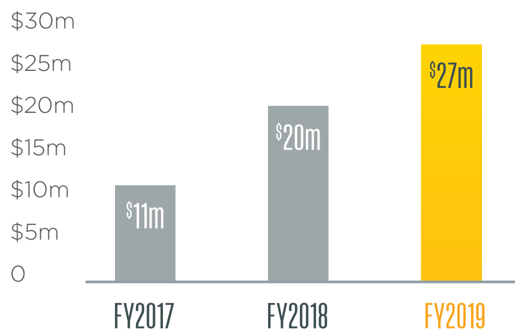
| | FY2019 | FY2018 |
|---|---|---|
| Number of ORA resales | 258 | 216 |
| Value of ORA resales | $87.1m | $67.0m |
| Resale margin | 23% | 20% |
| Number of new ORA sales | 70 | 79 |
| Value of new ORA sales | $44.3m | $41.7m |
| Development margin | 18% | 19% |

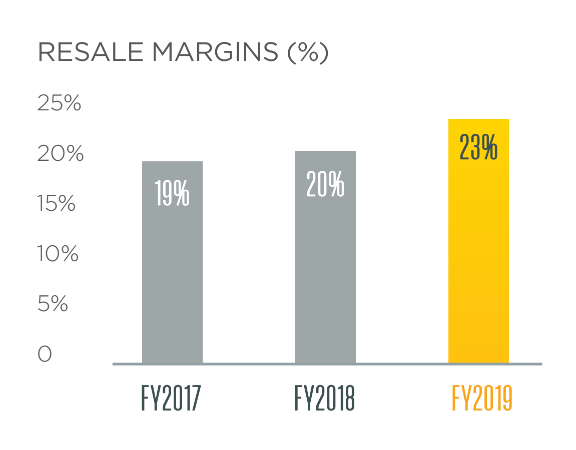
Higher operating expenses primarily reflected higher employee costs and the larger scale of the Group from FY2018 acquisition activity. External factors mainly contributed to the increase in employee costs as workforce numbers remained

TOTAL ORA SALES (UNITS)




TOTAL GAINS ON ORA SALES ($M)






relatively stable over the year.

These included fixed increases to carer wage rates, a pay agreement for nurses in the public system that had flow on impacts for the aged care sector and a higher minimum wage rate.

While increased funding rates this year partly addressed the funding gap that resulted from the pay equity settlement, a pay equity funding deficit remains. Our staff are qualified to a level that is on average higher than industry average and therefore attract higher average pay rates. Pay equity was referenced to industry average staff training levels, exacerbating the deficit as staff move to a higher level of qualification. We continue to be active with industry bodies to ensure government funding levels fairly contribute to the new cost structures. We also continue to invest in our employees, supporting them with career development.

As a leading provider of aged care facilities and services in New Zealand, the government's review of aged care funding is welcomed. The outcomes of that review are expected to be released later this year.

An increase in property costs included higher property insurance costs, mainly attributable to continued structural changes in the insurance sector and the increase in asset base.

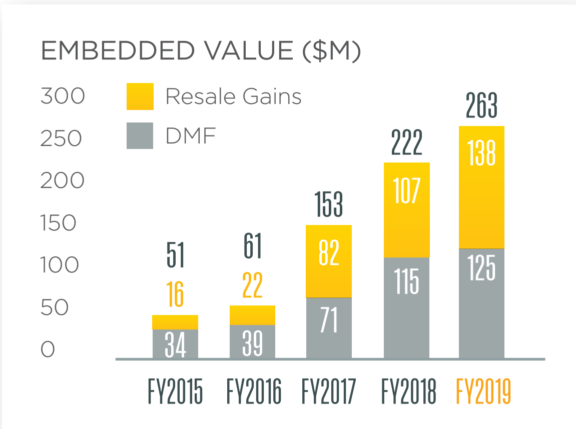
Operating cash flow reached $69.1 million (2018: $53.9 million) for the year. The increase of $15.2 million reflected the higher resale activity but also strong cash flows generated from our care operations. Care fees continue to represent a growing recurring cash flow to the business. Capital expenditure attributable to development works was $68.6 million for the year.

## OUR FINANCIAL POSITION

At the beginning of the year, an extension our banking facility and tenure was implemented. The $250.0 million facility was split evenly between three and five year tranches, with BNZ also being introduced to the syndicate alongside ANZ. Total drawn interest bearing debt was $190.5 million (2018: $122.5 million) at year end on increased development activity. Gearing of 25% (FY2018: 19%) remains conservative with headroom in our banking covenants to undertake our current development programme. We are currently in discussions with our banking syndicate to provide a further tranche of debt capacity.

Total assets increased to $1.3 billion, up from $1.2 billion reported at half year. The lift since reporting our half year result reflects an increase in development activity and annual revaluations of our investment property undertaken by CBRE Limited (CBRE) and Jones Lang LaSalle Limited (JLL). Increased unit pricing and delivery of new units contributed to higher portfolio values.

Embedded value in the portfolio, which calculates future cash that can be generated when a unit is re-licenced, grew to $263 million (2018: $222 million).



# BUSINESS MODEL

ARVIDA'S INTEGRATED BUSINESS MODEL

Our business model reflects our key inputs, business activities and related outputs and how they collectively support our ability to create value and support our strategic outcomes. We have also included some of the key measures that we currently use to track our progress towards these outcomes.

## INPUTS

### FINANCIAL

Pool of available funds provided by shareholders, banks and residents or generated through operations that is invested in the growth and enhancement of our assets and services

### MANUFACTURED

Owner and operator of 29 retirement villages and aged care facilities, providing 3,677 units/beds across New Zealand

### INTELLECTUAL

The culture and know-how brought together in our customer-led care service offering – The Attitude of Living Well, forms a critical component of delivering quality services that underpin our future earnings potential and competitive advantage

### SOCIAL & RELATIONSHIPS

Excellent relationships with our residents and externally with key stakeholders, regularly engaging with funders, suppliers and communities essential to delivery of services to a high standard with a commitment to ethical practices and social responsibility

### HUMAN

Expertise and experience of our 2,500 employees, our key asset, and the capacity to add value through human capital development and engagement

### NATURAL

Use of land and renewable resources in our existing and new villages with a focus on improving efficient use through implementing sustainable initiatives

## BUSINESS ACTIVITIES

### INVEST IN:

- Growth and expansion of our New Zealand operations through careful selection of capital projects that deliver long term value including through building and buying well
- Investment in our employees and organisation's culture to deliver a truly resident-led service offering that transforms the ageing experience of our residents and future customers
- Focus on improving the health and wellbeing of the broader community leveraging new delivery platforms and innovative services

### BY PROVIDING:

Accommodation and aged care specific services for the 65+ population

# OUTCOMES

## LIVING WELL

Through actively improving the lives and wellbeing of our residents, we will deliver a profitable and sustainable aged care business that leads the sector

## BUILDING WELL

Through developing quality integrated retirement living communities that combine a high needs-based composition and outwardly facing community facilities, we will grow our portfolio with market leading product positioned for the future

## BUYING WELL

Through acquiring quality retirement villages and aged care facilities that are complementary to our overall portfolio, we will deliver long term value

## ENGAGING WELL

Through delivering health and wellbeing services to ageing communities, we will develop a resilient business well positioned for the future

## QUALITY AGEING EXPERIENCE

Leading provider of quality retirement and aged care services and accommodation in New Zealand

### PEOPLE:

**78%** Staff engagement index in inaugural survey

### RESIDENTS:

**+58** NPS - Village residents Up from +53

**+51** NPS - Care residents Consistent with last year

### INVESTORS:

**57%** Total shareholder returns since 1 April 2016

### COMMUNITIES:

**113** New homes delivered Up from 97

# STRATEGY IN ACTION

## LIVING WELL

Sustain and enhance our core retirement and aged care business by fostering quality resident-led service outcomes

### CARE OCCUPANCY

Occupancy was 96% at March, in line with last year. This continues to be significantly above the national average rate at 90%.[5]

Throughout the year average occupancy across our 26 care facilities remained high averaging 96%. Some of our facilities consistently operated at close to 100% occupancy.

| 600,000+ | Bed nights across 1,722 beds |
|---|---|

### CERTIFICATION

Seventeen (2018: twelve) of our 26 care facilities have now fully achieved the gold standard of four-year Ministry of Health certification. Importantly none of our care facilities hold less than three-year certification. Many of Arvida's facilities have fully attained all Ministry standards and criteria. Arvida strives for continual improvement to Health and Disability Services Standards. Audit reports are published by the Ministry for all care facilities. Arvida's clinical standard is substantially above the national level where 37% of aged care facilities nationally hold four-year certification.[6]

We have a track record of improvement to Ministry clinical standards that is both a reflection of the work completed by village and clinical managers on clinical quality as well as implementing The Attitude of Living Well model of care across the Group.

| Ministry of Health Certification | 2019 | 2018 |
|---|---|---|
| Proportion of facilities with 4 years | 65% | 46% |
| Certification period (Group average, years) | 3.7 | 3.4 |
| Average Continuous Improvements[7] per site | 1.5 | 1.3 |
| Average PAs[8] (negligible or low risk) per site | 0.9 | 1.7 |
| Average PAs[8] (Moderate risk or above) per site | 0.2 | 0.6 |

5. *Reported by the industry body NZACA for the March 2019 quarter.*
6. *Reported by Ministry of Health for 665 aged care facilities.*
7. *Continuous Improvements are awarded for achievement beyond the full attainment. Measurement shows results from certification audits only.*
8. *A risk rating is given to standards or criteria identified as partially attained ('PA') or unattained ('UA'). These standards or criteria are rated according to the assessed potential risk for consumers – negligible, low, moderate, high or critical risk. A partial attainment rating does not indicate a failure. The Ministry of Health states that most rest home audits have some standards and criteria assessed as partial attainment. Partial attainment indicates the areas that require improvement. The audits are an opportunity to identify the areas where the rest home should improve and what action is required for improvement. Measurement shows results from certification audits only.*

## RESIDENT SURVEY

The Net Promoter Score (NPS) for our village residents increased to +58 (2018: +53). This is a very positive score with almost seven in ten village residents being brand promoters who share their positive experience with friends and acquaintances. NPS for Arvida residents living in care is +51, remaining consistent with 2018 data. More than three in five care residents are brand promoters, recommending the service.

NPS measures the extent to which an organisation's clients promote the business to friends and people they know. It is a measure of customer satisfaction and can be an indicator of revenue growth. A high proportion of promoters will produce a high NPS score. Because it is calculated on a net basis, the result can be within a range of -100 to +100.

| | |
|---|---|
| 4,000+ | More than 4,000 residents with 66% of the accommodation units being needs-based |

The independent survey also highlighted that residents are increasingly satisfied with the staff at their village. More than four in five residents (86% village, 83% care) were very satisfied with the respectfulness, authenticity and willingness of the staff to assist at their village.

Residents are also very satisfied with the safety and security of their village (82% village, 85% care) and the comfort and suitability of their accommodation (81% village, 76% care).

## STAFF ENGAGEMENT SURVEY

The feedback received from our inaugural survey was excellent with very strong positive feedback received.

| | |
|---|---|
| 2,500 | Almost 2,500 staff, split between caregivers (1,302), registered nurses (308), other village, casual and support centre staff |

- Staff engagement in their everyday work was indexed at 78%;
- 96% of staff surveyed were determined to give their best effort at work each day; and
- 83% of staff feel motivated to go above and beyond what is required.

The survey offers insight into the culture developing across the organisation. Reporting of results has been provided to staff to a granular level to enable functional areas to benefit.

## TECHNOLOGY

Investment continues in new technology and our processes. We completed the roll out of the new resident management system during the year. It is now fully implemented and functioning across all 26 care facilities as a centralised database for care resident health records and information. The system is designed with single client record architecture. This means as residents move through the forms of care, their clinical and other records move with them.

We are now at the stage of assessing other modules within the system with a view to enhancing the functionality and assisting staff to further increase their productivity. It has already addressed the inefficiencies of the traditional largely paper-based system that we were reliant on. With this, it has enhanced the real time information nurses and caregivers are readily able to access.

## HEALTH & SAFETY

Our Health and Safety Plan has ten goals to be completed before 30 June 2020:

- Implementation of a safety management reporting system;
- Streamlining the contractor management process;
- Aligning our health and safety systems to the ISO 45001;
- Reviewing and updating our health and safety policies;
- Developing audit tools to assess compliance at villages and development sites;
- Hazard and risk register review;
- Review and develop new standard operating procedures;
- Develop a drug and alcohol policy;
- Hazardous substance register review and updating; and
- Develop guidance to help manage psychosocial effects on staff.

The aim of this plan is to: reduce the risk of injury, illness, prosecution, loss of reputation, financial impacts, environmental incidents; improve reporting and investigating; provide guidance; set expectations; measure performance; and continually improve the systems we have in place to manage health and safety.

**2,900+** Over 2,900 Health and Safety training courses completed online

## SUSTAINABLE BUSINESS

Not only do we strive to be a leading provider of quality retirement and aged care services and accommodation, we also aim to be a responsible business. Our values and code of ethics sets out our expectations for our people to conduct business in a legal, ethical and safe way. The Code covers matters such as our commitment to act in good faith, undertake duties with care and diligence, and avoiding conflicts of interest.

We support our communities, embracing local community initiatives, being a fair employer and being open and transparent about our business activities and finances. We make a valuable contribution through payment of corporate income taxes, goods and service taxes and remitting employment related taxes on behalf of our employees. A proportion of our profit is also paid out to shareholders as imputed dividends.

New Zealand Aged Care Association **2018 Awards**

- Community Connections award for Village at the Park's IPlayed intergenerational programme.
- Stand Out Individual award for Aditi Arora Wellness Leader at Village at the Park.

Health Innovation Award.
Ashwood Park won the Nelson Marlborough District Health Board Health Innovation Award (Aged Care Category) 2018 for their Moving Well Dance Video.

# STRATEGY IN ACTION

## BUILDING WELL

Develop quality integrated retirement villages, either by adding to or improving existing villages or through acquiring bare land and building new villages

### FY2019 REVIEW

It was a very busy year in development with multiple developments in progress nationally. The investment in our development team has enabled them to manage an extensive construction programme across a diverse range of projects with relative ease.

A total of 113 new units were delivered across developments that occurred at Copper Crest, Mary Doyle, Aria Bay, Park Lane and Rhodes on Cashmere. Other than at Rhodes on Cashmere where we had challenges managing the resourcing of a closing Fletcher's division to meet agreed project delivery timeframes, our projects went according to plan. The next stages of developments at these villages are in progress. Currently we have development in progress across nine brownfield sites and one greenfield site.

The in-house construction management team in Tauranga is working well. We are currently evaluating whether to expand this model in other areas as we continue to benefit from the greater oversight and control over projects, which in turn delivers additional margin.

| 113 | New units delivered over the year, with 42 units delivered within the last quarter |
|---|---|

### ACQUISITION ACTIVITY

During the year we announced the acquisition of 18 hectares of bare land in Kerikeri with the intention of building a broad acre village comprising around 200 villas, 80 care beds and resident amenity. The site is within the existing urban boundaries close to the town centre and will provide welcome additional amenity to the local community.

We continue to evaluate the acquisition of greenfield development sites with both the volume and quality of land acquisition opportunities increasing. Vendor expectations for land prices are moderating albeit competition for good sites is still strong. Having a mix of regional and urban future development opportunities in our pipeline is desirable.

| 26 ha | 26 hectares total land for available for greenfield development |
|---|---|

### FUTURE DEVELOPMENT

Currently our development pipeline includes the addition of over 1,357 units to be completed over the next seven years. This lifts our build rate to an average of 200 new units built each year and, on completion, will represent a 37% increase in our current portfolio.

| 170 | 170 new units expected to be delivered in FY2020 |
|---|---|

Greenfield developments in Tasman and Kerikeri add 555 units/beds. The balance of development activity is within existing villages where we can enhance our offering and better utilise capacity. Most of this development is of bare land that does not require the loss of existing facilities.

Capacity limitations are still evident within the construction sector on the back of continuing activity. Preserving flexibility in project timing we think best ensures construction inputs can be managed to achieve our development hurdles. However, market demand and projected financial returns continue to support our current development programme.

## PROJECTS COMPLETED IN 2019

### RHODES ON CASHMERE, CHRISTCHURCH

**18** Apartments delivered March 2019 (of which 2 are contracted)

### PARK LANE, CHRISTCHURCH

**29** Apartments (only 26 able to be occupied until next stage complete)

17 contracted (of which 14 are settled)

### COPPER CREST, TAURANGA

**27** Villas delivered mainly in the last quarter

14 contracted (of which 11 are settled)

### ARIA BAY, AUCKLAND

**25** Apartments

12 contracted
(of which 9 are settled)

### MARY DOYLE, HAVELOCK NORTH

**14** Villas delivered mainly in the last quarter

12 contracted (of which 8 are settled)

## KEY PROJECTS IN 2020

WAIMEA PLAINS, RICHMOND

Waimea Plains will be our third village in the Nelson region. It is well located to Richmond and surrounding amenity. Significant residential development is ongoing in the area that will deliver over 1,000 dwellings.

Bulk earthworks on the 8 hectare site are now complete. Construction of Stage 1 (26 villas plus 12 townhouses) is progressing well with completion expected in FY2020.

In total, the development of the site will deliver 160 villas, 40 apartments, 75 care suites and a range of amenity that includes mixed retail, hospitality and allied health.

COPPER CREST, TAURANGA

With completion of the villa programme, construction of our new care facility at Copper Crest commenced and is progressing well. The in-ground works are largely complete.

In total, the development will include 29 serviced apartments and 55 care suites. Delivery is expected late FY2021.

VILLAGE AT THE PARK, WELLINGTON

Construction on the last of the apartment block is progressing well. The building envelope is nearing completion, with fitout in progress and finishing trades well advanced.

The apartment block is due for completion mid FY2020 delivering 24 apartments. Contracts are held for 23 apartments.

LAURISTON PARK, CAMBRIDGE

Construction is progressing well and is on track for completion later this year. Framing is largely complete, windows and cladding are ongoing and roofing on.

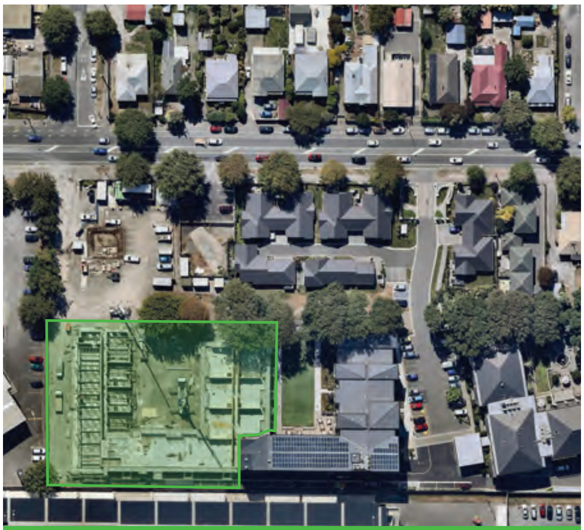
The stage delivers 12 apartment-style villas. Contracts are held for all 12 villas.

ST ALBANS, CHRISTCHURCH

Extension of the St Albans village is progressing well with floors complete and framing advancing.

The extension delivers 25 apartments with launch planned for August 2019.

Delivery is expected late FY2020.



PARK LANE, CHRISTCHURCH

Building B at Park Lane comprises 49 serviced apartments with associated common facilities. Construction continues to progress at pace and is ahead of schedule, with delivery now expected late FY20. This stage completes the apartment development.

