

Annual Report 2017

Continuing to Show Leadership.

Aveo is a leading and trusted owner, operator and manager of retirement communities across Australia.

Securityholder Reporting
Release of full year results: 16 August 2017
Taxation Statements sent to securityholders: 29 August 2017
Full year distribution payment: 29 September 2017

Annual General Meeting
Aveo Group Annual General Meeting will be held at 10am on Wednesday 15 November 2017 at the Intercontinental Hotel, 117 Macquarie Street, Sydney NSW 2000

Aveo website
Aveo Group aims to keep securityholders informed of the Group's performance and all major developments in an ongoing manner. This is achieved through regular ASX releases and through updates on the Aveo Group Investor website.

Aveo Group website can be accessed at the following:
www.aveo.com.au/investorcentre

The Group's website provides up to date information on latest news relating to Aveo, ASX announcements, distribution and tax information, history, corporate governance policies and procedures.

In this report:

FINANCIAL TARGETS ACHIEVED

STATUTORY PROFIT AFTER TAX

$252.8M

STATUTORY EARNINGS PER SECURITY OF 44.2 CENTS UP

100%

NET TANGIBLE ASSET PER STAPLED SECURITY

$3.37

12%

11%

UNDERLYING EARNINGS PER STAPLED SECURITY OF

18.9CPS

GEARING OF 16.9%, COMPARED TO 17.4% AT 30 JUNE 2016 AND WITHIN AVEO'S TARGET RANGE OF 10-20%

FUNDS FROM OPERATIONS UP 16% TO

$163.9M

RETIREMENT ASSETS AS A PROPORTION OF TOTAL DIVISIONAL ASSETS

87%

OPERATIONAL

TOTAL RETIREMENT SALES

1,242UNITS

LIFT IN AVERAGE DMF/CG AMOUNT PER TRANSACTION OF

9%

RAMP-UP IN DEVELOPMENTS SAW 266 NEW RETIREMENT UNITS DELIVERED

POSITIVE OUTLOOK FOR FY18

FY18 GUIDANCE – UNDERLYING EARNINGS PER SECURITY (EPS) OF 20.4 CENTS, AN INCREASE OF 7.9% ON FY17 EPS OF 18.9 CPS

TARGETING DELIVERY OF 506 NEW RETIREMENT UNITS

TARGETING DELIVERY OF 99 NEW AGED CARE BEDS

Letter from the Chairman

Dear Securityholders,
I am very pleased to report that Aveo Group returned its strongest financial results yet during 2017, a period with many solid achievements marred by a spate of negative publicity brought on by the unbalanced media reporting.

STRONG PERFORMANCE

Aveo Group achieved strong results across its key financial metrics. For the 12 months to 30 June 2017, Aveo Group's underlying profit after tax and non-controlling interest of $108.4 million represented an increase of 22% on the FY16 result.

This strong performance was driven by a lift in earnings from both the Retirement Established Business and development activities. Aveo Group recorded sales of 1,242 units in FY17, up from 799 units in FY16 and delivered all 266 new retirement units flagged for delivery during the year.

Underlying earnings per security increased by 11% to 18.9 cents, despite the impact of equity raised to fund the Retirement Villages Group (RVG) and Freedom Aged Care acquisitions. Funds From Operations continued to grow, reaching $163.9 million in FY17 compared with $141.3 million in the prior year.

The Board declared a distribution of 9.0 cents per security for the year, compared to 8.0 cents per security in FY16, an increase of 13%. This represented a distribution to securityholders for FY17 of $52 million and is in line with our policy of distributing 40%-60% of underlying net profit after tax.

During FY17, Aveo Group delivered on two important milestones in the evolution of its integrated retirement communities – the final stage of our largest community in Australia at Durack was delivered, and we also delivered the first stage of what will become our largest community at Greater Springfield.

The final stage of our Durack community, the 123 bed aged care facility, is an important milestone in Aveo's strategy to provide its residents in larger communities with the best in a full "continuum of care" offering all the integrated care services, options and facilities that residents need to remain in a community for life.

In May 2017, the first building at Aveo Springfield was officially opened by the Premier of Queensland. Aveo Springfield represents the first stage in a new concept in seniors living – an intergenerational precinct featuring an integrated retirement village offering an array of living options and levels of care, alongside the Mater Hospital and community services in the heart of Greater Springfield's Health City.

STRATEGIC PROCESS

Aveo is the only ASX 200 listed company focussed solely on retirement. We are committed to improving the lives of older Australians in retirement communities by improving living choices in a way never seen before in Australia.

Since adopting our retirement only strategy in 2014, Aveo has led the retirement industry through its commitment to consumers by investing over;

- $700 million in developing new retirement communities and retirement product; and
- $200 million in care businesses and services including aged care, physiotherapy, occupational therapy and podiatry and by improving the delivery of other "in demand" services for our residents including food and telecommunications.

Our unrivalled investment in retirement product and services will ensure our residents receive increasingly high levels of care and quality of service in their time at an Aveo community.

A fundamental part of our strategy is to provide our existing and future residents with enhanced freedom of choice, in terms of product and service delivery. A large number of senior Australians are moving into retirement and an increasing proportion of our residents want more choice about how they live in our communities.

Creating and managing our communities is underpinned by a deep commitment to innovation, to both our existing and our future residents. This is key to Aveo's future growth – we need to continue to evolve and tailor services relevant to customer needs. In this regard, certainty is the key. As we increase relative certainty, whether through our Aveo Way exit promises, or delivering care which enables residents to stay in their community for example, it will increase the attractiveness of our overall customer offering and will make for happier and better serviced resident customers.

Aveo's strategy has considerable alignment with the Federal Government's Aged Care Roadmap, a landmark strategy document designed to navigate the aged care sector towards a sustainable, consumer driven and market based system.

The Government is committed, as is Aveo, to an aged-care landscape where consumers are empowered with choice; the market is encouraged to respond with innovative and consumer-based solutions and the funding will be sustainable through both government and consumer contributions. Aveo is leading the industry through innovative service offerings that allow people to stay in their home, on their terms, for as long as they choose.

CONTINUOUS IMPROVEMENT

We acknowledge that there have been some recent concerns about the retirement and aged care industry, which has received extensive media attention that was unfairly focussed on Aveo. This media attention has neither been fair nor balanced, but nevertheless, we understand that people have concerns and that some residents have been confused by their contract arrangements.

Both the Board and Management have listened carefully to the public discussion and are focussed on meeting our own standards and the expectations of our customers.

As a member of the Property Council of Australia's Retirement Living Council, the peak retirement industry body which represents retirement living operators, Aveo Group has committed to all eight resolutions to raise and improve standards across the industry and Aveo has already unilaterally implemented a number of measures to give effect to meeting many of these goals as quickly as possible.

As an example, our pioneering Aveo Way resident contract is already a market leader in terms of simplicity, certainty and consumer benefits. Nevertheless in August we announced additional contract improvements – new industry leading initiatives that reinforce Aveo's position as market leader by offering increased certainty at both the beginning and the end of a resident's stay. We have also committed to further simplifying and enhancing this contract over the next 12 months, and we will continue to simplify and streamline when opportunities to do so arise.

Looking ahead, whilst the media attention caused a short-term impact on sales, it is heartening to see sales numbers starting to recover and the quality of enquiries improving. A further update on FY18 trading and FY18 distribution will be provided at the Aveo Group AGM on 15 November 2017.

BOARD CHANGES

I am pleased to welcome two new colleagues to the Board of Directors of Aveo Group.

Ms Diana Saw was appointed to the Board on 16 November 2016 and Mr Kelvin Lo on 16 February 2017.

Diana Saw brings to the Aveo Board significant experience in property financing and investment, specifically capital management, real estate transactional experience and risk management. She is our first female director and a valuable addition to our Board.

Kelvin Lo brings to the Aveo Board extensive legal and finance experience from his long career in funds management, as well as real estate investment experience in both Asia and the United States.

Both Diana Saw and Kelvin Lo will offer themselves for election by Securityholders at the 2017 Annual General Meeting on 15 November 2017.

Following more than 11 years of service, non-executive director and Chairman of the Audit & Risk Committee, Len McKinnon, retired from the Aveo Group Board at the conclusion of the Annual General Meeting on 16 November 2016. He brought considerable insight to us and contributed enormously throughout his time on the Board. I thank him for his long and dedicated service to Aveo Group

Your Board remains committed and confident about Aveo's future. Our strategy remains robust and will continue to create securityholder value. We have a strong management team who remain focussed on delivering innovative and market-leading retirement and aged-care products and services to senior Australians.

In closing, I would like to thank my Board colleagues and extend our appreciation to all Aveo's talented employees around Australia who are devoted and committed day-in, day-out to the wellbeing and welfare of our residents around Australia. Furthermore, I would also like to express my gratitude to the many residents, both old and new, across our communities who have spoken up and come to the defence of Aveo and our staff during this most difficult period. This support is what drives Aveo's commitment to continue spearheading change and creating the leading retirement communities of the future in Australia.

Seng Huang Lee
Chairman

Letter from the Chief Executive Officer

Dear Securityholders,

Aveo Group's strategy to position itself as Australia's leading pure retirement living group, and one that is responsive to the increasing needs and wants of retirees, underpinned our operating and financial performance in the year ended 30 June 2017 (FY17).

Underlying profit after tax of $108.4 million was an improvement of 22% on FY16. The result featured a lift in earnings from both the Retirement Established Business and the Development activities. Considerable strength came through solid contributions from the recent Freedom and RVG acquisitions.

The expansion of our innovative Freedom product offering to a select group of Aveo communities continued in FY17, driven by resident demand for higher levels of care services. Our focus on asset improvement was reflected in high numbers of unit buyback purchases, refurbishments and subsequent resales.

Aveo recorded sales of 1,242 retirement units in FY17, up 55% from 799 in FY16. Delivery of new retirement units totalled 266.

ROBUST FINANCIALS

Key financial highlights for FY17 include:

- Statutory profit after tax of $252.8 million, up 118%
- Underlying profit after tax and non-controlling interest up 22% to $108.4 million
- Earnings per stapled security on underlying profit after tax and non-controlling interest up 11% to 18.9 cents, despite the impact of the additional equity raised to fund the RVG and Freedom acquisitions
- Funds from operations of $163.9 million ($141.3 million in FY16), largely driven by lower capitalised interest included in cost of goods sold and higher income tax expense
- Net tangible assets (NTA) per stapled security of $3.37, up 12% from 30 June 2016.

STRENGTH IN RETIREMENT ESTABLISHED AND DEVELOPMENT

Retirement assets now comprise 87% of total divisional assets, the result of further investment being made in retirement development and the progressive sell down of non-retirement assets.

The gain in NTA was helped by three factors; the revaluation related to the gain on acquisition of RVG, an increase in the asset valuation of the retirement portfolio as better contract terms were recognised and a new, higher valuation for Gasworks office and retail complex in Newstead, Queensland.

A combination of higher volumes and higher sales prices drove revenues from Aveo's Retirement Established Business up by 37% in FY17 to $204.1 million. Profit contribution increased 26% to $73.8 million.

Sales volumes lifted by 37% to 1,008 units, while the average DMF/GG transaction price point increased by 25% to $358,000.

An improved performance in the legacy Aveo business was supplemented by additional contributions from the RVG and Freedom portfolios net deferred management fees and our share of capital gains increased by 85% through a combination of higher sales volumes and increased amounts per transaction.

Buyback sales revenues increased substantially as the higher levels of stock purchased in the active asset improvement program were sold to incoming residents.

The Retirement Development business delivered 266 new units as major developments in FY17. The sale of a further 80 higher margin minor developments supplemented the profit contribution from delivery of traditional development units.

Construction for the delivery of 506 new units as major developments in FY18 is proceeding as scheduled.

Aveo has set a target to deliver 180 minor developments each year related to the reconfiguration and redevelopment of communities under the Freedom model. This permits the continued roll out of the Freedom product, comprising 110 Freedom conversion development units and 70 Freedom legacy development units.

RETIREMENT CARE AND SUPPORT SERVICES

Aged care facilities remain the main profit contributor to this segment's results, and this is expected to continue in FY18 with the opening of the Durack Aged Care facility in Brisbane.

Construction of the Newstead integrated retirement community, also in Brisbane, is progressing well. It features Aveo's next age care facility and is scheduled for delivery in FY18.

NON-RETIREMENT

The profit contribution from Non-Retirement activities increased by 14% to $62.7 million. Higher margin land lot sales offset the impact of having a small residual balance of built product sales. Land sales contracts on hand at year end remained robust at $160 million.

The Gasworks was independently valued at $180 million as at 30 June 2017.

Non-retirement assets have reduced to a proportion of only 13% of total assets.

$252.8m
Statutory profit after tax up 118%

$108.4m
Underlying profit after tax up 22%

$3.37
Net tangible assets per stapled security

$163.9m
Funds from operations

"The strong performance of core Aveo retirement business was strengthened by solid contributions from the Freedom and RVG acquisitions."

"Our core commitments to consumers are resolute. We remain committed to enhanced freedom of choice and quality of service delivery, in whatever form consumers desire it."

CAPITAL MANAGEMENT

The syndicated banking facility was successfully refinanced during the year, extending its maturity to July 2020. Limits were increased by $75 million to $632 million.

Debt will remain unhedged so long as reported gearing remains within the target range of 10% - 20%. As at 30 June 2017 gearing was 16.9%.

An on-market buyback of up to 54.3 million Aveo securities was announced to commence from 17 August 2017. The intention is to fund the buyback from excess operational cash flows and non-retirement asset sales, including the potential sale of Gasworks.

OUTLOOK

Strong sales momentum across the business in FY17 has been impacted, in the short term, by unwarranted adverse media attention on Aveo and the retirement sector more generally. Enquiry rates in July were approximately 60% of those experienced in the same period last year, but they have since been improving. We note that the quality of enquiry has improved. We find that enquiries from informed customers lead to buyers who are genuinely interested in meeting with sales consultants.

The introduction of new resident contract initiatives will reinforce Aveo's position as a market leader in the retirement sector. This is because we offer what residents want – well positioned product with contractual certainty, at both the beginning and the end of a resident's stay.

Aveo's FY18 prior financial guidance was confirmed with the release of our FY17 results in August:

- FY18 EPS guidance for 20.4 cents per security (cps), 7.9% higher than the 18.9 cps delivered in FY17
- FY18 retirement return on asset target of 7.5% – 8.0%

Aveo is targeting a full year distribution amount in the range of 40% – 60% of underlying profit. An update on FY18 trading will be provided at the Annual General Meeting in November.

INITIATIVES

Important initiatives were announced with the release of our FY17 results in August, after close consultation between senior Aveo management and customers. They are:

- A commitment to all eight resolutions adopted by our peak industry body, the Property Council of Australia's Retirement Living Council. These resolutions were adopted to raise standards across the industry and cover issues such as nationally consistent retirement village legislation; transparent descriptions of pricing, fees, costs and payments upon entry and departure from a village; encouragement for residents to seek independent legal, financial and family advice; improved staff training; a commitment to village accreditation; commitment to an Industry Code of Conduct; commitment to a government-backed independent dispute resolution process; and maintenance of strong relations between industry and the Australian Retirement Village Residents Association;
- Aveo has strengthened its own complaint and incident handling procedures, including a requirement for independent mediation;
- Aveo is moving to simplify our contracts further. The Aveo Way contract is already a market leader in terms of simplicity and certainty, but we will do better by simplifying Aveo Way and Freedom contracts within the next 12 months; and
- Aveo now provides money back guarantees and shortened buyback periods, in excess of most legislative requirements and the industry generally to incoming residents under the Aveo Way and Freedom contracts.

Aveo has a focus on continual improvement and on meeting the standards that our consumers expect of us. Our core commitments to consumers are resolute. We remain committed to enhanced freedom of choice and quality of service delivery, in whatever form consumers desire it. Our focus is to address the increasingly complex wants and needs of Australian seniors, with innovative products and services that have not been available in the past.

I will keep you informed on progress during FY18 as important new developments arise.

Geoff Grady
Chief Executive Officer

Property Portfolio

Retirement Assets

Aveo remains committed to providing the highest quality of service to its residents. With 91 villages owned or managed, Aveo maintains its leading position as one of the most experienced operators and largest owners of retirement villages in Australia.

Cairns
Aveo The Parks, Earlville

Sunshine Coast
Aveo Lindsay Gardens, Buderim
Aveo Peregian Springs Country Club, Peregian Springs

Brisbane
Aveo Albany Creek, Albany Creek
Aveo Aspley Court, Aspley
Aveo Bridgeman Downs, Bridgeman Downs
Aveo Carindale, Carindale
Aveo Cleveland, Cleveland
Aveo Cleveland Gardens, Ormiston
Aveo Durack, Durack[1]
Aveo Manly Gardens, Manly
Aveo Newmarket, Newmarket
Aveo Robertson Park, Robertson
Aveo Springfield, Springfield Central
Aveo Sunnybank Green, Sunnybank
Aveo Taringa, Taringa
The Clayfield, Albion
Freedom Aged Care Albany Creek, Albany Creek[3]
Freedom Aged Care Clayfield, Clayfield
Freedom Aged Care Cleveland, Ormiston[3]
Freedom Aged Care Morayfield, Caboolture South
Freedom Aged Care Redland Bay, Redland Bay
Freedom Aged Care Rochedale, Rochedale South
Freedom Aged Care Tanah Merah, Slacks Creek
Freedom Aged Care Toowoomba – Bridge St, Newtown
Freedom Aged Care Toowoomba – Taylor St, Glenvale

Gold Coast
Aveo Amity Gardens, Ashmore
Aveo Robina, Robina
Aveo Southport Gardens, Southport
Aveo The Domain Country Club, Ashmore
Aveo Tranquility Gardens, Helensvale
Aveo Banora Point, Banora Point
Aveo Mountain View, Murwillumbah
Freedom Aged Care Banora Point, Banora Point
Freedom Aged Care Tweed Heads, Tweed Heads
Freedom Aged Care Tamworth, Tamworth
Freedom Aged Care Coffs Harbour, Coffs Harbour

Sydney
Aveo Bayview Gardens, Bayview[2]
Aveo Camden Downs, Camden South
Aveo Lindfield Gardens, East Lindfield
Aveo Maple Grove, Casula
Aveo Mosman Grove, Mosman
Aveo Minkara Resort, Bayview[1]
Aveo Peninsula Gardens, Bayview
Fernbank, St Ives
Heydon Grove, Mosman
Pittwater Palms, Avalon
The Manors of Mosman, Mosman
Aveo Island Point, St Georges Basin
Aveo Newcastle, Shortland

Adelaide
Aveo Ackland Park, Everard Park
Aveo Carisfield, Seaton
Aveo Crestview, Hillcrest
Aveo Fulham, Fulham
Aveo Glynde Lodge, Glynde
Aveo Gulf Point, North Haven
Aveo Kings Park, Kings Park
Aveo Leabrook Lodge, Rostrevor
Aveo Leisure Court, Fulham Gardens
Aveo Manor Gardens, Salisbury East
Aveo Melrose Park, Melrose Park
Aveo Riverview, Elizabeth Vale
Aveo The Braes, Reynella
Aveo The Haven, North Haven
Aveo Westport, Queenstown

Melbourne
Aveo Bentleigh, Bentleigh
Aveo Botanic Gardens, Cranbourne
Aveo Cherry Tree Grove, Croydon
Aveo Domainé, Doncaster
Aveo Edrington Park, Berwick
Aveo Fountain Court, Burwood
Aveo Hampton Heath, Hampton Park
Aveo Kingston Green, Cheltenham
Aveo Mingarra, Croydon[1]
Aveo Oak Tree Hill, Glen Waverley
Aveo Pinetree, Donvale
Aveo Roseville, Doncaster East
Aveo Springthorpe, Macleod
Aveo Sunbury, Sunbury
Aveo Veronica Gardens, Northcote
Hunters Green, Cranbourne East
Sackville Grange, Kew
Toorak Place, Toorak
Freedom Aged Care Bendigo, Kennington
Freedom Aged Care Balwyn, Balwyn
Freedom Concierge Balwyn, Balwyn
Freedom Concierge Bayside, Hampton
Freedom Aged Care Hawthorn, Hawthorn
Freedom Aged Care Berwick, Berwick[3]
Freedom Aged Care Burwood, Burwood[3]
Freedom Aged Care Cheltenham, Cheltenham[3]
Freedom Aged Care Doncaster, Doncaster East[3]
Freedom Aged Care Dromana, Safety Beach
Freedom Aged Care Geelong, Grovedale
Freedom Aged Care Glen Waverley, Glen Waverley[3]
Freedom Aged Care Sandringham, Sandringham

Hobart
Aveo Derwent Waters, Claremont
Freedom Aged Care Launceston, Mowbray

1. This village has an aged care facility managed by Aveo.
2. This village has an externally managed aged care facility.
3. Co-located with an Aveo village.

CASE STUDY

Aveo Durack – A new standard in Aged Care has arrived

Nestled within our largest integrated retirement community in Durack Queensland, Aveo, in the 2017 financial year, delivered its first of many, state of the art 'Aged Care Home'.

The 123 bed Aged Care Home is an important milestone in Aveo's pure-play retirement strategy to provide its residents with the best care services, support and facilities they need to remain within their community. This integrated retirement community will enable our residents, at their choice, to transition from independent living to serviced apartments and, when the time comes, to a more advanced level of care.

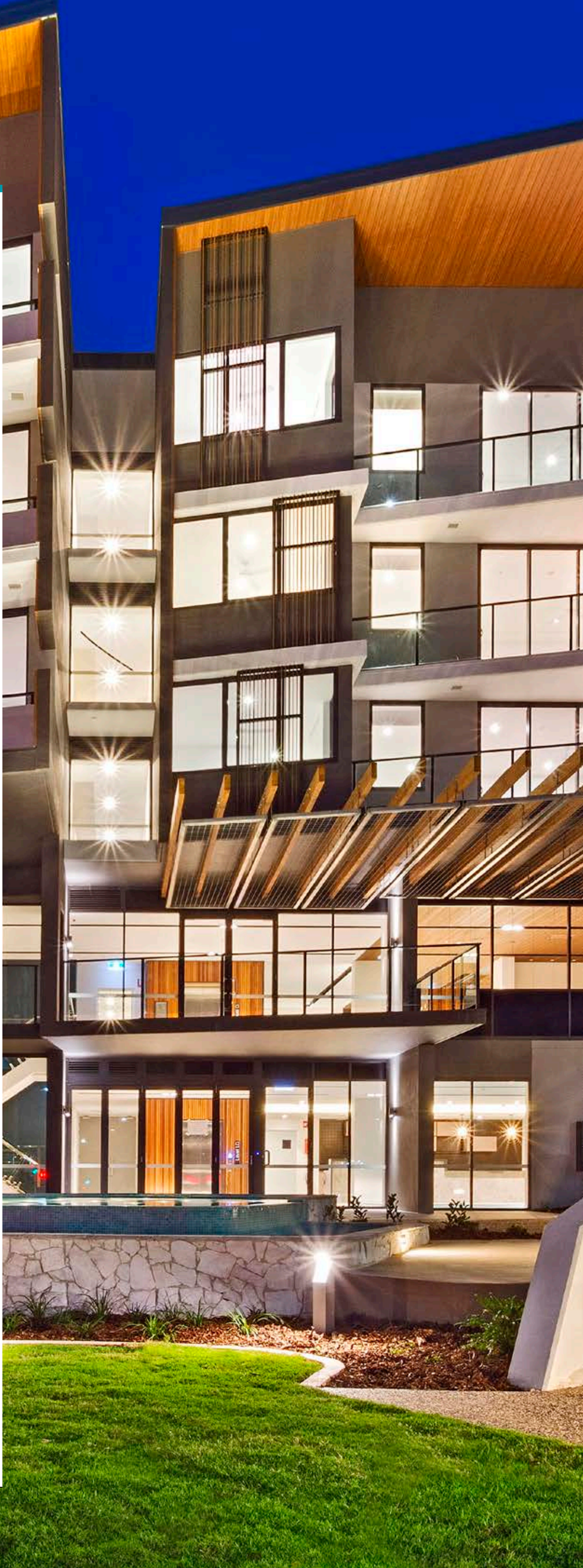
The Aged Care Home was designed to create a comfortable home-like environment, with contemporary features, communal spaces and spacious living options; and sets a new standard in aged care living.