Planning is underway for the common facilities/wellness centre which is scheduled to commence construction 2H20.

GLENBRAE, ROTORUA

Extension of the existing care suite facility on adjacent land with an additional 10 serviced apartments and 12 duplex villas.

Construction of the first stage comprising 10 serviced apartments is progressing well with delivery expected mid FY2020.

## FUTURE DEVELOPMENT SITES

HALL RD, KERIKERI

In August 2018, we announced 18 hectares of land in Kerikeri had been acquired. It represents the only sizable land holding remaining within the urban limits zoned for residential development and is strategically located less than 1km from the Kerikeri town centre.

Kerikeri is a thriving rural township that is experiencing rapid population growth particularly in the 65+ aged bracket.

On completion the village will comprise 200 homes and 80 care beds (up to dementia level care). The planned care facility will be a welcome addition to the current limited care capacity in the region.

Consents for development of the first 28 villas and enabling works have been lodged.

# DEVELOPMENT STAGING

| BROWNFIELD DEVELOPMENT | UNITS | | DESIGN | CONSENTING | CONSTRUCTION | SALES | OCCUPATION |
|---|---|---|---|---|---|---|---|
| Village at the Park | 24 | Apartments | → | → | → | → | |
| Lauriston Park | 12 | Villas | → | → | → | → | |
| Park Lane | 49 | Apartments | → | → | → | | |
| Mary Doyle | 21 | Villas | → | → | → | | |
| Copper Crest | 86 | Care & Apartments | → | → | → | | |
| St Albans | 45 | Care & Apartments | → | → | → | | |
| Glenbrae | 22 | Care & Apartments | → | → | → | | |
| Rhodes on Cashmere | 45 | Care & Apartments | → | → | → | | |
| Aria Bay | 117 | Care & Apartments | → | → | → | | |
| Lauriston Park | 90 | Care & Apartments | → | → | | | |
| Cascades | 90 | Care & Apartments | → | → | | | |
| Aria Park | 95 | Care & Apartments | → | → | | | |
| Village at the Park | 16 | Villas | → | → | | | |
| Wendover | 60 | Care & Apartments | → | | | | |
| Oakwoods | 30 | Apartments | → | | | | |
| TOTAL | 802 | | | | | | |
| **GREENFIELD DEVELOPMENT** | | | | | | | |
| Waimea Plains | 275 | Villas, Apartments & Care | → | → | → | | |
| Kerikeri | 280 | Villas, Apartments & Care | → | → | | | |
| TOTAL | 555 | | | | | | |
| **TOTAL** | 1,357 | | | | | | |

# STRATEGY IN ACTION

## BUYING WELL

Acquire quality retirement villages that are complementary to the overall portfolio composition and deliver long term value through operations or value adding opportunities

*Mary Doyle, Copper Crest and Lauriston Park above are all acquisitions which provided brownfield development opportunities.*

### FY2019 REVIEW

While we continued to review acquisition opportunities during the year, no villages were acquired. We maintain our objective of acquiring quality villages that meet our strict criteria in terms of location, quality of assets and current management, potential for development and importantly, earnings accretion.

### LOOKING AHEAD

The current climate, where a range of uncertainties are emerging for individual and private owners, could present opportunities to acquire quality villages. The strong run up in house prices over the last couple of years has contributed to relatively full vendor price expectations. As noted, this environment is now moderating particularly in the Auckland market where our portfolio remains underweight relative to the population base. We continue to see a range of acquisition prospects across New Zealand. The more desirable locations are those areas where we are currently underweight, that exhibit favourable demographics, or they complement existing Arvida villages.

### TRACK RECORD

A total of eleven villages have been acquired since IPO, adding a total of 1,853 units and beds to our portfolio. In addition, the acquired villages have delivered significant brownfield development opportunities and scale.

## ENGAGING WELL

Deliver health and wellbeing services to the broader ageing community by using our expertise and assets to explore new growth opportunities for the future of our business

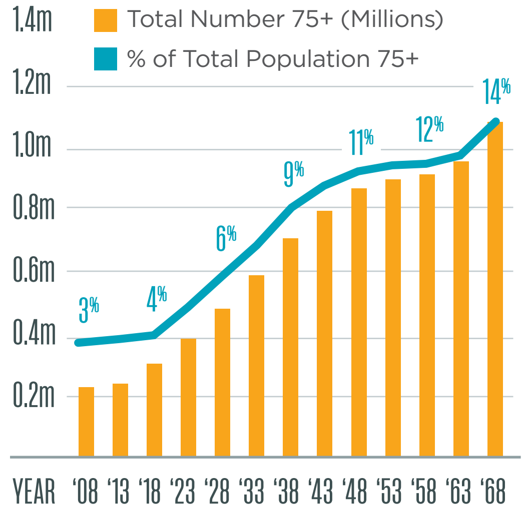
## CHANGING POPULATION TRENDS

Baby boomers represent a major population group in most economies. It's a generation that is fast approaching retirement, and in New Zealand the population of people 75+ will triple in the next 50 years. As baby boomers age, there is a heightened focus on the types of experiences these consumers will be looking for in their retirement.

Many retirees opt, or need, to change their living situation to align with changes in their life while aging. It's a huge decision and one that can impact the most important facets of a retiree's life:

- Do-it-yourself – if baby boomers can't find a solution to what they are looking for, they are likely to create one for themselves. This means industries offering services to this generation need to stay attuned to the customer's needs;
- Staying integrated with the world – retirement products and services that "isolate" this generation of consumers from the rest of the community or marketplace are unlikely to be appealing;
- Enjoying the fruits of their labour – baby boomers seem less concerned with leaving an inheritance for the next generation; and
- Higher service standards – unlike the Silent Generation, baby boomers tend to have higher service expectations.

NEW ZEALAND POPULATION PROJECTION AGED 75+




*Source: Statistics New Zealand*

## OPPORTUNITIES

Outwardly facing community facilities are being included in our new villages and at existing villages where practical. By locating common facilities so they are more accessible to the community, we are encouraging greater community engagement. These facilities have typically been reserved for the exclusive use of residents. While parts of these facilities will remain the preserve of residents, increasingly they will become the front door to our villages.

We continue to explore a range of opportunities to integrate our villages better with the community.

# MEASURING OUR PERFORMANCE

## LIVING WELL

| FY19 | | DESCRIPTION | PERFORMANCE |
|---|---|---|---|
| UNDERLYING PROFIT [9]<br>$38.6m | FY18<br>$33m | Underlying Profit is used to monitor financial performance and determine dividend distributions. | Overall, we delivered a strong result for the year. This was despite cost pressures, particularly in relation to higher unfunded employee costs, weighing on care margin growth. An increased dividend was declared on the 17% lift in underlying profit.<br>The business continues to perform well across both care and retirement village operations, with strong growth to be delivered from development activities in coming years. |
| RESALE MARGIN (%)<br>23% | FY18<br>20% | Measures the change in value at which the resale of a pre-existing ORA occurs. | The higher margin reflects higher pricing achieved on resales of existing ORAs. Sales activity benefited from a regional portfolio and high needs-based offering.<br>The average ORA resale value increased 9% to $338,000 per unit and total gross proceeds from ORA resales increased $20.1m to $87.1m. |
| NET IMPLIED VALUE PER SHARE<br>$1.38 | FY18<br>$1.28 | Measures the net value per share of existing assets at market value. | The increase of $0.10 per share included the $49m gain on the fair value of the investment properties recorded from valuations of retirement villages completed by CBRE and JLL. The increase reflects the delivery of new units and higher pricing of existing units. |
| GEARING RATIO<br>25% | FY18<br>19% | Measures financial leverage in our balance sheet (calculated as net debt to net debt plus book equity). | Gearing remains at the low end of the target range of 25% to 35% and well below bank covenants.<br>The higher gearing levels reflect the increase in development activity occurring within the portfolio. |

*9. Underlying Profit is a non-GAAP (unaudited) financial measure and differs from NZ IFRS net profit after tax. Please refer to page 16 for a reconciliation to Reported Profit under IFRS.*

| FY19 | | DESCRIPTION | PERFORMANCE |
|---|---|---|---|
| FACILITIES WITH 4 YEAR CERTIFICATION<br>65% | FY18<br>46% | Measures the proportion of care facilities that have attained a high clinical standard as assessed through independent audit to Ministry of Health criteria. | There were 11 certification and 7 surveillance audits performed this year. 80% of the certification audits received four-year certification. All partial attainments noted were closed off with the relevant DHB. |
| CARE OCCUPANCY<br>96% | FY18<br>96% | Measures care facility occupancy at March year end (excluding any beds that are not available for occupancy due to refurbishment or upgrade of the facility). | Occupancy was unchanged at a high 96%. High occupancy underpins care revenue, with better ability to vary premium fees charged in facilities with higher occupancy. |
| TRAINING & DEVELOPMENT<br>26,000+ | FY18<br>10,000+ | Measures the number of training modules completed by staff through the Altura remote learning platform that contains some 200 aged care related courses. | There is an increasing trend for overall course completions. Career development and talent programmes are a key area of focus. During the year we updated and implemented comprehensive induction processes for all staff. |

| FY19 | DESCRIPTION | PERFORMANCE |
|---|---|---|
| HEALTH & SAFETY (notified incidents) 6 | Measures serious work-related Health & Safety events notified to Worksafe. Notifiable events include incidents, illness and injuries that occur inside or outside the actual work site. | A total of six incidents were notified to Worksafe in 2019. Two of these related to incidents that occurred at villages: a visitor vehicle accidently drove through a wall causing serious injury to an employee. The other incident notified related to a shoulder dislocation as a result of a fall in a corridor. Four incidents were notified by contractors working on our development sites. No further actions resulted from any of these notifications.<br>Sprain or strain type injuries account for the majority of lost time injuries (2019: 31). The main causes include moving residents, unexpected movement from the residents, moving or lifting equipment or items. Arvida aims for continual improvement in health & safety with a zero tolerance target for notifiable incidents in operations. |

## BUILDING WELL

| FY19 | | DESCRIPTION | PERFORMANCE |
|---|---|---|---|
| NEW UNITS DELIVERED 113 | FY18 97 | Measures the number of new units built and delivered during the year. | The number of units delivered was one unit higher than the stated target. The main variances were six additional delivered at Copper Crest and the deferral of the delivery of five care suites at Rhodes on Cashmere. Another 170 new homes are to be built this year, lifting to an additional 200 new homes built in subsequent years. |

| FY19 | | DESCRIPTION | PERFORMANCE |
|---|---|---|---|
| DEVELOPMENT PIPELINE<br>1,357 | FY18<br>1,099 | Measures consented and non-consented future development activity within our current portfolio but excludes developments where we have not concluded our initial planning. | The addition of a further 258 units to our development pipeline reflects the addition of proposed future development at Kerikeri, Aria Park and Oakwoods net of the 113 units completed within the year. Kerikeri is our second greenfield site and was acquired this year. |
| DEVELOPMENT MARGIN<br>18% | FY18<br>19% | Measures the realised development margin by comparing the ORA price for a unit to its direct development costs. | The lower margin resulted from a slightly different mix of new unit sales, with more apartments sales which have generated a lower margin than villas. |

## BUYING WELL

| FY19 | PERFORMANCE |
|---|---|
| ACQUISITION ACTIVITY UPDATE | No villages were acquired during the year.<br>In the prior financial year, we acquired three villages – Mary Doyle, Strathallan and a 50% interest in Village at the Park. Integration of these villages went very well and according to plan. Their financial performance has exceeded our acquisition modelling. |

## ENGAGING WELL

| FY19 | PERFORMANCE |
|---|---|
| PROJECTS AND INITIATIVES ACTIVELY BEING INVESTIGATED | We are working on exploring a range of solutions and on a number of initiatives to extend our services to more of the ageing community. |

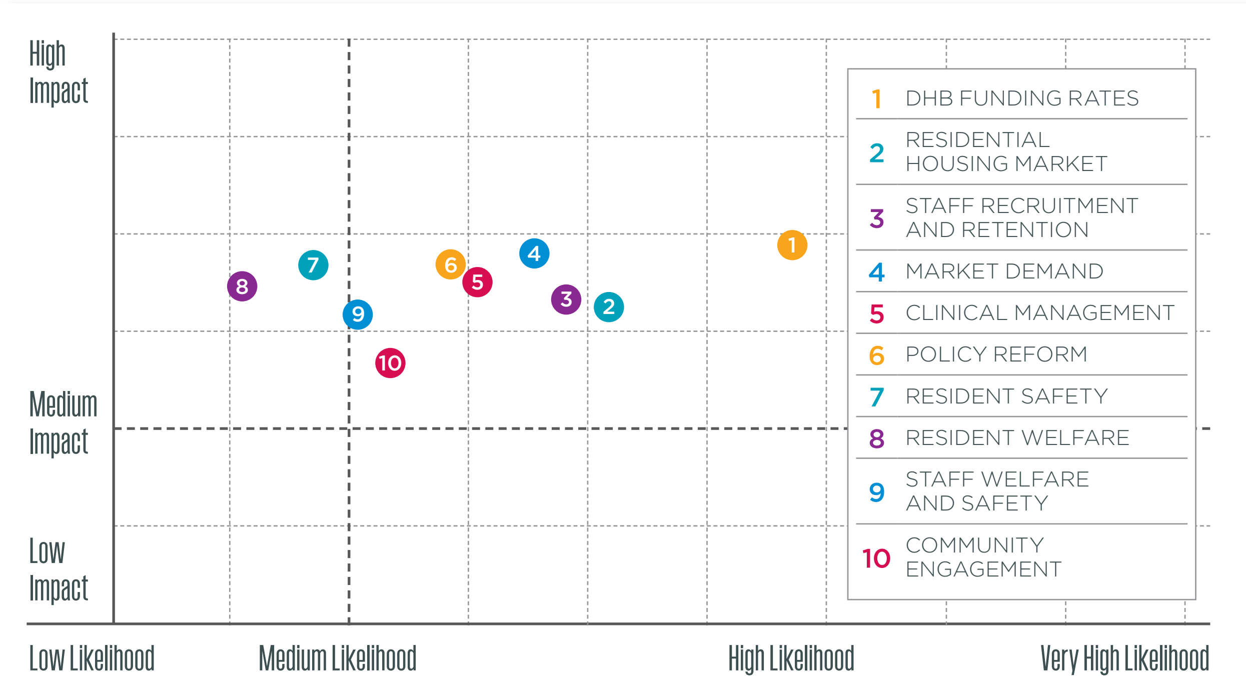
# MATERIALITY

## WITHIN THE REPORT

### FOCUS DURING THE YEAR

We spent some time this year beginning our materiality assessment to determine the most important issues for Arvida. As such, this materiality assessment has focused inwardly. In the coming year, we will look to better understand our external stakeholders' view.

## OUR MATERIALITY MATRIX




## OUR MATERIALITY PROCESS

For the purposes of this report, we consider material information to be that which is of greatest interest to, and has the potential to affect the environmental, social and governance (ESG) progress of the business.

### Identification

In order to identify our material risks and opportunities, we started with our internal risk register. We then created a list of potential material topics taking into consideration the global and domestic business environment and, together with output from our senior management and the Board, areas of strategic importance to future value creation. This was refined and grouped broadly into core capitals – social, environmental, financial, human and governance.

### Prioritisation

Once the potential material topics had been identified, we invited internal feedback on their relative importance. Internal stakeholders included the Board, senior management, support personnel and village managers.

We evaluated and prioritised the relevant matters to determine our material risks and opportunities, which are depicted in the matrix above. These material risks and opportunities are those that directly impact us and our business.

### Review

We recognise the changing reporting landscape in New Zealand. We are looking forward to continuing our journey in formalising and disclosing some of the actions we take to address our ESG impacts.

### Initial Feedback

The internal group represented a small sample for feedback. However, ranking of the top material topics was consistent across the three participant groups. These were: funding rates; housing sector; and recruitment. All three highlight macro factors affecting our sector currently:

- Residential housing market softness;
- DHB funding rates and MOH funding review;
- Immigration policy, although nurses recently confirmed as being on the long term list;
- Pay equity funding gap and nurse pay;
- Royal Commission enquiry in Australia; and
- Tight construction sector.

We will look to further understand feedback received and refine material topics before commencing on the external outreach stage.

## OUR KEY STAKEHOLDERS

We determined our stakeholder groups as the following:

| | |
|---|---|
| Staff | Almost 2,500 employees |
| Residents | More than 4,000 residents |
| Shareholders | More than 4,700 shareholders |
| Communities | Villages in 29 locations spread across New Zealand |
| Regulators | 70% of care revenue from the Ministry of Health |
| Suppliers | Total spend of over $150 million |

## LOOKING AHEAD

As this is the first time we have reported using the <IR> framework, our intent for next year's report is to build on our progress. We plan to conduct interviews with various representatives of the stakeholder groups to then identify the material issues which are most important to them. Identifying the most material issues and opportunities will help us ensure that we are managing and reporting on matters that are relevant to our external stakeholders going forward.

# BOARD OF DIRECTORS

ARVIDA GROUP

## BOARD CAPABILITY ASSESSMENT

Deep Commercial Experience 5

Financial and Legal Expertise 4

Merger & Acquisition Experience 5

Governance Breadth and Experience 4

Health and Aged Care, Property Experience 3

*Number of directors assessed to have deep expertise. Review conducted by Propero Consulting Limited in 2019.*

## PETER WILSON

### CHAIR

Joined the Board and appointed Chair in November 2014

### SKILLS

Peter has wide ranging governance experience with an extensive commercial and finance background.

### EXTERNAL APPOINTMENTS

Deputy Chair of Meridian Energy.

## ANTHONY BEVERLEY

### INDEPENDENT DIRECTOR

Joined the Board in November 2014

### SKILLS

Anthony has a strong track record and extensive experience in property, investment and the capital markets.

### EXTERNAL APPOINTMENTS

Chair of Property for Industry; director of Ngai Tahu Property, Harbour Quays A1, Harbour Quays D4 and Harbour Quays F1F2.

## SUSAN PATERSON

### INDEPENDENT DIRECTOR

Joined the Board in May 2015

### SKILLS

Susan brings extensive corporate governance experience. In 2015, she was made an Officer of the New Zealand Order of Merit for services to corporate governance.

### EXTERNAL APPOINTMENTS

Chair of Steel and Tube and Theta Systems; director of Goodman NZ, Les Mills NZ, EROAD, Sky Network Television, NZ Golf and the Electricity Authority.

## MICHAEL AMBROSE

### INDEPENDENT DIRECTOR

Joined the Board in January 2014

### SKILLS

Michael has over 20 years' experience in the aged care sector, providing advice on operational, expansionary and development activity for retirement villages.

### EXTERNAL APPOINTMENTS

Chair of Manchester Unity Friendly Society, Garra International, Chateau Marlborough Hotel, director of Fiordland Lobster Company and Rodgers & Co.

## PAUL RIDLEY-SMITH

### INDEPENDENT DIRECTOR

Joined the Board in May 2015

### SKILLS

Paul is a senior executive at Morrison & Co and Infratil where he is involved in the acquisition, disposal and management of Infratil assets.

### EXTERNAL APPOINTMENTS

Chair of Trustpower.

Full director biographies are available on arvida.co.nz/For-Investors/Directors

# SENIOR MANAGEMENT TEAM

The Arvida senior leadership team is a diverse and experienced management team that comprises the Chief Executive Office, Chief Financial Officer and six other members of top management.