On a recent tour of the Aged Care Home, Federal Member for Oxley, Milton Dick MP said; "The new facilities at Aveo Durack are first class for local residents. It's not what you expect when you come to an aged care home and it's clear that a lot of thought has gone into the new design to ensure residents are comfortable and have access to the best services available."

All 123 beds are licensed, which means that aged care funding is available, making it more affordable to our residents. The Aged Care Home has a range of accommodation options available, including a dedicated dementia wing and respite rooms.

The physical surrounds are matched only by the quality of our specialised aged care team. The onsite health and wellness centre is serviced by University of Queensland health professionals as part of our ongoing Enhanced Living Program partnership with the university. The Aged Care Home will employ more than 123 staff who will undergo an intensive training program to ensure the highest standard of care is met.

With the opening of our new Aged Care Home, Aveo Durack now provides the full continuum of care in the one retirement community.



CASE STUDY

Aveo Springfield – Innovative & unique intergenerational retirement community

Aveo's largest master planned retirement community set within Australia's fastest emerging new city, Greater Springfield, Brisbane, has officially opened its doors and is setting a new standard of excellence in retirement living.

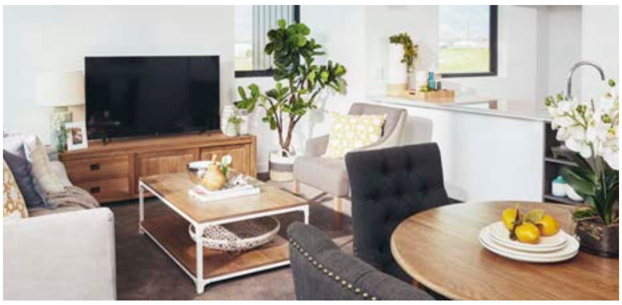
The first building at Aveo Springfield was officially opened in May 2017 by the Queensland Premier Annastacia Palaszczuk MP, Aveo Group Chairman Mr Seng Huang Lee and Chief Executive Officer Geoff Grady.

A unique new concept in seniors living, Aveo Springfield will be an intergenerational precinct featuring an integrated retirement village offering a vast array of living options and levels of care, alongside community services in the heart of Greater Springfield's 'Health City'.

The innovative village will incorporate services accessible to the wider community such as a boutique childcare centre, wellness centre, shops and cafés, providing a community for all residents of Greater Springfield and the opportunity for all generations to come together.

Aveo Springfield has been developed with environmental sustainability measures in place, including rainwater storage and recycling, water efficient fixtures, energy efficient lighting, heating and air-conditioning and embedded electricity network, providing high quality and efficient utilities for residents.

The 10ha project will ultimately comprise 2,500 residences, providing a community within a community, allowing all generations of a family to live nearby within Greater Springfield. Forming part of Health City, the village is adjacent to the Mater Private Hospital Springfield, with local schools, golf club, parklands, shopping and dining precincts all in close proximity.



RETIREMENT ACCOMMODATION DEMAND

- The Australian population aged over 65 is expected to grow by more than double over the next 30 years
- The Property Council of Australia estimates that between 2014 and 2025, approximately 198,000 additional senior Australians will be seeking retirement village accommodation
- Even taking into account that some of these will be couples and therefore only need one dwelling (the current resident per dwelling ratio is approximately 1.3), this still implies an additional accommodation need of just over 150,000 units
- While costs vary by product and location, assuming an average development cost of $500,000 per unit, this implies a capital investment requirement of $75 billion over that period
- Aveo has a target rate of delivering 500 new units per annum from FY18 onwards

7.5%

OF AUSTRALIANS OVER THE AGE OF 65 ARE FORECAST TO LIVE IN RETIREMENT VILLAGES IN 2025, INCREASING FROM 5.7% IN 2015

8.1 million

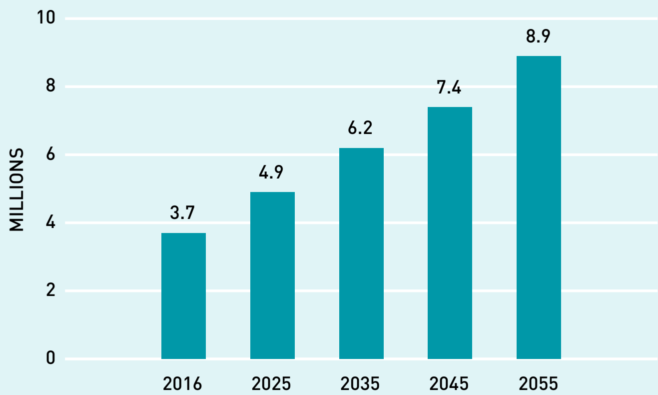
AUSTRALIANS WILL BE AGED OVER 65 IN 2050

382.2 thousand

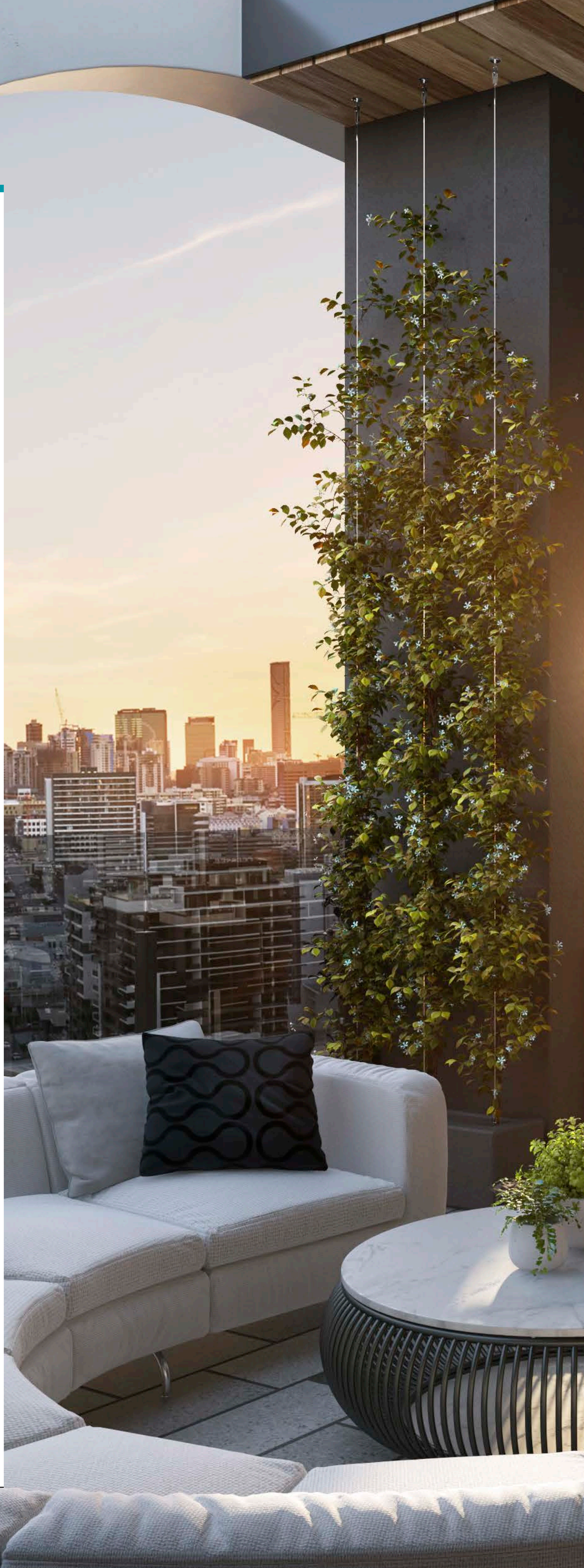
PEOPLE WILL BE SEEKING ACCOMMODATION IN A RETIREMENT VILLAGE BY 2025

Source: Property Council of Australia - National Overview of the retirement village sector.

Population over 65 - Projections[1,2]



1. ABS July 2017 Census, 2016.
2. Treasury 2015 Intergenerational Report.



CASE STUDY

Aveo Newstead – The future of Retirement Living

Australian retirees are increasingly demanding easy access to lifestyle amenities, spacious indoor living areas and desirable inner-city locations. Aveo is leading the charge to innovate and meet this demand with premium vertical living options. Our landmark 19-storey retirement community in Newstead, Brisbane is designed to meet the changing requirements of older Australians by providing inner city living with state of the art community facilities and the comfort and security of living with like-minded residents.

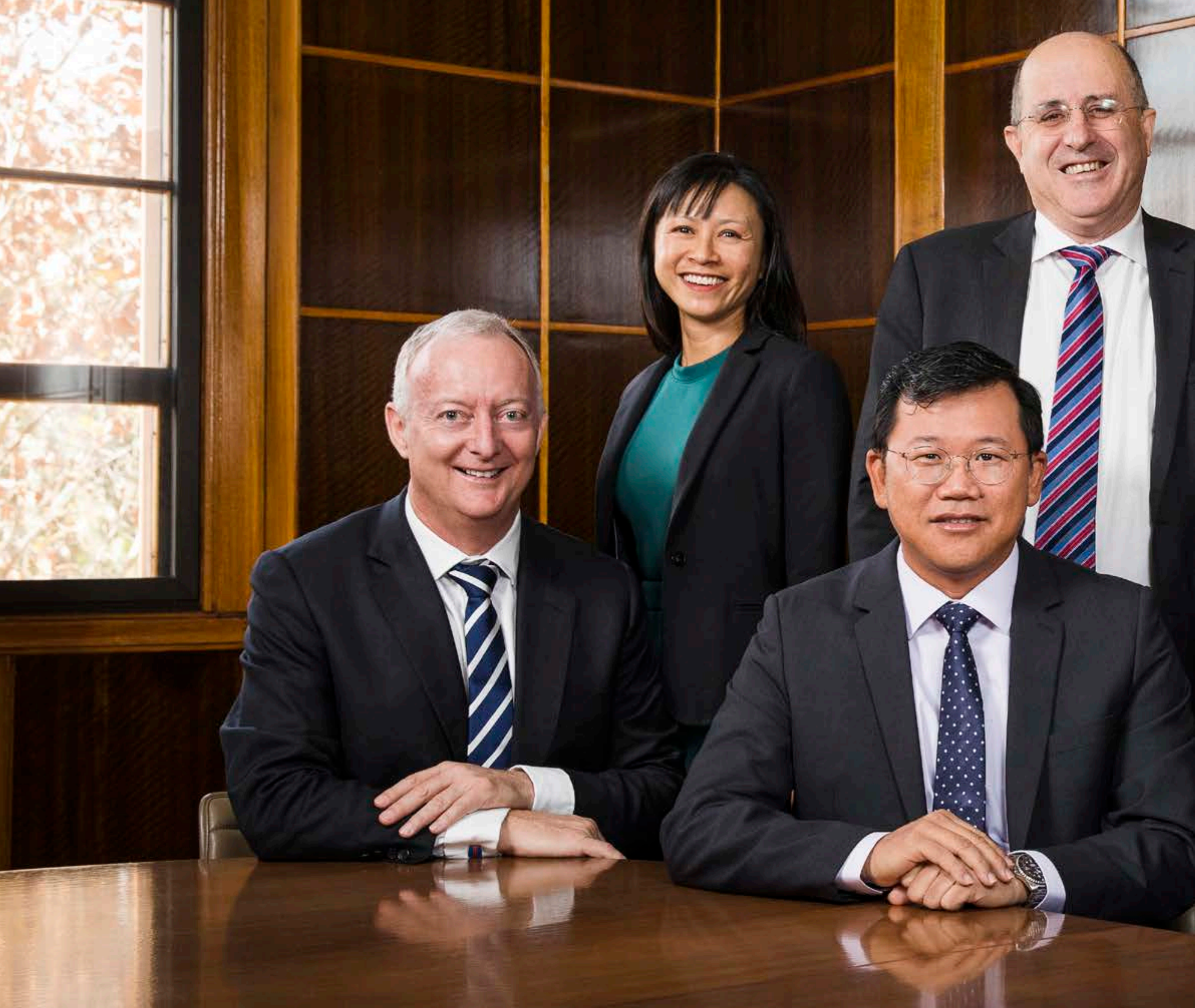
The $200 million development, due for completion in 2018, sits alongside the upscale retail precinct Gasworks Newstead which includes restaurants, cafes, shops and a public plaza inside the heritage listed gasometer.

Aveo Newstead will include a selection of independent living apartments, including penthouses, full service apartments, and a state-of-the-art Aged Care Home providing the peace of mind for residents knowing they may 'age in place'.

On Level 5 there is a unique, exclusive use community recreation area with views over Gasworks, and features over 3,000m^2 of landscaped gardens, including an activity lawn. Internally, there's a restaurant and bar, demonstration kitchen, lounge, golf simulator, private movie theatre, billiard room, business centre and craft room.

To support residents further, the community will feature a health and wellness retreat where residents can relax, improve their fitness and also access professional services from GPs, podiatrists and massage therapists, all in one place.

Aveo Newstead will meet the increasing demand from retirees looking for lifestyle-led apartment living, whilst offering long-term retirement living needs, unrivalled flexibility and assurance for residents that their care needs can be catered for within the one location.



Board of Directors

Seng Huang Lee
Non-Executive Chairman
Mr Lee joined the Board in February 2006 and was appointed as Chairman in February 2009. Mr Lee was educated at the University of Sydney in Australia and has wide experience in the financial services and real estate investment industry in the Asian region.
Mr Lee is currently the Group Executive Chairman of Sun Hung Kai & Co. Limited (appointed in January 2007). Listed in Hong Kong, Sun Hung Kai & Co. Limited is the leading non-bank financial institution in Hong Kong. Mr Lee is also Executive Chairman of Mulpha International Bhd (appointed in December 2003), a company listed on the Bursa Malaysia Securities Berhad.

Geoff Grady
Executive Director & Chief Executive Officer
Mr Grady joined Aveo Group as Chief Operating Officer in March 2009, having previously been the Chief Executive Officer of Mulpha Sanctuary Cove (Developments) Pty Limited since 2002. He was appointed as Executive Director and Chief Executive Officer of Aveo Group in July 2013. He has also worked as a partner of KPMG. Mr Grady holds degrees in commerce and law with honours from the University of Queensland. He is a chartered accountant and admitted as a solicitor of the Supreme Court of Queensland. Mr Grady is also the Chairman of Aveo Healthcare Limited (appointed 18 March 2014).

Diana Saw
Non-Executive Director
Mrs Diana Saw joined the Board in November 2016. Mrs Saw has more than 15 years' experience in senior roles in Australia and overseas, primarily in the areas of property finance and investment. Mrs Saw has worked as a senior executive in the Babcock & Brown's infrastructure group in Sydney and London where she gained considerable experience in transaction structuring and execution for local and cross-border transactions, across various infrastructure asset classes.
In addition, prior to this Mrs Saw was a member of the structured debt capital markets team at Deutsche Bank and was a solicitor in the banking and finance group at Mallesons Stephen Jacques (now King & Wood Mallesons)
Mrs Saw is currently Director – Risk Management for Qualitas Property Partners where she is responsible for reviewing and evaluating all aspects of transaction risk management for the group.
Mrs Saw holds a Bachelor of Economics (Honours) and Bachelor of Laws (Honours) from the University of Sydney.

Jim Frayne
Non-Executive Director
Mr Frayne joined the Board in July 2008. He has over 40 years' experience in chartered accountancy in audit and corporate services fields. Mr Frayne was appointed as a partner of PKF Chartered

From left to right: Geoff Grady, Diana Saw, Eric Lee, Walter McDonald, Seng Huang Lee, Jim Frayne and Kelvin Lo.

Accountants and Business Advisers (now BDO Chartered Accountants) in 1983 and from that time headed up the Audit and Assurance Division of PKF Brisbane until his retirement in June 2006. He is a Director of Black & White Holdings Limited. Mr Frayne was appointed a member of the Audit Committee effective 13 December 2010 and has been a member of the Remuneration Committee since 2012.

Walter McDonald
Non-Executive Director
Mr McDonald joined the Board in August 2012. He is recognised as one of Australia's leading legal practitioners with many years' experience in advising major government and corporate clients. Currently, Mr McDonald is a partner in the Corporate Division at Piper Alderman. During his career, Mr McDonald has gained experience across a wide range of areas of law including government, corporate, mergers and acquisitions, energy and resources, corporate finance, intellectual property, workout/recovery, major projects and technology, media and telecommunications.
Mr McDonald was appointed as Chair of the Nomination and Remuneration Committee effective June 2014.

Eric Lee
Non-Executive Director
Mr Lee joined the Board in December 2012. He is currently an Executive Director for Mulpha International Berhad, the holding of Mulpha Australia Limited, Aveo's largest single securityholder.
Mr Lee was formerly the Group Chief Financial Officer of Alliance Bank Malaysia Berhad from 4 January 2010 to 2 October 2012. Prior to joining Alliance Bank Malaysia Berhad, he was the Chief Financial Officer of a major global company where he oversaw their finance operations covering the Asia region. For over 20 years, he has held various leadership roles in management positions within both local companies and multi-national companies in Asia. Prior to Mr Lee's appointment as Executive Director of Mulpha International Bhd, he was the Group Chief Financial Officer since 3 October 2012.
Mr Lee was appointed as a member of the Audit Committee in February 2013.

Kelvin Lo
Non - Executive Director
Mr Lo has been engaged in the funds management business and practising law in New South Wales, Australia at Alliance Law Group since 2007. He previously served as chief investment officer of Value Creation Inc from 2002 to 2007, chief executive officer of Mreferral Corporation Ltd from 2000 to 2001, chief financial officer of Midland Realty Ltd from 1999 to 2001, and financial controller of Lippo Ltd from 1992 to 1999. Mr Lo was appointed as a non-executive director of Medtech Group Company Ltd, a company listed in Hong Kong, in 2001. Mr Lo is a fellow of the Association of Chartered Certified Accountants of England, an associate of the Hong Kong Institute of Certified Public Accountants, an associate of the Certified General Accountants Association of Canada, a chartered financial analyst of the CFA Institute of United States, and an associate of the Chartered Secretaries Australia. He is an associate member of the Law Society of New South Wales, Australia. Mr Lo obtained a Master of Laws from University of Sydney, Australia. Mr Lo was appointed as a Notary Public of New South Wales of Australia in 2012.
He is also an independent director of OUE Limited (SGX-ST: "OUE") a diversified real estate owner, developer and operator with a real estate portfolio located in prime locations in Asia and the United States.

Aveo Group
2017 Annual Report

Table of Contents

Directors' Report

The Directors of Aveo Group Limited and the Directors of Aveo Funds Management Limited, the Responsible Entity of Aveo Group Trust, present their report together with the financial reports of the Group and of Aveo Group Trust for the year ended 30 June 2017 and the Auditor's Report thereon. The financial report of the Group comprises the consolidated financial report of Aveo Group Limited and its controlled entities including Aveo Group Trust and its controlled entities. The financial report of the Property Trust comprises the consolidated financial report of the Trust Group.

The meaning of defined terms is given in the Dictionary at page 100, which forms part of the Directors' Report.

DIRECTORS

The Directors of Aveo Group Limited and of Aveo Funds Management Limited during the financial year and up until the date of this report are as follows:

Director	Position	Period of Directorship
Current Directors		
S H Lee	Non-Executive Chairman	Full year
J E F Frayne	Non-Executive Director	Full year
E L Lee	Non-Executive Director	Full year
W L McDonald	Non-Executive Director	Full year
D P J Saw	Non-Executive Director	Appointed 16 November 2016
K W Lo	Non-Executive Director	Appointed 16 February 2017
G E Grady	Executive Director and Chief Executive Officer	Full year
Former Directors		
L R McKinnon	Non-Executive Director	Resigned 16 November 2016
S B Muggleton	Non-Executive Director	Resigned 31 August 2016
Alternate Directors		
G D Shaw	Alternate Director for S H Lee and E L Lee	Appointed 2 December 2016
W Chow	Alternate Director for S H Lee and E L Lee	Resigned 2 December 2016

INFORMATION ON DIRECTORS

S H Lee
Non-Executive Chairman (age 43)
Mr Lee joined the Board in February 2006 and was appointed as Chairman in February 2009. Mr Lee was educated at the University of Sydney in Australia and has wide experience in the financial services and real estate investment industry in the Asian region. Mr Lee is currently the Group Executive Chairman of Sun Hung Kai & Co. Limited (appointed in January 2007). Listed in Hong Kong, Sun Hung Kai & Co. Limited is the leading non-bank financial institution in Hong Kong. Mr Lee is also Executive Chairman of Mulpha International Bhd (appointed in December 2003), a company listed on the Bursa Malaysia Securities Berhad.

J E F Frayne, BCom, FCA, GAICD
Non-Executive Director (age 70)
Mr Frayne joined the Board in July 2008. He has over 40 years' experience in chartered accountancy in audit and corporate services fields. Mr Frayne was appointed as a partner of PKF Chartered Accountants and Business Advisers (now BDO Chartered Accountants) in 1983 and from that time headed up the Audit and Assurance Division of PKF Brisbane until his retirement in June 2006. He is a Director of Black & White Holdings Limited. Mr Frayne was appointed Chairman of the Audit & Risk Committee effective November 2016 and has been a member of the Nomination and Remuneration Committee since July 2012.

E L Lee, Registered Accountant (Malaysia), CPA
Non-Executive Director (age 50)
Mr Lee joined the Board in December 2012. He is currently the Executive Director for Mulpha International Bhd, the holding company of Mulpha Australia Limited, Aveo's largest single securityholder. Mr Lee was formerly the Group Chief Financial Officer of Alliance Bank Malaysia Berhad from 4 January 2010 to 2 October 2012. Prior to joining Alliance Bank Malaysia Berhad, he was the Chief Financial Officer of a major global company where he oversaw their finance operations covering the Asia region. For over 20 years, he has held various leadership roles in management positions within both local companies and multi-national companies in Asia. Prior to Mr Lee's appointment as Executive Director of Mulpha International Bhd, he was the Group Chief Financial Officer since 3 October 2012. Mr Lee was appointed as a member of the Audit and Risk Committee in February 2013.

W L McDonald, BEc, LLB (Hons)
Non-Executive Director (age 60)
Mr McDonald joined the Board in August 2012. He is recognised as one of Australia's leading legal practitioners, with many years' experience in advising major government and corporate clients. Currently, Mr McDonald is a partner in the Corporate Division at Piper Alderman. During his career, Mr McDonald has gained experience across a wide range of areas of law including government, corporate, mergers and acquisitions, energy and resources, corporate finance, intellectual property, workout/recovery, major projects and technology, media and telecommunications. Mr McDonald was appointed as Chair of the Nomination and Remuneration Committee effective June 2014.

D P J Saw, B Econ, B.LLB
Non-Executive Director (age 46)
Mrs Saw joined the Board in November 2016. Mrs Saw has more than 15 years' experience in senior roles in Australia and overseas, primarily in the areas in property and investment. Mrs Saw has worked as a senior executive in Babcock & Brown's infrastructure group in Sydney and London where she gained considerable experience in transaction structuring and execution for local and cross-border transactions, across various infrastructure asset classes. Prior to this Mrs Saw was a member of the structured debt capital markets team at Deutsche Bank and was a solicitor in the banking and finance group at Mallesons Stephen Jacques (now King & Wood Mallesons). Mrs Saw is currently Director – Risk Management for Qualitas Property Partners where she is responsible for reviewing and evaluating all aspects of transaction risk management and monitoring for the Group. Mrs Saw holds a Bachelor of Economics (Honours) and Bachelor of Laws (Honours) from the University of Sydney.

K W Lo, FCCA. CPA. CGA. CFA. LLM
Non-Executive Director (age 56)

Mr Lo has been engaged in the funds management business and practising law in New South Wales, Australia at Alliance Law Group since 2007. He previously served as chief investment officer of Value Creation Inc from 2002 to 2007, chief executive officer of Mreferral Corporation Ltd from 2000 to 2001, chief financial officer of Midland Realty Ltd from 1999 to 2001, and financial controller of Lippo Ltd from 1992 to 1999. Mr Lo was appointed as a non-executive director of Medtech Group Company Ltd, a company listed in Hong Kong, in 2001. Mr Lo is a fellow of the Association of Chartered Certified Accountants of England, an associate of the Hong Kong Institute of Certified Public Accountants, an associate of the Chartered Professional Accountants of Canada, a chartered financial analyst of the CFA Institute of United States, and hold a graduate diploma of Institute of Chartered Secretaries & Administrators of Australia. He is an associate member of the Law Society of New South Wales, Australia. Mr Lo obtained a Master of Laws from University of Sydney, Australia. Mr Lo was appointed as a Notary Public of New South Wales of Australia in 2012. He is also an independent director of OUE Limited (SGX-ST: "OUE") is a diversified real estate owner, developer and operator with a real estate portfolio located in prime locations in Asia and the United States.

G D Shaw
Alternate Director (age 57)

Mr Gregory (Greg) Shaw joined Mulpha Australia Limited as Chief Executive Officer ("CEO") and Executive Director in April 2016 and Mulpha International Berhad (a company listed on the Malaysian stock exchange) as CEO in December 2016. He holds a Bachelor of Commerce and is an Australian Chartered Accountant. Mr Shaw was appointed as Alternate Director for Mr Seng Huang Lee in December 2016. His working experience includes CEO of Ardent Leisure Group a publicly listed stapled entity.

G E Grady, LLB (Hons), BCom, ACA
Executive Director and Chief Executive Officer (age 58)

Mr Grady joined Aveo Group as Chief Operating Officer in March 2009, having previously been the Chief Executive Officer of Mulpha Sanctuary Cove (Developments) Pty Limited since 2002. He was appointed as Executive Director and Chief Executive Officer of Aveo Group in July 2013. He has also worked as a partner of KPMG. Mr Grady holds degrees in commerce and law with honours from the University of Queensland. He is a chartered accountant and a solicitor of the Supreme Court of Queensland. Mr Grady is also the Chairman of Aveo Healthcare Limited (appointed in March 2014).

Former Directorships of listed entities in the last three years

Mr Grady was an Alternate Director of PBD Developments Limited from July 2011 to October 2013 and was a Director of Metlifecare Limited (listed on the New Zealand Stock Exchange) from September 2012 to November 2013.

COMPANY SECRETARY

A A Wyke, BEc, Dip in Law, AGIA

Ms Wyke joined Aveo Group to the position of Company Secretary in June 2017. Ms Wyke is an experienced governance professional with over 15 years of legal, compliance and company secretarial experience obtained through the funds management sector, primarily in property and financial services, as well as not-for-profit sectors.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors' Meetings		Board Sub Committee[3] Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]
S H Lee	5	5	–	–	–	–	3	3
J E F Frayne	5	5	2	2	4	4	3	3
E L Lee	5	5	1	1	4	4	–	–
K W Lo*	2	2	–	–	1	1	–	–
W L McDonald	5	5	–	–	1	1	3	3
L R McKinnon**	3	3	–	–	2	2	–	–
S B Muggleton***	1	–	–	–	–	–	–	–
D Saw****	2	2	–	–	–	–	–	–
G E Grady	5	5	2	2	–	–	3	3

1. Reflects the number of meetings held in the time the Director held office during the year.
2. Reflects the number of meetings attended by the Director or his alternate.
3. During the year, the Board established and delegated responsibility to a Board Sub Committee for the purposes of approving the release of the financial results for the Group. J E F Frayne was only invited to participate in one Board Sub Committee meeting during the financial year.
4. Eric Lee was only invited to participate in one Board Sub Committee meeting during the financial year.
5. Wally McDonald was invited to participate in one Audit and Risk Committee during the year to fill a casual vacancy.

* Appointed 16 February 2017
** Resigned 16 November 2016
*** Resigned 31 August 2016
**** Appointed 16 November 2016

Committee membership
As at the date of this report, the Group has an Audit and Risk Committee and a Nomination and Remuneration Committee.

Members acting on the Committees of the Board at the date of this report were:

Audit and Risk	Nomination and Remuneration
J E F Frayne (Chairman from 16 November 2016)	W L McDonald (Chairman)
E L Lee	J E F Frayne
K W Lo	S H Lee

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were:

- investment in, and development and management of, retirement villages;
- development for resale of land and residential and retail property;
- investment in, and management of, income producing retail, commercial and industrial property; and
- funds and asset management.

There have been no significant changes in the nature of these activities during the year.

REVIEW AND RESULTS OF OPERATIONS

Overview of FY17 results
Underlying profit after tax was $108.4 million, an increase of 22% on FY16, driven by a lift in earnings across both the Established Business and Development segments. This strong performance of the core Aveo retirement business was assisted by additional earnings contributions from the Freedom and RVG acquisitions.

Operational highlights included:

- Retirement sales were 1,242 units, up from 799 in FY16;
- A strong lift in average DMF/CG amount per transaction to $98,000;
- The portfolio sales rate was 10.9%;
- 266 new major retirement units were delivered; and
- 80 minor development units were sold.

Financial results
Key financial outcomes of the Group's 30 June 2017 results are:

- statutory profit after tax increased 118% to a profit of $252.8 million;
- statutory earnings per Security increased 100% to 44.2 cents;
- underlying profit after tax[1] of $108.4 million, up 22%;
- earnings per Security on underlying profit after tax increased 11% to 18.9 cents;
- a distribution of 9 cents per security, up 13%; and
- net tangible assets per Security of $3.37.

Underlying EPS increased by 11% despite the impact of the additional equity raised to fund the RVG and Freedom acquisitions.

Retirement assets now comprise 87% of total divisional assets, as further investment is made in retirement development and the non-retirement assets are progressively sold down.

NTA per security increased to $3.37 lifted by investment property revaluations.

The Group's statutory profit after tax for the year ended 30 June 2017 was $252.8 million. A reconciliation of the Group's statutory profit after tax to the income statement is:

	2017 $m	2016 $m
Profit from continuing operations after income tax	252.2	117.6
Less: Other non-controlling interests	0.6	(1.6)
Net profit after tax attributable to stapled securityholders of the Group	**252.8**	**116.0**

The following table summarises key reconciling items between the Group's statutory profit and underlying profit after tax.

	2017 $m	2016 $m
Underlying profit after tax and non-controlling interest	108.4	89.0
Change in fair value of retirement investment properties	93.8	12.3
Gain on acquisition of RVG	52.6	–
Change in fair value of Non-Retirement investment properties	11.5	16.0
Other	(13.5)	(1.3)
Net profit after tax attributable to stapled securityholders of the Group	**252.8**	**116.0**

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited.

In the opinion of the Directors, the Group's underlying profit reflects the results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments outlined above are considered to be non-cash or non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result.

The variance between statutory and underlying profit was largely driven by revaluations:

- A gain on acquisition of RVG;
- A Retirement asset valuation increase; and
- A Gasworks valuation increase in line with a new external valuation.

Results of operations
Key divisional contributions to the underlying performance of the Group included:

	Divisional underlying profit		
	2017 $m	2016 $m	Change $m
Division			
Established Business	73.8	58.6	15.2
Development[1]	25.2	19.3	5.9
Care and Support Services	1.7	2.0	(0.3)
Total Retirement	**100.7**	**79.9**	**20.8**
Total Non-Retirement	**62.7**	**55.1**	**7.6**
Divisional contribution	**163.4**	**135.0**	**28.4**
Group overheads and incentive scheme	(18.7)	(15.2)	(3.5)
EBITDA	**144.7**	**119.8**	**24.9**
Depreciation and amortisation	(3.4)	(2.7)	(0.7)
EBIT	**141.3**	**117.1**	**24.2**
Interest and borrowings expense	(1.9)	–	(1.9)
Profit before tax	**139.4**	**117.1**	**22.3**
Income tax expense	(30.7)	(26.3)	(4.4)
Non-controlling interest	(0.3)	(1.8)	1.5
Underlying profit after tax and non-controlling interest	**108.4**	**89.0**	**19.4**

1. Includes capitalised interest in cost of goods sold.

The increase in Retirement profit was supported by increasing contributions from both the Established Business and Development segments.

Retirement contribution as a proportion of divisional contribution increased from 59% in FY16 to 62% in FY17.

Detailed discussion of divisional results follows.

Retirement

Retirement EBITDA for the year was $100.7 million, an increase of $20.8 million (26%) on the previous year:

	2017 $m	2016 $m	Change $m	Change %
Revenue[1]				
Established Business	204.1	148.9	55.2	37
Development[2]	165.7	103.0	62.7	61
Care and Support Services	15.7	12.3	3.4	28
	385.5	**264.2**	**121.3**	**46**
EBITDA				
Established Business	73.8	58.6	15.2	26
Development	25.2	19.3	5.9	31
Care and Support Services	1.7	2.0	(0.3)	(15)
	100.7	**79.9**	**20.8**	**26**

Sales volumes	Number	Number	Number	%
Established Business	1,008	736	272	37
Development	234	63	171	271
	1,242	**799**	**443**	**55**
Total value of units transacted	$487.8m	$246.7m	$241.1m	98

1. Includes new and buyback sales and share of equity-accounted profits. These items are not included in revenue in the Income Statement, but in other line items.
2. Includes new sales income. Development profits are accounted for in the change in fair value of retirement investment property.

Retirement increased its total EBITDA by 26% to $100.7 million. EBITDA increased across the Established Business and Development segments, supported by additional earnings from the Freedom and RVG assets.

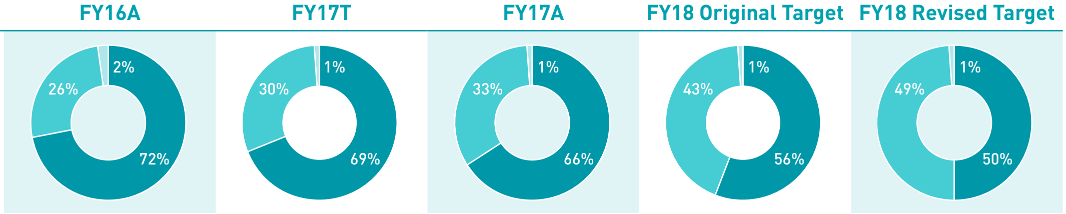
The Established Business result was driven by a combination of record volumes and higher sales prices.

The Development result was driven by the delivery of 266 new retirement units and a contribution from the former Freedom-owned minor development units. Development sales increased as a proportion of total sales in line with increased delivery volumes.

The Care and Support Services result reflects initial costs incurred in rolling out Aveo's food services initiatives.

The Retirement business remains on track to achieve its ROA targets although there is a change in the earnings mix due to an increased sale rate of higher margin Freedom minor developments:

Retirement Earnings Composition[1]



Established Business Development Care and Support Services

	FY16A	FY17T	FY17A	FY18 Original Target	FY18 Revised Target
Established Business	57.6	70.0 – 75.0	71.7 ✓	80.0 – 84.0	71.5 – 76.5
Development	20.6	27.5 – 35.0	33.0 ✓	60.0 – 65.0	70.0 – 74.0
Care and Support Services	1.3	1.0 – 2.0	1.1 ✓	1.0 – 2.0	1.5 – 2.0
Retirement EBIT[2] ($m)	**79.5**	**98.5 – 112.0**	**105.8 ✓**	**141.1 – 151.0**	**143.0 – 152.5**
Target Range	**6.0% – 6.5%**	**5.5% – 6.3%**	**5.5% – 6.3%**	**7.5% – 8.0%**	**7.5% – 8.0%**
Actual ROA	**6.3% ✓**		**6.0% ✓**		

1. Long-term retirement earnings mix (based on EBIT) will likely be 70%-80% recurring (Established Business and Care and Support Services) and 20%-30% active (Development) post FY21.
2. Excludes capitalised interest in cost of goods sold.

Established Business

	2017 $m	2016 $m	Change $m	Change %
Revenue				
DMF/CG				
Resales	85.1	55.5	29.6	53.3
Buyback purchases	29.9	12.5	17.4	139.2
	115.0	68.0	47.0	69.1
Other revenue				
Buyback sales	69.5	43.3	26.2	60.5
RVG[1]	–	22.3	(22.3)	(100.0)
Other[2]	19.6	15.3	4.3	28.1
	89.1	80.9	8.2	10.1
	204.1	**148.9**	**55.2**	**37.1**
EBITDA				
Net DMF/CG[3]	105.7	57.0	48.7	85.4
Net buyback sales	7.3	0.6	6.7	1,116.7
Net RVG[1]	–	9.0	(9.0)	(100.0)
Other income	19.7	24.9	(5.2)	(20.9)
Marketing expenses	(19.4)	(12.8)	(6.6)	51.6
Other expenses	(39.5)	(20.1)	(19.4)	96.5
	73.8	**58.6**	**15.2**	**25.9**

1. FY16 results include share of profit of, and fees charged to RVG. FY17 revenue excludes these items but includes 100% of RVG revenue from 1 July 2016. Profit contribution is after allowing for minority's share of RVG results until 24 August 2016, when RVG became a wholly owned subsidiary.
2. Includes resident commissions and village administration fees.
3. Relates to resales and operating buyback purchases.

An improved performance in the legacy Aveo business was supplemented by additional contributions from the RVG and Freedom assets.

The net DMF/CG contribution increased through a combination of higher sales volumes and higher DMF/CG amounts per transaction.

Buyback sales revenues increased substantially as the higher levels of buyback stock acquired as part of the active asset improvement program were sold to incoming residents.

The increase in marketing and other expenses reflects increases due to Freedom and RVG costs.

Established Business sales and margins

	2017 Number	2016 Number	Change Number	Change %
Sales volumes				
Resales	782	605	177	29.3
Buyback sales	226	131	95	72.5
	1,008	**736**	**272**	**37.0**
Recurring operating buyback purchases	309	152	157	103.3
Freedom conversion buyback purchases	86	–	86	na
Total buyback purchases	**395**	**152**	**243**	**159.9**
DMF generating transactions	**1,177**	**757**	**420**	**55.5**
Deposits on hand	107	106	1	0.9
Average DMF/CG transaction price point	$358k	$287k	$71k	24.7
Average DMF/CG per transaction	$98k	$90k	$8k	8.9
DMF/CG margin per transaction				
Resales	28%	31%	-3%	–
Operating buyback purchases	26%	31%	-5%	–
Portfolio turnover	10.9%	11.9%	-1%	–
Occupancy	93%	92%	1%	–

Sales volumes increased 37% to 1,008 units.

There was a significant increase in buyback purchases to facilitate the introduction of the Freedom care model across 12 Aveo communities.

The lift in average transaction price point was a combination of:

- Continued price increases across the original Aveo portfolio; and
- The impact of the RVG communities that are mostly located in higher value Sydney and Melbourne suburbs.

DMF margins were impacted by legacy RVG resident contracts that have inferior terms relative to the average Aveo contract. However, this will be improved over the longer term as the Aveo Way contracts are introduced into the RVG portfolio.

Development

	2017	2016	Change Amount	Change %
Revenue	$165.7m	$103.0m	$62.7m	60.9
EBITDA	$25.2m	$19.3m	$5.9m	30.6
Major development				
Units delivered	266	182	84	46.2
Units sold	154	63	91	144.4
Gross profit (after capitalised interest)	$26.3m	$22.3m	$4.0m	17.9
Average margin				
before capitalised interest	19%	23%	-4%	–
after capitalised interest	18%	23%	-5%	–
Average transaction value	$520k	$566k	($46k)	(8.1)
Deposits on hand	29	17	12	70.6
Minor development				
Units sold	80	–	na	na
Gross profit (after capitalised interest)	$12.9m	–	na	na
Average margin				
before capitalised interest	47%	–	na	–
after capitalised interest	47%	–	na	–
Average transaction value	$343k	–	na	na
Deposits on hand	59	–	na	na
Redevelopment buyback purchases	85	68	17	25.0

Retirement Development successfully delivered 266 new major units, with 208 deliveries taking place in the second half. 154 major units were sold in the period.

Sale of a further 80 higher margin minor developments supplemented the profit contribution from delivery of traditional development units.

Redevelopment buyback purchases increased as plans progress at several redevelopment communities.

Development has a new target to deliver 180 minor developments per annum relating to the reconfiguration and redevelopment of Freedom communities to allow the continued roll out of the Freedom product:

- 110 Freedom conversion development units; and
- 70 Freedom legacy development units.

Construction for the delivery of 506 new units in FY18 is proceeding as scheduled.

With the exception of Newcastle 50 units, delivery timelines are scheduled for completion in the second half of FY18:

Village	FY18 units	Expected completion	Development status
Bella Vista	64	Q4	Building works have reached level 7 of the 11-story building. Build is on track to top out in October. Mechanical and electrical works have commenced.
Hunters Green	25	Q4	Civil contractor appointed and on site.
Island Point	15	Q4	Site has been cleared and civil contractor on site.
Mingarra	19	Q4	Civil contractor appointed and on site.
Newcastle	50	Q1	Occupancy certificates received for 50 villas and first residents have now moved in.
Newstead	199	Q4	Construction is well advanced with various works completed up to and including level 15. Internal works are progressing through the tower with the services, glazing and partition installation up to level eight.
Robertson Park	34	Q4	12 existing villas were demolished to make way for new community facilities and 34 new ILUs. Building A level one slab is currently formed and Building A basement services are progressing well.
Springfield	38	Q4	Approximately 40% of the civil works are now complete with basements excavated and bored piers completed.
Tanah Merah	62	Q4	Builder currently on site completing piering and temporary shoring piling to be followed by construction of retaining walls and in-ground services.
	506		
Minor	180		Will be delivered progressively through the year
	686		

The Group's retirement development pipeline stands at 5,267 units (excluding minor development). Major sites include Springfield (2,290 units), Bella Vista (464 units), the Carindale redevelopment (406 units) and Newcastle (300 units). The pipeline for minor development is 843 units.

Care and Support Services

	2017 $m	2016 $m	Change $m	Change %
Revenue				
Aged care	11.0	10.7	0.3	2.8
Allied health	0.2	0.2	–	–
Other	4.5	1.4	3.1	221.4
	15.7	**12.3**	**3.4**	**27.6**
EBITDA				
Aged care	2.6	1.7	0.9	52.9
Allied health	0.2	0.2	–	–
Other	1.1	0.6	0.5	83.3
Expenses	(2.2)	(0.5)	(1.7)	340.0
	1.7	**2.0**	**(0.3)**	**(15.0)**

RACFs remain the main profit contributor. This is expected to continue, particularly with the opening of the new Durack RACF in July 2017.

The increased other revenue and profit contribution results from the rollout of Aveo's food services initiative to the broader portfolio.

The RACF development pipeline stands at 947 beds. Construction of the Newstead integrated retirement community development, incorporating the next RACF, is well progressed and scheduled for delivery in FY18.

Design work for the Springfield RACF targeted for FY19/FY20 delivery is currently in progress.

Non-Retirement

	2017	2016	Change Amount	Change %
Sales revenue	$255.0m	$277.7m	($22.7m)	(8.2)
Rental income	$15.0m	$14.0m	$1.0m	7.1
Total revenue	$270.0m	$291.7m	($21.7m)	(7.4)
EBITDA	**$62.7m**	**$55.1m**	**$7.6m**	**13.8**
Gross profit	$66.0m	$54.5m	$11.5m	21.1
Land lot sales	729	648	81	12.5
Built product sales	16	283	(267)	(94.3)
Average margin	26%	20%	6%	
Contracts on hand	396	646	(250)	(38.7)
Contracts on hand	$160.0m	$253.0m	($93.0m)	(36.8)
Investment properties held	2	2	–	–
Non-Retirement assets				
Inventories	$170.3m	$275.3m	($105.0m)	(38.1)
Investment properties	$181.5m	$151.5m	$30.0m	19.8
Property, plant and equipment	$3.8m	$3.8m	$0.0m	–
	$355.6m	$430.6m	($75.0m)	(17.4)
Non-Retirement assets/Total assets	13%	19%	-6%	

Increases in higher margin land lot sales offset the impact of having only a small residual balance of built product sales continue into FY17 from FY16.

Land sales contracts on hand remain high.

The Gasworks, Newstead, office and retail complex was independently valued at $180.0 million as at 30 June 2017. The valuation adopted a retail capitalisation rate of 6% and a commercial capitalisation rate of 7% (a blended rate of 6.4%).

Non-retirement assets have been reduced to only 13% of total assets.

Capital management

Capital management metrics

	30 June 2017	30 June 2016
Gearing[1]	16.9%	17.4%
Net debt drawn[2]	$525.9m	$431.3m
Gross interest bearing liabilities	$573.1m	$462.0m
Undrawn committed lines[3]	$149.0m	$163.0m
Weighted average borrowing cost	3.4%	3.4%
Weighted average debt maturity	2.8 years	1.7 years

1. Measured as net debt divided by total assets net of cash and resident loans.
2. Net debt is net of cash, after deducting the Milton joint venture partner's share of project debt.
3. Undrawn facilities are dependent upon having sufficient security.

The Group successfully refinanced its syndicated facility to July 2020 and increased total limits by $75 million to $632 million (including $30 million in bank guarantees).

The Aveo Healthcare facility limit increased by $15 million to $120 million to assist with development of new units and the Durack RACF.

Debt remains unhedged. Reported gearing remains within the target range of 10% – 20% at 16.9%.

An on-market buyback for up to 54.3 million Securities has been announced. The buyback can commence from 17 August 2017. The intention is to fund the buyback from excess operational cash flows and non-retirement asset sales, including the potential sale of the Gasworks, Newstead, complex.

Since FY14, a net $340 million has been invested in the development of new retirement units. An investment of approximately $500 million is required to fund the development and sell down of 500 retirement units per annum. The ongoing sell down of the remaining $170 million in residential inventory will provide a source of funding for this required capital.

Risk

There are a number of risks that could affect the Group's ability to achieve its staged goals of returns on retirement assets of 7.5% – 8.0% by FY18 and EPS growth of 7.9%. These include:

- A downturn in the Australian property market could reduce growth in average transaction price points and consequently average DMF/CGs. This risk is partly mitigated by the Group's introduction of the improved Aveo Way contract terms.
- Such a downturn could also reduce the Groups' ability to sell its retirement and non-retirement developments. This risk could be partly mitigated by the Group reducing the rate of development.
- Development margins could be affected by construction delays and cost increases. Wherever possible, the Group controls this risk through fixed price contracts and by including early completion bonuses and/or late completion penalties in its construction contracts. The Group also carefully monitors development progress through regular management review.
- The Group may experience difficulties in executing its strategy to improve revenue from the Established Business by expanding the Freedom product offering to existing Aveo villages.
- Recent publicity may result in reduced returns in the short-term. It may also result in changes in the legal environment in which the Group operates, but the Group believes it is well placed to withstand such changes.

Outlook

Our strategy to position Aveo as a leading pure retirement group that is responsive to the increasing needs and wants of Australian retirees underpins our solid performance.

The strong sales momentum of the business across FY17 has been impacted in the short term by the attention on Aveo and the retirement sector more generally over recent months. Inquiry rates in July were approximately 60% of those experienced in the same period last year but are now increasing. The quality of inquiry has actually improved, as enquiries by informed customers are enabling genuinely interested buyers to progress to meetings with sales consultants.

Marketing materials, which are clear and transparent, and highlight the care, friendship and support offered at Aveo communities, will be important in highlighting the quality of life benefits that residents value.

The introduction of the new resident contract initiatives announced today will reinforce Aveo's position as a market leader in offering certainty, at both the beginning, and the end, of a resident's stay.

The Group is providing FY18 financial guidance of:

- FY18 EPS of 20.4 cps, 7.9% higher than the 18.9 cps delivered in FY17 (the previously targeted 7.5% FY18 EPS growth guidance was on a lower FY17 EPS target of 18.3 cps);
- Remaining on track to achieve the FY18 retirement return on asset target of 7.5% – 8.0%; and
- A full year distribution amount in the range of 40% – 60% of underlying profit.

A further update on FY18 trading and distribution will be provided at the Group's annual general meeting in November 2017.

STATE OF AFFAIRS

There have been no material changes in the state of the Group's affairs since the date of the last report, other than as disclosed in this report and the accompanying financial statements.

DIVIDENDS AND DISTRIBUTIONS

Distributions paid or declared by the Group to securityholders since the end of the previous financial year were:

Distribution	Cents per security	Total amount $m	Date of payment
Final 2016	8.0	43.5	30 September 2016
Final 2017	9.0	52.0	29 September 2017

The distribution is 48% of underlying profit after tax and 38% of adjusted funds from operations. The distribution is in line with the Group's policy of distributing between 40% and 60% of underlying profit after tax.

ENVIRONMENTAL REGULATION

The Group undertakes property development in various states in Australia. It is subject to legislation regulating development. Consents, approvals and licences are generally required for all developments, and it is usual for them to be granted subject to conditions. The Group complies with these requirements by ensuring that all necessary consents, approvals and licences are obtained prior to any project being commenced, and consents, approvals and licences are implemented in order to ensure compliance with conditions. To the best of the Directors' knowledge, all projects are being, and have been, undertaken in compliance with these requirements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Commentary on likely developments and expected results of operations of the Group are included in this report under *Review and Results of Operations*.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in an unreasonable prejudice to the Group.