BILL MCDONALD

CHIEF EXECUTIVE OFFICER

BBus, MAgriBus

JEREMY NICOLL

CHIEF FINANCIAL OFFICER

BCom, CA

MARK WELLS

GENERAL MANAGER, FINANCE

BCom, ACMA

DENISE BRETT

GENERAL MANAGER, WELLNESS AND CARE

NZRCpN, BA, LLB (Hons), Dip Bus Studs

JONATHAN ASH

GENERAL MANAGER, DEVELOPMENT

BEng, MIPENZ, MPINZ

TERESA SEUX

GENERAL MANAGER, HUMAN RESOURCES

BA, PGDipBus, MHRINZ

TRISTAN SAUNDERS

GENERAL MANAGER, SALES & MARKETING

BCom, PGDipBus Hons

KAY MARSHALL

GENERAL MANAGER, VILLAGE SERVICES

BCom, VPM

Full biographies are available on arvida.co.nz/For-Investors/Executive-Management

# HISTORICAL SUMMARY

## KEY FINANCIAL & OPERATIONAL STATISTICS

| FINANCIAL | FY2015[10] | FY2016 | FY2017 | FY2018 | FY2019 |
|---|---|---|---|---|---|
| Care fees and village services ($000) | 17,458 | 72,445 | 85,735 | 109,896 | 125,580 |
| Deferred management fees ($000) | 1,992 | 7,793 | 12,268 | 18,147 | 21,447 |
| Total revenue ($000) | 20,071 | 82,509 | 101,433 | 132,298 | 152,437 |
| Operating earnings ($000) | 4,666 | 17,396 | 20,529 | 23,518 | 22,602 |
| Net profit after tax (IFRS) ($000) | 3,080 | 24,024 | 53,668 | 57,637 | 59,075 |
| Underlying profit[11] ($000) | 4,006 | 15,781 | 23,135 | 33,019 | 38,635 |
| Net operating cash flow ($000) | 5,926 | 24,157 | 39,746 | 53,877 | 69,141 |
| Total assets ($000) | 352,962 | 460,701 | 795,829 | 1,132,380 | 1,299,648 |
| Embedded value per unit ($000) | 62 | 67 | 117 | 130 | 150 |
| Underlying profit per share (cents) | 1.78 | 6.05 | 7.66 | 8.90 | 9.33 |
| Dividend per share (cents) | 1.03 | 4.25 | 4.45 | 5.01 | 5.35 |
| Net tangible assets per share (cents) | 78.6 | 82.6 | 95.9 | 109.9 | 119.8 |
| Shares on issue (000) | 224,850 | 273,245 | 334,261 | 413,741 | 413,950 |

| OPERATIONAL | FY2015[10] | FY2016 | FY2017 | FY2018 | FY2019 |
|---|---|---|---|---|---|
| Number of Villages | 18 | 21 | 26 | 29 | 29 |
| Care beds | 944 | 1,246 | 1,446 | 1,743 | 1,722 |
| Retirement living units | 817 | 908 | 1,301 | 1,850 | 1,955 |
| Needs-based composition | 79% | 82% | 74% | 68% | 66% |
| Occupancy of care beds[12] | 94% | 94% | 95% | 96% | 96% |
| New sales of occupation rights | 15 | 20 | 32 | 79 | 70 |
| Resales of occupation rights | 33 | 149 | 166 | 216 | 258 |
| Total sale of occupation rights | 48 | 169 | 198 | 295 | 328 |
| New units/beds delivered | 5 | 32 | 5 | 97 | 113 |
| Units/beds under construction | 14 | 24 | 262 | 486 | 604 |
| Units/beds planned | 172 | 201 | 645 | 613 | 753 |

*10. Financial statistics for FY2015 represent a part period with village operations commencing on 18 December 2014.*
*11. Underlying Profit is a non-GAAP (unaudited) financial measure and differs from NZ IFRS net profit after tax. Please refer to page 16 for a reconciliation to Reported Profit under IFRS.*
*12. Measured in March for each financial year.*

# FINANCIAL STATEMENTS

ARVIDA GROUP LIMITED
FOR THE YEAR ENDED
31 MARCH 2019

# DIRECTORS' STATEMENT

The Directors have pleasure in presenting the Financial Statements of Arvida Group Limited for the year ended 31 March 2019.

The Financial Markets Conduct Act 2013 requires the Directors to prepare financial statements for each financial year which present fairly the financial position of the Group and financial performance and cash flows for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the financial statements comply with the generally accepted accounting practice in New Zealand, as defined in the Financial Reporting Act 2013. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the preventions and detection of fraud and other irregularities.

The Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 27 May 2019.

Peter Wilson
Chairman
27 May 2019

Anthony Beverley
Director
27 May 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

| $000 | Note | 31 March 2019 | 31 March 2018 |
|---|---|---|---|
| Care fees and village services | 2 | 125,580 | 109,896 |
| Deferred management fees | 2 | 21,447 | 18,147 |
| Other income | 2 | 5,410 | 4,255 |
| **Total revenue** | | **152,437** | **132,298** |
| Change in fair value of investment property | 6 | 48,686 | 41,192 |
| Change in fair value of interest rate swaps | | (2,458) | (581) |
| Change in fair value in property, plant and equipment | | 110 | 1,358 |
| Share of profit arising from joint venture | 16 | 3,382 | 5,141 |
| **Total income** | | **202,157** | **179,408** |
| Employee costs | 3 | 88,607 | 75,109 |
| Property costs | 3 | 12,502 | 9,745 |
| Depreciation and amortisation | 7, 8 | 5,048 | 4,252 |
| Impairment of goodwill | 8 | 1,512 | 1,213 |
| Finance costs | 4 | 3,622 | 2,268 |
| Transaction costs | | 276 | 980 |
| Other expenses | 3 | 28,726 | 23,926 |
| **Total expenses** | | **140,293** | **117,493** |
| **Profit before tax** | | **61,864** | **61,915** |
| Income tax expense | 5 | 2,789 | 4,278 |
| **Profit after tax** | | **59,075** | **57,637** |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Net gain on revaluation of property, plant and equipment | | 2,457 | 7,619 |
| **Total comprehensive income** | | **61,532** | **65,256** |
| **Earnings per share:** | | | |
| Basic (cents per share) | 14 | 14.27 | 15.53 |
| Diluted (cents per share) | 14 | 14.17 | 15.41 |

The financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

| $000 | Note | Retained Earnings | Asset Revaluation Reserve | Share Based Payment Reserve | Share Capital | Total |
|---|---|---|---|---|---|---|
| **Opening Balance at 1 April 2017** | | **56,292** | **3,246** | **316** | **311,698** | **371,552** |
| Profit for the period | | 57,637 | 0 | 0 | 0 | 57,637 |
| Other comprehensive income | | 0 | 7,619 | 0 | 0 | 7,619 |
| **Total comprehensive income** | | **57,637** | **7,619** | **0** | **0** | **65,256** |
| Dividends paid | | (17,204) | 0 | 0 | 0 | (17,204) |
| Share based payments | | 0 | 0 | 313 | 0 | 313 |
| Share capital issued | 13 | 0 | 0 | 0 | 92,879 | 92,879 |
| Transaction costs | 13 | 0 | 0 | 0 | (2,334) | (2,334) |
| **Balance at 31 March 2018** | | **96,725** | **10,865** | **629** | **402,243** | **510,462** |
| **Opening Balance at 1 April 2018** | | **96,725** | **10,865** | **629** | **402,243** | **510,462** |
| Profit for the period | | 59,075 | 0 | 0 | 0 | 59,075 |
| Other comprehensive income | | 0 | 2,457 | 0 | 0 | 2,457 |
| **Total comprehensive income** | | **59,075** | **2,457** | **0** | **0** | **61,532** |
| Dividends paid | | (22,602) | 0 | 0 | 0 | (22,602) |
| Share based payments | | 0 | 0 | 216 | 116 | 332 |
| **Balance at 31 March 2019** | | **133,198** | **13,322** | **845** | **402,359** | **549,724** |

The financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

As at 31 March 2019

| $000 | Note | 31 March 2019 | 31 March 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 4,574 | 3,129 |
| Trade receivables and other assets | | 7,990 | 7,286 |
| Tax receivable | | 2,071 | 1,430 |
| Resident advances | | 9,470 | 4,589 |
| Accrued income | | 7,030 | 7,324 |
| Property, plant and equipment | 1, 7 | 168,714 | 169,088 |
| Investment properties | 1, 6 | 1,021,582 | 862,615 |
| Investment in joint venture | | 24,254 | 21,172 |
| Intangible assets | 8 | 53,963 | 55,747 |
| **Total assets** | | **1,299,648** | **1,132,380** |
| **Liabilities** | | | |
| Trade and other payables | 12 | 21,796 | 16,075 |
| Employee entitlements | 12 | 10,061 | 9,100 |
| Revenue in advance | 12 | 31,162 | 28,155 |
| Interest rate swaps | 10 | 3,039 | 581 |
| Interest bearing loans and borrowings | 10 | 190,072 | 122,176 |
| Resident's loans | 9 | 466,075 | 415,201 |
| Deferred tax liabilities | 5 | 27,719 | 30,630 |
| **Total liabilities** | | **749,924** | **621,918** |
| **Net assets** | | **549,724** | **510,462** |
| **Equity** | | | |
| Share capital | | 402,359 | 402,243 |
| Reserves | | 14,167 | 11,494 |
| Retained earnings | | 133,198 | 96,725 |
| **Total equity** | | **549,724** | **510,462** |

The financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

| $000 | Note | 31 March 2019 | 31 March 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from residents for care fees and village services | | 130,861 | 113,139 |
| Receipts of residents' loans from resales | | 76,319 | 63,337 |
| Receipts of residents' loans from new sales | | 39,603 | 27,935 |
| Interest received | | 120 | 66 |
| Payments to suppliers and employees | | (124,274) | (106,318) |
| Repayments of residents' loans | | (46,272) | (37,701) |
| Interest paid | | (3,459) | (1,940) |
| Income tax paid | | (3,757) | (4,641) |
| **Net cash inflow from operating activities** | **11** | **69,141** | **53,877** |
| **Cash flows from investing activities** | | | |
| Cash acquired from subsidiaries | | 0 | 2,962 |
| Purchase of property, plant and equipment and intangible assets | 1 | (4,341) | (9,857) |
| Payments for investments in joint venture | | 0 | (11,931) |
| Payments for investments in subsidiaries | | 0 | (43,780) |
| Purchase of investment properties | 1 | (105,501) | (68,422) |
| Capitalised interest paid | | (3,198) | (1,880) |
| **Net cash (outflow) from investing activities** | | **(113,040)** | **(132,908)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 90,500 | 73,750 |
| Repayment of borrowings | | (22,500) | (49,250) |
| Net proceeds of share issue | | 0 | 76,879 |
| Transaction costs | | (276) | (3,314) |
| Dividends paid | | (22,680) | (17,204) |
| Dividends received | | 300 | 0 |
| **Net cash inflow from financing activities** | | **45,344** | **80,861** |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,445** | **1,830** |
| Cash and cash equivalents at the beginning of the financial period | | 3,129 | 1,299 |
| **Cash and cash equivalents at the end of the financial period** | | **4,574** | **3,129** |

The financial statements should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 1. GENERAL INFORMATION

Arvida Group Limited (the "Group" or the "Company") is a for-profit, limited liability company incorporated and domiciled in New Zealand. Arvida Group Limited is registered under the Companies Act 1993. The Company is an FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013 ("the Act") and is listed on the NZX Main Board (the "NZX"). The Company's registered office is 39 Market Place, Viaduct Basin, Auckland.

The Group is in the business of owning, operating and developing retirement villages and care facilities for the elderly in New Zealand.

These financial statements have been approved for issue by the Board of Directors on 28 May 2019. The financial statements presented are for Arvida Group Limited and its subsidiaries.

The Directors believe it remains appropriate that the financial statements have been prepared under the going concern convention.

### Basis of Preparation

These financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and comply with International Financial Reporting Standards ("IFRS") and the New Zealand equivalents ("NZ IFRS") as appropriate for a for-profit entity;
- in accordance with the requirements of the Financial Markets Conduct Act 2013;
- under the historical cost convention, as modified by the revaluation of investment properties and land and buildings (included in property, plant and equipment);
- on the liquidity basis where the assets and liabilities are presented on the balance sheet in the order of their liquidity;
- in New Zealand dollar terms, rounded to the nearest thousand dollars; and
- with all amounts shown exclusive of goods and services tax ("GST"), other than trade debtors and trade creditors, except where the amount of GST incurred is not recoverable from the taxation authority. When this occurs, the GST is recognised as part of the cost of the asset or as an expense, as applicable.

### Critical Accounting Estimates and Judgements

The preparation of the financial statements, in line with NZ IFRS, requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Directors, in determining the appropriate treatment, have carefully evaluated all of the available information and consider the adopted policies to be appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are found in the following notes:

**Note 2** Revenue recognition
**Note 5** Income taxes
**Note 6** Fair value of investment property
**Note 7** Fair value of care facility
**Note 8** Impairment of goodwill

### Basis of Consolidation

The Group's financial statements are prepared by consolidating the financial statements of all entities that comprise the Group, being Arvida Group Limited and its subsidiaries. Consistent accounting policies are employed in the preparation and presentation of the Group's financial statements. All intercompany transactions and balances, and unrealised profits arising within the Group are eliminated in full.

### Segment Reporting

An operating segment is a component of an entity that engages in business activities which earn revenue and incur expenses and where the chief operating decision maker reviews the operating results on a regular basis and makes decisions on resource allocation.

The Group operates in one operating segment being the provision of aged-care in New Zealand. The chief operating decision maker, the Board of Directors, reviews the operating results on a regular basis and makes decisions on resource allocation based on the review of Group results and cash flows as a whole. The nature of the products and services provided and the type and class of customers have similar characteristics within the operating segment. All revenue earned and assets held are in New Zealand.

## Other Accounting Policies

Other accounting policies that are relevant to an understanding of the financial statements are provided within the notes to the financial statements.

## New Standards and Interpretations Adopted

Arvida Group adopted all mandatory new and amended NZ IFRS Standards and Interpretations. The new and amended NZ IFRS Standards and Interpretations only had a disclosure impact on these financial statements.

NZ IFRS 15 'Revenue from contracts with customers' was effective from 1 April 2018. There was no material impact for the Group in relation to accounting or disclosures due to the nature of the Group's transactions. Care fees and village services continue to be accounted for under NZ IFRS 15, as they relate to "pay as you go" fees. Deferred management fee revenue is not impacted and will be derived under NZ IFRS 16 'Leases' from 1 April 2019.

NZ IFRS 9 'Financial Instruments' replaced the guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. NZ IFRS 9 includes requirements on the classification and measurement of financial assets and liabilities. It also includes the expected credit losses model that replaced the incurred loss impairment model. There was no material impact on transition.

## Comparative Information

Comparative information has been updated to reflect the reclassification of work in progress to investment property under construction. This has been reclassified from property, plant and equipment to investment property, as detailed in the table below.

This reclassification has no impact on the consolidated statement of comprehensive income and only impacts the consolidated balance sheet. No other comparative information has been restated in the current financial year.

## New Standards and Interpretations not yet Adopted

At balance date the NZ IFRS Standards and Interpretations that have been issued or amended but are not yet effective and have not been adopted by the Group is NZ IFRS 16.

NZ IFRS 16 replaces NZ IAS 17 and requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for practically all lease contracts. Arvida Group has completed its evaluation of the impact of adopting this standard and it is not expected to be significant.

Operating leases will be recognised on the balance sheet as a right-of-use asset and a corresponding lease liability, based on the present value of the lease payments of approximately $5.1 million as at 31 March 2019 as disclosed in Note 3.

Operating lease expenses previously recognised on a straight-line basis within expenses will be recognised as depreciation for right-of-use assets and finance costs for lease liabilities in the statement of comprehensive income. The impact for the statement of comprehensive income for the year ended 31 March 2020 is an increase in expenses of approximately $0.1 million.

Operating lease payments previously classified as cash flows from operating activities will be reclassified as cash flows from financing activities for principal repayments of the lease liability. There will be no impact on actual cash payments.

Occupation right agreements confer the right to occupy a retirement unit and are considered leases under NZ IFRS 16. There is no change to the recognition or measurement of occupation right agreements and the associated deferred management fee revenue. Deferred management fee revenue will continue to be recognised over the period of service, being the greater of the expected period of tenure or the contractual right to revenue. Refer to Note 2 for further detail on deferred management fee revenue.

| $000 | Reported 2018 | Reclassification | Reclassified 2018 |
|---|---|---|---|
| **Consolidated Balance Sheet** | | | |
| Property, plant and equipment | 225,409 | (56,321) | 169,088 |
| Investment property | 806,294 | 56,321 | 862,615 |
| **Consolidated Statement of Cash Flows** | | | |
| Purchase of property, plant and equipment and intangible assets | (66,178) | 56,321 | (9,857) |
| Purchase of investment property | (12,101) | (56,321) | (68,422) |

Arvida Group will apply NZ IFRS 16 from 1 April 2019 using the modified retrospective approach. The modified retrospective approach means that on transition Arvida Group is not required to restate comparative information, instead adjusting opening equity.

## 2. INCOME

### Care Fees and Village Services

Care fees and village services fees are recognised over the period in which the service is rendered.

### Deferred Management Fees

Deferred management fees entitle residents to accommodation and the use of the community facilities within the village. They are recognised over the period of service, being the greater of the expected period of tenure or the contractual right to the revenue.

### Other Income

Other income includes income derived from resident recoveries and other sundries for services provided to residents such as meals and cleaning which are recognised in the period the service is rendered.

### Information about Major Customers

The Group derives care fee revenue in respect of eligible Government subsidised aged care residents who receive rest home, dementia or hospital level care. Government aged care subsidies received from the Ministry of Health included in care fees and village services amounted to $70.9 million (2018: $61.1 million).

### Key Judgements and Estimates

Deferred management fees are recognised as revenue on a straight-line basis. This requires management to estimate the period of occupancy for units and serviced apartments. The expected periods of tenure, being based on historical results, experience and industry averages, are estimated at 3.9 to 5.0 years (2018: 4.0 to 5.0 years) for studios and serviced apartments, and are estimated at 6.2 to 9.0 years (2018: 6.3 to 9.0 years) for independent apartments and villas.

## 3. EXPENSES

### Operating Expenses

Employment expenses relate to wages and salaries of employees which includes holiday pay and employee incentives. These expenses are recognised as the benefit accrues to the employee.

Property expenses and other expenses relate to costs associated with running a retirement village such as rates, insurance, repairs and maintenance, purchases of consumables and power costs. These expenses are recognised as they are incurred.

| $000 | 2019 | 2018 |
|---|---|---|
| **Other expenses** | | |
| Directors' fees | 498 | 476 |
| Rental and operating lease expenses | 725 | 588 |

### Operating Leases

Operating Lease payments are expensed on a straight line basis over the expected tenure of the lease.

The Group leases support office premises and various property, plant and equipment under non-cancellable operating lease agreements. This includes the Care Facility at Glenbrae Village. The leases reflect normal commercial arrangements with varying terms, escalation clauses and renewal rights.

### Operating Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

| $000 | 2019 | 2018 |
|---|---|---|
| Less than 1 year | 702 | 618 |
| Between 1 and 5 years | 2,316 | 2,179 |
| More than 5 years | 3,397 | 3,859 |
| **Total operating lease commitments** | **6,415** | **6,656** |

## 4. FINANCE COSTS

| $000 | 2019 | 2018 |
|---|---|---|
| Interest expense | 1,749 | 1,260 |
| Facility costs | 1,736 | 943 |
| Financing costs | 137 | 65 |
| **Total finance costs** | **3,622** | **2,268** |

### Finance Costs

Interest expense and facility costs comprises interest and fees payable on borrowings and is calculated using the effective interest rate method.

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

## 5. INCOME TAX EXPENSE

| $000 | 2019 | 2018 |
|---|---|---|
| **Income tax expense** | | |
| Current tax | 3,194 | 3,962 |
| Deferred tax | (405) | 316 |
| | **2,789** | **4,278** |

| $000 | 2019 | 2018 |
|---|---|---|
| **Reconciliation to profit before tax** | | |
| Profit before tax | 61,864 | 61,915 |
| **Tax at 28%** | **17,322** | **17,336** |
| *Tax effects of amounts which are not deductible (taxable) in calculating taxable income:* | | |
| Changes in fair values | (13,663) | (11,751) |
| Share of profit arising from joint venture (net of tax) | (947) | (1,439) |
| Non-taxable income and non-deductible expenditure | 85 | 101 |
| Other | (8) | 31 |
| **Income tax expense** | **2,789** | **4,278** |

### Income Tax Expense

Income tax comprises current and deferred tax and is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

### Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).
The applicable tax rate is 28% (2018: 28%).

### Imputation Credits

The imputation credit balance for the Group and Parent as at 31 March 2019 is $0.2 million (2018: $0.5 million).

## Deferred Tax

Deferred tax arises as a result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, unless they arise on a business combination, are not provided for.

| $000 | 2019 | 2018 |
|---|---|---|
| **Brought forward** | **30,630** | **20,812** |
| *Temporary difference in income statement* | | |
| Property, plant and equipment | 0 | 4 |
| Investment property | 1,492 | 1,275 |
| Deferred management fees | (952) | (319) |
| Other items | (945) | (644) |
| | **(405)** | **316** |
| *Temporary differences in Other Comprehensive Income* | | |
| Property, plant and equipment | (2,506) | 2,963 |
| | **(2,506)** | **2,963** |
| *Acquired on acquisition* | | |
| Property, plant and equipment | 0 | 2,222 |
| Investment property | 0 | 6,038 |
| Deferred management fees | 0 | (1,377) |
| Other items | 0 | (344) |
| | **0** | **6,539** |
| **Balance at end of year** | | |
| Property, plant and equipment | 19,212 | 21,718 |
| Investment property | 17,687 | 16,195 |
| Deferred management fees | (6,093) | (5,141) |
| Other items | (3,087) | (2,142) |
| **Deferred tax liability** | **27,719** | **30,630** |

Deferred tax assets and liabilities have been offset in accordance with NZ IAS 12 Income Tax. The deferred tax has been calculated on the assumption that there will be no change in tax law or circumstances.

The Group recognises tax losses in the balance sheet to the extent that tax losses offset deferred income tax liabilities arising from temporary differences and the requirements of income tax legislation can be satisfied. Significant judgement is required in determining whether shareholder continuity and other income tax legislation requirements will continue to be met in the future in order for tax losses to be recognised. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### Key Judgements and Estimates

The carrying value of the Group's investment properties is determined on a discounted cash flow basis and includes cash flows that are both taxable and non-taxable in the future. In determining the taxable temporary difference, the Directors have used the contractual cash flows on the basis that the contractual arrangements for an occupation right agreement comprise two gross cash flows (being an occupation right agreement deposit upon entering the unit and the refund of this deposit upon exit) that are non-taxable and need to be excluded to determine the taxable temporary differences arising on investment properties.

## 6. INVESTMENT PROPERTY

| $000 | 2019 | 2018 |
|---|---|---|
| Balance at beginning of period | 862,615 | 569,855 |
| Purchase on acquisition | 0 | 154,291 |
| Additions | 110,281 | 98,852 |
| Reclassification from / (to) property, plant and equipment | 0 | (1,575) |
| Fair value movement - unrealised | 48,686 | 41,192 |
| **Total investment property** | **1,021,582** | **862,615** |
| Valuation of managers' net interest | 430,339 | 336,162 |
| Development land | 53,150 | 34,100 |
| Investment property under construction | 47,885 | 56,321 |
| Liability for residents' loans | 466,075 | 415,201 |
| Net revenue in advance / (accrued income) | 24,133 | 20,831 |
| **Total investment property** | **1,021,582** | **862,615** |

### Recognition and Measurement

Investment properties are held to earn rental income and for capital appreciation. They comprise land and buildings and associated equipment and furnishings related to independent living units, serviced apartments and common facilities in the retirement village. Investment properties include land acquired with the intention of constructing a retirement village. All retirement village units that are contracted with an ORA are classified as investment property as the majority of the net operating cash flows generated are for the purpose of earning rental income and capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value with any change in fair value recognised in the statement of comprehensive income.

### Key Judgements and Estimates

The fair value of investment property is determined on an annual basis. The fair value of completed investment properties and development land has been determined by Michael Gunn, an independent registered valuer, of the firm CBRE Limited ("CBRE") and Glenn Loraine, an independent registered valuer of the firm Jones Lang LaSalle Limited ("JLL"). A valuation method was used based on a discounted cash flow ("DCF") model. CBRE used expected cash flows for a 20-year period and JLL used expected cash flows for a 25-year period.

The valuation of investment property includes within its forecast cash flows, the Group's expected costs relating to any known or anticipated remediation works. 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 DCF. As the fair value of investment property is determined using inputs that are unobservable, the Group has categorised investment property as level 3 under the fair value hierarchy in accordance with NZ IFRS 13 'Fair Value Measurement'. Significant assumptions used by the valuer include:

| Assumption | Estimate Used |
|---|---|
| **Occupancy periods of units** | Stabilised departing occupancy of 6.2 to 9.0 years (2018: 6.3 to 9.0 years) for independent apartments and villas and 3.9 to 5.0 years for studios and serviced apartments (2018: 4.0 to 5.0 years) |
| **House price inflation** | Between 0.0% and 3.5% (2018: 0.0% and 3.5%) |
| **Discount rate** | Between 12.3% and 16.5% (2018: 12.3% and 16.5%) |
| **Average age on entry** | Between 73 and 84 years (2018: 73 and 82 years) for independent apartments and villas and between 80 and 86 years (2018: 80 and 88 years) for serviced apartments |

The occupancy period derived by CBRE is driven from a Monte Carlo simulation. The simulations are dependent upon the demographic profile of the village (age and gender of residents) and a death and non-death probability as the reason for departing a unit. The resulting stabilised departing occupancy period is an estimate of the long run occupancy term for residents. Additional variables which will influence the stabilised occupancy period outputs (and recycle profile) by village will include resident densities where a high proportion of couples will logically extend/prolong the recycle profile, occupancy periods for existing residents, current absolute age levels and whether it is a care or lifestyle orientated village.

The occupancy period derived by JLL for the existing residents is based on the observed historical length of stay within the village and the demographic profile of the existing residents, including age and gender. The stabilised occupancy period for new residents is guided by the historical length of stay for previous residents within the village, considered alongside village maturity, resident densities where a high proportion of couples will logically prolong the recycle profile, current age levels and whether it is a care or lifestyle orientated village.

An increase (decrease) in the stabilised departing occupancy period will have a negative (positive) impact on the valuation. A significant decrease (increase) in the discount rate or increase (decrease) in the inflation rate would result in a significantly higher (lower) fair value measurement.

## 7. PROPERTY, PLANT AND EQUIPMENT

| $000 | Freehold Land at Valuation | Freehold Building at Valuation | Work in progress | Other | Total |
|---|---|---|---|---|---|
| **Year ended 31 March 2018** | | | | | |
| Opening net book value | 43,335 | 81,107 | 1,745 | 9,255 | 135,442 |
| Assets acquired on acquisition | 5,100 | 13,700 | 0 | 1,408 | 20,208 |
| Additions | 0 | 2,179 | 1,120 | 3,412 | 6,711 |
| Depreciation | 0 | (1,826) | 0 | (2,381) | (4,207) |
| Revaluation | 7,005 | 4,935 | 0 | 0 | 11,940 |
| Reclassification from/(to) investment property | 1,575 | 0 | 0 | 0 | 1,575 |
| Disposals and transfers | 0 | 0 | (2,365) | (216) | (2,581) |
| **Closing net book value** | **57,015** | **100,095** | **500** | **11,478** | **169,088** |
| Cost or valuation | 57,015 | 100,095 | 500 | 17,799 | 175,409 |
| Accumulated depreciation | 0 | 0 | 0 | (6,321) | (6,321) |
| **Net book value at 31 March 2018** | 57,015 | 100,095 | 500 | 11,478 | 169,088 |
| **Year ended 31 March 2019** | | | | | |
| Opening net book value | 57,015 | 100,095 | 500 | 11,478 | 169,088 |
| Additions | 0 | 1,170 | 216 | 3,055 | 4,441 |
| Depreciation | 0 | (1,948) | 0 | (2,822) | (4,770) |
| Revaluation | 0 | 59 | 0 | 0 | 59 |
| Disposals and transfers | 0 | 194 | (526) | 228 | (104) |
| **Closing net book value** | **57,015** | **99,570** | **190** | **11,939** | **168,714** |
| Cost or valuation | 57,015 | 99,570 | 190 | 21,083 | 177,858 |
| Accumulated depreciation | 0 | 0 | 0 | (9,144) | (9,144) |
| **Net book value at 31 March 2019** | 57,015 | 99,570 | 190 | 11,939 | 168,714 |

### Recognition and Measurement

Land and buildings (which are not classified as investment property) are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes material and direct labour, and any other costs directly attributable to bringing the asset to its working condition for its intended use. Subsequent to initial recognition, land and buildings for care facilities are carried at a revalued amount which is the fair value at the date of revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Any revaluation surplus is recognised as other comprehensive income unless it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Any revaluation deficit (impairment) is recognised in the profit or loss unless it directly offsets a previous surplus in the same asset in the asset revaluation reserve.

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement over the estimated useful lives of each asset class as follows:

- Land – not depreciated
- Buildings – 2% straight line
- Plant, Furniture, Equipment and Motor Vehicles - a combination of straight line and diminishing value at rates of 3% to 80%

At 31 March 2019, had the land and buildings been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately $47.0 million and $93.9 million respectively (2018: $47.0 million and $94.4 million).

### Key Judgements and Estimates

Fair value of land and buildings is determined by reference to market-based evidence. Independent revaluations are performed with sufficient regularity to ensure the carrying amount does not differ materially from the asset's fair value at the balance sheet date. The current policy is to undertake an independent revaluation every two years.

The fair value of care facility land and buildings for the year ended 31 March 2019 was reviewed by the Directors of the Group. The Directors' review was based on independent advice from CBRE on the macro view of the valuation of care facilities in New Zealand, specific physical factors and operating metrics of each of the care facilities being valued. The Directors, in reviewing the valuations, considered the following:

- the independent advice from CBRE that confirmed that there were no material macro changes in the valuation of care facilities in New Zealand during the financial year;
- that no material construction of care beds or care building related assets had occurred within the period under review;
- the key metrics of the care facilities were in-line with expectations; and
- that the Directors were not aware of any material physical, operational or macro issues that would materially impact care facility values.

The Directors agreed that the valuations of the care facility's land and buildings would remain unchanged from the valuations completed by CBRE and JLL as at 31 March 2018, adjusted for any additions, disposals, decommissions and the completion of earthquake remediation works.

The fair value of care facility land and buildings for the year ended 31 March 2018 was determined by Michael Gunn, an independent registered valuer of the firm CBRE Limited and Matthew Straka and Glenn Loraine, both independent registered valuers of the firm Jones Lang LaSalle Limited. The method used was a capitalisation of earnings approach.

As the fair value of freehold land and buildings is determined using inputs that are unobservable, the Group has categorised property, plant and equipment as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 'Fair Value Measurement'. The carrying amount also reflects the Group's expected costs relating to any known or anticipated remediation works.

The significant unobservable inputs used in the fair value measurement of the Group's portfolio of land and buildings are:

| Assumption | Estimate Used |
|---|---|
| **Capitalisation rates** | Rates used range from 11.5% to 14.5% (2018: 11.5% to 14.5%) |
| **Earnings** | Market value for a care bed ranging from $66,000 to $178,000 (2018: $66,000 to $178,000) |

A significant decrease (increase) in the capitalisation rate would result in a significantly higher (lower) fair value measurement.

## 8. INTANGIBLE ASSETS

| $000 | Goodwill | Software | Total |
|---|---|---|---|
| **Year ended 31 March 2018** | | | |
| Opening net book value | 51,109 | 0 | 51,109 |
| Additions | 5,296 | 600 | 5,896 |
| Amortisation | 0 | (45) | (45) |
| Impairment of goodwill | (1,213) | 0 | (1,213) |
| **Closing net book value** | **55,192** | **555** | **55,747** |
| **Year ended 31 March 2019** | | | |
| Opening net book value | 55,192 | 555 | 55,747 |
| Additions | 0 | 6 | 6 |
| Amortisation | 0 | (278) | (278) |
| Impairment of goodwill | (1,512) | 0 | (1,512) |
| **Closing net book value** | **53,680** | **283** | **53,963** |

### Goodwill

Goodwill as at 31 March 2019 was $53.7 million (2018: $55.2 million). Goodwill has decreased as a result of the recognition of goodwill impairment.

Goodwill is tested for impairment annually at 31 March and when circumstances indicate that the carrying value may be impaired. Goodwill acquired through business combinations with indefinite lives have been allocated, for impairment testing, to 21 of the cash generating units ("CGU's").

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and value in use. Impairment losses relating to goodwill cannot be reversed in future periods.

In 15 of the CGU's the recoverable amount was in excess of the carrying value. As such the Directors did not identify any impairment for these CGU's. In six of the CGU's the carrying value was in excess of the recoverable amount and an impairment was recognised. Goodwill allocated to any single CGU is not material.

### Software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specified software. These costs are amortised at 50% on a diminishing-value basis.

### Key Judgements and Estimates

The value in use calculation is based on a DCF model which uses the following assumptions:

| Assumption | Description | Estimate Used |
| --- | --- | --- |
| Operating earnings | Operating earnings is a function of revenue received from government agencies and private paying residents for care and village service fees and the net cash flows from the receipt and repayment of resident loans. The key driver of these revenue items are occupancy levels, subsidy levels and property growth rates. It is assumed that the government will continue to support the aged care sector and that subsidies will increase over time. If the government decides to reduce its funding, it may lead to residents and their families being required to make up the difference. Expenses are forecast to increase in line with inflation projections. | Cash flow projections from the Group's five year financial forecasts approved by the Board which do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets performance of the CGU being tested. |
| Discount rates | Discount rates represent the current market assessment of the risks specific to each CGU, taking into account the time value of money and individual risks of the underlying assets that have to been incorporated into the cash flow estimates. | Pre-tax discount rates for each CGU, ranging from 11.1% to 21.9% (2018: 11.1% to 21.9%). The discount rates have been taken from the most recent independent valuation of each CGU. |
| Growth rates | Growth rates are used to extrapolate cash flows beyond the forecast period. | Growth rates of 2.5% (2018: 2.5%) have been used after the initial financial forecast period. |

## 9. RESIDENTS' LOANS

| $000 | 2019 | 2018 |
|---|---|---|
| Opening balance | 415,201 | 290,894 |
| Amounts repaid on termination of ORAs | (46,303) | (37,870) |
| Amounts received on issue of new ORAs | 120,803 | 91,685 |
| Amounts acquired on investment property | 0 | 88,879 |
| Movement in DMF receivable and residents' portion of capital gains | (23,626) | (18,387) |
| **Total residents' loans** | **466,075** | **415,201** |

Residents' loans are amounts payable to Arvida by a resident on being issued the right to occupy one of the Group's units or serviced apartments under an occupation right agreement ("ORA"). The ORA confers a right of occupancy until such time as the right is effectively terminated.

These loans are non-interest-bearing and are repayable to the exiting resident, net of any amount owing to the Group, when a new ORA for the unit or serviced apartment is issued to an incoming resident.

Deferred management fees ("DMF") are payable by residents in consideration for the supply of accommodation and the right to share in the use of community facilities. Deferred management fees are paid in arrears with the amount payable by the resident calculated as a percentage of the resident loan amount as per the resident's ORA.

The DMF receivable is calculated and recorded based on the current tenure of the resident and the contractual right to the DMF earned at balance date. Under certain ORAs, residents are entitled to receive some or all of the capital gain which has occurred from the increase in value of the unit or serviced apartment. The present value of the operator's portion of estimated capital gain has been calculated by either CBRE Limited or Jones Lang LaSalle Limited in the valuation of the investment property.

### Recognition and Measurement

Resident loans are initially recognised at fair value and subsequently measured at amortised cost.

As the Group holds a contractual right to offset the DMF receivable on termination of an agreement against the resident's loan to be repaid, residents' loans are recognised net of the DMF receivable on the balance sheet. The fair value of the residents' loans is equal to the face value, being the amount that can be demanded for repayment.

At year end, the deferred management fee receivable and accrued income on unit titled properties (including termination fees, if any) that has yet to be recognised is held on the balance sheet as a liability (revenue in advance) or as an asset (accrued income).

## 10. INTEREST BEARING LOANS AND BORROWINGS

| $000 | 2019 | 2018 |
|---|---|---|
| Secured bank loans | 190,500 | 122,500 |
| Capitalised financing costs | (428) | (324) |
| **Total interest bearing loans and borrowings** | **190,072** | **122,176** |

### Recognition and Measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statements of comprehensive income over the period of the borrowings using the effective interest method.

### Secured Bank Loans

The bank loan comprises the two revolving core facilities.

The bank loans are secured by various mortgages over certain of the Group's assets, subject to a first priority to the Statutory Supervisor over the property assets within the retirement village companies. A registered first ranking composite general security agreement is in place. This contains a cross guarantee and indemnity granted by Arvida Group Limited and acceded to by each of its subsidiaries, subject to guarantees from retirement village companies limited to 50% of their net tangible assets.

### Interest

Interest on the bank loan is charged using the BKBM Bill Rate plus a margin. Interest rates applicable in the year to 31 March 2019 ranged from 2.8% to 3.2% pa (2018: 2.5% to 2.9% pa). A separate line fee is charged over the facility limit.

### Interest Capitalisation

Interest costs are capitalised if they directly relate to development work in progress. Capitalisation commences when the activities to prepare the development works commence and continue until the asset is substantially ready for its intended use.

Interest costs of $3.2 million (2018: $1.9 million) were capitalised during the year. The weighted average capitalisation rate on the funds borrowed was 4.2% (2018: 3.5%).

### Financial Covenants

The financial covenants that the Group must comply with include Interest Cover Ratio and Loan to Valuation Ratio. During the year ended 31 March 2019, the Group was in compliance with its financial covenants (2018: the Group was in compliance with its financial covenants).