REMUNERATION REPORT

The Remuneration Report set out on pages 31 to 45 provides details of the remuneration and equity holdings of the Directors and Key Management Personnel, including details of options issued or exercised during the financial year, or outstanding at the date of this report, and forms part of the Directors' Report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year and up until the date of this report, which significantly affect or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITOR

Indemnification

Pursuant to the Constitutions of the Parent and the Responsible Entity, all Directors and Company Secretaries *(Officers)*, past and present, have been indemnified against all liabilities allowed under the law. The Parent and the Responsible Entity have also entered into agreements with each of the Directors and Officers to indemnify them against all liabilities to another person that may arise from their positions as officeholders of the Group to the extent permitted by law. The agreements stipulate that the Parent and the Responsible Entity will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

To the extent permitted by law, the Parent and the Responsible Entity have agreed to indemnify their auditor, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Insurance premiums

During the financial year, the Group paid premiums in respect of Directors and Officers' liability insurance contracts, for the current and former Directors and Officers, including executive officers and secretaries of the Group.

Under the terms of the insurance contracts, disclosure of the extent of the cover and the amount of the premium is prohibited by a confidentiality clause.

NON-AUDIT SERVICES

The Board has considered the services provided during the year by the external auditor and, in accordance with advice provided by the Audit and Risk Committee, is satisfied that the provision of those services during the year is compatible with, and did not compromise, the auditor independence requirements of the Act for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure that they do not impact the integrity and objectivity of the external auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the external auditor's own work, acting in a management capacity for the Group, acting as an advocate for the Group or jointly sharing risks or rewards.

Details of any amounts paid or payable by the Group for non-audit services provided during the year are given in note 28 to the financial statements.

EXTENSION OF ELIGIBILITY TERM OF AUDIT PARTNER

In accordance with section 324DAA of the Act, and in accordance with a recommendation of the Audit and Risk Committee, on 14 August 2014, the Directors granted approval for the Group's audit partner to play a significant role in the audit of the Group for a further two successive financial years in addition to his original five successive financial years, such that his term will expire on 30 June 2017.

The Directors noted that the Committee was satisfied that the extension would maintain the quality of the audit and would not give rise to any conflicts of interest for the following reasons:

- the existing audit effectiveness protocols within the Committee's charter are sufficient to ensure that auditor independence would not be diminished by such an extension;
- extending the engagement period of the incumbent audit partner would ensure the preservation of knowledge throughout the current transitional period of the Group as it moves towards becoming a pure play-retirement operator; and
- the Directors of the Group have the option to reassess the auditor appointment at any time.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE ACT

We confirm that we have obtained the Auditor's Independence Declaration, which is set out on page 30.

ROUNDING

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance amounts in the Financial Report and the Directors' Report are rounded to the nearest hundred thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

S H Lee
Chairman

G E Grady
Executive Director and Chief Executive Officer

Sydney
16 August 2017

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Aveo Group Limited and the Directors of Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust

As lead auditor for the audit of Aveo Group and Aveo Group Trust for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aveo Group and the entities it controlled and Aveo Group Trust and the entities it controlled during the financial year.

Ernst & Young.

Ernst & Young

Douglas Bain
Partner
16 August 2017

1. INTRODUCTION

The Nomination and Remuneration Committee is pleased to provide the Aveo Group's Remuneration Report for the year ended 30 June 2017, which has been audited in accordance with section 308(3C) of the Act.

The Committee's primary objective is to provide a remuneration structure that attracts, retains and motivates staff, reflects Aveo's strategic goals, is aligned with securityholder interests, and addresses current market and stakeholder views.

The meaning of defined terms is given in the Dictionary at page 100, which forms part of this report.

1.1 Key Management Personnel defined

The table below shows the name, position and period of employment or directorship for each KMP whose remuneration is disclosed in this report.

Name	Position	KMP 2017	KMP 2016
Current Non-Executive Directors			
S H Lee	Non-Executive Chairman	Full year	Full year
J E F Frayne	Non-Executive Director	Full year	Full year
E L Lee	Non-Executive Director	Full year	Full year
W L McDonald	Non-Executive Director	Full year	Full year
D P J Saw	Non-Executive Director	Appointed 16 November 2016	–
K W Lo	Non-Executive Director	Appointed 16 February 2017	–
G D Shaw	Non-Executive Alternate Director (for S H Lee and E L Lee)	Appointed 2 December 2016	–
Former Non-Executive Directors			
L R McKinnon	Non-Executive Director	Resigned 16 November 2016	Full year
S B Muggleton	Non-Executive Director	Resigned 31 August 2016	Full year
W Chow	Non-Executive Alternate Director (for S H Lee and E L Lee)	Resigned 2 December 2016	Full year
Executive Director			
G E Grady	Executive Director and Chief Executive Officer	Full year	Full year
Other Key Management Personnel			
D A Hunt	Chief Financial Officer	Full year	Full year

1.2 Actual remuneration received in FY17

The following table provides a summary of remuneration received by KMP (excluding NEDs), for FY17. The figures below are the amounts that each individual received in cash and not the amounts calculated in accordance with Australian Accounting Standards. They contain no allowance for annual or long service leave accrual, nor the STID and Rights expense required to be recognised by Accounting Standard AASB 2 *Share-Based Payment*. Consequently, the figures below may not correspond to those in later sections of this report. Specific details of the 2017 remuneration received by these executives, prepared in accordance with the statutory obligations and accounting standards, are provided on page 45.

	Fixed annual remuneration[1] $	STI[2] $	STID[3] $	LTI[4] $	Other[5] $	Total actual FY17 remuneration $
G E Grady	725,000	320,349	362,323	1,106,700	5,470	2,519,842
D A Hunt	590,000	181,333	229,859	428,400	9,529	1,439,121

1. Fixed annual remuneration includes superannuation benefits together with salary-packaged benefits calculated on a 'cost to Aveo' basis, grossed up for fringe benefits tax payable.
2. Reflects FY16 STI paid in cash during the year.
3. Reflects FY15 STID that vested during the year, measured at the Group's closing security price at the date of vesting.
4. Reflects FY14 Performance Rights that vested during the year, measured at the Group's closing security price at the date of vesting.
5. Includes fringe benefits that are not salary-packaged.

2. REMUNERATION FRAMEWORK

2.1 Remuneration governance

The Board has established a Nomination and Remuneration Committee, which is responsible for determining and reviewing remuneration arrangements for Directors and other KMP. The members of the Committee during the year and as at 30 June 2017 are:

- W L McDonald (Chairman);
- J E F Frayne; and
- S H Lee

The Committee is responsible for:

- providing recommendations to the Board with respect to the necessary and desirable competencies of the Board, the appointment, election and re-election of Directors and reviewing Board succession plans to ensure that the Board has the necessary guidance to facilitate appointments to the Board without disruption; and
- ensuring that the remuneration levels for the Group are set at appropriate levels to ensure that the Group has access to the skills and capabilities it needs to operate successfully.

2.2 Remuneration policy

The Group's remuneration policy is to ensure that remuneration packages properly reflect the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The structure of remuneration, as explained below, is designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of long-term value creation for securityholders. The remuneration structures take into account a range of factors, including the following:

- the capability, skills and experience of the KMP;
- the ability of KMP to impact achievement of the strategic objectives of the Group;
- the performance of the KMP in their roles;
- the Group's overall performance;
- the remuneration levels being paid by competitors for similar positions; and
- the need to ensure continuity of executive talent and smooth succession planning.

In assessing the performance of an executive, regard is given to a mix of quantitative and qualitative factors in addition to the Group's immediate underlying profit performance. The nature of the Group's activities is such that decisions are constantly being taken that may not generate profit for several years. Examples include the acquisition of land for future development, the process of development itself, and the upgrading of systems and procedures. The likelihood of success of such longer-term projects is considered in establishing measures of executive performance for remuneration purposes.

2.3 Voting and comments made at the Group's 2016 Annual General Meeting

The remuneration report for FY16 was approved at the Group's 2016 Annual General Meeting with more than 99% of votes cast in favour. There were no specific comments made on the report at that meeting.

2.4 External advisers

During the year, the Committee received a report from Godfrey Remuneration Group Pty Limited *(GRG)* in relation to the market competitiveness of its remuneration practices for the CEO and CFO, Whilst the report did not contain any remuneration recommendations as defined in the Act, GRG nevertheless provided a declaration that, to the best of its knowledge and belief, the recommendations in the report were made free from undue influence by any KMP to whom the recommendations related.

The Committee considered the report in setting the remuneration for the CEO and CFO for FY18.

3. LINK BETWEEN REMUNERATION AND PERFORMANCE

Profit, EPS and other key financial performance measures over the last five years for the Group are set out below.

	2017	2016	2015	2014	2013
Statutory net profit/(loss) ($m)	252.8	116.0	58.0	26.1	(166.5)
Underlying profit after tax ($m)[1,2]	108.4	89.0	54.7	42.1	39.2
EPS (cents)[3]					
Statutory	44.2	22.1	11.6	5.9	(52.4)
Underlying	18.9	17.0	10.9	9.5	13.6
Dividends/distributions ($m)	52.0	43.5	25.8	20.0	3.2
DPS – ordinary (cents)	9.0	8.0	5.0	4.0	1.0
Total assets ($m)	5,955.1	4,094.5	3,392.8	3,269.8	3,357.9
Net assets ($m)	1,978.7	1,660.4	1,505.6	1,429.5	1,174.0
NTA per security ($)	3.37	3.00	2.85	2.78	3.53
Securities Price at year end ($)	2.78	3.17	2.58	2.06	1.27
Price/earnings ratio[3]	14.7	18.6	23.7	21.7	9.3
Market capitalisation ($m)	1,604.9	1,715.3	1,326.7	1,030.2	408.4

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit.
2. A reconciliation of UPT for the Group to statutory profit after tax for the 2017 and 2016 financial years is given in the Directors' Report at page 19.
3. Based on underlying profit after tax.

Remuneration component	Link to Group performance
Fixed remuneration	Fixed remuneration is not linked to Group performance. It is set with reference to the individual's role, responsibilities and performance and remuneration levels for similar positions in the market.
Variable remuneration	The current CEO was appointed on 1 July 2013, as the Group was finalising its strategy to focus on its retirement business. In February 2014, the Group publicly committed to the key financial goal of that strategy, being to lift ROA to 6.0% – 6.5% by FY16 and 7.5% – 8.0% by FY18. In 2016, the Board enunciated a financial target of growth in statutory EPS of 6.5% for the period FY17 – FY21. The targets for variable remuneration, comprising STI and LTI, are chosen to align KMP performance with achievement of these key financial goals.
STI	STIs are awarded to individuals based on achievement of financial and other targets in individual balanced scorecards, subject to the Group's profitability and ability to pay STI awards. The Board maintains the right to adjust downwards the aggregate pool available to fund STIs if the Group's actual UPT is below target. More information on UPT is given below.

Remuneration component	Link to Group performance
LTI	Equity-based executive remuneration is provided by the issue of Rights. Vesting of Performance Rights is subject to three-year performance hurdles including aggregate UPT and RTSR. Both these measures reflect the Group's performance as measured by the key financial performance measures shown above. More information on UPT is given below. RTSR is deemed appropriate because: • it helps to align KMP rewards with securityholder returns; and • the effects of market cycles are minimised because it measures the Group's performance relative to its peers, which are presently considered to be the members of the S&P/ASX 300 A-REIT Index. Vesting of Retention Rights is subject to performance hurdles relating to ROA and ROE. Both these measures reflect the Group's long-term retirement strategy noted above and appropriately align the outcomes of this strategy with the financial interests of securityholders. Vesting of Growth Rights is subject to a performance hurdle relating to growth in statutory EPS. This measure reflects the Group's financial goal for FY17 – FY21 noted above and appropriately align the outcomes of this strategy with the financial interests of securityholders. Further details of these Rights are given in sections 5.6, 5.7 and 5.8.

UPT is deemed an appropriate performance measure for the granting of STIs and LTIs to senior executives since it is the key target hurdle referenced by the Board in preparing its annual budgets and measuring Group performance. UPT reflects the Directors' assessment of the result for the ongoing business activities of the Group by excluding non-cash, one-off market related items that are usually out of management's control. The annual UPT target is determined by the Board having regard to the Group's annual budget. The target could be higher or lower than budget, and is adjusted for the effect of material equity issues. If the Board decides it is appropriate to provide profit guidance to the market for the forthcoming financial year at the time of release of the Group's results for the previous financial year, the UPT target is at least as high as this guidance. The UPT target is adjusted for the effect of security issues and material buybacks, so that target UPT per security is unchanged.

Historical actual and target UPT was:

	2017 $m	2016 $m	2015 $m	2014 $m	2013 $m
Actual	108.4	89.0	54.7	42.1	39.2
Target[1,2]	105.4	85.9	50.4	37.8	36.8

1. The UPT target for FY17 was increased from the original target of $99.9 million to $105.4 million to reflect the issue of securities in connection with the acquisition of RVG.
2. The UPT target for FY16 was increased from the original target of $84.6 million to $85.9 million to reflect the issue of securities in connection with the acquisition of Freedom.

4. REMUNERATION OF NON-EXECUTIVE DIRECTORS

4.1 Directors' fees

In 2006, securityholders resolved that the maximum aggregate fee pool available to NEDs be increased to $650,000 per year, excluding retirement benefits.

Mr S H Lee receives a fee of $176,000 as Non-Executive Chairman. All other Directors receive a fee of $85,000 per annum inclusive of superannuation. These fees cover all main Board activities. Additionally, the Chairs of the Nomination and Remuneration Committee, and the Audit and Risk Committee, receive $12,000 per annum and the other members of those Committees receive $2,000 per annum.

Before 1 July 2016, no additional fees were paid to members of the Nomination and Remuneration Committee.

4.2 Retirement benefits

The Group does not provide any retirement benefits scheme for the NEDs.

4.3 Performance-based remuneration

NEDs do not receive any performance-based remuneration.

4.4 Equity-based remuneration

The Group's DSP was approved at the 2002 Annual General Meeting (AGM) and amended at the 2003 and 2004 AGMs. Under the DSP, eligible NEDs can elect to receive their Directors' fees by way of securities in the Group, in lieu of cash, after taking into account any fringe benefits tax payable by the Group. Securities allocated under the DSP can either be issued by the Group or purchased on-market. This plan continues to operate; however, no Directors to date have elected to receive their Directors' fees by way of securities in the Group.

5. REMUNERATION OF OTHER KMP

5.1 Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes salary packaged benefits grossed up for fringe benefits tax payable including motor vehicles, car parking and other specified benefits), as well as employer contributions to superannuation funds.

The Committee reviews remuneration levels periodically.

The total fixed remuneration of the CEO and the CFO is set annually based on role specifications, responsibilities, performance and remuneration data for 20 comparably sized companies with 10 larger and 10 smaller than the Groups market capitalisation. The comparator group includes comparably sized healthcare and real estate companies under the assumption that they face similar operational challenges to those faced by the Group. However, as there were a small number of comparably sized companies in these sectors, other companies of similar scale have been included from different sectors, including consumer discretionary and industrials.

From 1 July 2017, the TFR for the CEO and the CFO remains unchanged at $725,000 and $590,000 respectively. Mr Grady's target mix from that date has been set at 35% for TFR and 65% for at-risk remuneration, whilst Mr Hunt's target mix has been set at 48% and 52% respectively. At-risk remuneration is divided equally between its three components. These changes were determined taking into account the GMG report, comparative remuneration, the Group's, and their individual, strong performance over the last three years and the Growth Rights already awarded to these KMP.

5.2 Termination provisions

The following table provides details of the termination provisions for the KMP (excluding NEDs) identified in this report. Contracts are open-ended in nature rather than being fixed term.

Name	Position	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
G E Grady	Chief Executive Officer	6 months	6 months	Board discretion	Board discretion[1]
D A Hunt	Chief Financial Officer	6 months	6 months	Board discretion	Board discretion[1]

1. See section 5.6.

5.3 Target and FY17 achieved mix of remuneration components

Executive remuneration packages include a mix of fixed remuneration, bonuses and equity-based remuneration. The target and achieved remuneration mix for executives for FY17, expressed as a percentage of total remuneration, was:

		At risk remuneration				
	TFR (%)	STI (%)	STID[1] (%)	LTI[1] (%)	Total (%)	Total remuneration (%)
Target mix						
G E Grady	40.0	20.0	20.0	20.0	60.0	100.0
D A Hunt	50.0	16.7	16.7	16.6	50.0	100.0
2017 achieved						
G E Grady	38.0	19.0	17.9	25.1	62.0	100.0
D A Hunt	46.7	15.6	15.0	22.7	53.3	100.0

1. STID and LTI percentages are calculated based on the annual amortised expense required under Accounting Standard AASB 2 *Share-Based Payment*.

The Committee may exercise its discretion to vary the size of the available performance pool, as well as the target mix of remuneration components, in any given year as appropriate, by reference largely to the financial performance against target earnings and comparative periods.

5.4 Short-term incentives

Under the Group's STIP, the CEO was entitled to receive a short-term incentive of up to 100% of TFR for FY17, and the CFO was entitled to receive a short-term incentive of up to 67% of TFR. These annual bonuses are subject to achieving performance hurdles based on the financial and operational performance of the Group, and other priorities specified each year by the Committee. Half of these short-term incentives will be deferred, with the other half payable in cash on or around 31 August each year. Terms of the STID are given in section 5.5.

Refer to section 3 *Link between remuneration and performance* above for further details on the correlation between the Group's performance and performance-based payments.

CEO and CFO

STIP awards for FY17 were to be determined as follows:

	% of STI	
Performance criterion	CEO	CFO
Group EBITDA exceeds target	15	15
Business units EBITDA exceeds targets	10	10
UPT exceeds target	25	25
Management expenses growth relative to EBITDA growth below target	10	10
Implementation of Freedom conversion plan	15	–
Acquisition of RVG minorities and associated equity raise	10	10
Approvals/commencement of Retirement projects (including aged care) in place by 30 June 2017 for delivery in FY18	5	–
FY18 budget EPS growth to be 8% greater than FY17 budget EPS	5	5
Refinance existing Group financial facility	–	10
Retirement Existing Business property price growth target exceeded[1]	–	2.5
Other	5	12.5
	100	100

1. The Committee has not disclosed this target given its commercial sensitivity.

The Committee has determined that the 'cliff' vesting of the components relating to UPT and EBITDA is appropriate given that each component represents only 25% of total STI.

The Committee revises performance hurdles annually.

Financial targets and actual results for 2017 were:

Measure	Actual $m	Target $m	Target Met or Exceeded
Group EBITDA	144.7	141.3	Yes
Business units EBITDA:			
Retirement	100.7	99.4	Yes
Non-Retirement	62.7	59.3	Yes
Non-allocated overhead	(12.2)	(12.2)	Yes
UPT	108.4	105.4	Yes

The Committee has assessed the performance of these KMP against their various performance hurdles, determined that all performance criteria were satisfied, and awarded STIs, as follows:

	UPT %	Group EBITDA %	Other Performance Hurdles %	Total STI %	Total STI $	STI Cash $	STID Face Value $	STID Number of Securities[1]
G E Grady	25	15	60	100	725,000	362,500	362,500	130,396
D A Hunt	25	15	60	100	393,333	196,667	196,667	70,743

1. The number of STID Securities was calculated as the STID face value divided by the Group's Securities Price at 30 June 2017.

5.5 Deferred short-term incentives

The STID is payable in Securities, which may be sourced either by a new issue or by buying on-market. The Securities will vest on 1 September of the following year, providing only that the executive remains in employment until 30 June of the year following the award. The executive is entitled to dividends and distributions declared during the vesting period.

The CEO's STID grant is subject to approval by securityholders. If the award is not so approved, it is payable in cash on the Vesting Date.

Subject to the Board's discretion, where Special Circumstances apply, or the KMP ceases employment and is a Good Leaver, all unvested STID held by the employee will remain on foot and will vest in the ordinary course.

In broad terms, if a Change of Control Event occurs, STID Securities will vest immediately.

Details of STID Securities provided as remuneration to KMP during FY16 in relation to FY15, or during FY17 in relation to FY16, are:

				Value at grant date	
Name	Date of grant	Vesting Date	Number granted[1]	Per security	Total
G E Grady[2]	21 Jul 15	1 Sep 16	102,641	$2.71	$278,157
G E Grady[2]	12 Aug 16	1 Sep 17	101,056	$3.35	$338,538
D A Hunt	21 Jul 15	1 Sep 16	65,116	$2.71	$176,464
D A Hunt	12 Aug 16	1 Sep 17	57,203	$3.35	$191,630

1. The number granted was determined by dividing the STID face value by the Group's Securities Price at the end of the relevant financial year.
2. The date given for Mr Grady is the date of the Committee meeting that approved the grant. These grants are subject to approval by securityholders in general meeting. If not so approved, Mr Grady will receive, subject to completing the requisite service period, an equivalent cash award.

5.6 Long-term incentives

The LTIP is designed to align remuneration with the creation of securityholder value over the long-term. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan. No amount is payable for a Right granted under the Plan or on the exercise of a Right.

The number of Performance Rights granted is determined by firstly calculating a face value, being the KMP's target total remuneration times the KMP's target LTI remuneration (as a percentage of total remuneration). From 1 July 2014, face value is divided by the Securities Price on the 30 June preceding the day that the Committee approves the grant. Previously, the number of Rights granted was then calculated as that face value divided by the Group's Securities Price on the day that the Committee approves the grant.

Performance Rights vest after three years subject to performance conditions. For grants made in FY14, FY15, FY16 and FY17, the Board imposed two performance conditions, relating to RTSR and UPT. The link between these measures and performance is discussed at section 3 above.

Up to half of Performance Rights granted will vest depending on the level reached by RTSR at the end of the RTSR three-year testing period as follows:

RTSR	Proportion of Rights that may be exercised
Less than the 50th percentile	Nil
50th percentile or more but less than or equal to 75th percentile	25%
Higher than 75th percentile	50%

For grants made up to 30 June 2015, there will be no pro-rata vesting of Rights between the 50th and 75th percentiles. For grants made after that date, pro-rata vesting will apply.

The remaining Performance Rights granted will vest if the aggregate UPT for the three-year UPT testing period equals or exceeds the aggregate target UPT for that period. The UPT target is adjusted for the effect of security issues and material buybacks, so that UPT per security is unchanged. Further information on the setting of the UPT target is given in section 3. There is no pro-rata vesting of Performance Rights under this condition. The Committee considers that this 'cliff' vesting is appropriate since the target is cumulative, so that shortfalls against target in one year may be made up in the following year.

Where Special Circumstances apply, or the KMP ceases employment and is a Good Leaver, any Performance Rights issued to the KMP vest pro rata to the elapsed service period, to the extent that the performance conditions, and any other relevant conditions imposed by the Board, are satisfied at the expiry of the testing periods.

In broad terms, if a Change of Control Event occurs, Performance Rights will vest immediately to the extent that the performance conditions attaching to those Rights have been satisfied as determined by the Board.

Securities required on vesting of Performance Rights may be sourced either by a new issue or by buying on-market.

Performance Rights do not carry any entitlement to distributions until they have vested and Securities provided to the holder.

The Plan's rules do not stipulate any limits on the grant of Performance Rights. However, the Board expects to limit Performance Rights awarded under the LTIP in respect of any financial year such that their fair value at grant date is less than or equal to $1.5 million.