### Interest Rate Swaps

Interest rate swaps are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured at fair value based on market observable inputs (level 2).

| Funding facilities | Limit | 2019 Drawn Amount | 2018 Drawn Amount |
|---|---|---|---|
| Facility A maturing 30 June 2020 | $75m refinanced | $0 | $69.5m |
| Facility B maturing 30 June 2022 | $75m refinanced | $0 | $53.0m |
| Facility A maturing 30 June 2021 | $125m | $125.0m | $0 |
| Facility B maturing 30 June 2023 | $125m | $65.5m | $0 |
| **Total Facilities** | **$250.0m** | **$190.5m** | **$122.5m** |

## 11. RECONCILIATION OF PROFIT AFTER TAX WITH CASH INFLOW FROM OPERATING ACTIVITIES

| $000 | 2019 | 2018 |
|---|---|---|
| **Profit after tax** | **59,075** | **57,637** |
| *Adjustments for:* | | |
| Changes in fair value of investment property | (48,686) | (41,192) |
| Changes in fair value of property, plant and equipment | (110) | (1,358) |
| Changes in fair value of interest rate swaps | 2,458 | 581 |
| Share of investment in joint venture | (3,382) | (5,141) |
| Depreciation | 5,048 | 4,252 |
| Impairment of goodwill | 1,512 | 1,213 |
| Movement in deferred tax | (405) | 316 |
| Transaction costs included in financing activities | 276 | 980 |
| **Changes in working capital relating to operating activities** | | |
| Trade receivables and other assets | (5,779) | (3,809) |
| Trade and other payables | 7,983 | 4,685 |
| Refundable occupation right agreements | 50,874 | 35,428 |
| Other | 277 | 285 |
| **Net cash inflow from operating activities** | **69,141** | **53,877** |

Cash comprises cash at bank, bank overdraft, cash on hand and call deposit facilities with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

The following are definitions of the terms used in the cash flow statements:

- operating activities include all transactions and other events that are not investing or financing activities;
- investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, investment properties and other investments. Investments can include securities not falling within the definition of cash; and
- financing activities are those activities which result in changes in the size and composition of the capital and funding structure of the Group.

## 12. TRADE AND OTHER PAYABLES

| $000 | 2019 | 2018 |
|---|---|---|
| Trade creditors | 13,196 | 8,209 |
| Sundry creditors and accruals | 8,600 | 7,866 |
| Employee entitlements | 10,061 | 9,100 |
| Revenue in advance | 31,162 | 28,155 |
| **Total trade and other payables** | **63,019** | **53,330** |

### Revenue in Advance

Revenue in advance comprises those amounts by which the amortisation of deferred management fees over the contractual period of the ORA exceeds the amortisation of the deferred management fee based on estimated tenure.

### Employee Entitlements

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is made for benefits accruing to employees in respect of wages, salaries, annual leave, bonuses and profit-sharing plans when it is probable that settlement will be required and the amount can be estimated reliably.

## 13. SHARE CAPITAL

| Shares 000 | 2019 | 2018 |
|---|---|---|
| Opening balance | 413,741 | 334,261 |
| Shares issued | 209 | 79,480 |
| **Closing balance** | **413,950** | **413,741** |

### Recognition and Measurement

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

The Company incurred transaction costs of $0.3 million during the year (2018: $3.3 million), with no costs related to the issue of new shares and deducted from equity (2018: $2.3 million).

All ordinary shares are authorised and rank equally with one vote attached to each fully paid ordinary share. The shares have no par value.

On 13 October 2017 Arvida Group Limited issued 12,628,255 ordinary shares at $1.267 to the vendors of Mary Doyle, Strathallan and Village at the Park in part satisfaction of the purchase price.

On 13 October 2017 Arvida Group Limited issued 66,851,393 ordinary shares at $1.15 to existing investors by way of a 1-for-5 pro-rata renounceable rights issue to replenish cash reserves after the acquisition of Mary Doyle, Strathallan and Village at the Park.

On 20 April 2018 Arvida Group Limited issued 209,315 ordinary shares to senior executives under the terms of its long-term incentive plan.

### Dividends

During the year dividends of 5.46 cents per ordinary share (2018: 4.6 cents per ordinary share) were paid to shareholders. Imputation credits of 1.0 cents per ordinary share (2018: 1.6 cents per ordinary share) were attached to the dividends.

## 14. EARNINGS PER SHARE

| $000 | 2019 | 2018 |
|---|---|---|
| Profit attributable to equity holders | 59,075 | 57,637 |
| *Basic earnings per share* | | |
| Weighted average number of ordinary shares on issue (thousands) | 413,938 | 371,061 |
| **Basic earnings per share (cents)** | **14.27** | **15.53** |
| *Diluted earnings per share* | | |
| Weighted average number of ordinary shares on issue (thousands) | 416,948 | 373,953 |
| **Diluted earnings per share (cents)** | **14.17** | **15.41** |

### Basic

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

### Diluted

Diluted earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares on issue during the year adjusted to assume conversion of dilutive potential of ordinary shares.

## 15. FINANCIAL RISK MANAGEMENT

### Financial Instruments

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 from the financial assets expire or if the Group transfers the financial asset to another party without retaining control of substantially all the risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

| $000 | 2019 | 2018 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 4,574 | 3,129 |
| Trade receivables and other assets | 6,457 | 6,067 |
| Amounts due from related parties | 0 | 576 |
| **Total** | **11,031** | **9,772** |
| **Financial liabilities** | | |
| Trade and other payables | 21,796 | 16,075 |
| Bank loans | 190,500 | 122,500 |
| Residents' loans | 466,075 | 415,201 |
| **Total** | **678,371** | **553,776** |

The Group's principal financial instruments comprise loans and borrowings, residents' loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group also holds other financial assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

All financial instruments currently held by the Group are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost.

Prepayments are excluded from trade receivables and other assets. Employee entitlements are excluded from trade and other payables.

The carrying value of financial assets and financial liabilities are assumed to approximate their fair values.

### Financial Risk Management Objectives and Policies

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk, liquidity risk and capital risk. The exposure to interest rate risk is not considered to be material to the Group. The Group's management programme considers financial market's volatility and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates to determine market risk and ageing analysis for credit risk.

Risk management is carried out centrally by the support office under policies approved by the Board of Directors. The Board and Group has approved policies covering overall risk management, as well as policies covering treasury and financial markets risks.

### Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its financial obligations as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Cash flow forecasting is regularly performed by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans and covenant compliance. Surplus cash held by the operating entities is used to repay debt.

The following table analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the tables below are the contractual undiscounted cash flows inclusive of interest payments.

The bank loans are drawn down from the committed bank facilities for fixed periods (typically 3 months). At the conclusion of the draw down period the loans are rolled over for a further fixed period. The maturities of the committed bank facilities are shown in note 10.

The refundable occupation right agreement is repayable to the resident on vacation of the unit or serviced apartment or on termination of the occupation right agreement (subject to a new occupation right agreement for the unit or serviced apartment being issued to an incoming resident).

In determining the fair value of the Group's investment properties, CBRE Limited and Jones Lang LaSalle Limited estimate the stabilised occupancy period for residents as shown in note 2. Based upon these historical turnover calculations the expected maturity of the total refundable obligation to refund residents is expected to be as noted in the table below.

| $000 | Less than 1 Year | Greater than 1 Year |
|---|---|---|
| **2018** | | |
| Trade and other payables | 16,075 | 0 |
| Bank Loans | 0 | 122,500 |
| Interest rate swaps | 0 | 581 |
| Refundable occupation right agreements | 50,427 | 364,774 |
| **2019** | | |
| Trade and other payables | 21,796 | 0 |
| Bank Loans | 0 | 190,500 |
| Interest rate swaps | 0 | 3,039 |
| Refundable occupation right agreements | 53,239 | 412,836 |

## Credit risk

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

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

Trade receivables are assessed for impairment on an individual basis and any impairment is recognised in the income statement when it is incurred.

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

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

### Capital risk

Capital risk is the risk that the Group may not be able to access sufficient capital when it is required. Capital risk arises from changes in local and global market conditions and changes to government policy.

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

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

The Group targets a gearing ratio between 25%-35%. The bank loans are subject to bank covenants. The covenants require the Group to maintain agreed interest cover and loan to valuation ratios, as detailed in note 10.

## 16. SUBSIDIARY COMPANIES

### Wholly Owned Subsidiaries

The following entities are wholly owned subsidiaries of the ultimate parent company, Arvida Group Limited, as at 31 March 2019:

| |
|---|
| Aria Bay Retirement Village Limited |
| Aria Bay Senior Living Limited |
| Aria Gardens Limited |
| Aria Park Retirement Village Limited |
| Aria Park Senior Living Limited |
| Arvida Limited |
| Ashwood Park Lifecare (2012) Limited |
| Ashwood Park Retirement Village (2012) Limited |
| Bainlea House (2013) Limited |
| Bainswood House Rest Home Limited |
| Bainswood Retirement Village Limited |
| Copper Crest Retirement Village Limited |
| Glenbrae Rest Home and Hospital Limited |
| Glenbrae Village Limited |
| Ilam Lifecare Limited |
| Ilam Senior Living Limited |
| Kerikeri Land Limited[1] |
| Lansdowne Developments Limited |
| Lansdowne Park Village Limited |
| Lauriston Park Retirement Village Limited |
| Mary Doyle Healthcare Limited |
| Mary Doyle Trust Lifecare Complex Limited |
| Mayfair Lifecare (2008) Limited |
| Mayfair Retirement Village (2008) Limited |
| Molly Ryan Lifecare (2007) Limited |
| Molly Ryan Retirement Village (2007) Limited |
| Oakwoods Lifecare (2012) Limited |
| Oakwoods Retirement Village (2012) Limited |
| Olive Tree Apartments Limited |
| Olive Tree Holdings Limited |
| Olive Tree Village (2008) Limited |

1 Incorporated on 6 August 2018

| |
|---|
| Park Lane Lifecare Limited |
| Park Lane Retirement Village Limited |
| Rhodes on Cashmere Healthcare Limited |
| Rhodes on Cashmere Lifecare Limited |
| St Albans Lifecare Limited |
| St Albans Retirement Village Limited |
| St Allisa Rest Home (2010) Limited |
| Strathallan Healthcare Limited |
| Strathallan Lifecare Village Limited |
| The Cascades Retirement Resort Limited |
| The Maples Lifecare (2005) Limited |
| The Maples Retirement Village (2005) Limited |
| The Wood Lifecare (2007) Limited |
| The Wood Retirement Village (2007) Limited |
| Views Lifecare Limited |
| Waikanae Country Lodge Limited |
| Waikanae Country Lodge Village Limited |
| Waimea Plains Retirement Village Limited[2] |
| Wendover Rest Home 2006 Limited |
| Wendover Retirement Village 2006 Limited |

2 Changed name from Richmond Land Limited on 25 October 2018

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

The financial results of wholly owned subsidiaries included in the financial statements are from the date on which control commenced until the date control ceases.

All wholly owned subsidiary companies are incorporated in New Zealand with a balance date of 31 March.

All wholly owned subsidiary companies are in the business of owning, operating and developing retirement villages and care facilities for the elderly in New Zealand.

### Investment in Joint Venture

The Group has a 50% interest in the joint venture companies Village at the Park Care Limited and Village at the Park Lifecare Limited (2018: 50%). The joint venture companies are incorporated in New Zealand and have a balance date of 31 March. The principal activity of the joint venture companies is owning, operating and developing retirement villages and care facilities for the elderly in New Zealand.

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

During the year $3.4 million (2018: $5.1 million) of share of profits arising from the joint venture, net of tax, was recognised. Of this, $2.7 million (2018: $4.9 million) related to the change in fair value of the joint venture's investment property.

## 17. RELATED PARTY TRANSACTIONS

### Key Management Personnel Compensation

Key management personnel compensation for the year ended 31 March 2019 and the year ended 31 March 2018 is set out below. The key management personnel are all executives with the greatest authority for the strategic direction and management of the Company. The directors are remunerated through directors' fees and expenses.

| $000 | 2019 | 2018 |
|---|---|---|
| Salaries and other short term benefits | 2,711 | 2,449 |
| Share based payments | 332 | 313 |
| **Total** | **3,043** | **2,762** |

### Identity of Related Parties

*The Board of Directors* at 31 March 2019, comprising Peter Wilson, Michael Ambrose, Anthony Beverley, Susan Paterson and Paul Ridley-Smith.

*Executives of the Group*, including, but not limited to, William McDonald and Jeremy Nicoll.

*Rodgers & Co.*, an accounting service provider associated with Michael Ambrose, were paid $nil during the year ended 31 March 2019 for accounting services (2018: $9,336).

*Joint Venture*, during the year $0.4 million (2018: $0.2 million) was received as management and director fees from the joint venture companies, Village at the Park Care Limited and Village at the Park Lifecare Limited. A dividend of $0.3m was received from Village at the Park Lifecare Limited (2018: nil).

## 18. CONTINGENT LIABILITIES

At balance date there are no known contingent liabilities (2018: nil).

## 19. FEES PAID TO AUDITORS

| $000 | 2019 | 2018 |
|---|---|---|
| **Fees paid to group auditor - Ernst & Young** | | |
| Audit | 383 | 383 |
| *Other non-assurance* | | |
| Tax compliance and advisory | 32 | 48 |
| **Total** | **415** | **431** |

## 20. SUBSEQUENT EVENTS

On 20 April 2019, 731,325 shares were issued to senior employees pursuant to the equity based share rights scheme.

On 28 May 2019, the directors approved a dividend of 1.45 cents per share amounting to $6.0 million. The dividend is partially imputed at 0.10 cents per share. A supplementary dividend of 0.05 cents per share will be paid to non-resident shareholders. The dividend record date is 12 June 2019 and payment is due to be made on 20 June 2019.

## 21. CAPITAL COMMITMENTS

As at 31 March 2019, the Group had $42.3 million of capital commitments in relation to construction contracts (2018: $22.0 million).

## 22. EMPLOYEE SHARE PLAN

The Group operates an equity based share rights scheme for selected senior employees. If the unlisted performance share rights vest, ordinary shares will be issued to the employees at or around the vesting date. The issue price of the shares was determined by reference to the 20 trading day volume weighted average price of shares traded on the NZX immediately prior to the commencement date of the share rights performance period.

Performance goals are measured for the total shareholder return hurdles, for the period from the commencement date to the vesting date. Details of the vesting hurdles can be found in the Remuneration section of this report.

The share rights scheme is an equity settled scheme and is measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate that the share will vest.
A simulation-based approach was used to complete the valuation model. For the purposes of the simulation, it is assumed that share returns are normally distributed. The option cost for the year ending 31 March 2019 of $0.3 million has been recognised in the Group's statement of comprehensive income for that period (2018: $0.3 million).

Details of the unlisted performance share rights scheme are:

**2019**

| **Commencement date** | **1 April 2015** | **1 April 2015** | **1 April 2015** | **1 April 2016** | **1 April 2017** | **1 April 2018** |
|---|---|---|---|---|---|---|
| Issue price | $ 0.95 | $ 0.95 | $ 0.95 | $ 0.93 | $ 1.33 | $ 1.19 |
| % of shares vested | 0% | 0% | 0% | 0% | 0% | 0% |
| Vesting date | 31 March 2019 | 31 March 2020 | 31 March 2021 | 31 March 2019 | 31 March 2020 | 23 June 2021 |
| Unlisted performance share rights | 630,042 | 630,042 | 630,042 | 356,912 | 312,935 | 422,264 |
| Volatility assumption | 17% | 17% | 17% | 17% | 17% | 17% |

**2018**

| **Commencement date** | **1 April 2015** | **1 April 2015** | **1 April 2015** | **1 April 2015** | **1 April 2016** | **1 April 2017** |
|---|---|---|---|---|---|---|
| Issue price | $ 0.95 | $ 0.95 | $ 0.95 | $ 0.95 | $ 0.93 | $ 1.33 |
| % of shares vested | 0% | 0% | 0% | 0% | 0% | 0% |
| Vesting date | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 | 31 March 2019 | 31 March 2020 |
| Unlisted performance share rights | 304,170 | 630,042 | 630,042 | 630,042 | 356,912 | 340,334 |
| Volatility assumption | 17% | 17% | 17% | 17% | 17% | 17% |

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

The share price at the date of exercise of the 2019 options was $1.16. The weighed average remaining contractual life for the share options outstanding as at 31 March 2019 was 1.1 years (2018: 1.7 years).

| | 2019 Number | 2019 WAEP | 2018 Number | 2018 WAEP |
|---|---|---|---|---|
| Opening balance at 1 April | 2,891,542 | $ 0.99 | 2,551,208 | $ 0.95 |
| Granted during the year | 422,264 | $ 1.19 | 340,334 | $ 1.33 |
| Forfeited during the year | (27,399) | $ 1.33 | 0 | n/a |
| Exercised during the year | (209,315) | $ 0.95 | 0 | n/a |
| Expired during the year | (94,855) | $ 0.95 | 0 | n/a |
| **Closing balance at 31 March** | **2,982,237** | **$ 1.02** | **2,891,542** | **$ 0.99** |
| **Exercisable at 31 March** | **986,954** | **$ 0.94** | **304,170** | **$ 0.95** |

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# Independent auditor's report to the Shareholders of Arvida Group Limited
## Report on the audit of the financial statements

### Opinion

We have audited the consolidated financial statements of Arvida Group Limited and its subsidiaries ("the Group"), on pages 43 to 68, which comprise the consolidated balance sheet of the Group as at 31 March 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 43 to 68 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards (IFRS).

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

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We 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 we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young has provided taxation compliance and tax advisory services to the Group. We have no other relationship with, or interest in, Arvida Group Limited or any of its subsidiaries. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### Property Valuation

| Why significant? | How our audit addressed the key audit matter |
|---|---|
| The Group's retirement village assets and care facilities have a combined value of $1.18b, and together make up 91.5% of total Group assets at 31 March 2019.<br><br>Investment properties and care facilities are carried at fair value. Investment Properties valuations are performed every 6 months and care facilities are valued at least once every 2 years. Care facilities were last externally valued in March 2018. | To address this key audit matter, we:<br>• assessed the competence, qualifications, independence and objectivity of the independent valuers;<br>• involved our real estate valuation specialists to assist us in analysing and challenging the valuations for a sample of villages and evaluating the underlying assumptions across the portfolio of valuations against the market based evidence available; |

### Property Valuation

| Why significant? | How our audit addressed the key audit matter |
|---|---|
| The Group engages CBRE Limited and Jones Lang LaSalle Limited to determine the fair value of these assets.<br>These valuations require the use of judgment specific to the properties. Significant underlying assumptions used in the valuation are subjective and are not observable through available market information. Key amongst these assumptions and judgements are:<br>• for retirement villages assets:<br>  • discount rate<br>  • house price inflation<br>  • average entry age of residents; and<br>  • occupancy periods of the units for each village.<br>• for care facilities:<br>  • capitalisation rates; and<br>  • earnings per care bed.<br>The highly judgemental and subjective nature of the valuations, coupled with the significance of the account balance to the financial statements, results in this being an area of audit focus.<br>Valuation approach and significant assumptions applied in measuring retirement village assets and care facilities are described in Note 6 *'Investment Property'* and Note 7 '*Property, Plant and Equipment'* to the consolidated financial statements. | • considered and discussed the valuation reports with the independent valuers;<br>• tested, on a sample basis, village specific information relating to core data supplied to the independent valuers by the Group, including sales, unsold stock and occupancy, to the underlying records held by the Group;<br>• assessed the significant input assumptions applied for reasonableness compared to previous periods assumptions, the changing state of the village sites and other market changes;<br>• examined the allocation of costs from work in progress to completed village units, care centres and other assets;<br>• assessed the valuation outcomes for each property to the rest of the portfolio and market information made available by the independent valuers;<br>• reviewed management's assessment of care centre fair value movement since prior year; and<br>• assessed the adequacy of the related financial statement disclosures, including the impact of the reclassification referred to in Note 1 of the consolidated financial statements. |

### Deferred management fee revenue recognition

| Why significant? | How our audit addressed the key audit matter |
|---|---|
| Deferred management fee ("DMF") revenue is 14% of the Group total revenue. The Group recognises deferred management fee revenue from residents over the period of service, being the greater of the expected period of tenure or the contractual right to the revenue.<br>The amount of revenue recognised in each year is subject to the Group's judgment of the average expected period of tenure in the village, the terms of the occupation right agreement and the type of unit occupied.<br>Recognition of DMF revenue and associated liabilities and assets are therefore potentially subject to bias and error given the tenure assumptions, varying contract terms across the Group and complexity in the calculation.<br>The Group's disclosures regarding this income are contained in note 2 *'Income'*. | To address this key audit matter, we focused on understanding the overall calculation methodology and testing the integrity of inputs and key assumptions in DMF revenue recognition throughout the period. In doing so, we:<br>• assessed the accuracy of the inputs to, and calculation of, deferred management fee revenue recognised during the financial year;<br>• agreed the contractual terms of a sample of residents used in the revenue recognition calculation to the occupation right agreement;<br>• compared the year on year movements in revenue recognised relating to each village and unit type based on an expectation derived from the nature of the village occupation right agreements; and<br>• assessed the adequacy of the related financial statement disclosures. |

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## Information Other than the Financial Statements and Auditor's Report

The Directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' Responsibilities for the Financial Statements

The Directors are responsible on behalf of the entity for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of 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 for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing (New Zealand) 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 responsibility for the audit of the financial statements is located at External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

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

Ernst + Young

Chartered Accountants
Auckland
27 May 2019

A member firm of Ernst & Young Global Limited

# GOVERNANCE

ARVIDA GROUP LIMITED
FOR THE YEAR ENDED
31 MARCH 2019

Arvida is committed to applying and adhereing to best practice governance structures and principles. To maintain this standard, the Company has implemented a framework of structures, practices and processes that it considers reflect best practice.