Details of Performance Rights provided as remuneration to key management personnel are:

					Value at grant date[1]	
Name	Date of grant	Vesting and exercise date	Expiry date	Number of Rights granted	Per Right	Total
G E Grady	1 Nov 13	30 Jun 16	30 Sep 16	310,000	$1.35	$418,500
	12 Nov 14	30 Jun 17	30 Sep 17	127,930	$1.26	$161,192
	17 Nov 15	30 Jun 18	30 Sep 18	124,166	$1.93	$239,640
	12 Aug 16	30 Jun 19	30 Sep 19	114,353	$2.14	$244,715
D A Hunt	30 Aug 13	30 Jun 16	30 Sep 16	120,000	$0.78	$93,600
	22 Aug 14	30 Jun 17	30 Sep 17	81,159	$1.40	$113,623
	21 Jul 15	30 Jun 18	30 Sep 18	70,284	$1.75	$122,997
	12 Aug 16	30 Jun 19	30 Sep 19	62,040	$2.14	$132,766

1. The value at grant date is calculated in accordance with AASB 2 *Share-Based Payment*.

Rights granted during FY14 vested during FY16 because both performance conditions were met as follows:

Performance condition	Target	Result
50% of Rights – RTSR over three-year period	> 75th percentile[1]	RTSR of 185.5% was the highest of the comparator group and thus exceeded the 75th percentile
50% of Rights – UPT over three-year period	$173.2 million[2]	$186.2 million

1. If RTSR had been at the 50th percentile or more but less than or equal to 75th percentile, 25% of Rights would have vested.
2. The UPT target for FY16 was increased from the original target of $84.6 million to $85.9 million to reflect the issue of securities in connection with the acquisition of Freedom.

Rights granted during FY15 have vested in FY17 because both performance conditions were met as follows:

Performance condition	Target	Result
50% of Rights – RTSR over three-year period	> 75th percentile[1]	RTSR of 59.8% was the seventh highest of the comparator group and exceeded the 75th percentile
50% of Rights – UPT over three-year period	$240.8 million[2,3]	$251.5 million

1. If RTSR had been at the 50th percentile or more but less than or equal to 75th percentile, 25% of Rights would have vested.
2. The UPT target for FY16 was increased from the original target of $84.6 million to $85.9 million to reflect the issue of securities in connection with the acquisition of Freedom.
3. The UPT target for FY17 was increased from the original target of $99.9 million to $105.4 million to reflect the issue of securities in connection with the acquisition of RVG.

No Rights were forfeited during the financial year.

5.7 Long-term retention plan

The current CEO was appointed on 1 July 2013, as the Group was finalising its strategy to focus on its retirement business. In February 2014, the Group publicly committed to the key financial goal of that strategy, being to lift ROA to 6.0% – 6.5% by FY16 and 7.5% – 8.0% by FY18. The Committee considered it essential that there be KMP stability until this strategy is fully delivered and financial targets achieved. Consequently, the Committee deemed it appropriate that there be a retention scheme for KMP, beyond the STI and LTI targets, to align the outcomes of the Group's long-term retirement strategy with the financial interests of its securityholders. The Committee regards the retention scheme as particularly relevant given the low STI and LTI awarded in previous years.

Accordingly, during FY15 the Committee approved a retention bonus based on a one-off grant of Retention Rights to the CEO and the CFO, to a maximum value of $1,950,000 and $1,008,000 respectively (being three and two times respectively their TFR), subject to service and performance conditions. The number of Retention Rights was determined as the award value divided by net tangible assets per security at 30 June 2014 of $2.78. The grant of 701,439 Retention Rights to the CEO was approved by securityholders at the Group's 2014 Annual General Meeting. The grant of retention Rights to the CFO was 362,590.

Retention Rights vest after four years subject to performance conditions, relating to ROA and ROE.

Up to 75% of Rights granted will vest depending on the level reached by ROA at the end of the ROA four-year testing period as follows:

Year	ROA	Proportion of Rights that may be exercised
FY16	≥ 6.5%	15%
	≥ 6.25%	11.25%
	≥ 6.0%	7.5%
	< 6.0%	nil
FY18	≥ 8.0%	60%
	≥ 7.75%	45%
	≥ 7.5%	30%
	< 7.5%	nil

If FY18 ROA is greater than or equal to 8.0%, the Board has discretion to award the full 15% for FY16, even if the FY16 ROA target was not met, or only partially met.

FY16 ROA was 6.3%, so that 11.25% of Rights will vest on 1 July 2018.

Details of the calculation of ROA are given in the Dictionary. The starting point of the calculation is the carrying amount of Retirement investment property (including investment property development) and aged care assets at 30 June 2013, being the date from which the retirement strategy began to be implemented with the appointment of the current CEO.

The remaining rights granted will vest depending on the level reached by ROE as follows:

Year	ROE	Proportion of Rights that may be exercised
FY16–FY18	≥ 6.5%	25%
	≥ 6.0%	12.5%

Average ROE for FY16 and FY17 was 8.7%.

To the extent that the conditions are satisfied, Retention Rights vest on 1 July 2018 (including those resulting from meeting the FY16 ROA targets). After vesting, the Securities resulting from exercise of the Retention Rights will be subject to a holding lock as follows:

- up to 50% of Securities may be sold immediately;
- the next 25% of Securities must be held for a further 12 months before being able to be sold (i.e. 1 July 2019); and
- the final 25% of Securities must be held for a further two years before being able to be sold (i.e. 1 July 2020).

Where Special Circumstances apply, or the KMP ceases employment and is a Good Leaver, any Retention Rights issued to the KMP vest pro rata to the elapsed service period, to the extent that the performance conditions and any other relevant conditions imposed by the Board are satisfied at the expiry of the testing periods. In this case, a holding lock will not apply.

The Retention Rights will vest pro-rata to the elapsed service period if a Change of Control Event occurs, and will not be subject to a holding lock. The Board has the discretion to award 100% of the Retention Rights on a Change of Control Event.

Retention Rights do not carry any entitlement to distributions until they have vested and Securities provided to the holder.

Other conditions of these Retention Rights are the same as those applying to Performance Rights.

Details of Retention Rights provided as remuneration to KMP are:

					Value at grant date[2]	
Name	Date of grant	Vesting and exercise date	Expiry date	Number of Rights[1]	Per Right	Total
G E Grady	12 Nov 14	1 Jul 18	30 Sep 18	701,439	$0.81	$568,166
D A Hunt	19 Aug 14	1 Jul 18	30 Sep 18	362,590	$0.84	$304,576

1. The number of Rights granted was determined by dividing the awarded value of three and two times TFR by net tangible assets per Security at 30 June 2014 of $2.78.
2. The value at grant date is calculated in accordance with AASB 2 *Share-Based Payment*.

5.8 Long-term growth plan

In 2016, the Board observed that:

- the market has comfort around the clarity of the existing strategy, which expires in less than two years' time in FY18, but requires further clarity about the Group's strategic and financial targets post FY18, and the ability to meet these targets; and that
- clarity around future targets will assist in creating additional securityholder value.

Consequently, the Board decided to enunciate a financial target of growth in statutory EPS of 6.5% for the period FY17 – FY21.

To complement this decision, and to keep the two executive KMP together (the CEO and CFO have complementary skills), the Committee decided on 2 August 2016 to make a further one-off grant of Growth Rights to key management including the CEO and CFO. The Growth Rights awarded to the CEO and CFO have a value of $2,625,000 and $1,750,000 respectively, subject to service and performance conditions.

The number of Growth Rights was determined as the award value divided by a "stretch pricing" of $3.50 per Security compared to the closing market price as at 30 June 2016 of $3.17 per Security. The grant of 750,000 Growth Rights to the CEO is subject to approval by securityholders at the 2017 annual general meeting. If the grant is not approved by securityholders, the CEO will receive a cash amount of equivalent value to those Rights that have vested. The grant of Growth Rights to the CFO was 500,000.

Growth Rights vest on 30 June 2021 subject to a performance condition relating to statutory EPS. The number of securities to be awarded for each Right depends on growth in statutory EPS over the period FY17 – FY21 as follows:

Growth in statutory EPS per annum	Number of Securities awarded for each Right
<5.0%	0
5.0%	0.25
5.5%	0.50
6.0%	0.75
6.5%	1.00
7.0%	1.25
7.5%	1.50
8.0%	1.75
8.5%	2.00
>8.5%	2.00

In calculating statutory EPS to determine if the performance condition has been met, a key input to the valuation of the Group's Retirement investment properties, being future property price growth, will be held constant.

Whilst designed as an extension of the retention plan under which Retention Rights were awarded to selected management, and which rewards for performance over the FY15 – FY18 period, the growth plan reaches back to FY17 to ensure smooth growth trends as an aid to market confidence.

After vesting, the Securities resulting from exercise of the Growth Rights will not be subject to a holding lock.

If a Change of Control Event occurs, the greater of:

- the number of Securities that would be awarded given actual statutory EPS growth to the date of the event, times the elapsed proportion of the FY17 – FY21 performance period; or
- 50% of the number of Securities that would be awarded if statutory EPS growth to the date of the event was 6.5% per annum

will be awarded, will immediately vest and will not be subject to a holding lock. The Board has the discretion to award a higher number of Securities.

Growth Rights do not carry any entitlement to distributions until they have vested and Securities provided to the holder.

Other conditions of these Growth Rights are the same as those applying to Retention Rights.

Details of Growth Rights provided as remuneration to KMP are:

Name	Date of grant	Vesting and exercise date	Expiry date	Number of Rights	Value at grant date[2] Per Right	Value at grant date[2] Total
G E Grady[1]	15 Aug 16	30 Jun 21	30 Sep 21	750,000	$1.13	$847,500
D A Hunt	15 Aug 16	30 Jun 21	30 Sep 21	500,000	$1.13	$565,000

1. The grant of 750,000 Growth Rights to the CEO is subject to approval by securityholders at the 2017 annual general meeting.
2. The value at grant date is calculated in accordance with AASB 2 *Share-Based Payment*.

5.9 KMP equity instrument disclosures

Equity holdings and transactions

The movement during the reporting period in the number of stapled securities of the Group held directly, indirectly or beneficially, by key management personnel, including their personally related entities and close family members, was:

	Balance at the beginning of the year	Purchased	Received on vesting of STID	Received on vesting of LTI	Held at Resignation Date	Balance at the end of the year
2017						
Directors						
S H Lee	131,174,775	625,140	–	–	–	131,799,915
J E F Frayne	30,624	30,000	–	–	–	60,624
L R McKinnon	10,000	56,000	–	–	(66,000)	–
Other key management personnel						
G E Grady	182,653	35,000	102,641	310,000	–	630,294
D A Hunt	84,548	15,000	65,116	120,000	–	284,664
2016						
Directors						
S H Lee	131,174,775	–	–	–	–	131,174,775
J E F Frayne	30,624	–	–	–	–	30,624
L R McKinnon	10,000	–	–	–	–	10,000
Other key management personnel						
G E Grady	83,015	–	99,638	–	–	182,653
D A Hunt	5,023	–	79,525	–	–	84,548

1. KMP not mentioned in this table do not or did not hold any stapled securities.

Options and Rights holdings and transactions

The movement during the reporting period in the number of options over ordinary securities of the Group held directly, indirectly or beneficially, by KMP, including their personally-related entities and close family members was:

	Balance at the beginning of the year	Granted during the year	Vested during the year	Forfeited/ lapsed during the year	Balance at the end of the year
Performance Rights					
2017					
G E Grady	562,096	114,353	(310,000)	–	366,449
D A Hunt	271,443	62,040	(120,000)	–	213,483
2016					
G E Grady	437,930	124,166	–	–	562,096
D A Hunt	201,159	70,284	–	–	271,443
Retention Rights					
2017					
G E Grady	701,439	–	–	–	701,439
D A Hunt	362,590	–	–	–	362,590
2016					
G E Grady	701,439	–	–	–	701,439
D A Hunt	362,590	–	–	–	362,590
Growth Rights					
2017					
G E Grady	–	750,000	–	–	750,000
D A Hunt	–	500,000	–	–	500,000
Total Rights					
2017					
G E Grady	1,263,535	864,353	(310,000)	–	1,817,888
D A Hunt	634,033	562,040	(120,000)	–	1,076,073
2016					
G E Grady	1,139,369	124,166	–	–	1,263,535
D A Hunt	563,749	70,284	–	–	634,033
STID					
2017					
G E Grady	102,641	101,056	(102,641)	–	101,056
D A Hunt	65,116	57,203	(65,116)	–	57,203
2016					
G E Grady	99,638	102,641	(99,638)	–	102,641
D A Hunt	79,525	65,116	(79,525)	–	65,116

1. KMP not mentioned in a section of this table do not hold any options or Rights.

5.10 On-market security acquisitions

Details of Securities purchased by the Group on-market during the year for the purpose of employee incentive schemes as follows:

	2017	2016
Total number of Securities purchased	3,243,919	1,159,370
Average price per Security	$3.28	$2.89

5.11 Other matters

With effect from 1 July 2016, the Group has implemented a Security retention policy for members of the Aveo Senior Staff Incentive Scheme, including the CEO and CFO. The policy forms part of the conditions of all awards of Securities under the STID and LTI schemes. Under this policy, KMP will be required to hold Securities equivalent to 100% of their total fixed remuneration.

During the first five years of the retention arrangements (i.e. the five years ended 30 June 2021), officers may in any financial year sell 50% of securities vesting in that year. During this period, officers may also sell securities vested under those schemes that are in excess of the 100% target.

After that time, officers may only sell securities vested under those schemes that are in excess of the 100% target.

STI for all employees is limited to 5% of UPT before STI.

The Board retains ultimate discretion over the vesting of awarded but unvested grants. Consequently, awarded but unvested STI or LTI may be reduced or forfeited in the event of material misstatement of the Group's financial reports or other circumstances demonstrating that the performance that resulted in the initial grant was not as assessed at the time of the grant.

The Group's Security Trading Policy and the Committee's policy in relation to the hedging of equity-based remuneration prohibit the use of derivative or hedging arrangements by KMP in relation to unvested Securities or vested Securities that are still subject to an Aveo imposed holding lock. Adherence to this policy is monitored on an annual basis and involves each KMP signing an annual declaration of compliance with the hedging policy.

6. REMUNERATION TABLES

6.1 Non-Executive Directors

	Year	Short-term benefits	Post-employment benefits	
		Salary and fees $	Superannuation $	Total $
S H Lee	**2017**	**162,557**	**15,443**	**178,000**
	2016	160,731	15,269	176,000
J E F Frayne	**2017**	**86,813**	**8,437**	**95,250**
	2016	79,452	7,548	87,000
E L Lee[1]	**2017**	**87,000**	–	**87,000**
	2016	87,000	–	87,000
K W Lo	**2017**	**29,463**	**2,799**	**32,262**
	2016	–	–	–
W L McDonald	**2017**	**88,585**	**8,415**	**97,000**
	2016	77,626	7,374	85,000
L R McKinnon	**2017**	**36,495**	**3,467**	**39,962**
	2016	88,584	8,416	97,000
S B Muggleton	**2017**	**19,406**	**1,844**	**21,250**
	2016	77,610	7,390	85,000
D P J Saw	**2017**	**48,516**	**4,609**	**53,125**
	2016	–	–	–
Total	**2017**	**558,835**	**45,014**	**603,849**
	2016	571,003	45,997	617,000

1. No compensation was received by Mr E L Lee personally. All compensation paid in exchange for Mr Lee's services was paid to a company within MIB.
2. NEDs did not receive any other benefits.

6.2 Other KMP

	Year	Short-term employment benefits				Post-employment benefits	Other long-term benefits	Share-based payments			Proportion of remuneration		
		Salary[1] $	STI $	Accrued annual leave $	Non-monetary benefits[2] $	Super-annuation $	Accrued long service leave $	STID $	LTI[3] $	Total $	Perfor-mance related %	Non-per-formance related %	Consisting of Securities and security options %
G E Grady	**2017**	**705,461**	**362,500**	**(2,558)**	**5,470**	**19,539**	**13,340**	**341,425**	**479,377**	**1,924,554**	**61.5**	**38.5**	**42.6**
	2016	705,652	320,349	44,909	5,092	19,348	32,421	292,582	367,805	1,788,158	54.8	45.2	36.9
D A Hunt	**2017**	**565,000**	**196,667**	**15,774**	**9,529**	**25,000**	**22,159**	**189,000**	**286,891**	**1,310,020**	**51.3**	**48.7**	**36.3**
	2016	519,000	181,334	(30,217)	9,669	25,000	21,602	174,667	160,836	1,061,891	48.7	51.3	31.6
Total	**2017**	**1,270,461**	**559,167**	**13,216**	**14,999**	**44,539**	**35,499**	**530,425**	**766,268**	**3,234,574**	**57.4**	**42.6**	**40.1**
	2016	1,224,652	501,683	14,692	14,761	44,348	54,023	467,249	528,641	2,850,049	52.5	47.5	34.9

1. Includes salary-packaged benefits such as car parking calculated on a 'cost to Aveo' basis, grossed up for fringe benefits tax payable.
2. Includes fringe benefits paid to employees that are not salary packaged.
3. LTI in the form of Rights and options are required to be expensed by Accounting Standard AASB 2 *Share-Based Payment*. The Rights are subject to performance targets.

Consolidated Income Statements

for the year ended 30 June 2017

	Note	Group 2017 $m	Group 2016 $m	Trust Group 2017 $m	Trust Group 2016 $m
Continuing operations					
Sale of goods	1	255.7	319.1	–	–
Revenue from rendering of services	1	156.1	108.9	5.6	–
Other revenue	1	9.5	17.3	11.6	20.9
Revenue		**421.3**	**445.3**	**17.2**	**20.9**
Cost of sales	2	(218.5)	(273.8)	–	–
Gross profit		**202.8**	**171.5**	**17.2**	**20.9**
Change in fair value of investment properties	9	147.7	78.0	–	–
Change in fair value of resident loans	7	28.0	(14.9)	–	–
Employee expenses		(55.2)	(39.4)	–	–
Marketing expenses		(24.9)	(14.4)	–	(0.1)
Occupancy expenses		(1.5)	(1.4)	–	–
Property expenses		(4.1)	(2.9)	–	–
Administration expenses		(18.4)	(12.3)	–	–
Net gain on business combination	17	52.6	–	–	–
Other expenses		(12.6)	(18.5)	(6.8)	(0.9)
Finance costs	2	(1.9)	–	–	–
Share of net gain/(loss) of associates and joint ventures accounted for using the equity method		(5.5)	11.0	(0.3)	1.0
Profit from continuing operations before income tax		**307.0**	**156.7**	**10.1**	**20.9**
Income tax expense	3	(54.8)	(39.1)	–	–
Profit for the year		**252.2**	**117.6**	**10.1**	**20.9**
Profit for the year is attributable to:					
Owners of Aveo Group Limited		242.7	95.1	–	–
Non-controlling interests – owners of Aveo Group Trust		10.1	20.9	10.1	20.9
Net profit after tax attributable to stapled securityholders of the Group		**252.8**	**116.0**	**10.1**	**20.9**
Other non-controlling interests		(0.6)	1.6	–	–
		252.2	**117.6**	**10.1**	**20.9**
Earnings per Security (cents per Security):					
Basic earnings per stapled security	20	44.2	22.1	1.8	4.0
Diluted earnings per stapled security	20	44.2	22.1	1.8	4.0
Earnings per Security from continuing operations (cents per Security):					
Basic earnings per stapled security	20	44.2	22.1	1.8	4.0
Diluted earnings per stapled security	20	44.2	22.1	1.8	4.0

The above consolidated income statements should be read in conjunction with the accompanying notes.

Consolidated Statements of Comprehensive Income

for the year ended 30 June 2017

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Profit for the year	**252.2**	**117.6**	**10.1**	**20.9**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign currency translation differences for foreign operations	(1.0)	0.5	(0.6)	1.3
Income tax on items of other comprehensive income	–	–	–	–
Other comprehensive income for the year, net of tax	**(1.0)**	**0.5**	**(0.6)**	**1.3**
Total comprehensive income for the year	**251.2**	**118.1**	**9.5**	**22.2**
Total comprehensive income for the year is attributable to:				
Owners of Aveo Group Limited	242.3	94.3	–	–
Non-controlling interest – owners of Aveo Group Trust	9.5	22.2	9.5	22.2
Total comprehensive income for the year attributable to stapled securityholders of the Group	**251.8**	**116.5**	**9.5**	**22.2**
Other non-controlling interests	(0.6)	1.6	–	–
	251.2	**118.1**	**9.5**	**22.2**

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

Consolidated Balance Sheets

as at 30 June 2017

	Note	Group 2017 $m	Group 2016 $m	Trust Group 2017 $m	Trust Group 2016 $m
Assets					
Cash and cash equivalents	21	47.2	34.9	–	–
Receivables	4	114.6	123.1	266.1	525.7
Inventories	8	170.3	275.3	–	–
Property, plant and equipment	22	89.6	23.7	30.9	0.1
Investment properties	9	5,505.5	3,330.8	307.0	89.0
Investments	25	23.2	301.8	49.8	13.6
Intangible assets		4.7	4.9	–	–
Total assets		**5,955.1**	**4,094.5**	**653.8**	**628.4**
Liabilities					
Payables	5	185.9	173.1	25.9	27.4
Provisions	23	60.6	57.3	52.3	43.7
Interest bearing loans and borrowings	6	573.1	462.0	24.6	–
Deferred revenue		204.2	115.4	–	–
Resident loans	7	2,797.7	1,525.4	–	–
Deferred tax liabilities	10	154.9	100.9	–	–
Total liabilities		**3,976.4**	**2,434.1**	**102.8**	**71.1**
NET ASSETS		**1,978.7**	**1,660.4**	**551.0**	**557.3**
Equity					
Contributed equity	11	1,262.6	1,178.1	723.2	687.0
Reserves	24	(9.6)	(8.7)	2.3	2.9
Retained profits/(accumulated losses)	24	145.3	(97.4)	(175.8)	(133.9)
Total equity attributable to securityholders		**1,398.3**	**1,072.0**	**549.7**	**556.0**
Non-controlling interests					
Aveo Group Trust		549.7	556.0	–	–
Other non-controlling interests		30.7	32.4	1.3	1.3
Total equity attributable to non-controlling interests		**580.4**	**588.4**	**1.3**	**1.3**
TOTAL EQUITY		**1,978.7**	**1,660.4**	**551.0**	**557.3**

The Group has adopted the liquidity basis for presenting its balance sheets. See page 52 for more detail.

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

Consolidated Statements of Changes in Equity

for the year ended 30 June 2017

		Attributable to securityholders of Aveo Group Limited				Non-controlling interest attributable to Aveo Group Trust	Other non-controlling interests	Total equity
	Note	Contributed equity $m	Reserves $m	Accumulated losses $m	Total $m	$m	$m	$m
Balance at 1 July 2015		**1,122.0**	**(11.1)**	**(192.5)**	**918.4**	**553.3**	**33.9**	**1,505.6**
Comprehensive income:								
Profit for the year	24	–	–	95.1	95.1	20.9	1.6	117.6
Other comprehensive income		–	(0.8)	–	(0.8)	1.3	–	0.5
Total comprehensive income for the year		**–**	**(0.8)**	**95.1**	**94.3**	**22.2**	**1.6**	**118.1**
Transactions with owners in their capacity as owners:								
Dividends and distributions provided for	12	–	–	–	–	(43.5)	–	(43.5)
Transactions with non-controlling interests		–	1.5	–	1.5	–	(3.1)	(1.6)
Equity-settled employee benefits	11,24	0.4	1.7	–	2.1	–	–	2.1
Acquisition of treasury securities	11	(2.3)	–	–	(2.3)	(1.0)	–	(3.3)
Securities bought back and cancelled	11	(0.5)	–	–	(0.5)	(0.2)	–	(0.7)
Issue of securities	11	58.5	–	–	58.5	25.2	–	83.7
Total transactions with owners in their capacity as owners		**56.1**	**3.2**	**–**	**59.3**	**(19.5)**	**(3.1)**	**36.7**
Balance at 30 June 2016		**1,178.1**	**(8.7)**	**(97.4)**	**1,072.0**	**556.0**	**32.4**	**1,660.4**
Comprehensive income:								
Profit/(loss) for the year	24	–	–	242.7	242.7	10.1	(0.6)	252.2
Other comprehensive income		–	(0.4)	–	(0.4)	(0.6)	–	(1.0)
Total comprehensive income for the year		**–**	**(0.4)**	**242.7**	**242.3**	**9.5**	**(0.6)**	**251.2**
Transactions with owners in their capacity as owners:								–
Dividends and distributions provided for	12	–	–	–	–	(52.0)	–	(52.0)
Transactions with non-controlling interests		–	0.3	–	0.3	–	(1.1)	(0.8)
Equity-settled employee benefits	11,24	2.7	(0.8)	–	1.9	1.1	–	3.0
Acquisition of treasury securities	11	(7.5)	–	–	(7.5)	(3.2)	–	(10.7)
Issue of securities	11	89.3	–	–	89.3	38.3	–	127.6
Total transactions with owners in their capacity as owners		**84.5**	**(0.5)**	**–**	**84.0**	**(15.8)**	**(1.1)**	**67.1**
Balance at 30 June 2017		**1,262.6**	**(9.6)**	**145.3**	**1,398.3**	**549.7**	**30.7**	**1,978.7**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

for the year ended 30 June 2017

		Attributable to securityholders of Aveo Group Trust					
	Note	Contributed equity $m	Reserves $m	Accumulated losses $m	Total $m	Non–controlling interests $m	Total equity $m
Balance at 1 July 2015		**663.0**	**1.6**	**(111.3)**	**553.3**	**1.3**	**554.6**
Comprehensive income:							
Profit for the year	24	–	–	20.9	20.9	–	20.9
Other comprehensive income		–	1.3	–	1.3	–	1.3
Total comprehensive income for the year		**–**	**1.3**	**20.9**	**22.2**	**–**	**22.2**
Transactions with owners in their capacity as owners:							
Dividends and distributions provided for	12	–	–	(43.5)	(43.5)	–	(43.5)
Acquisition of treasury securities	11	(1.0)	–	–	(1.0)	–	(1.0)
Securities bought back and cancelled	11	(0.2)	–	–	(0.2)	–	(0.2)
Issue of securities	11	25.2	–	–	25.2	–	25.2
Total transactions with owners in their capacity as owners		**24.0**	**–**	**(43.5)**	**(19.5)**	**–**	**(19.5)**
Balance at 30 June 2016		**687.0**	**2.9**	**(133.9)**	**556.0**	**1.3**	**557.3**
Comprehensive income:							
Profit for the year	24	–	–	10.1	10.1	–	10.1
Other comprehensive income		–	(0.6)		(0.6)	–	(0.6)
Total comprehensive income for the year		**–**	**(0.6)**	**10.1**	**9.5**	**–**	**9.5**
Transactions with owners in their capacity as owners:							
Dividends and distributions provided for	12	–	–	(52.0)	(52.0)	–	(52.0)
Equity settled employee benefits	11	1.1	–	–	1.1	–	1.1
Acquisition of treasury securities	11	(3.2)	–	–	(3.2)	–	(3.2)
Securities bought back and cancelled	11	–	–	–	–	–	–
Issue of securities	11	38.3	–	–	38.3	–	38.3
Total transactions with owners in their capacity as owners		**36.2**	**–**	**(52.0)**	**(15.8)**	**–**	**(15.8)**
Balance at 30 June 2017		**723.2**	**2.3**	**(175.8)**	**549.7**	**1.3**	**551.0**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

for the year ended 30 June 2017

		Group		Trust Group	
	Note	2017 $m	2016 $m	2017 $m	2016 $m
Cash flows from operating activities					
Receipts from customers		497.8	562.0	6.4	–
Payments to suppliers and employees		(232.9)	(230.3)	(10.9)	(0.6)
Interest received		0.6	1.3	–	–
Finance costs including interest and other costs of finance paid		(11.3)	(11.2)	–	–
Dividends and distributions received		0.1	0.1	–	–
GST paid		(11.5)	(28.8)	(0.4)	–
Net cash flows from/(used in) operating activities	26(a)	**242.8**	**293.1**	**(4.9)**	**(0.6)**
Cash flows from investing activities					
Payments for property, plant and equipment		(59.1)	(6.7)	–	–
Proceeds from sale of property, plant and equipment		–	0.4	–	–
Payments for intangible assets		(2.1)	(0.9)	–	–
Payments for investment properties		(287.7)	(138.3)	(258.2)	(20.0)
Proceeds from the sale of investment properties		–	–	–	–
Payments for equity-accounted investments		–	(111.3)	–	–
Return of equity from equity-accounted investments		–	–	–	–
Payments for acquisition of non-controlling interests		(0.8)	(3.3)	–	–
Payments for acquisition of subsidiaries	17(b)	(61.5)	(8.8)	–	–
Loans to related parties		–	–	(44.7)	(24.4)
Repayment of loans by related parties		–	–	315.1	71.7
Net cash flows (used in)/from investing activities		**(411.2)**	**(268.9)**	**12.2**	**27.3**
Cash flows from financing activities					
Proceeds from issue of securities		126.1	–	38.9	–
Costs associated with issue of securities		(1.9)	–	(0.6)	–
Payments for acquisition of treasury securities and securities bought back		(10.7)	(4.0)	(2.1)	(1.2)
Dividends and distributions paid		(43.5)	(25.8)	(43.5)	(25.8)
Proceeds from borrowings		413.6	466.3	–	–
Repayment of borrowings		(302.9)	(458.7)	–	–
Net cash flows from/(used in) financing activities		**180.7**	**(22.2)**	**(7.3)**	**(27.0)**
Net increase/(decrease) in cash and cash equivalents		12.3	2.0	–	(0.3)
Cash and cash equivalents at the beginning of the year		34.9	32.9	–	0.3
Cash and cash equivalents at the end of the year	21	**47.2**	**34.9**	**–**	**–**

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

Notes to the consolidated financial statements

for the year ended 30 June 2017

These are the consolidated financial statements of Aveo Group, which is a stapled entity comprising Aveo Group Limited and its subsidiaries, and Aveo Group Trust and its subsidiaries. The consolidated financial statements of Aveo Group Trust comprise Aveo Group Trust and its subsidiaries. A list of major subsidiaries is given in note 18 in section C. Details of the stapling arrangement are given in note 31(a) in Appendix 2.

The Parent and the Property Trust are domiciled and formed in Australia. Their registered office and principal place of business is Level 5, 99 Macquarie Street, Sydney, New South Wales.

The financial statements are presented in the Australian currency.

Liquidity basis of preparation

The Group has adopted the liquidity basis for presenting its balance sheets, under which assets and liabilities are presented in order of their liquidity. The Group expects that the tenure of residents of its retirement investment properties will be ten years for independent living units and four years for serviced apartments. Consequently, the Group does not have a clearly identified operating cycle and the liquidity basis provides more relevant information that is also reliable.

The Group continues to disclose the amounts expected to be recovered or settled not more than, and more than, twelve months from reporting date for each asset and liability line item that combines amounts expected to be recovered or settled in those periods. This information is given in the note for each relevant line item.

This change has not affected the measurement of amounts presented in the financial statements or the notes.

Notes to the consolidated financial statements

The notes to the consolidated financial statements are set out in the following main sections. Each section or note explains the accounting policies relevant to that section or note. Other significant accounting policies are given in note 31 in Appendix 2.

The notes include all disclosures that the Group considers material, either quantitatively or qualitatively. In determining materiality, the Group considers whether the inclusion or omission of a disclosure could reasonably be expected to influence the economic decisions that users make based on the financial statements.

SECTION A. HOW THE NUMBERS ARE CALCULATED

This section provides details of those individual items in the financial statements that the directors consider most relevant in the context of the operations of the Group. It also explains what accounting policies have been applied to determine these items and how their amounts were affected by significant estimates and judgements. The section includes the following notes:

Section A1. Profit and Loss Information

1. REVENUE

		Group		Trust Group	
	Note	2017 $m	2016 $m	2017 $m	2016 $m
From continuing operations					
Sale of goods					
Land	(i)	247.5	188.5	–	–
Built form	(ii)	8.2	114.6	–	–
Commercial	(iii)	–	16.0	–	–
		255.7	**319.1**	**–**	**–**
Rendering of services					
Gross deferred management fees and capital gains	(iv)	111.7	68.1	–	–
Rent received for commercial investment property	(v)	15.9	14.6	5.6	–
Village administration fees		7.8	5.5	–	–
Government grants	(vi)	9.8	9.3	–	–
Commissions received		0.9	7.2	–	–
Other		10.0	4.2	–	–
		156.1	**108.9**	**5.6**	**–**
Other revenue					
Management fee received	(vii)	1.9	10.7	–	–
Interest received/receivable	(viii)	0.6	1.1	11.6	20.9
Other		7.0	5.5	–	–
		9.5	**17.3**	**11.6**	**20.9**

(a) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. No revenue is recognised if there is significant uncertainty regarding recoverability of the consideration due or if the costs incurred or to be incurred cannot be measured reliably. The following specific criteria must also be met before revenue is recognised:

Sale of goods

(i) Land subdivision

Revenues from land subdivision are recognised upon settlement of the contract of sale.

(ii) Residential development properties

Revenues from the sale of residential development properties to retail buyers are recognised when the developments are completed and sales are settled. Revenues from the sale of such property in one line to other developers are recognised on the exchange of unconditional sales contracts provided the Group has no further significant work to perform under the sales contract.

(iii) Commercial development projects

Revenues from commercial development projects are recognised upon completion of the project and on the exchange of unconditional sales contracts. Revenues from the sale of such property in one line to other developers are recognised on the exchange of unconditional sales contracts provided the Group has no further significant work to perform under the sales contract.

Rendering of services

When the outcome of a contract to provide services can be estimated reliably, revenue is recognised by reference to the percentage of the services performed, specifically:

(iv) Gross deferred management fees and capital gain

DMF revenue on retirement village investment property is earned while the resident occupies the independent living unit or serviced apartment and is recognised as income over the resident's expected tenure. The expected tenure is calculated with reference to Australian Bureau of Statistics current data relating to life expectancy and historical trends of rollovers within the Group. DMF revenue is not discounted to present value, as the income is received by reduction of the existing resident loan on its settlement (see note 7).

DMF revenue from each resident is amortised over the expected period of tenure of the resident and is based on:

- for 'entry'-based contracts, the entry market value of the underlying unit; and
- for 'exit'-based contracts, the current market value of the underlying unit.

DMF revenue to which the Group is contractually entitled at reporting date is presented in the balance sheet as a deduction from resident loans. The excess of DMF revenue to which the Group is contractually entitled at reporting date, over DMF revenue earned to date by amortisation over the expected period of tenure, is included in deferred revenue in the balance sheet.

The amount shown in revenue for gross DMF represents the cash received during the year. The difference between cash received and revenue on the accrual basis discussed above is included in change in fair value of resident loans.

(v) Gross rental income

Rental income from operating leases over commercial investment property is recognised on a straight-line basis over the lease term. Rent not received at balance date is reflected in the balance sheet as a receivable, or if paid in advance, as deferred revenue. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

(vi) Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(vii) Management fee revenue

Management fees are recognised when the relevant entity has performed the associated services to which the management fees relate.

(viii) Interest revenue

Interest revenue is recognised in the income statement as it accrues using the effective interest method.

Section A1. Profit and Loss Information (continued)

2. PARTICULAR EXPENSES

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Profit from continuing operations before income tax includes the following significant expenses:				
Depreciation	0.7	1.5	–	–
Amortisation	2.7	1.2	–	–
Finance costs at amortised cost				
Interest and amortisation of borrowing costs from bank loans and overdraft	18.2	13.3	–	–
Less: capitalised finance costs	(16.3)	(13.3)	–	–
	1.9	–	–	–
Finance costs have been capitalised during the year as part of the carrying amounts of the following assets:				
Inventories – land and development properties held for resale	10.4	13.3	–	–
Investment properties under construction	5.9	–	–	–
	16.3	13.3	–	–

Interest was capitalised at a weighted average rate of 4.0% (2016: 3.7%).

3. INCOME TAX EXPENSE

(a) Income tax expense

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Current income tax				
Current income tax charge	–	–	–	–
Deferred income tax				
Current year movement	54.5	38.4	–	–
Under/(over) provisions	0.3	0.7	–	–
Income tax expense reported in the income statement	**54.8**	**39.1**	**–**	**–**

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated at the statutory income tax rate

Accounting profit before income tax	307.0	156.7	10.1	20.9
Income tax at the Australian tax rate of 30% (2016: 30%)	92.1	47.0	3.0	6.3
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income				
Non-assessable Trust Group income	(3.0)	(6.3)	(3.0)	(6.3)
Non-assessable gain on business combination	(15.8)	–	–	–
Benefit of previously unrecognised RVG tax losses utilised during the year	(26.0)	–	–	–
Equity accounted losses/(profits)	1.7	(3.0)	–	–
Other	5.5	0.7	–	–
	54.5	38.4	–	–
Prior years' under provisions	0.3	0.7	–	–
Income tax expense	**54.8**	**39.1**	**–**	**–**

(c) Accounting for current income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Property Trust taxation

Under current tax legislation, the Property Trust is not liable for income tax, provided its unitholders are presently entitled to its income. Any tax allowances for building and plant and equipment are distributed to unitholders in the form of a tax-deferred component of distributions.

Tax losses and realised capital losses are not distributed to unitholders but are carried forward in the Property Trust to be offset against future taxable income and capital gains of the Property Trust.

Section A2. Financial Assets and Liabilities

Accounting for financial assets
Financial assets within the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' or 'available-for-sale financial assets'. The classification depends on the purpose for which the investments were acquired.

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group does not presently have any financial assets classified as 'financial assets at fair value through profit or loss', 'held-to-maturity investments' or 'available-for-sale financial assets'.

4. RECEIVABLES

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Trade receivables	79.1	88.8	–	0.8
Other receivables	26.8	22.5	–	–
Prepayments	12.7	12.4	–	–
Allowance for impairment	(4.0)	(3.8)	–	–
	114.6	119.9	–	0.8
Due from Parent – interest bearing[1]	–	–	266.1	524.9
Due from other related parties – non-interest bearing	–	3.2	–	–
	114.6	123.1	266.1	525.7
Expected to be recovered:				
No more than twelve months after the reporting date	80.8	104.4	–	0.8
More than twelve months after the reporting date	33.8	18.7	266.1	524.9

1. For terms and conditions relating to receivables due from the Parent, refer to note 27(b).

(a) Accounting for receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These assets are classified as current, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Individual debts that are known to be uncollectible are written off when identified. An impairment is recognised when there is objective evidence that the Group will not be able to collect the receivable. Indicators of impairment include where there is objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment. The amount of the impairment loss is the receivable's carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(b) Fair value and credit risk
The maximum exposure to credit risk is the fair value of receivables, except for receivables secured by first registered mortgage. The fair values of receivables approximate their carrying amount.

5. PAYABLES

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Trade accounts payable	40.5	37.5	–	–
Interest payable	1.6	1.8	–	–
Payment for Freedom acquisition	18.2	30.9	–	–
Payment for development land acquired	62.5	62.3	7.8	7.0
Payable to Parent	–	–	17.7	16.1
Other payables	63.1	40.6	0.4	4.3
	185.9	**173.1**	**25.9**	**27.4**
Expected to be settled:				
No more than twelve months after the reporting date	112.9	79.9	20.1	20.4
More than twelve months after the reporting date	73.0	93.2	5.8	7.0

(a) Accounting for payables

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

During the financial year, the Group acquired land for retirement development on deferred payment terms. The carrying amount of the deferred payment for the land has been calculated as the present value of anticipated future payments and is classified as non-current as it is not due in the 12 months subsequent to year end.

6. INTEREST BEARING LOANS AND BORROWINGS

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Secured				
Bank loans (note 6b)	572.5	461.5	–	–
Lease liability	–	–	24.6	–
Other loans	0.6	0.5	–	–
	573.1	**462.0**	**24.6**	**–**
Expected to be settled:				
No more than twelve months after the reporting date	17.5	0.1	–	–
More than twelve months after the reporting date	555.6	461.9	24.6	–

(a) Accounting for interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period to get ready for its intended use or sale) are capitalised as part of the cost of that asset. For non-specific borrowings, borrowing costs are capitalised using a weighted average capitalisation rate. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Section A2. Financial Assets and Liabilities (continued)

6. INTEREST BEARING LOANS AND BORROWINGS (continued)

(b) Bank loans

The weighted average interest rate including margin and line fees on all bank loans (including both drawn and undrawn amounts) at 30 June 2017 was 3.4% (2016: 3.4%).

(c) Financing arrangements

The Group has access to the following lines of credit:

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Total facilities available				
Bank loans (including bank overdraft)	721.5	624.4	–	–
Bank guarantee and insurance bond facilities	60.1	67.6	–	–
	781.6	692.0	–	–
Facilities utilised at balance date				
Bank loans (including bank overdraft)	572.5	461.5	–	–
Bank guarantee and insurance bond facilities	40.4	36.3	–	–
	612.9	497.8	–	–
Facilities not utilised at balance date				
Bank loans (including bank overdraft)	149.0	162.9	–	–
Bank guarantee and insurance bond facilities	19.7	31.3	–	–
	168.7	194.2	–	–

Borrowings not listed in this table are fully drawn.

(d) Restrictions as to use or withdrawal

The facilities are subject to the Group complying with covenants concerning such matters as minimum interest times cover, maximum loan-to-value ratio, current ratios and net tangible assets (see note 16).

(e) Assets pledged as security

In accordance with the security arrangements of the bank loans, all current and non-current assets of the Group are secured by floating charge. Those assets that are also secured by mortgage are:

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Inventories	158.9	271.7	–	–
Investment properties	5,308.5	2,904.6	307.0	89.0
	5,467.4	3,176.3	307.0	89.0

(f) Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

7. RESIDENT LOANS

A critical accounting judgement affecting resident loans is whether the significant risks and rewards of ownership of the underlying retirement unit have been transferred to the occupier. If so, then a sale is recognised on the occupation of a retirement unit and a resident loan is not recognised. The Group believes that those risks and rewards have not been transferred in respect of any of its retirement units, regardless of the legal form of title granted to the resident, which may be freehold or leasehold. Consequently, the Group recognises resident loans in respect of those of its retirement units that are occupied by residents.

Resident loans are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the income statement. Fair value is the amount payable on demand and is measured at the principal amount plus the residents' share of any increases in market value to reporting date less deferred management fees contractually accruing to reporting date.

Resident loans are non-interest bearing and are payable at the end of the resident contract. The rate at which the Group's retirement residents vacate their units, and hence the rate at which the resident loans will fall due for repayment, can be estimated based on statistical tables. The resulting estimates of amounts expected to be settled less than and more than twelve months after reporting date are:

	Group	
	2017 $m	**2016 $m**
Expected to be settled:		
No more than twelve months after the reporting date	111.5	82.3
More than twelve months after the reporting date	2,686.2	1,443.1
	2,797.7	**1,525.4**

If residents do vacate their units as anticipated in the next twelve months, the Group expects that new loans of $164.6 million (2016: $125.7 million) would be received from residents who would occupy the newly vacated units.

Resident loans are presented net of deferred management fees contractually accrued to reporting date and other amounts owing by residents, which are offset against the repayment of the loan on settlement following the resident's departure.

The following table presents the changes in resident loans for the financial year.

	Group	
	2017 $m	**2016 $m**
Opening balance	1,525.4	1,290.5
Items recognised in profit or loss:		
Deferred management fees	(111.7)	(68.1)
Change in fair value of resident loans	(28.0)	14.9
Acquisition of Freedom	–	169.4
Acquisition of Retirement Villages Group	1,150.5	–
Net cash receipts on resident departures and arrivals	261.5	118.7
Closing balance	2,797.7	1,525.4

Resident loans are classified as level 3 in the fair value hierarchy. This means that a key assumption used in their valuation is not directly observable. This key assumption is the aggregate current market value of the occupied retirement units of $3,893.7 million (2016: $2,212.3 million). This was determined on the same basis as the market value of both occupied and unoccupied units used as an input to the fair value of retirement villages – see note 9. If the value used for this input was 5% higher, the fair value of these loans would be $194.7 million higher (2016: $51.1 million higher), and the input was 5% lower, the fair value of these loans would be $194.6 million lower (2016: $55.6 million lower). The effect of changing that current market value on the fair value of the related investment properties would be greater.

An explanation of the fair value hierarchy is given in note 15(e).

Section A3. Non-financial Assets and Liabilities

8. INVENTORIES

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Residential communities				
Cost of land acquisition	114.6	155.7	–	–
Development and other costs	63.6	85.7	–	–
Interest capitalised	67.9	116.5	–	–
Impairment provision	(114.7)	(136.9)	–	–
	131.4	221.0	–	–
Residential apartments				
Cost of land acquisition	–	0.4	–	–
Development and other costs	–	12.1	–	–
Interest capitalised	–	3.0	–	–
Impairment provision	–	(2.2)	–	–
	–	13.3	–	–
Commercial				
Cost of land acquisition	14.6	14.3	–	–
Development and other costs	20.4	34.6	–	–
Interest capitalised	7.4	15.0	–	–
Impairment provision	(3.5)	(22.9)	–	–
	38.9	41.0	–	–
	170.3	**275.3**	**–**	**–**
Expected to be recovered:				
No more than twelve months after the reporting date	108.5	162.8	–	–
More than twelve months after the reporting date	61.8	112.5	–	–

(a) Accounting for inventories
Inventories are carried at the lower of cost and net realisable value.

Cost includes the costs of acquisition, development and holding costs such as borrowing costs, rates and taxes. Borrowing costs are capitalised where the development is regarded as a qualifying asset. Holding costs incurred after completion of development are expensed.

Net realisable value is determined based on sales for each class of inventory in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

The amount of any write-down of inventories to net realisable value is recognised as an expense in the income statement. The amount of any reversal of write-down of inventory arising from a change in the circumstances that gave rise to the original write-down is recognised as a reduction in the impairment of inventories in the balance sheet and recognised as a reduction of expense in the income statement.

(b) Inventory pledged as security
Inventory is pledged as first mortgage or floating charge security for bank loans. Details are given in note 6(e).

9. INVESTMENT PROPERTIES

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
At fair value				
Balance at the beginning of the year	3,330.8	2,614.7	89.0	59.2
Transferred from inventory	–	–	–	–
Acquisition of Freedom	–	392.1	–	–
Acquisition of Retirement Villages Group	1,580.6	–	–	–
Acquisition of investment properties	–	–	88.8	–
Acquisition of development land	–	67.3	–	12.0
Capitalised subsequent expenditure	444.8	175.7	129.2	17.8
Capitalised tenant incentives	2.8	4.0	–	–
Amortisation of tenant incentives	(1.8)	(1.5)	–	–
Straight-line lease revenue recognition	0.6	0.5	–	–
Change in fair value of investment properties	147.7	78.0	–	–
Balance at the end of the year	**5,505.5**	**3,330.8**	**307.0**	**89.0**
Comprising:				
Retirements Investment property	5,324.0	3,179.3	307.0	89.0
Non-Retirements Investment property	181.5	151.5	–	–
	5,505.5	**3,330.8**	**307.0**	**89.0**
Leasing arrangements				
Minimum lease payments due to the Group under non-cancellable operating leases of investment property not recognised in the financial statements are receivable as follows:				
Within one year	11.3	12.1	–	–
Later than one year but not later than five years	36.4	42.4	–	–
Later than five years	32.7	34.5	–	–
	80.4	**89.0**	**–**	**–**

(a) Accounting for investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held to produce rental income and capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost incurred in replacing part of an existing investment property if it is probable that the future economic benefits embodied within that part will flow to the Group and the cost can be measured reliably. All other costs are recognised in the income statement as an expense as incurred. Subsequent to initial recognition, investment properties are measured at fair value, being the estimated price that would be received on sale in an orderly transaction between market participants at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Section A3. Non-financial Assets and Liabilities (continued)

9. INVESTMENT PROPERTIES (continued)

(b) Retirement villages

Retirement villages are investment properties held to earn revenues and capital appreciation over the long-term, comprising independent living units, serviced apartments, common facilities and integral plant and equipment.

Fair value has been determined by Directors' valuation using the discounted cash flow valuation methodology. These valuations are based on projected cash flows using resident contracts and the current market value of individual retirement units. In determining these market values, a rolling program of external valuations is undertaken so that each unit is independently valued every three years. During the intervening period, management separately assesses the value of individual units on a six-monthly basis to incorporate current pricing and market conditions.

Estimates of fair value are prepared by management and presented to the Audit and Risk Committee, which recommends their adoption to the Directors. The Audit and Risk Committee has the benefit of an independent review of management's estimate.

Retirement villages are classified as level 3 in the fair value hierarchy. This means that key assumptions used in their valuation are not directly observable. These key assumptions are:

- the discount rate of 12.5% to 14.5% (2016: 12.5% to 14.5%);
- the aggregate current market value of the individual retirement units of $4,364.0 million (2016: $2,438.7 million) (the increase mostly reflects the inclusion of the RVG portfolio);
- property price growth rates of 3.5% to 4.0% in the medium term and 3.5% to 4.25% in the long term (2016: 3.5% to 4.0% in the medium term and 3.5% to 4.25% in the long term); and
- average subsequent tenure period of ten years for independent living units (ILU) and four years for serviced apartments (SA) (2016: ILU: ten years, SA: four years).