The framework has been guided by the recommendations set out in the NZX Corporate Governance Code (NZX Code) and the requirements set out in the NZX Listing Rules. The Company reviewed its corporate governance policies and procedures, and its board and committee charters during the year demonstrating its commitment to the fundamental principles set out in the NZX Code. Each principle of the NZX Code is provided below with an explanation on how the Company meets the principle.

On 28 February 2019, Arvida transitioned to the updated NZX listing rules. An amended constitution will be put to shareholders for their approval at the Annual Meeting of Shareholders on 5 July 2019. The amendments are procedural in nature and are required in order to comply with the new NZX listing rules. The key changes reflect the following:

- Including a provision requiring Arvida to comply with the minimum board composition requirements of the listing rules;
- Amending the clauses relating to director rotation to incorporate the requirements of the listing rules by reference to the listing rules;
- Inserting a requirement that voting at meetings of shareholders will be conducted by poll and deleting clauses which addressed shareholders rights to demand polls; and
- Deleting the fourth schedule, which related to restrictions on share transfers following Arvida's initial public offering and is now redundant.

Shareholders can view all proposed amendments in mark-up at www.arvida.co.nz/For-Investors/Reports-and-Presentations. The proposed amendments do not impose or remove a restriction on Arvida's activities, and accordingly no rights arise under Section 110 of the Companies Act 1993.

The Board confirms that in the year to 31 March 2019, Arvida's corporate governance practices and policies fully complied with the NZX Code recommendations.

Arvida's corporate governance policies and procedures, and its board and committee charters have been approved by the Board and are available to view at www.arvida.co.nz/For-Investors/Governance.

## PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

> **"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."**

### Code of Ethics and Related Policies

**Recommendation 1.1:** *The Board should document minimum standards of ethical behaviour to which the issuer's Directors and employees are expected to adhere (a code of ethics) and comply with the other requirements of Recommendation 1.1 of the NZX Code.*

The Board sets and maintains high standards of ethical conduct and expects the Company's Directors and employees to act legally and with integrity in a manner consistent with the policies, guiding principles and values that are in place.

The Company's Code of Ethics sets out the standards of conduct expected of Directors (including members of committees) and employees (including contractors and consultants). The purpose of the Code is to underpin and support the values that govern individual and collective behaviour. It covers a wide range of areas including the following: standards of behaviour; conflicts of interest; proper use of company information and assets; gifts; compliance with laws and policies; reporting concerns; and corporate opportunities.

Training on ethical conduct is included as part of the induction process for new Directors and employees and forms a part of an employment handbook provided to employees.

The Code requires Directors and employees to report breaches of the Code and sets out the procedure for doing so in accordance with the Company's Whistle Blowing Policy.

### Trading in Company Securities Policy

**Recommendation 1.2**: *An issuer should have a financial product dealing policy which applies to employees and Directors.*

In accordance with the Company's Financial Products Trading Policy, the NZX Listing Rules, and the Financial Markets Conduct Act 2013, Directors and employees of the Company are subject to limitations on their ability to buy or sell Company shares.

The Policy sets out restrictions on the ability of Directors and employees to buy or sell financial products. In particular:

- Restricted Persons may not buy or sell Company shares in specified "blackout" periods that are set out in the Policy (these periods commence prior to the release of financial results to the market or the release of other material information).
- outside of a blackout period, Restricted Persons must obtain consent to buy or sell Company shares and should not engage in short term trading.

Directors are encouraged to own shares in the Company in their own name (or through associated interests). In the case of Independent Directors, the Board has resolved that Independent Directors are expected to hold a discretionary but meaningful level of Arvida shares. The Directors' shareholdings and changes to those shareholdings are included in the Disclosures section of this Annual Report.

Training on the Policy is included as part of the induction process for new Directors and included in the employee handbook distributed to employees. The Policy is available to view at www.arvida.co.nz/For-Investors/Governance.

## PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

> **"To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives."**

The Board is comprised of five Directors with a mix of qualifications, skills and experience appropriate to Arvida's business. The Board schedules a minimum of eight meetings each year.

### Board Charter

**Recommendation 2.1:** *The Board of an issuer should operate under a written charter which sets out the roles and responsibilities of the Board. The Board charter should clearly distinguish and disclose the respective roles and responsibilities of the Board and management.*

The Board has adopted a formal Board Charter that is available to view at www.arvida.co.nz/For-Investors/Governance and details its authority, responsibilities, membership and operation.

The key responsibilities of the Board include establishing the Company's objectives, the major strategies for achieving these objectives, the overall policy framework within which business is conducted and monitors the senior leadership team's performance with respect to these matters. The Board has processes and systems in place to ensure that significant issues, risks and major strategic decisions are monitored and considered at Board level. This allows the Company to operate on a day to day basis in a manner which maximises shareholder value and manages risk while seeking to ensure that the interests of Shareholders are protected.

A summary of the Board Charter includes:

- At least one-third of the total number of Directors should be Independent as defined in the NZX Listing Rules.
- The Chair of the Board should be an Independent Director.
- The Chair and the Chief Executive Officer should be different people.
- Directors should possess a broad range of skills, qualifications and experience, and remain current on how best to perform their duties as Directors.
- Information of sufficient content, quality and timeliness as the Board considers necessary shall be provided by management to allow the Board to discharge its duties effectively.
- The effectiveness and performance of the Board and its individual members should be re-evaluated on an annual basis.

The Board's focus is on the creation of long term shareholder wealth and ensuring the Company is run in accordance with best international management and corporate governance practices. The legitimate interests of all stakeholders are taken into account in the decision-making of the Board.

The Board delegates to the Chief Executive Officer responsibility for implementing the Board's strategy and for managing the Company's operations. The Chief Executive Officer has Board-approved levels of authority and, in turn, sub-delegates authority in some cases to direct reports and has established a formal process for direct reports to sub-delegate certain authorities as appropriate. This is documented in the Delegated Authority Policy.

All Directors have access to the senior leadership team to discuss issues or obtain further information on specific areas. Key executives and managers are invited to attend and participate in appropriate sessions at Board meetings to provide additional insight into the items being discussed. With the Chair's prior approval, Directors are entitled to obtain external independent expert advice.

### Nomination and Appointment of Directors

**Recommendation 2.2 and 2.3:** *Every issuer should have a procedure for the nomination and appointment of Directors to the Board. An issuer should enter into written agreements with each newly appointed Director establishing the terms of their appointment.*

In accordance with the Company's Constitution and the NZX Listing Rules, Directors are required to retire by rotation at least every three years and may offer themselves for re-election by Shareholders. Procedures for the appointment and removal of Directors are also governed by the Constitution.

At the 2019 Annual Meeting of Shareholders, Anthony Beverley will retire by rotation and stand for re-election. A profile of Anthony will be included in the Notice of Meeting . The meeting will be held at 10:30am on Friday 5 July 2019 in the Rydges Hotel, Christchurch.

The Board's policy is that the Board needs to have an appropriate mix of skills, professional experience and diversity to ensure that it is well equipped to fulfil its responsibilities. The Board reviews and evaluates on a regular basis the skill mix required, and identifies any existing gaps. The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing the Company.

The NZX Listing Rules require that a minimum of two Directors are Independent Directors. As at 31 March 2019, Peter Wilson (Chair), Michael Ambrose, Anthony Beverley, Susan Paterson and Paul Ridley-Smith are determined to be Independent Directors. Accordingly, the Board currently comprises of all Independent Directors.

The Directors are required to keep the Board advised of any interests they have that could affect their independence, including any interests that could potentially conflict with the interests of Arvida. The Board determines the independence of each Director in terms of any matter arising at any time and on a formal basis at the time of appointment and annually thereafter. The Board will review any determination it makes as to a Director's independence on becoming aware of any information that indicates that the Director may have a material relationship that could potentially conflict with the interests of the Company.

All Directors have agreements that set out the terms and conditions of their appointment.

### Director Particulars

**Recommendation 2.4:** *Every issuer should disclose information about each Director in its Annual Report or on its website, including a profile of experience, length of service, independence and ownership interests*.

Information on each Director, including their interests, skills, length of service and security holdings, is provided in the Directors' Profiles and Disclosures sections of this Annual Report. A profile of each Director is available to view at www.arvida.co.nz/For-Investors/Directors.

### Diversity

**Recommendation 2.5:** *An issuer should have a written Diversity Policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it*.

The Company and its Board believe that having a team of individuals with different backgrounds, views, experiences and capabilities working together makes the business stronger, vibrant and better as an organisation. The Company is committed to retaining and recruiting people who are passionate about the Company's customers and have a range of skills, experiences and frames of reference to drive innovation and to help the Company to achieve its vision.

The Company has a formal Diversity and Inclusion Policy which is available to view at www.arvida.co.nz/For-Investors/Governance.

Each year the Board reviews performance of the Policy against agreed annual objectives.

The Company has determined that the category of Officers includes the Chief Executive Officer, Chief Financial Officer and the six divisional General Managers. As at 31 March 2019, the gender mix of Directors and Officers are set out below:

| | Gender | 2019 | 2018 |
|---|---|---|---|
| Directors | Male | 4 | 4 |
| | Female | 1 | 1 |
| | **Total** | **5** | **5** |
| Officers | Male | 5 | 5 |
| | Female | 3 | 4 |
| | **Total** | **8** | **9** |
| Village Managers | Male | 9 | 8 |
| | Female | 18 | 18 |
| | **Total** | **27** | **26** |

The table below details the Company's diversity and inclusion objectives and an update on the progress being made with them. The Company's inaugural staff engagement survey completed this year collected baseline diversity and engagement feedback.

It is intended that the survey will be conducted on a regular basis.

| Objective | Measurement | Progress |
|---|---|---|
| Work towards improving the gender diversity | Compare gender proportions for employee classifications to benchmark | Details of the gender balance in the Director, Officer and Village Manager role types are detailed above. In all other role types, approximately 86% of the workforce is female |
| Ensure diversity of thought is valued and encouraged | Compare annual survey of Directors, Officers and Village Managers (as individual groups and in aggregate) response to the inclusion question: "Is diversity of thought valued and encouraged at Arvida?" | In the 2018 staff engagement survey, 69% of respondents either agreed or strongly agreed with the measurement statement |
| Ensure fair evaluation of employee performance and equitable remuneration decisions | Compare remuneration of workforce by role by gender | Arvida is in the process of completing an evaluation of remuneration by role by gender |
| Ensure our team is treated fairly and with respect | Compare annual employee engagement survey response to the inclusion question: "Are all employees at Arvida are treated fairly (including as to employment opportunity), regardless of age, ethnicity, gender or physical capabilities" | In the 2018 staff engagement survey, 71% of respondents either agreed or strongly agreed with the measurement statement |

### Director Training

**Recommendation 2.6:** *Directors should undertake appropriate training to remain current on how to best perform their duties as Directors of an issuer.*

The Board seeks to ensure that new Directors are appropriately introduced to the senior leadership team and the Arvida business, that all Directors are acquainted with relevant industry knowledge and economics and that they receive a copy of the Charters of the Board and Committees and the key governance documents.

It is expected that all Directors continuously educate themselves to ensure they have appropriate expertise and can effectively perform their duties. In addition, visits to the Company's operations, briefings from the senior leadership team and industry experts or key advisers to the Company, and educational and stakeholder visits, briefings or meetings are arranged for the Board.

### Evaluation of Performance of Directors

**Recommendation 2.7:** *The Board should have a procedure to regularly assess Director, Board and committee performance.*

The Chair undertakes an annual review of the individual performance of Directors. The Board also reviews its performance as a whole and the performance of its Committees on an annual basis.

Every two years, a review of Board performance is undertaken by an external consultant. Propero Consulting Limited conducted a review of the Board in May 2017 and they completed an update to this review in May 2019. This provided useful and positive feedback to the Board and senior management on the governance of the business.

### Separation of Board Chair and CEO

**Recommendation 2.8:** *The Chair and the CEO should be different people.*

The Board Charter requires the Board Chair to be an Independent Director, and not be the same person as the Chief Executive Officer or the Chair of the Audit and Risk Committee.

## PRINCIPLE 3: BOARD COMMITTEES

**"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."**

### Overview of Board Committees

The Board has two formally constituted committees to assist in the execution of the Board's duties, being the Audit and Risk Committee and the Remuneration Committee. Each Committee operates under a written charter that sets out its mandate.

The table below sets out attendance at Board and Committee meetings for all respective Directors during the financial year ended 31 March 2019. Directors also met regularly over the course of the year to discuss other important matters such as potential acquisitions. Two of the Board meetings were convened on site at an Arvida village.

Outside of the Board and Committee meetings, the Board or a subcommittee held an additional four formal meetings in person or by way of conference call during the year.

### Audit Committee

**Recommendation 3.1:** *An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should not also be the chair of the board.*

The primary functions of the Audit and Risk Committee are:

- To co-ordinate the audit process to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

| Meeting Attendance | Board | Audit and Risk Committee | Remuneration Committee |
|---|---|---|---|
| Peter Wilson | 8 | - | - |
| Michael Ambrose | 8 | 4 | - |
| Anthony Beverley | 8 | 4 | 3 |
| Susan Paterson | 8 | - | 3 |
| Paul Ridley-Smith | 8 | 4 | 3 |
| **Total meetings held** | **8** | **4** | **3** |

- To provide the Board with an assessment of the Company's financial disclosures and accounting affairs.
- To keep under review the effectiveness of the Company's procedures for the identification, assessment and reporting of material risks.

Members of the Committee are appointed by the Board. The Committee must comprise a minimum of three Directors comprising a majority of Independent Directors. The current members of the Committee are Anthony Beverley (Chair), Paul Ridley-Smith and Michael Ambrose.

The Audit and Risk Committee Charter provides for the composition, responsibilities, procedures and reporting duties of the Audit Committee and governs how the members of the Audit Committee discharge their obligations. The Audit and Risk Committee Charter is reviewed annually by the Board and was last reviewed in February 2019.

**Recommendation 3.2:** *Employees should only attend Audit Committee meetings at the invitation of the Audit Committee.*

The Audit and Risk Committee generally invites the Chief Executive Officer, Chief Financial Officer, General Manager Finance and external auditors to attend meetings. The Committee also meets and receives regular reports from the external auditors without management present, concerning any matters that arise in connection with the performance of their role.

## Remuneration Committee

**Recommendation 3.3:** *An issuer should have a Remuneration Committee which operates under a written charter (unless this is carried out by the whole Board). At least a majority of the Remuneration Committee should be independent Directors. Management should only attend Remuneration Committee meetings at the invitation of the Remuneration Committee.*

The role of the Remuneration Committee is to assist the Board in establishing and reviewing remuneration policies and practices for the Company. Specific responsibilities include:

- To set and review the Company's remuneration policies and practices.
- Formulating and suggesting the director's fees to be paid to each Director.
- Determining additional allowances to be paid to Directors where additional work is being undertaken to that expected of other Directors.
- Conducting an annual review of the Chief Eexecutive Officer's performance against his or her performance agreement and employment contract and ensuring appropriate performance agreements are in place.
- Reviewing succession planning and recruitment, retention and termination policies for the Chief Executive Officer and the senior leadership team.

The Remuneration Committee must be comprised of a minimum of three Directors comprising a majority of Independent Directors. The current members of the Committee are Paul Ridley-Smith (Chair), Anthony Beverley and Susan Paterson.

The Remuneration Committee Charter provides for the composition responsibilities, procedures and reporting duties of the Remuneration Committee and governs how the members of the Remuneration Committee discharge their obligations. The Remuneration Committee Charter is reviewed annually by the Board and was last reviewed in February 2019.

## Nomination Committee

**Recommendation 3.4:** *An issuer should establish a Nomination Committee to recommend Director appointments to the Board (unless this is carried out by the whole Board), which should operate under a written charter. At least a majority of the Nomination Committee should be independent Directors.*

The Board has decided not to have a separate Nomination Committee as Director appointments are considered by the Board as a whole. The procedure for the nomination and appointment of Directors is included in the Board Charter and summarised in Principle 2.

## Other Committees

**Recommendation 3.5:** *An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance*.

No Other Committees were established or operated during the financial year.

## Takeover Protocols

**Recommendation 3.6:** *The Board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer (amongst other matters).*

The Company's Takeover Protocol sets out the procedure to be followed in the event that a takeover offer is made or scheme of arrangement proposed.

## PRINCIPLE 4: REPORTING AND DISCLOSURE

> **"The board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures."**

### Continuous Disclosure

**Recommendation 4.1:** *An issuer's Board should have a written Continuous Disclosure Policy.*

The Company is committed to promoting Shareholder confidence through open, timely, accurate and balanced disclosures. It achieves these commitments, and the promotion of investor confidence, by ensuring that trading in its shares takes place in an efficient, competitive and informed market.

The Company has in place procedures designed to ensure compliance with its disclosure obligations under the NZX Listing Rules such that:

- Any matter that might be Material Information is appropriately and swiftly escalated to the senior management team.
- All investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way.

The Company's Market Disclosure Policy sets out the disclosure and communication responsibilities and procedures for managing this obligation.

### Charters and Policies

**Recommendation 4.2:** *An issuer should make its code of ethics, Board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.*

Copies of key governance documents, including the Code of Ethics, Vision and Values, Financial Product Trading Policy, Board and Committee Charters, Diversity and Inclusion Policy, Audit Independence Policy, Market Disclosure Policy, Whistle Blowing Policy and Risk Management Policy are all available on the Company's website at www.arvida.co.nz/For-Investors/Governance.

The Company's governance documents were last reviewed on 18 February 2019 and updated to the website.

### Financial Reporting

**Recommendation 4.3:** *Financial reporting should be balanced, clear and objective.*

The Company is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on its present and future prospects.

The Audit and Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews the Company's full and half-year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements and the results of the external audit.

All matters required to be addressed and for which the Committee has responsibility were addressed during the reporting period. The Company has published Annual and Interim Reports that contained its full and half-year financial statements that were prepared in accordance with relevant financial standards.

### Non-Financial Reporting – Sustainability

**Recommendation 4.3:** *An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non-financial targets are measured.*

The Company provides non-financial disclsoure on matters including operational and clinical performance, risk management, health and safety, diversity and community engagement. However, the Company does not report under a recognised environment, social and governance (ESG) framework. The Company is in the early stages of reporting non-financial information, and intends to provide additional disclosure in this area in future reports.

In the current year, the Company initiated a process to define the Company's ESG vision and objectives. This included completing a gap analysis with a view to supporting a process towards the application of integrated thinking. Management also assessed risks and opportunities that it considered most material for stakeholders. This is set out on pages 34 to 35 of this Annual Report.

In the coming year, the Company intends to expand out the materiality assessment beyond the business operations and incorporate external stakeholder feedback. This process will assist in reporting ESG issues in a more transparent and formalised manner, highlighting work the Company already does.

## PRINCIPLE 5: REMUNERATION

> **"The remuneration of directors and executives should be transparent, fair and reasonable."**

### Directors' Remuneration

**Recommendation 5.1:** *An issuer should recommend Director remuneration to shareholders for approval in a transparent manner. Actual Director remuneration should be clearly disclosed in the issuer's annual report.*

Remuneration of Directors is reviewed by the Remuneration Committee. Its membership and role are set out under Principle 3 above. The level of remuneration paid to the Directors is determined by the Board within the limits approved by the Shareholders of the Company.

During 2017, advice was taken from the Institute of Directors on the structure and level of fees paid to Directors. Based on that advice, shareholder approval was obtained at the 2017 Annual Meeting to a revised allocation of Director remuneration. There were no changes to these allocations or the fee pool in this financial year.

Further details on Director remuneration are provided in the Remuneration section of this Annual Report.

### Remuneration Policy

**Recommendation 5.2:** *An issuer should have a Remuneration Policy for remuneration of Directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria.*

The Company is committed to applying fair and equitable remuneration and reward practices in the workplace, taking into account internal and external relativity, the commercial environment and the ability to achieve business objectives. As set out under Principle 3 above, the Remuneration Committee makes recommendations to the Board on remuneration packages, keeping in mind the requirements of the Company's Remuneration Policy.

Under the Company's remuneration framework, remuneration for the senior leadership team and senior managers includes a mix of fixed and variable components. Individual performance and market relativity are key considerations in all remuneration based decisions, balanced by the organisational context.

Further details on remuneration are provided in the Remuneration section of this Annual Report.

### Chief Executive Officer Remuneration

**Recommendation 5.3:** *An issuer should disclose the remuneration arrangements in place for the Chief Executive Officer in its Annual Report. This should include disclosure of the base salary, short term incentives and long term incentives and the performance criteria used to determine performance based payments.*

Further details on the Chief Executive Officer's remuneration are provided in the Remuneration section of this Annual Report. In addition to the remuneration information of the Chief Executive Officer, the Company discloses the Chief Financial Officer's remuneration in the Remuneration section of the Annual Report.

## PRINCIPLE 6: RISK MANAGEMENT

> **"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."**

### Risk Management

**Recommendation 6.1:** *An issuer should have a risk management framework for its business and the issuer's Board should receive and review regular reports. A framework should also be put in place to manage any existing risks and to report the material risks facing the business and how these are being managed.*

The Company has a risk management framework for identifying, overseeing, managing and controlling risk. The identification and effective management of risks are a priority of the Board and the Audit and Risk Committee.

The processes involved are set out in the Company's Risk Management Policy and require the maintenance of a risk register that identifies key business risks and initiatives deployed to manage and mitigate those risks.

The Board has responsibility for the oversight of the risk management. The Company, through the Board, Audit and Risk Committee and senior management team, continually monitors and, where necessary, updates the operation and implementation of the risk management system to ensure that the Company continues to have an appropriate and effective system in place to manage material business risks.

The Company's Risk Management Policy is available to view at www.arvida.co.nz/For-Investors/Governance.

### Health and Safety

**Recommendation 6.2:** *An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management*

The Company's health and safety objectives are met by:

- Documenting overarching performance standards with measurable indicators in a Health and Safety Management Plan. The Plan identifies health and safety risks and details how these risks are to be managed. It is continuously monitored and formally reviewed every two years.
- Documenting health and safety policies and communicating these to all employees.
- Monitoring, analysing and evaluating health and safety processes and performance data to identify areas of improvement and acting on any improvements identified.
- Monitoring and annually appraising the health and safety performance of senior managers and employees.

Detailed monthly reports are produced for the Board covering Health and Safety incidents, injury rates by severity, local site Health and Safety committee meetings and key initiatives undertaken.

## PRINCIPLE 7: AUDITORS

> **"The board should ensure the quality and independence of the external audit process."**

### Relationship with Auditor

**Recommendation 7.1 and 7.2:** *The Board should establish a framework for the issuer's relationship with its external auditor. This should include the procedures prescribed in the NZX Code. The external auditor should attend the issuer's annual meeting to answer questions from shareholders in relation to the audit.*

Oversight of external audit arrangements is the responsibility of the Audit and Risk Committee. Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility. A formal policy on audit independence has been adopted by the Committee to meet this requirement.

The Audit Independence Policy covers the following areas:

- Provision of related assurance services by the external auditors.
- Auditor rotation.
- Relationships between the auditor and the Company.
- Approval of Auditor.

The Audit and Risk Committee shall only approve a firm to be auditor if that firm would be regarded by a reasonable investor with full knowledge of all relevant facts and circumstances as capable of exercising objective and impartial judgement on all issues encompassed within the auditor's engagement. The external auditor (Ernst & Young) attends the Company's Annual Meeting and is available to answer questions from Shareholders in relation to the external audit.

### Internal Audit Functions

**Recommendation 7.3:** *Internal audit functions should be disclosed.*

The Company does not have an internal audit function. The Board is confident the key risks of the business are being adequately managed and the internal control framework is operating effectively.

## PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS

> **"The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."**

### Information for Shareholders

**Recommendation 8.1:** *An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.*

A comprehensive set of information regarding the Company's operations and results is made available on the Company's website including annual and half-year financial reports, investor presentations, investor newsletters, notice of meetings and market releases. The Company's corporate governance charters and policies, profiles of directors and senior management and key calendar dates are also made available on the website.

### Communicating with Shareholders

**Recommendation 8.2:** *An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.*

The Company provides options for shareholders to receive and send communications electronically, to and from both the Company and its share registrar. The Company's website also contains an investor centre section for establishing electronic shareholder communications.

All market releases carry contact details for the Chief Executive Officer and Chief Financial Officer for communications from shareholders. The Company responds to all shareholder communications within a reasonable timeframe. An investor relations programme is also maintained by the Company to encourage engagement with investors.

### Shareholder Voting Rights

**Recommendation 8.3 and 8.4:** *Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested in. Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.*

The regulatory safeguards built into the NZX Listing Rules, the Companies Act 1993 and the Company's constitution operate to preserve shareholders' entitlement to vote on major decisions impacting the Company.

The Company conducts voting at its Annual Meeting by a poll of shareholders, where each person voting at the meeting and each Shareholder who casts a vote by proxy, has one vote for each share held.

### Notice of Annual Meeting

**Recommendation 8.5:** *The Board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.*

The Company encourages shareholder participation in Annual Meetings, including alternating the venue of the Annual Meeting between North and South Islands. The Board aims to ensure that all relevant information is provided to shareholders for consideration with sufficient notice in advance of the Annual Meeting (and at least 28 days prior to the Annual Meeting, including by posting the notice of annual meeting on the Company's website).

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# REMUNERATION

ARVIDA GROUP LIMITED
FOR THE YEAR ENDED
31 MARCH 2019

## DIRECTORS' REMUNERATION

Directors' remuneration levels are set as to be fair and reasonable in a competitive market for the skills, knowledge and experience required by the Company.

Directors' fees are reviewed from time to time. The total pool of fees available to be paid to Directors is subject to shareholder approval. The current pool for non-executive directors' fees and board committee responsibilities was fixed at the 2016 Annual Meeting of Shareholders at $500,000 per annum.

As at 31 March 2019, the standard Director fees per annum are as follows:

| | Position | Fees |
|---|---|---|
| Board of Directors | Chair | $150,000 |
| | Member | $82,000 |
| Audit and Risk Committee | Chair | $12,000 |
| Remuneration Committee | Chair | $8,000 |

These allocations were approved by shareholder resolution at the 2017 Annual Meeting of Shareholders. The Board had sought external advice from The Institute of Directors on the levels of director remuneration. No additional fees are paid to committee members or Directors. Total remuneration paid to Directors during the financial year ended 31 March 2019 is set out in the table below. Remuneration paid excludes GST and expenses. Each Director is entitled, without limit, to be paid for all reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a Director.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Directors and Officers also have the benefit of Directors' and Officers' liability insurance. As provided for under its Constitution and in accordance with Section 162 of the Companies Act 1993, the Company arranged to indemnify all the Directors and Officers for all liabilities that arise out of the performance of their duties as Directors and Officers of the Company for which they may be held personally liable. Certain actions are specifically excluded, for example, the incurring of penalties and fines that may be imposed in respect of certain breaches of the law. During the financial year, the Company paid premiums in relation to policies of Directors' and Officers's liability insurance.

| Director | Board Fees | Audit and Risk Committee | Remuneration Committee | Other Committee | Total Remuneration |
|---|---|---|---|---|---|
| Peter Wilson | $150,000 (Chair) | - | - | - | $150,000 |
| Michael Ambrose | $82,000 | - | - | - | $82,000 |
| Anthony Beverley | $82,000 | $12,000 (Chair) | - | - | $94,000 |
| Susan Paterson | $82,000 | - | - | - | $82,000 |
| Paul Ridley-Smith | $82,000 | - | $8,000 (Chair) | - | $90,000 |

## EXECUTIVE REMUNERATION

The remuneration of the executive team is designed to promote a high-performance culture and to align rewards to the achievement of strategies and business objectives that create sustainable value for shareholders.

The Company's remuneration policy for members of the executive team provides the opportunity for them to receive, where performance merits, a total remuneration package in the median quartile for equivalent market-matched roles. The Remuneration Committee reviews the annual performance appraisal outcomes for all Executive Team members, including the Chief Executive Officer. External remuneration benchmarking is taken into account to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

Total remuneration is made up of three components:

- Fixed remuneration;
- Short-term performance-based cash remuneration; and
- Long-term performance-based equity remuneration.

### Fixed Remuneration

Fixed remuneration consists of base salary and benefits. The Company's policy is to pay fixed remuneration with reference to the fixed pay market median.

### Short-Term Incentives

Short-term incentives (STIs) are at-risk payments designed to motivate and reward for performance, in that financial year. The target value of a STI payment is set annually, usually as a percentage of the executive's base salary. For 2019, the relevant percentages were 20% to 33%. A proportion (usually around 50%) of the STI is related to achievement of annual performance metrics which aim to align executives to a shared set of key performance indicators (KPIs) based on business priorities for the next 12 months.

Target areas for the shared KPIs for 2019 are outlined below:

| Target | Weighting |
|---|---|
| Health and safety compliance and culture | 18% |
| Expense management against budget | 18% |
| Aged care facility occupancy against national average +5% | 18% |
| Gains on sales against budget | 18% |
| Resident wellbeing measured through clinical systems and culture | 14% |
| Resident satisfaction measured by an NPS survey | 14% |

The balance of the STI is related to individual performance measures.

The maximum amount of a STI payment for an executive team member is 125% of the STI on-target amount for that Executive Team member.

### Long-Term Incentives

Long-term incentives (LTIs) are at-risk payments through a share plan, designed to align the reward of executive team members with the enhancement of shareholder value over a multi-year period. Under the LTI, executive team members are granted non-listed performance rights in Arvida Group Limited.

The LTI plan commenced on 1 April 2015, after the Company listed on the NZX Main Board. Vesting of shares is contingent on achievement of performance goals in relation to Total Shareholder Return hurdles from the commencement date to vesting date.

## CHIEF EXECUTIVE OFFICER REMUNERATION

The remuneration of the Chief Executive Officer comprises of Fixed Remuneration and Pay for Performance. Fixed Remuneration includes a base salary only. Pay for Performance includes both Short Term Incentives (STI) and Long Term Incentives (LTI). These incentives remain at the same target percentage levels as previous years, being 33.3% of base salary each.

The Board has an overriding discretion in respect of both the STI and LTI awards. The Board may take into account all measures and their overall assessment of individual performance and may take into account any other matters that they consider relevant in assessing whether (and to what extent) the performance hurdles should be treated as satisfied, which will include the level of achievement of the measure set out in the STI and LTI.

The Board has discretion to vary the grant, and to adjust the quantum and the Total Shareholder Return (TSR) hurdles, in respect to future awards.

During the year, the Board commissioned an external remuneration benchmarking report. As a result, the Board determined the Chief Executive Officer annual base salary would be fixed at $500,000 effective from 1 July 2018 until the last one-off LTI vests on 31 March 2021, absent any special circumstances.

During the year, the annual LTI grant with a vesting date of 31 March 2018 was determined. Arvida's TSR was second out of the four companies in the peer group and 14th out of 39 companies in the NZ50 group. The overall result was that 69% of the LTI entitlement vested into ordinary shares.
As such, the Chief Executive Officer was issued 90,325 ordinary shares on 20 April 2018.
The closing share price on the day of allotment was $1.16.

### Remuneration for the financial years ended 31 March 2017 to 31 March 2019

| | Fixed Remuneration | | | Pay for Performance | | | |
|---|---|---|---|---|---|---|---|
| | Salary | Other benefits[1] | Subtotal | STI[2] | LTI[3] | Subtotal | Total |
| FY2019 | $476,871 | - | $476,871 | $126,250 | $104,777 | $231,027 | $707,898 |
| FY2018 | $405,466 | - | $405,466 | $120,000 | - | $120,000 | $525,466 |
| FY2017 | $395,225 | - | $395,225 | $118,750 | - | $118,750 | $513,975 |

1 The Chief Executive Officer did not receive any other benefits, such as health insurance or participate in KiwiSaver.
2 STI is the amount paid during the financial year and relates to the performance period of the previous financial year.
3 The Company's approach in reporting the value of LTI is to report the value of shares that vest in the financial year that they were issued (at the closing share price on the day of allotment), rather than the value of the share rights received or accrued in the relevant financial year.

### Three-year Summary

| | Total Remuneration | %STI Awarded against on-plan Performance | STI Performance Period | %LTI Vested against on-plan Performance | Span of LTI Performance Periods |
|---|---|---|---|---|---|
| FY2019 | $707,898 | 93% | FY2018 | 69% | FY16 to FY18 |
| FY2018 | $525,466 | 90% | FY2017 | - | - |
| FY2017 | $513,975 | 94% | FY2016 | - | - |

| Plan | Description | Performance Measures |
|---|---|---|
| STI | Set at a gross target amount of one third of the base salary remuneration (giving a current target of $166,667) and is achievable in each financial year, up to a maximum of 1.25 times if outperformance occurs in all company performance and individual measures. | 55% on company performance<br>45% on individual measures |
| LTI | Equity based "share rights scheme" whereby the scheme grants comprise an annual grant with a target value of an amount equal to one third of the base salary remuneration at the commencement of the award period. The grant is subject to a three-year vesting period and TSR hurdles. In addition, the Chief Executive Officer was awarded one off LTI grants in relation to work undertaken to successfully complete the Initial Public Offering and company establishment. These grants are subject to four, five and six-year vesting periods and TSR hurdles. | 50% measured against the comparable peer group TSR hurdle[1]<br>50% measured against the NZ50 group TSR hurdle[2] |

1 The Peer Group is assessed by the Board at the commencement of the grant. Broadly, for grants with four Peer Group companies the vesting scale is 100% of the LTI will vest if the Company has the highest TSR in the Peer Group, none will vest if the TSR is in the bottom half and either 70% or 90% will vest if the Company is second in the Peer Group, depending on how close the TSR is to the highest performer. For grants with five Peer Group companies the vesting scale is similar, with 50% payable if the Company has the third highest TSR in the Peer Group.

2 For the NZ50 group, 50% of the NZ50 comparator LTI vest if the TSR is at the 50th percentile of the NZ50 and 100% vest if the TSR is at the 90th percentile, with a sliding scale in-between.

The Board's intention is to make annual rolling LTI grants. The current LTI grants (which are the sum of the two different sub-sets of LTI) are as follows:

| Annual LTI | | | |
|---|---|---|---|
| Commencement Date | 1/04/2016 | 1/04/2017 | 1/04/2018 |
| Vesting Date | 31/03/2019 | 31/03/2020 | 23/06/2021 |
| Unvested Rights | 136,802 | 99,979 | 113,625 |
| Strike Price | $0.93 | $1.33 | $1.19 |

| One-off LTI | | | |
|---|---|---|---|
| Commencement Date | 1/04/2015 | 1/04/2015 | 1/04/2015 |
| Vesting Date | 31/03/2019 | 31/03/2020 | 31/03/2021 |
| Unvested Rights | 420,028 | 420,028 | 420,028 |
| Strike Price | $0.95 | $0.95 | $0.95 |

Subsequent to the end of the financial year, the outcomes were determined of the annual LTI and one-off LTI grants which had a vesting date of 31 March 2019. For the annual LTI grant, Arvida recorded the highest TSR of the four companies in the peer group and 12th out of 41 companies in the NZ50 group. For the one-off LTI grant, Arvida's TSR was second out of the four companies in the peer group and 16th out of 40 companies in the NZ50 group. The overall result was that 88% of the annual LTI entitlement vested into ordinary shares and 66% of the one-off LTI entitlement vested into ordinary shares. As such, the Chief Executive Officer was issued 398,593 ordinary shares on 24 April 2019. The closing share price on the day of allotment was $1.29.

## CHIEF FINANCIAL OFFICER REMUNERATION

In the year ended 31 March 2019, the Chief Financial Officer received remuneration totalling $532,897. This amount included Fixed Remuneration of $361,410, a STI payment of $94,650 and a LTI entitlement valued at $76,837 at the time of allotment.

## EMPLOYEE REMUNERATION

The number of employees of Arvida and its subsidiaries, not being a Director, which received remuneration and other benefits in excess of $100,000 for the financial year ended 31 March 2019 is set out in the remuneration bands detailed in the table.

The remuneration figures shown in the “Remuneration Band” column includes all monetary payments actually paid during the course of the year ended 31 March 2019. The table also includes the value of any shares issued to individuals during the course of the same period under the LTI scheme but does not include the value of share rights issued under the same LTI scheme. The table does not include amounts paid post 31 March 2019 that relate to the year ended 31 March 2019. This is consistent with methodology for calculating remuneration in previous financial years.

| Remuneration Band | Number of Employees |
|---|---|
| $100k - $110k | 3 |
| $110k - $120k | 9 |
| $120k - $130k | 12 |
| $130k - $140k | 4 |
| $140k - $150k | 3 |
| $150k - $160k | 4 |
| $160k - $170k | 2 |
| $180k - $190k | 2 |
| $190k - $200k | 4 |
| $200k - $210k | 1 |
| $210k - $220k | 2 |
| $220k - $230k | 1 |
| $270k - $280k | 1 |
| $280k - $290k | 2 |
| $360k - $370k | 1 |
| $530k - $540k | 1 |
| $700k - $710k | 1 |

Arvida

# DISCLOSURES

ARVIDA GROUP LIMITED
FOR THE YEAR ENDED
31 MARCH 2019

## DIRECTORS' INTERESTS

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following particulars were entered in the Company's Interests Register for the year ended 31 March 2019:

**Peter Wilson:** Disclosed he ceased to hold the following position in respect of the following entity: Farmlands Co-operative Society Limited (Director).