Increasing the assumptions made about the aggregate market value of the individual retirement units and long-term property price growth rates would increase the fair value of the retirement villages (and vice-versa). Increasing the assumptions made about the discount rate and average tenure periods would reduce the fair value of the retirement villages (and vice-versa).

An explanation of the fair value hierarchy is given in note 15(e).

A critical accounting judgement affecting retirement investment properties is whether the significant risks and rewards of ownership of the underlying retirement unit have been transferred to the occupier. If so, then a sale is recognised on the initial occupation of a retirement unit and a resident loan is not recognised. The Group believes that those risks and rewards have not been transferred in respect of any of its retirement units, regardless of the legal form of title granted to the resident, which may be freehold or leasehold. Consequently, the Group recognises resident loans in respect of those of its retirement units that are occupied by residents. This affects the carrying amount of retirement properties because, although the underlying valuation of the properties is not affected by this accounting judgement, the carrying amount of the properties is grossed up by the recognised resident loans.

(c) Commercial and retail properties

The carrying amount of investment property is the fair value of the property as determined by Directors' valuations. The Directors' valuations were based on current market offers and external valuations performed during the financial year by an independent appraiser with a recognised professional qualification and recent experience in the location and category of property being valued. In addition, the valuations were updated for market conditions as at 30 June 2017. Fair values of the Group's investment properties were determined with regard to recent market transactions of similar properties in similar locations to the Group's investment properties, capitalised rental returns and discounted cash flows.

Commercial and retail properties are also classified as level 3 in the fair value hierarchy. The key assumption used in their valuation is the capitalisation rate used in the Directors' valuation, which was a range of 6.0% to 9.0% (2016: 6.0% to 9.0%). Increasing the capitalisation rate would reduce the fair value of these properties (and vice-versa).

(d) Valuation reconciliation

Valuations are reconciled to the investment properties carrying amount as follows:

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Carrying amount of investment properties	5,505.5	3,330.8	307.0	89.0
Less:				
Resident loans	(2,797.7)	(1,525.4)	–	–
Deferred revenue	(204.2)	(115.4)	–	–
Deferred payment for development land	(62.5)	(62.3)	(7.8)	(7.0)
Valuation	**2,441.1**	**1,627.7**	**299.2**	**82.0**
Comprising:				
Retirement:				
Net present value of annuity streams – units sold or leased	1,695.3	1,151.6	–	–
New units available for first occupancy	156.6	100.1	112.7	–
Operating buyback units	75.3	33.5	–	–
Minor developments units	66.4	10.2	–	–
Under construction	266.0	180.8	186.5	82.0
	2,259.6	1,476.2	299.2	82.0
Commercial and retail properties	181.5	151.5	–	–
	2,441.1	**1,627.7**	**299.2**	**82.0**

Section A3. Non-financial Assets and Liabilities (continued)

10. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Difference between tax base and carrying amount of fixed assets and inventories	8.7	5.3	–	–
Tax losses	433.2	366.8	–	–
Deferred revenue	43.7	34.7	–	–
Other	12.1	10.4	–	–
Deferred tax assets	**497.7**	**417.2**	**–**	**–**
Less: amounts set off against deferred tax liabilities	(497.7)	(417.2)	–	–
Net deferred tax assets	**–**	**–**	**–**	**–**
Movements				
Balance at the beginning of the year	417.2	390.6	–	–
Changes in fixed assets and inventories recognised for accounting but not yet deductible for tax	3.4	0.2	–	–
Tax losses[1]	66.4	20.6	–	–
Deferred revenue	9.0	5.5	–	–
Other	1.7	0.3	–	–
Balance at the end of the year	**497.7**	**417.2**	**–**	**–**
Less: amounts set off against deferred tax liabilities	(497.7)	(417.2)	–	–
Net deferred tax assets	**–**	**–**	**–**	**–**

1. These movements for 2017 include $42.5 million resulting from the acquisition of RVG.

(b) Deferred tax liabilities

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Accrued income	1.1	12.6	–	–
Fair value of investment properties	664.3	600.3	–	–
Fair value of resident loans	(9.0)	(85.5)	–	–
Equity-accounted profits	1.1	(7.8)	–	–
Other	(4.9)	(1.2)	–	–
Amounts recognised directly in equity	–	(0.3)	–	–
Deferred tax liabilities	**652.6**	**518.1**	**–**	**–**
Less: amounts set off against deferred tax assets	(497.7)	(417.2)	–	–
Net deferred tax liabilities	**154.9**	**100.9**	**–**	**–**
Movements				
Balance at the beginning of the year	518.1	451.3	–	–
Accrued income	(11.5)	11.4	–	–
Fair value of investment properties	64.0	40.3	–	–
Fair value of resident loans[1]	76.5	12.2	–	–
Equity-accounted profits	8.9	0.4	–	–
Other	(3.4)	2.5	–	–
Balance at the end of the year	**652.6**	**518.1**	**–**	**–**
Less: amounts set off from deferred tax assets	(497.7)	(417.2)	–	–
Net deferred tax liabilities	**154.9**	**100.9**	**–**	**–**

1. These movements for 2017 include $42.5 million resulting from the acquisition of RVG.

(c) Tax losses

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Unused losses for which no deferred tax asset has been recognised	328.2	156.3	–	–
Potential tax benefit at Australian tax rate of 30% (2016: 30%)	98.5	46.9	–	–

These mainly comprise Australian capital losses.

Section A3. Non-financial Assets and Liabilities (continued)

10. DEFERRED TAX ASSETS AND LIABILITIES (continued)

(d) Accounting for deferred tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences. However, such liabilities are not recognised when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. However, such liabilities are not recognised when the deductible temporary difference is associated with investments in subsidiaries, associates or joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the financial year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Section A4. Equity

11. CONTRIBUTED EQUITY

	Aveo Group Limited		Aveo Group Trust	
	2017	2016	2017	2016
	Number of stapled securities		Number of stapled securities	
Issued capital				
Ordinary securities fully paid	581,337,672	543,224,107	581,337,672	543,224,107
Treasury securities	(4,043,966)	(2,130,380)	(4,043,966)	(2,130,380)
	577,293,706	**541,093,727**	**577,293,706**	**541,093,727**
Movements in securities on issue				
Ordinary securities fully paid				
Balance at the beginning of the year	543,224,107	515,430,885	543,224,107	515,430,885
Securities issued	38,113,565	28,038,108	38,113,565	28,038,108
Securities bought back and cancelled	–	(244,886)	–	(244,886)
Ordinary securities fully paid	581,337,672	543,224,107	581,337,672	543,224,107
Treasury securities				
Balance at the beginning of the year	(2,130,380)	(1,211,891)	(2,130,380)	(1,211,891)
Acquisition of treasury securities	(3,243,919)	(1,159,370)	(3,243,919)	(1,159,370)
Vesting of employee incentive securities	1,330,333	240,881	1,330,333	240,881
Balance at the end of the year	(4,043,966)	(2,130,380)	(4,043,966)	(2,130,380)

	Attributable to the shareholders of Aveo Group Limited		Attributable to the securityholders of Aveo Group Trust	
	2017 $m	2016 $m	2017 $m	2016 $m
Movements in contributed equity				
Balance at the beginning of the year	1,178.1	1,122.0	687.0	663.0
Securities issued	90.6	58.5	38.9	25.1
Transaction costs on issue of securities	(1.3)	–	(0.6)	–
Acquisition of treasury securities	(7.5)	(2.3)	(3.2)	(1.0)
Securities bought back and cancelled	–	(0.5)	–	(0.2)
Vesting of employee incentive securities	2.7	0.4	1.1	0.1
Balance at the end of the year	**1,262.6**	**1,178.1**	**723.2**	**687.0**

(a) Accounting for contributed equity

Incremental costs directly attributable to the issue of ordinary securities and security options are shown in equity as a deduction, net of tax, from the proceeds.

(b) Terms and conditions

Holders of ordinary securities are entitled to receive dividends and distributions as declared from time to time and are entitled to one vote per security at securityholders' meetings. In the event of winding-up of the Parent, ordinary securityholders rank equally with all other securityholders and unsecured creditors and are fully entitled to any proceeds of liquidation.

Section A4. Equity (continued)

12. DIVIDENDS AND DISTRIBUTIONS

Details of dividends and distributions proposed or paid by the Group are:

	Cents per security	Total amount $m	Date of payment	Franked tax rate %	Percentage franked %
2017					
Dividends and distributions recognised in the current year:					
Final 2017 distribution	9.0	52.0	29 September 2017	–	–
	9.0	**52.0**		–	–
Comprising:					
Aveo Group Limited	–	–		–	–
Aveo Group Trust	9.0	52.0		–	–
	9.0	52.0			
2016					
Dividends and distributions recognised in the current year:					
Final 2016 distribution	8.0	43.5	30 September 2016	–	–
	8.0	**43.5**			
Comprising:					
Aveo Group Limited	–	–		–	–
Aveo Group Trust	8.0	43.5		–	–
	8.0	43.5			

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Dividend franking account				
Balance of the 30% franking credits at year end	7.9	7.9	–	–

The above available amounts are based on the balance of the dividend franking account at reporting date adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- franking credits that will arise from the receipt of dividends recognised at the year-end; and
- franking credits that the Parent may be prevented from distributing in subsequent years.

Section A5. Segment Information

13. SEGMENT INFORMATION

An operating segment is a component of the Group that:

- engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Group also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board.

Operating segments are identified based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

(a) Reportable segments

The Group is organised into four segments:

- Retirement Established Business, which operates retirement villages to produce rental and other income;
- Retirement Development, which develops retirement villages to produce development profits represented in the income statement by changes in fair value of investment properties;
- Retirement Care and Support, which operates aged care facilities to produce rental and other income; and
- Non-retirement, which develops residential, commercial and retail property. Developed residential property is sold, whilst developed commercial and retail property may be sold or held to produce rental income and capital appreciation.

Segment EBITDA, measured on the same basis as UPT, is the primary measure used to assess segment performance.

Section A5. Segment Information (continued)

13. SEGMENT INFORMATION (continued)

(b) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Retirement							
	Established Business $m	Development $m	Care & Support $m	Total $m	Non-Retirement $m	Total reportable segments $m	Non-allocated items[1] $m	Group $m
2017								
Segment revenue								
Revenue from outside the Group[2]	134.0	3.5	12.4	149.9	271.3	421.2	0.1	421.3
Total segment revenue	**134.0**	**3.5**	**12.4**	**149.9**	**271.3**	**421.2**	**0.1**	**421.3**
Segment result								
Segment EBITDA	73.8	25.2	1.7	100.7	62.7	163.4	(18.7)	144.7
Change in fair value of investment properties[3]	111.4	–	–	111.4	16.5	127.9	–	127.9
Share of non-operating loss of equity-accounted investments	(5.1)	–	–	(5.1)	–	(5.1)	–	(5.1)
Gain on acquisition of RVG	52.6	–	–	52.6	–	52.6	–	52.6
Other	(0.5)	–	–	(0.5)	(6.9)	(7.4)	(0.4)	(7.8)
Statutory EBITDA	232.2	25.2	1.7	259.1	72.3	331.4	(19.1)	312.3
Depreciation and amortisation	(2.0)	–	(0.6)	(2.6)	(0.1)	(2.7)	(0.7)	(3.4)
Net interest expense	–	–	–	–	–	–	(1.9)	(1.9)
Net profit from continuing operations before income tax	230.2	25.2	1.1	256.5	72.2	328.7	(21.7)	**307.0**
Income tax expense								(54.8)
Net profit after income tax								**252.2**

1. Includes unallocated Corporate Services.
2. Segment revenue represents an aggregation of revenue from sales of goods, the rendering of services and other revenue. Each of these is a separate line item in the income statement. It differs to that reported in the Directors' Report because revenue for underlying profit includes receipts from incoming residents that in the financial statements are treated as an increase in residents' loans. Revenue for underlying profit also includes development profits that are reflected in the income statement as changes in fair value.
3. Includes resident loans but excludes development gains included in Retirement Development EBITDA.

	Retirement							
	Established Business $m	Develop-ment $m	Care & Support $m	Total $m	Non-Retirement $m	Total reportable segments $m	Non-allocated items[1] $m	Group $m
2016								
Segment revenue								
Revenue from outside the Group[2]	94.1	–	12.3	106.4	338.7	445.1	0.2	445.3
Total segment revenue	**94.1**	**–**	**12.3**	**106.4**	**338.7**	**445.1**	**0.2**	**445.3**
Segment result								
Segment EBITDA	58.6	19.3	2.0	79.9	55.1	135.0	(15.2)	119.8
Change in fair value of investment properties[3]	17.4	–	–	17.4	22.8	40.2	–	40.2
Freedom acquisition costs	(11.3)	–	–	(11.3)	–	(11.3)	–	(11.3)
Gain from asset sale	–	–	–	–	7.1	7.1	–	7.1
Share of non-operating loss of equity-accounted investments	(0.4)	–	–	(0.4)	–	(0.4)	–	(0.4)
Other	–	–	–	–	4.0	4.0	–	4.0
Statutory EBITDA	64.3	19.3	2.0	85.6	89.0	174.6	(15.2)	159.4
Depreciation and amortisation	(1.0)	(0.1)	(0.6)	(1.7)	(0.1)	(1.8)	(0.9)	(2.7)
Net interest expense	–	–	–	–	–	–	–	–
Net profit from continuing operations before income tax	63.3	19.2	1.4	83.9	88.9	172.8	(16.1)	**156.7**
Income tax expense								(39.1)
Net profit after income tax								**117.6**

1. Includes unallocated Corporate Services.
2. Segment revenue represents an aggregation of revenue from sales of goods, the rendering of services and other revenue. Each of these is a separate line item in the income statement. It differs to that reported in the Directors' Report because revenue for underlying profit includes receipts from incoming residents that in the financial statements is treated as an increase in residents' loans. Revenue for underlying profit also includes development profits that are reflected in the income statement as changes in fair value.
3. Includes resident loans but excludes development gains included in Retirement Development EBITDA.

Section B. Risk Management

This section discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks. It includes the following notes:

14. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Estimates and assumptions
The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

(i) Estimates of net realisable value of inventories

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise and the estimate of costs to complete. Refer to note 8 for further details.

(ii) Investment properties

Investment properties are measured at fair value, being the estimated price that would be received on sale in an orderly transaction between market participants at the reporting date. Details of the investment properties and the key assumptions made in estimating fair value are given in note 9.

(iii) Resident loans

Resident loans are also measured at fair value, being the amount payable on demand, measured at the principal amount plus the residents' share of any increases in market value to reporting date less deferred management fees contractually accruing to reporting date. Details of the resident loans and the key assumptions made in estimating fair value are given in note 7.

(b) Critical accounting judgements in applying the Group's accounting policies
In the process of applying the Group's accounting policies, the Group makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the consolidated financial statements. These include whether all the significant risks and rewards of ownership of Non-Retirement development properties have been substantially transferred to the purchaser, and whether all the significant risks and rewards of ownership of Retirement units have been substantially transferred to the occupier (see notes 7 and 9).

15. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise receivables, payables, bank loans, resident loans, financial assets/liabilities at fair value through profit or loss, finance leases, cash and short-term deposits, syndicate put options and derivatives.

The Group has in place a Treasury and Risk Management Policy, which focuses on the following main financial risks: interest rate risk, foreign currency risk, liquidity risk and credit risk. The Board has ultimate responsibility for the financial risk management process for the Group. The Board reviews and approves the Policy, the approach to the management of financial risks and where appropriate, variations from these policies. The Board also reviews compliance with the Policy at its monthly meetings as appropriate.

Day-to-day responsibility for the monitoring of financial risk exposure, market movements and the development of an appropriate response, rests with the CFO.

The Group's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance. The Group uses different methods to measure and mitigate the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessing market forecasts for interest rate and foreign exchange prices. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates, resulting in an adverse impact on financial performance. The Group's exposure to market interest rates relates primarily to the Group's borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages this risk exposure by using a range of financial instruments to hedge against changes in interest rates and maintain a mix of fixed and variable debt. The level of debt is disclosed in note 6.

The Group primarily manages this risk exposure through entering into derivative instruments (primarily interest rate swaps), in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The level of derivative instruments required to manage interest rate risk is dependent on Group gearing. The Group presently has no interest rate hedges. Consequently, at 30 June 2017, none (2016: none) of the Group's drawn debt was at a fixed rate of interest.

The impact of an increase or decrease in average interest rates of 0.75% (75 basis points) at reporting date, with all other variables held constant, is shown in the table below. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The analysis is based on the interest rate risk exposures in existence at reporting date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on equity apart from the effect on profit.

	Change in net interest expense higher/(lower)		Change in fair value of derivatives higher/(lower)	
	2017 $m	2016 $m	2017 $m	2016 $m
Consolidated Group				
+0.75% (75 basis points)	3.9	2.6	–	–
-0.75% (75 basis points)	(3.9)	(2.6)	–	–
Consolidated Property Trust				
+0.75% (75 basis points)	(2.0)	(3.9)	–	–
-0.75% (75 basis points)	2.0	3.9	–	–

(b) Foreign currency risk

Foreign currency risk arises as a result of having assets denominated in a currency that is not the Group's functional currency (balance sheet risk) or from transactions or cash flows denominated in a foreign currency (cash flow risk).

Balance sheet risk can affect net tangible assets whereas cash flow risk is more likely to affect potential equity distributions or other cash requirements such as the repayment of debt.

The Group has no significant concentrations of foreign exchange risk.

Section B. Risk Management (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet contractual obligations, with the maximum exposure being equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group, which may include cash and cash equivalents, receivables, available-for-sale financial assets, financial assets at fair value through profit or loss and derivative financial instruments.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored. For third parties with extended term debt, credit checks are obtained and, in some instances, the receivable is secured by registered mortgage.

In addition, receivable balances are monitored regularly with the intention that the Group's exposure to bad debts is minimised.

The Group's cash management policy is to maintain cash in a highly liquid and low risk portfolio with investments made in high quality, short-term money market instruments to ensure the preservation of capital at all times.

The granting of financial guarantees also exposes the Group to credit risk, being the maximum amount that would have to be paid if the guarantee is called on. As the amounts payable under the guarantees are not significantly greater than the original liabilities, this risk is not material.

The Group manages concentrations of credit risk by limiting the maximum exposure to any one financial institution, which varies according to its credit rating.

(d) Liquidity risk

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

The Group's objective is to achieve continuity of funding and flexibility, due to the dynamic nature of the underlying business, using bank overdrafts, bank loans, finance leases and committed available credit lines, in addition to other sources of funds.

The Group regularly reviews existing funding lines and assesses future requirements based upon known and forecast information provided by each of the business units. This assists flexibility by matching profiles of short-term investments with cash flow requirements and assists in timing the negotiation of credit facilities. Cash forecasts are prepared for review by the CFO and for presentation to the Board as appropriate. In order to ensure that the Group is able to meet short-term commitments (i.e. less than 12 months) and has sufficient time to plan and fund longer term commitments, forward commitment tests must be satisfied unless exemptions are approved by the Board.

Management monitors the maturity and amortisation profile of all debt facilities on a regular basis and reports these to the Board. The CFO presents a refinancing plan for the approval of the Board well in advance of material debt facilities maturity.

The current weighted average debt maturity is 2.8 years (2016: 1.7 years).

The table below reflects the contractual maturity of the Group's fixed and floating rate financial liabilities. It shows the undiscounted cash flows, including interest and fees, required to discharge the liabilities. Cash flows for financial liabilities without fixed amount or timing are based on conditions existing at 30 June 2017.

	≤ 1 year $m	1–2 years $m	2–5 years $m	> 5 years $m	Total $m
2017					
Group					
Payables	112.9	17.0	33.8	43.7	207.4
Resident loans[1]	2,797.7	–	–	–	2,797.7
Bank loans	37.0	115.9	474.2	–	627.1
Other loans	1.2	0.1	0.1	–	1.4
Syndicate put options	–	–	–	–	–
	2,948.8	**133.0**	**508.1**	**43.7**	**3,633.6**
Trust Group					
Payables	20.1	5.8	–	–	25.9
	20.1	**5.8**	**–**	**–**	**25.9**
2016					
Group					
Payables	90.8	24.2	44.8	45.8	205.6
Resident loans[1]	1,525.4	–	–	–	1,525.4
Bank loans	15.9	388.2	85.3	–	489.4
Other loans	0.6	0.1	0.3	–	1.0
Syndicate put options	0.4	–	–	–	0.4
	1,633.1	**412.5**	**130.4**	**45.8**	**2,221.8**
Trust Group					
Payables	27.4	–	–	–	27.4
	27.4	**–**	**–**	**–**	**27.4**

1. Resident loans are classified as having a contractual maturity of up to one year because the Group does not have an unconditional right to defer settlement of resident loans for at least 12 months after the reporting period. In practice, the rate at which the Group's retirement residents vacate their units, and hence the rate at which the resident loans will fall due for repayment, can be estimated based on statistical tables. The Group's best estimate is that, of the total resident loans of $2,797.7 million (2016: $1,525.4 million), only $111.5 million (2016: $82.3 million) is expected to become payable within the next 12 months. If residents do vacate their units as anticipated in the next twelve months, the Group expects that new loans of $164.6 million (2016: $125.7 million) would be received from residents who would occupy the newly vacated units.

Section B. Risk Management (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value

All financial instruments carried at fair value may be grouped into three categories, defined as follows:

Level 1 The fair value is calculated using quoted prices in active markets.

Level 2 The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at reporting date, the Group held the following financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2017				
Group				
Financial assets	–	–	–	–
Financial liabilities				
Resident loan obligations at fair value through profit or loss	–	–	2,797.7	2,797.7
	–	**–**	**2,797.7**	**2,797.7**
2016				
Group				
Financial assets				
Rights to acquire syndicate shares	–	0.4	–	0.4
Financial liabilities				
Put option liability to acquire syndicate shares	–	0.4	–	0.4
Resident loan obligations at fair value through profit or loss	–	–	1,525.4	1,525.4
	–	**0.4**	**1,525.4**	**1,525.8**

The Trust Group does not have any financial instruments measured at fair value.

The fair value of all other financial instruments approximates their carrying amount.

Further information on the resident loan obligations is given in note 7.

16. CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure that the Group uses a mix of funding options, while remaining focused on the objective of optimising returns to securityholders. Management aims to maintain a capital structure that ensures the lowest weighted average cost of capital available. The Group aims to maintain reported gearing, measured as net debt divided by cash adjusted assets (net of resident obligations), in the range of 10% to 20%. At 30 June 2017, reported gearing was 16.9% (2016: 17.4%).

Management may adjust the Group's capital structure to take advantage of favourable changes in the cost of capital. This could include changing the amount of dividends to be paid to securityholders, returning capital to securityholders or adjusting debt levels.

Under the terms of the Group's major borrowing facility, it is required to comply with certain main financial covenants. The main covenants, their required and actual values were:

		Group	
	Required	2017	2016
Group Facility			
Gearing	≤ 30%	16.9%	17.4%
Interest cover – Group (times)	≥ 1.5	7.2	9.0
Interest cover – Core (times)	≥ 2.0	3.5	3.0
Loan to value ratio	≤ 30%	21.2%	28.8%

Section C. Group Structure

This section explains significant aspects of the Group's structure and the effect of changes in it on the financial position and performance of the Group. It includes the following notes:

17. BUSINESS COMBINATION

(a) Summary of acquisition

On 24 August 2016, the Group acquired all of the issued securities of RVG that it did not previously own, making RVG a wholly owned subsidiary of Aveo. RVG owns and operates, through arrangements with the Group, 28 retirement communities mainly in Sydney and Melbourne. Previously, the Group held 72.9% of RVG, which it accounted for as an equity-accounted associate.

On RVG becoming a subsidiary, the Group remeasured the previous equity-accounted carrying amount to fair value as follows:

	$m
Carrying amount	264.9
Fair value	305.3
	40.4

The Group paid $100.2 million in cash for the remaining 27.1% of RVG that it did not already own. Part of this remaining interest (10%) was acquired by the Trust for $37.1 million in cash.