**Michael Ambrose:** No changes disclosed.

**Anthony Beverley:** No changes disclosed.

**Susan Paterson:** Disclosed she was appointed to the following position in respect of the following entities: Reserve Bank of New Zealand (Monetary Policy Advisor) and EROAD Limited (Director). Disclosed she ceased to hold the following position in respect of the following entity: Tertiary Education Commission (Board Member).

**Paul Ridley-Smith:** No changes disclosed.

## SPECIFIC DISCLOSURES

There were no specific disclosures made during the year of any interests in transactions entered by the Company or any of its subsidaries.

## USE OF COMPANY INFORMATION

There were no notices received from Directors requesting use of Company information in their capacity as Directors that would not otherwise have been available to them in the year ended 31 March 2019.

## DIRECTORS' SECURITY HOLDINGS

Ordinary shares in which each Director had a relevant interest as at 31 March 2019 are set out in the table below:

### Relevant interests of Directors

| Director | Beneficial / Non-beneficial Interest | No. of shares held |
|---|---|---|
| Peter Wilson | Beneficial | 453,398 |
| | Non-beneficial | 15,000 |
| Michael Ambrose | Beneficial | 1,576,262 |
| | Non-beneficial | 186,400 |
| Anthony Beverley | Beneficial | 319,011 |
| Susan Paterson | Beneficial | 160,815 |
| Paul Ridley-Smith | Beneficial | 112,832 |

## SECURITIES DEALINGS OF DIRECTORS

Dealings by Directors in relevant interests in Arvida's ordinary shares during the year ending 31 March 2019 as entered in the Interests Register:

| Director | No. of Shares | Nature of Relevant Interest | Acquisition/ Disposal | Consideration | Date of Transaction |
|---|---|---|---|---|---|
| Peter Wilson | 40,000 | Registered holder and beneficial owner | Acquisition | $1.28 per share | 18/06/2018 |
| Peter Wilson | 21,015 | Registered holder and beneficial owner | Acquisition | $1.30 per share | 03/08/2018 |
| Peter Wilson | 21,015 | Registered holder and non-beneficial owner | Disposal | $1.30 per share | 03/08/2018 |

## DIRECTOR APPOINTMENT DATES

The date of each Director's first appointment to the position of Director is provided below.

Since the date of first appointment, Directors have been re-appointed at Annual Meetings when retiring by rotation as required.

| Director | Date first appointed | Date last re-appointed |
|---|---|---|
| Peter Wilson | 13 November 2014 | 6 July 2018 |
| Michael Ambrose | 17 January 2014 | 7 July 2017 |
| Anthony Beverley | 13 November 2014 | 19 August 2016 |
| Susan Paterson | 7 May 2015 | 6 July 2018 |
| Paul Ridley-Smith | 7 May 2015 | 7 July 2017 |

## DIRECTORS OF SUBSIDIARY COMPANIES

The remuneration of employees acting as directors of subsidiaries is disclosed in the relevant banding of remuneration set out under the heading Employee Remuneration. Neither William McDonald, Jeremy Nicoll nor Tristan Saunders received additional remuneration or benefits for acting as directors of subsidiaries during the year.

William McDonald and Jeremy Nicoll are directors of all of the Company's wholly-owned subsidiaries as at 31 March 2019. The directors of the joint venture companies (Village at the Park Care Limited and Village at the Park Lifecare Limited) are Morris Love, William McDonald, Jeremy Nicoll, Euan Playle, Tristan Saunders and Richard Te One.

During the financial year ending 31 March 2019, there were no acquisition, divestment or amalgamation of subsidary companies. On 6 August 2018, Kerikeri Land Limited was newly incorporated with William McDonald and Jeremy Nicoll appointed as directors. On 25 October 2018, Richmond Land Limited changed its name to Waimea Plains Retirement Village Limited.

## TOP 20 SHAREHOLDERS AS AT 31 MARCH 2019

| | Shareholder | No. of Shares | % of Shares |
|---|---|---|---|
| 1 | New Zealand Central Securities Depository Limited | 81,214,363 | 19.6% |
| 2 | Forsyth Barr Custodians Limited | 58,003,591 | 14.0% |
| 3 | Ian Hurst & Gloria Hurst & Geoffrey McPhail & Banco Trustees Limited | 10,253,459 | 2.5% |
| 4 | Donna Hurst & Douglas Hurst & Geoffrey McPhail & Banco Trustees Limited | 9,028,134 | 2.2% |
| 5 | FNZ Custodians Limited | 7,321,806 | 1.8% |
| 6 | Kim Poynter & Scott Williams | 7,000,000 | 1.7% |
| 7 | Waikanae Trustees Limited | 6,900,000 | 1.7% |
| 8 | Stephen Darling & Gail Darling & Canterbury Trustees Limited | 6,241,000 | 1.5% |
| 9 | Gordon Hartley & Karen Hartley & Rostock Trustees Limited | 5,800,000 | 1.4% |
| 10 | Terence Pratley & Amanda Pratley & Pratley Trustees Limited | 4,889,503 | 1.2% |
| 11 | Alison Davis & Purnell Creighton Trustees Limited | 4,333,465 | 1.0% |
| 12 | Trevor Marshall & Simon Marks | 4,120,085 | 1.0% |
| 13 | New Zealand Depository Nominee Limited | 3,946,659 | 1.0% |
| 14 | Suzanne Marshall & Simon Marks | 3,940,085 | 1.0% |
| 15 | Ronald Williams & Andrena Williams & Arthur Keegan | 3,800,000 | 0.9% |
| 16 | Scott Vernon & Wyndham Trustees Limited | 3,000,000 | 0.7% |
| 17 | Karen Adamson & Simon Marks | 2,936,820 | 0.7% |
| 18 | Forsyth Barr Custodians Limited | 2,853,080 | 0.7% |
| 19 | Sanjac Holdings Limited | 2,300,010 | 0.6% |
| 20 | Christopher Stokes & Jennifer O'Donovan & Martin Welsford | 2,173,000 | 0.5% |
| | **Total** | **230,055,060** | **55.7%** |

## SHAREHOLDERS HELD THROUGH THE NZCSD AS AT 31 MARCH 2019

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. The 10 largest shareholdings in the Company held through NZCSD were:

| | Shareholder | No. of Shares | % of Shares |
|---|---|---|---|
| 1 | Generate Kiwisaver Public Trust Nominees Limited | 22,996,579 | 5.6% |
| 2 | National Nominees New Zealand Limited | 15,297,352 | 3.7% |
| 3 | Accident Compensation Corporation | 13,273,227 | 3.2% |
| 4 | Citibank Nominees (New Zealand) Limited | 9,704,507 | 2.3% |
| 5 | BNP Paribas Nominees (NZ) Limited | 4,175,262 | 1.0% |
| 6 | TEA Custodians Limited Client Property Trust Account | 2,730,975 | 0.7% |
| 7 | MFL Mutual Fund Limited | 2,321,246 | 0.6% |
| 8 | BNP Paribas Nominees (NZ) Limited | 2,228,245 | 0.5% |
| 9 | HSBC Nominees (New Zealand) Limited | 2,201,250 | 0.5% |
| 10 | HSBC Nominees (New Zealand) Limited A/C State Street | 1,770,872 | 0.4% |

## SPREAD OF SHAREHOLDERS AS AT 31 MARCH 2019

The total number of listed ordinary shares as at 31 March 2019 was 413,949,842. The Company has only ordinary shares on issue.

| Size of shareholding | Shareholders | | Shares held | |
|---|---|---|---|---|
| | Number | % | Number | % |
| Under 2,000 | 589 | 12.4% | 597,268 | 0.1% |
| 2,000 to 4,999 | 941 | 19.9% | 3,118,336 | 0.8% |
| 5,000 to 9,999 | 910 | 19.3% | 6,320,436 | 1.5% |
| 10,000 to 99,999 | 1,946 | 41.2% | 50,345,420 | 12.2% |
| 100,000 to 499,999 | 246 | 5.2% | 52,482,571 | 12.7% |
| 500,000 and over | 94 | 2.0% | 301,085,811 | 72.7% |
| **Total** | **4,726** | **100.0%** | **413,949,842** | **100.0%** |

## SUBSTANTIAL PRODUCT HOLDER NOTICES AS AT 31 MARCH 2019

According to the records kept by the Company under the Financial Market Conducts Act 2013, the following were substantial holders in the Company as at 31 March 2019. The total number of listed ordinary shares as at 31 March 2019 was 413,949,842 (being the only voting products).

| Shareholder | Relevant Interest | % held at date of notice | Date of Notice |
|---|---|---|---|
| Generate Investment Management Limited | 20,900,123 | 5.1% | 14 February 2018 |
| Forsyth Barr Investment Management Limited | 33,499,354 | 8.1% | 27 August 2018 |

## AUDITORS' FEE

Ernst & Young was appointed auditor of Arvida Group Limited and of the retirement village companies with the Arvida group. The amount payable to Ernst & Young as audit fees during the financial year ended 31 March 2019 was $382,500. The amount of fees payable to Ernst & Young for non-audit work during the financial year ended 31 March 2019 was $32,355.

## WAIVERS FROM NZX LISTING RULES

No waivers from NZX Listing rules were sought in the year ending 31 March 2019.

## CREDIT RATING

The Company has no credit rating.

## DONATIONS

In accordance with section 211(1)(h) of the Companies Act, the Company records that $17,387 was donated by Arvida or its subsidiaries in the year ended 31 March 2019.

# COMPANY INFORMATION

| | |
|---|---|
| **Registered Office of Arvida:** | Arvida Group Limited<br>Level 1, 39 Market Place<br>Auckland 1010<br><br>PO Box 90217, Victoria Street West<br>Auckland 1142<br><br>Phone: +64 9 972 1180<br>Email: info@arvida.co.nz<br><br>Website: www.arvida.co.nz |
| **Directors:** | **Peter Wilson**, Independent Director and Chair<br>**Michael Ambrose**, Independent Director<br>**Anthony Beverley**, Independent Director<br>**Susan Paterson**, Independent Director<br>**Paul Ridley-Smith**, Independent Director |
| **Group Auditor:** | Ernst & Young |
| **Valuer:** | CBRE Limited<br>Jones Lang LaSalle Limited |
| **Legal Advisors:** | Chapman Tripp<br>Anthony Harper |
| **Bankers:** | ANZ Bank NZ Limited<br>Bank of New Zealand |
| **Statutory Supervisor:** | Covenant Trustee Services Limited |
| **Share Registrar:** | Computershare Investor Services Limited<br>Level 2, 159 Hurstmere Road<br>Takapuna<br>Auckland 0622<br><br>Phone: +64 9 488 8777<br>Email: enquiry@computershare.co.nz |

## VILLAGE DIRECTORY

| | | |
|---|---|---|
| **Aria Bay** | 3-7 Woodlands Crescent, Browns Bay, Auckland 0630 | 09 479 1871 |
| **Aria Gardens** | 11 Bass Road, Albany, Auckland 0632 | 09 415 7035 |
| **Aria Park** | 1-3 Claude Road, Epsom, Auckland 1023 | 09 630 8430 |
| **Ashwood Park** | 118-130 Middle Renwick Road, Springlands, Blenheim 7241 | 03 577 9990 |
| **Bainlea House** | 29 Wiltshire Court, Rangiora 7400 | 03 313 6055 |
| **Bainswood House** | 191 King Street, Rangiora 7400 | 03 313 5905 |
| **Bainswood on Victoria** | 28 Victoria Street, Rangiora 7400 | 03 313 2805 |
| **Bethlehem Views** | 186 Cambridge Road, Bethlehem, Tauranga 3110 | 07 578 5500 |
| **Cascades** | 55 Pembroke Street, Hamilton Lake, Hamilton 3204 | 07 839 2348 |
| **Copper Crest** | 52 Condor Dr, Pyes Pa, Tauranga 3112 | 07 578 6245 |
| **Glenbrae** | 22 Hilda Street, Fenton Park, Rotorua 3010 | 07 349 0014 |
| **Ilam** | 28 Ilam Road, Upper Riccarton, Christchurch 8041 | 03 341 1913 |
| **Lansdowne Park** | 100 Titoki Street, Lansdowne, Masterton 5810 | 06 377 0123 |
| **Lauriston Park** | 91 Coleridge Street, Cambridge 3432 | 07 827 0793 |
| **Maples** | 71 Middleton Road, Upper Riccarton, Christchurch 8041 | 03 348 4362 |
| **Mary Doyle** | 3 Karanema Drive, Havelock North 4130 | 06 873 8400 |
| **Mayfair** | 104 Wharenui Road, Upper Riccarton, Christchurch 8041 | 03 348 2445 |
| **Molly Ryan** | 269 Mangorei Road, Merrilands, New Plymouth 4312 | 06 757 8773 |
| **Oakwoods** | 357 Lower Queen Street, Richmond, Nelson 7020 | 03 543 9700 |
| **Olive Tree** | 11-13 Dalwood Grove, Palmerston North 4412 | 06 350 3000 |
| **Park Lane** | 35 Whiteleigh Avenue, Tower Junction, Christchurch 8024 | 03 338 4495 |
| **Rhodes on Cashmere** | 5 Overdale Drive, Cashmere, Christchurch 8022 | 03 332 3240 |
| **St Albans** | 41 Caledonian Road, St Albans, Christchurch 8014 | 03 366 1824 |
| **St Allisa** | 46 Main South Road, Upper Riccarton, Christchurch 8042 | 03 343 3388 |
| **Strathallan** | 31 Konini Street, Gleniti, Timaru 7910 | 03 686 1996 |
| **The Wood** | 156 Milton Street, Nelson 7010 | 03 545 6059 |
| **Village at the Park** | 130 Rintoul St, Newtown, Wellington 6021 | 04 380 1361 |
| **Waikanae Lodge** | 394 Te Moana Road, Waikanae, Kapiti Coast 5036 | 04 902 6800 |
| **Wendover** | 33 Erica St, Papanui, Christchurch 8053 | 03 352 6089 |

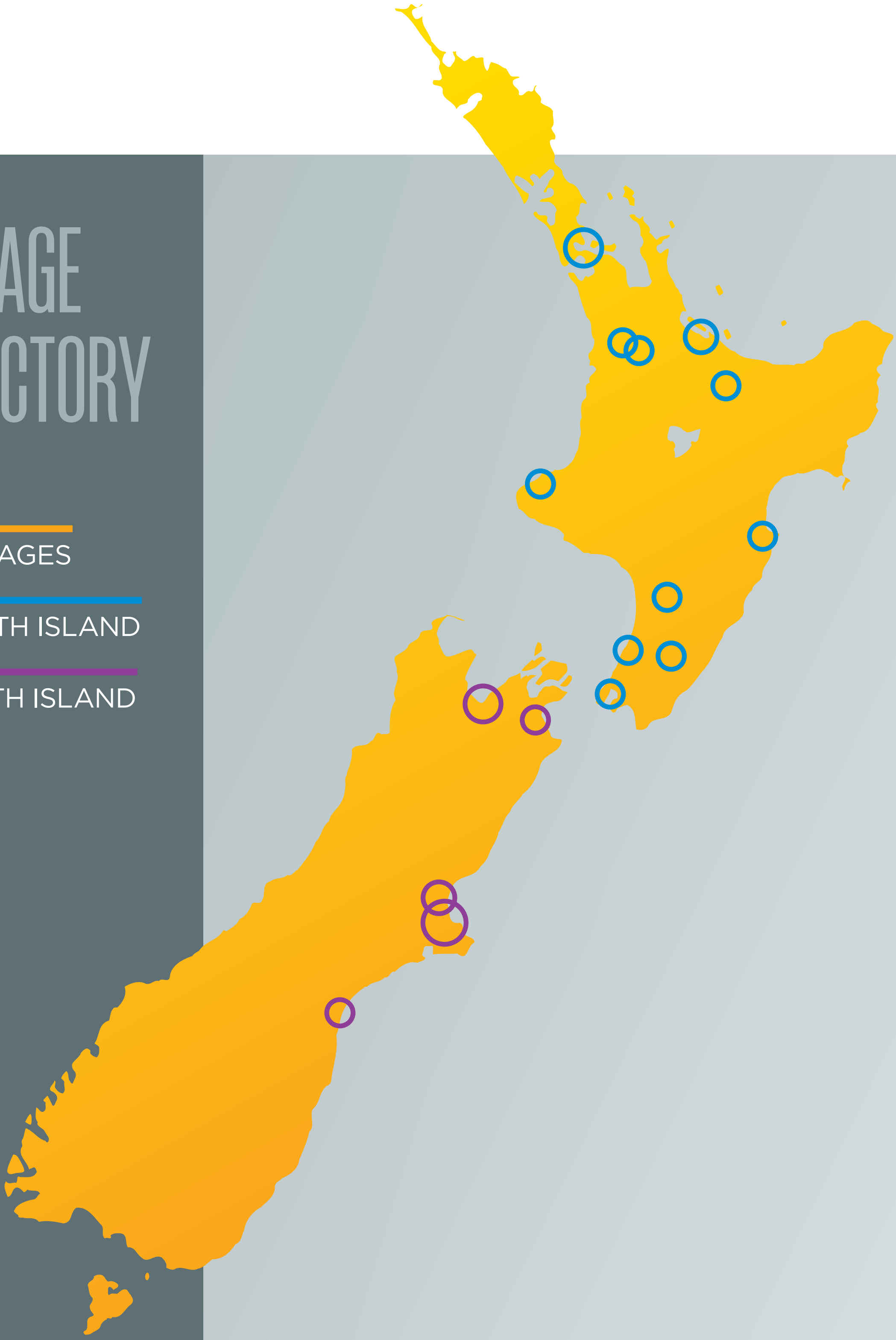
Arvida

# VILLAGE DIRECTORY

29 VILLAGES

14 NORTH ISLAND

15 SOUTH ISLAND



## NORTH ISLAND

| | |
|---|---|
| AUCKLAND | ARVIDA Aria Bay |
| | ARVIDA Aria Gardens |
| | ARVIDA Aria Park |
| HAMILTON | ARVIDA Cascades |
| CAMBRIDGE | ARVIDA Lauriston Park |
| TAURANGA | ARVIDA Bethlehem Views |
| | ARVIDA Copper Crest |
| ROTORUA | ARVIDA Glenbrae |
| NEW PLYMOUTH | ARVIDA Molly Ryan |
| HAVELOCK NORTH | ARVIDA Mary Doyle |
| PALMERSTON NORTH | ARVIDA Olive Tree |
| MASTERTON | ARVIDA Lansdowne Park |
| WAIKANAE | ARVIDA Waikanae Lodge |
| WELLINGTON | ARVIDA Village at the Park |

## SOUTH ISLAND

| | |
|---|---|
| NELSON | ARVIDA Oakwoods |
| | ARVIDA The Wood |
| BLENHEIM | ARVIDA Ashwood Park |
| RANGIORA | ARVIDA Bainswood House |
| | ARVIDA Bainswood on Victoria |
| | ARVIDA Bainlea House |
| CHRISTCHURCH | ARVIDA Ilam |
| | ARVIDA Maples |
| | ARVIDA Mayfair |
| | ARVIDA Park Lane |
| | ARVIDA Rhodes on Cashmere |
| | ARVIDA St Albans |
| | ARVIDA St Allisa |
| | ARVIDA Wendover |
| TIMARU | ARVIDA Strathallan |

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