Section C. Group Structure (continued)

17. BUSINESS COMBINATION (continued)

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	$m	$m
Cash and cash equivalents		39.6
Trade and other receivables		10.9
Investment properties		1,580.6
Property, plant and equipment		0.9
Trade and other payables		(27.5)
Resident loans	(1,424.1)	
Less DMF conctractually accrued	273.6	(1,150.5)
Deferred revenue		(35.4)
Net identifiable assets		418.6
Less:		
Previously held equity interest (remeasured to fair value)		(305.3)
Purchase consideration		(100.2)
Discount on acquisition		13.1

The total net gain of $52.6 million recognised in the income statement comprises:

	$m
Gain on remeasurement of prior equity-accounted investment to fair value	40.4
Discount on acquisition	13.1
Transaction costs	(0.9)
	52.6

RVG contributed revenues of $41.5 million and net profit of $86.5 million (including gain on change in fair value of investment properties) to the Group for the period from 24 August 2016 to 30 June 2017.

Consolidated pro-forma revenue and profit for the year ended 30 June 2017 if the acquisition had occurred on 1 July 2016 is $47.4 million and $83.0 million respectively.

(b) Purchase consideration – cash outflow

	$m
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	100.2
Transaction costs	0.9
Less: Balances acquired	
Cash	(39.6)
Net outflow of cash – investing activities	61.5

18. INTERESTS IN OTHER ENTITIES

The consolidated financial statements of the Group include the following material entities:

Entity	Activity	Group 2017 %	Group 2016 %	Trust Group 2017 %	Trust Group 2016 %
Material subsidiaries					
Aveo B/P Land Trust	Retirement village owner	–	–	100.0	100.0
Aveo Cleveland Gardens Pty Limited	Retirement village owner and operator	100.0	100.0	–	–
Aveo Group Trust	Property owner	100.0	100.0	–	–
Aveo Healthcare Limited	Retirement village owner and operator	86.6	86.4	–	–
Aveo Leisure Services Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo North Shore Retirement Villages Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo Retirement Homes (No.2) Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo Retirement Homes Limited	Retirement village owner and operator	100.0	100.0	–	–
Aveo Sanctuary Cove Trust	Retirement village owner	100.0	100.0	100.0	100.0
Aveo Southern Gateway Trust	Retirement village owner	100.0	100.0	100.0	100.0
Aveo Springfield Trust	Retirement village owner	100.0	100.0	100.0	100.0
FKP Commercial Developments Pty Ltd	Property developer	100.0	100.0	–	–
FKP Lifestyle Pty Ltd	Property developer	100.0	100.0	–	–
FKP Residential Developments Pty Ltd	Property developer	100.0	100.0	–	–
Freedom Aged Care Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Retirement Villages Australia Pty Ltd	Retirement village owner and operator	100.0	–	10.0	–
Material equity-accounted investments					
RVG	Retirement village owner and operator	–	72.9	–	–

All these entities are formed or incorporated in Australia.

RVG was not consolidated in the 2016 financial year because, notwithstanding its 72.9% interest, the Group did not have the right to appoint a majority of the board of directors of this entity, and thus did not control it.

Section C. Group Structure (continued)

19. INVESTMENTS

(a) Carrying amounts

Details of the carrying amounts of equity-accounted investments are as follows:

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Associates				
RVG	–	267.0	–	–
Other associates	12.8	16.1	2.3	2.3
Joint ventures	10.4	18.7	10.4	11.3
Available for Sale Financial Assets	–	–	37.1	–
	23.2	**301.8**	**49.8**	**13.6**

(b) Accounting for equity-accounted investments

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, investments in these entities are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's or Trust Group's share of net assets of these entities.

The Group and Trust Group's share of these entities' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment. Dividends receivable are recognised as a reduction in the equity-accounted investment.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its equity-accounted investments. If there is any objective evidence that the investment in the associate is impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises it in the income statement.

(c) Accounting for available for sale financial assets

Available for sale *(AFS)* financial assets comprise equity investments that are neither held for trading nor designated at fair value through profit or loss. After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the AFS reserve until the investment is derecognised or the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the AFS reserve to the income statement.

Appendices

The appendices set out information that is required under the Standards, the Act or the Regulations, but that, in the Directors' view, is not critical to understanding the financial statements.

Appendix 1. How The Numbers Are Calculated – Other Items

This section provides information about the basis of calculation of line items in the financial statements that the Directors do not consider significant in the context of the Group's operations. It includes the following notes:

20. EARNINGS PER SECURITY

(a) Earnings used in calculating earnings per security

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Profit from continuing operations after income tax	252.2	117.6	10.1	20.9
Less: non-controlling interest – external	0.6	(1.6)	–	–
Net profit after income tax attributable to equity holders adjusted for the effect of dilution	**252.8**	**116.0**	**10.1**	**20.9**

(b) Weighted average number of securities used as the denominator

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Weighted average number of ordinary securities used in calculating basic and diluted earnings per security	572,255,635	523,836,328	572,255,635	523,836,328

(c) Anti-dilutive instruments

The following securities could potentially dilute basic earnings per security in the future but were not included in the calculation of diluted earnings per security because they are anti-dilutive:

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Performance rights	3,695,148	2,617,962	3,695,148	2,617,962
STID	270,806	244,610	270,806	244,610

(d) Calculating earnings per security

Basic earnings per security is calculated as net profit attributable to members of the Parent divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per security is calculated as net profit attributable to members of the Parent, adjusted for non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Appendix 1. How The Numbers Are Calculated – Other Items (continued)

21. CASH AND CASH EQUIVALENTS

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Cash at bank	45.1	32.8	–	–
Capital replacement funds[1]	2.1	2.1	–	–
	47.2	**34.9**	**–**	**–**

1. A statutory charge, imposed under the Retirement Villages Act 1999 (Qld), exists over all amounts held in capital replacement funds, which restricts the use for which these funds can be applied.

22. PROPERTY, PLANT AND EQUIPMENT

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Freehold land				
At cost	7.3	7.2	–	–
Accumulated impairment	(4.6)	(4.6)	–	–
	2.7	2.6	–	–
Residential aged care facilities				
At cost	71.8	20.0	–	0.1
Accumulated depreciation	(3.3)	(2.7)	–	–
	68.5	17.3	–	0.1
Freehold buildings				
At cost	10.3	5.7	23.5	–
Accumulated depreciation	(1.5)	(1.1)	–	–
Accumulated impairment	(1.7)	(1.7)	–	
	7.1	2.9	23.5	–
Leasehold Land				
At cost	–	–	7.4	–
Accumulated amortisation	–	–	–	–
	–	–	7.4	–
Leasehold improvements				
At cost	6.7	5.9	–	–
Accumulated amortisation	(5.5)	(5.4)	–	–
	1.2	0.5	–	–
Plant and equipment				
At cost	17.0	7.5	–	–
Accumulated depreciation	(7.3)	(7.1)	–	–
	9.7	0.4	–	–
Motor Vehicles				
At cost	0.7	–	–	–
Accumulated depreciation	(0.3)	–	–	–
	0.4	–	–	–
Total property, plant and equipment	**89.6**	**23.7**	**30.9**	**0.1**

(a) Accounting for property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. All other repairs and maintenance are recognised in the income statement as incurred.

All items of property, plant and equipment, other than freehold and leasehold land, are depreciated using the straight-line method.

Depreciation rates used are as follows:

	Depreciation rate
Residential aged care facilities	2.0% – 2.5%
Freehold buildings	2.0% – 2.5%
Leasehold improvements	2.5% – 20.0%
Plant and equipment	6.0% – 40.0%

These rates are consistent with the prior year.

23. PROVISIONS

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Employee benefits	5.6	6.2	–	–
Warranty maintenance	1.3	2.2	0.3	0.2
Distributions payable	52.0	43.5	52.0	43.5
Other provisions	1.7	5.4	–	–
	60.6	**57.3**	**52.3**	**43.7**
Expected to be settled:				
No more than twelve months after the reporting date	58.2	55.5	52.3	43.7
More than twelve months after the reporting date	2.4	1.8	–	–

(a) Accounting for provisions

A provision is recognised where there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying the economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Appendix 1. How The Numbers Are Calculated – Other Items (continued)

24. RESERVES AND RETAINED PROFITS/(ACCUMULATED LOSSES)

	Group[1]		Trust Group[2]	
	2017 $m	2016 $m	2017 $m	2016 $m
Reserves				
Equity-settled employee benefits reserve	15.8	16.6	–	–
Foreign currency translation reserve	(5.7)	(5.3)	2.3	2.9
Syndicate options reserve	–	–	–	–
Fair value reserve	(19.7)	(20.0)	–	–
Total reserves	**(9.6)**	**(8.7)**	**2.3**	**2.9**
Movement in reserves				
Equity-settled employee benefits reserve				
Balance at the beginning of the year	16.6	14.9	–	–
Share-based payment	(0.8)	1.7	–	–
Balance at the end of the year	15.8	16.6	–	–
Foreign currency translation reserve				
Balance at the beginning of the year	(5.3)	(4.5)	2.9	1.6
Translation of foreign operations	(0.4)	(0.8)	(0.6)	1.3
Balance at the end of the year	(5.7)	(5.3)	2.3	2.9
Syndicate options reserve				
Balance at the beginning of the year	–	(1.5)	–	–
Fair value gain/(loss) on unexercised syndicate put options	–	1.5	–	–
Balance at the end of the year	–	–	–	–
Fair value reserve				
Balance at the beginning of the year	(20.0)	(20.0)	–	–
Fair value loss on transactions with owners	0.3	–	–	–
Balance at the end of the year	(19.7)	(20.0)	–	–
Retained earnings/(accumulated losses)				
Accumulated losses at the beginning of the year	(97.4)	(192.5)	(133.9)	(111.3)
Net profit from ordinary activities after income tax	242.7	95.1	10.1	20.9
Dividends and distributions recognised during the year	–	–	(52.0)	(43.5)
Retained earnings/(accumulated losses) at the end of the year	**145.3**	**(97.4)**	**(175.8)**	**(133.9)**

1. Attributable to the shareholders of Aveo Group Limited.
2. Attributable to the securityholders of Aveo Group Trust.

Nature and purpose of reserves

(i) Equity-settled employee benefits reserve

The equity-settled employee benefits reserve is used to recognise the fair value of options issued to employees, with a corresponding increase in employee expense in the income statement.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign jointly controlled entities are recognised in other comprehensive income as described in note 31(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is disposed of.

(iii) Syndicate options reserve

The syndicate option reserve represented the fair value of options formerly held by non-controlling interests to require the Group to purchase their units in the Clayfield syndicate.

(iv) Fair value reserve

Transactions with non-controlling interests that do not result in a loss of control result in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within the fair value reserve.

25. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is:

Proportion of equity interest held by non–controlling interests:

		Group	
Name	**Country of incorporation and operation**	**2017**	**2016**
Aveo Healthcare Limited	Australia	13.4%	13.6%

	Group	
	2017 $m	**2016 $m**
Carrying amount of material non-controlling interest:		
Aveo Healthcare Limited	29.4	30.9
Profit/(loss) allocated to material non-controlling interest:		
Aveo Healthcare Limited	(0.9)	1.6

	Aveo Healthcare Limited	
	2017 $m	**2016 $m**
Summarised statement of comprehensive income:		
Revenue	19.6	20.3
Profit/(loss) after tax	(1.8)	13.9
Total comprehensive income	(1.8)	13.9
Attributable to non-controlling interest	(0.9)	1.6
Dividends paid to non-controlling interest	–	–

Appendix 1. How The Numbers Are Calculated – Other Items (continued)

25. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

	Aveo Healthcare Limited	
	2017 $m	2016 $m
Summarised statement of financial position as at 30 June:		
Current assets	16.7	13.7
Non-current assets	821.1	744.1
Current liabilities	(378.4)	(331.4)
Non-current liabilities	(230.8)	(195.6)
Total equity	**228.6**	**230.8**
Attributable to:		
Equity holders of Aveo Healthcare Limited	199.2	199.9
Non-controlling interest	29.4	30.9
Summarised cash flow information:		
Operating cash flows	43.2	22.3
Investing cash flows	(73.2)	(65.0)
Financing cash flows	32.1	43.1
Net increase in cash and cash equivalents	**2.1**	**0.4**

The Trust Group has no material partly-owned subsidiaries.

26. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of net cash flow from operating activities to profit after income tax

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Operating profit after income tax	252.2	117.6	10.1	20.9
Adjustments for non-cash items				
Depreciation and amortisation	3.4	2.7	–	–
Share of loss/(gain) of equity-accounted investments	5.5	(11.0)	0.3	(1.0)
Interest receivable	–	–	–	(20.9)
Change in fair value of investment properties	(147.7)	(78.0)	–	–
Change in fair value of resident loans	(28.0)	14.9	–	–
Gain on acquisition of subsidiary	(52.6)	–	–	–
Interest capitalised	16.3	13.3	–	–
Income tax expense	54.8	39.1	–	–
Other	18.7	(16.4)	–	–
Change in operating assets and liabilities net of effects of purchases and disposals of subsidiaries during the year				
(Increase)/decrease in receivables	(25.5)	13.3	(11.0)	–
Decrease in inventories	89.0	155.7	–	–
Decrease in other assets	–	–	–	–
(Decrease)/increase in payables	(9.5)	15.1	(4.3)	0.2
Increase in deferred revenue and resident loans	66.9	26.5	–	–
(Decrease)/increase in provisions	(0.7)	0.3	–	0.2
Net cash flows from/(used in) operating activities	**242.8**	**293.1**	**(4.9)**	**(0.6)**

(b) Non-cash financing and investing activities

In 2016, the Group issued $83.6 million in Securities to acquire Freedom.

Appendix 2. Other Information

This appendix covers other information that is not directly related to specific line items in the financial statements, as well as information about related party transactions and other statutory information. It includes the following notes:

27. RELATED PARTY TRANSACTIONS

(a) Aggregate remuneration of key management personnel

	Group		Trust Group	
	2017 $m	2016 $m	2017 $m	2016 $m
Short-term employee benefits	2,416,678	2,326,791	–	–
Post-employment benefits	89,553	90,345	–	–
Equity compensation	1,296,693	995,890	–	–
Other compensation[1]	35,499	54,023	–	–
Key management personnel compensation	**3,838,423**	**3,467,049**	**–**	**–**

1. Other compensation comprises accrued long service leave.

Detailed remuneration disclosures are provided in the Remuneration Report.

(b) Loans from the Property Trust to Group entities

Aveo Funds Management Limited, as the Responsible Entity for the Property Trust, has entered into a loan agreement with the Parent to make available a $600.0 million loan facility. Interest is payable quarterly at the rate of the prevailing 90-day bank bill swap reference rate plus a margin of 3.0% from 1 July 2013 and 2.2% from 1 January 2014. Details of movements in the loan are as follows:

	Group		Trust Group	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Balance at the beginning of the year	–	–	524,900	525,576
Loans advanced	–	–	44,685	30,377
Loan repayments made	–	–	(315,133)	(51,960)
Interest charged	–	–	11,630	20,907
Balance at the end of the year	**–**	**–**	**266,082**	**524,900**

(c) Other transactions with related parties

Amounts recognised in respect of other transactions with related parties were:

	Group		Trust Group	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Revenue from rendering of services – associates (note i)	3,986	7,359	–	–
Management fees received – associates (note ii)	1,319	7,636	–	–
Administration expenses				
Rent paid – MIB (note iii)	422	423	–	–
Asset management fees paid – MIB (note iv)	1,047	158	–	–
Net cost sharing – MIB (note v)	(344)	(109)	–	–
Cost recharges – associate (note vi)	202	140	–	–
Other receivables – associates (note vii)	–	3,204	–	–
Other expenses				
Management fees paid – Responsibile Enttity (note viii)	–	–	954	682
Development fees paid (note ix)	–	–	5,818	–
Investment properties note (x)				
Rent received	–	–	5,624	–
Acquisitions of investment properties	–	–	88,800	–
Finance lease payable (note xi)				
Acquisition under finance lease:				
Investment property	–	–	17,182	–
Property, plant and equipment	–	–	7,416	–
Interest expense	–	–	1,152	–
Finance lease payable	–	–	24,598	–

(i) Revenue from rendering of services – associates

The Group receives sales commissions, administration and marketing fees from its associate, RVG. Fees are charged at commercial rates.

(ii) Management fees received – associates

The Group derived revenue from providing management services to its associate, RVG. Fees are charged at commercial rates.

(iii) Rent paid – MIB

The Group leases office premises at commercial rates from a wholly owned subsidiary of MIB.

(iv) Asset management fees – MIB

With effect from 1 May 2016, the Group appointed a wholly owned subsidiary of MIB to provide asset management services in relation to the Group's investment property situated at Skyring Terrace, Newstead (Gasometer 1 and associated facilities). The services are provided at market rates.

(v) Net cost sharing – MIB

The Group has agreed with a wholly-owned subsidiary of MIB to share certain administrative functions including internal audit, human resources and information technology. Broadly, each party is responsible for nominated functions and provides services for those functions to both itself and the other party. Personnel costs for those functions, including an allowance for on-costs, are shared between the parties in agreed proportions.

(vi) Cost recharges – MFKP

The Group provided personnel, administrative and other services to Mulpha FKP Pty Limited (MFKP). MFKP was sold in FY14.

Appendix 2. Other Information (continued)

27. RELATED PARTY TRANSACTIONS (continued)

(vii) Other receivables – associates

These reflect receivables for the services and charges noted above.

(viii) Management fees paid – responsible entity

The Property Trust pays management fees as provided for under its constitution to its responsible entity, a wholly owned subsidiary of the Group.

(ix) Development fees paid

A subsidiary of the Parent is developing investment properties for subsidiaries of the Property Trust. Fees are charged at market rates.

(x) Investment properties

Subsidiaries of the Parent sold certain investment properties to subsidiaries of the Property Trust, which in turn rented them to other subsidiaries of the Parent. These transactions were at market rates.

(xi) Finance lease payable

A subsidiary of the Property Trust leases by way of finance lease the site on which investment and other property is being developed. The lease rental is at market rates, but is yet to commence, as the development is not yet complete.

28. AUDITOR'S REMUNERATION

	Group		Trust Group	
	2017 $	2016 $	2017 $	2016 $
Ernst & Young				
Audit and assurance services				
Audit and review of the financial reports of the Group	545,732	427,837	–	–
Other assurance services:				
Group	13,659	48,681	–	–
Non-group[1]	350,494	335,319	–	–
Non-assurance services	–	75,000	–	–
Total auditor's remuneration	**909,885**	**886,837**	**–**	**–**

1. Non-group other assurance services represent fees payable by equity-accounted investments and other entities that are not controlled entities. It includes fees for audits of retirement villages, which are payable by the respective retirement villages.

29. PARENT ENTITIES

(a) Parent financial information

The financial information for the parent entities Aveo Group Limited and Aveo Group Trust has been prepared on the same basis as the Group's financial statements except as set out below.

Controlled entities and equity-accounted investments

Investments in these entities are carried in the Parent's balance sheet at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the income statement when they are declared.

Tax consolidation

Aveo Group Limited and its wholly-owned Australian controlled entities have formed a tax-consolidated group. The entities in the tax group have entered into a tax sharing agreement to limit the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Aveo Group Limited. A tax funding agreement where the wholly-owned entities fully compensate the head entity for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation has also been entered into. The transfer of such amounts to the head entity is recognised as inter-company receivables or payables.

Each entity in the tax-consolidated group continues to account for its own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Parent also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

(b) Summary financial information

	Aveo Group Limited		Aveo Group Trust	
	2017 $m	2016 $m	2017 $m	2016 $m
Current assets	36.2	30.7	–	–
Total assets	2,211.6	2,411.3	695.8	691.4
Current liabilities	677.3	704.1	70.8	61.3
Total liabilities	1,401.9	1,638.6	70.8	61.3
Issued capital	1,262.6	1,178.1	723.2	687.0
Reserves:				
Foreign currency translation	(4.9)	(4.9)	–	–
Investment revaluation	(0.3)	(0.3)	–	–
Employee benefits	15.7	16.6	–	–
Retained losses	(463.4)	(416.8)	(98.2)	(56.9)
Total shareholders' equity	809.7	772.7	625.0	630.1
(Loss)/Profit of the parent entity	(95.1)	(92.5)	10.6	20.0
Total comprehensive income of the parent entity	(95.1)	(92.5)	10.6	20.0

(c) Guarantees

Aveo Group Limited has provided the following financial guarantees:

- guarantees in respect of bank loans of subsidiaries amounting to $60 million (2016: $65.0 million, secured by registered mortgages over the freehold properties of the subsidiaries); and
- cross guarantees under the Deed of Cross Guarantee to the subsidiaries listed in note 30.

No deficiencies of assets exist in any of these companies. No liability was recognised by the Parent in relation to these guarantees, as the fair value is immaterial.

Appendix 2. Other Information (continued)

30. DEED OF CROSS GUARANTEE

Aveo Group Limited and the wholly-owned subsidiaries identified below entered into a Deed of Cross Guarantee on 25 June 2008. The effect of the deed is that Aveo Group Limited has guaranteed to pay any deficiency in the event of the winding-up of any of the Group entities that are party to the Deed or if they do not meet their obligation under the terms of the liabilities subject to the guarantee. The Group entities that are party to the Deed have also given a similar guarantee in the event that Aveo Group Limited is wound up or if it does not meet its obligations under the terms of the liabilities subject to the guarantee.

Albion Flour Mill Pty Ltd	FKP Communities Pty Ltd[1]	FKP Residential Developments Pty Ltd[1]
Aveo Leisure Services Pty Ltd	FKP Constructions Pty Ltd[1]	FKP SJYC Pty Ltd
Aveo Retirement Homes (No. 2) Pty Ltd	FKP Core Plus Two Pty Ltd	Flower Roof Pty Ltd
Aveo Retirement Homes (Sales and Marketing) Pty Ltd	FKP Developments Pty Ltd	FP Investments Pty Ltd[1]
Aveo Retirement Homes Limited[1]	FKP Golden Key Pty Ltd	Home Finance Pty Ltd
Aust-Wide Mini Storage Pty Ltd	FKP Holdings Pty Ltd[1]	Aveo Lindsay Gardens Management Pty Ltd
B/P Asset Pty Ltd	FKP Lifestyle (Australia) Pty Ltd[1]	Aveo North Shore Retirement Villages Pty Ltd
B/P Land Pty Ltd	FKP Lifestyle (Development) Pty Ltd	Ntonio Pty Ltd
B/P Sub Land Pty Ltd	FKP Lifestyle (Real Estate) Pty Ltd	Peregian Springs Shopping Centre Pty Ltd
Carmist Pty Ltd	FKP Lifestyle Pty Ltd[1]	Ridgewood Estates Pty Ltd
Aveo Cleveland Gardens Pty Ltd	FKP Mackay Turf Farm No. 2 Pty Ltd	River Kat Pty Ltd
Data Plan Pty Ltd	FKP Maitland Developments Pty Ltd	Skeyer Developments Pty Ltd
Evo-Con Pty Ltd	FKP Maitland Properties Pty Ltd	SPV Sydney Pty Ltd
Aveo Extra Care Services Pty Ltd	FKP Overseas Holdings Pty Ltd	Starwisp Pty Ltd
FKP American Holdings Pty Ltd	FKP PIP Pty Ltd	Aveo Tasmanian Retirement Living Management Pty Ltd
FKP Ann Street Pty Ltd	FKP Queen Street Pty Ltd	Aveo The Domain Retirement Country Club Pty Ltd
FKP Commercial Developments Pty Ltd	Aveo Real Estate Pty Ltd	Freedom Aged Care Pty Ltd
Freedom Aged Care Banora Point (Operations) Pty Ltd	Freedom Aged Care Banora Point (Properties) Pty Ltd	Freedom Aged Care Bendigo (Operations) Pty Ltd
Freedom Aged Care Bendigo (Properties) Pty Ltd	Freedom Aged Care Coffs Harbour (Operations) Pty Ltd	Freedom Aged Care Coffs Harbour (Properties) Pty Ltd
Freedom Aged Care Dromana (Operations) Pty Ltd	Freedom Aged Care Dromana (Properties) Pty Ltd	Freedom Aged Care Fairways (Operations) Pty Ltd
Freedom Aged Care Fairways (Properties) Pty Ltd	Freedom Aged Care Geelong (Operations) Pty Ltd	Freedom Aged Care Geelong (Properties) Pty Ltd
Freedom Aged Care Intellectual Property Pty Ltd	Freedom Aged Care Kawana (Properties) Pty Ltd	Freedom Aged Care Launceston (Operations) Pty Ltd
Freedom Aged Care Launceston (Properties) Pty Ltd	Freedom Aged Care Morayfield (Operations) Pty Ltd	Freedom Aged Care Morayfield (Properties) Pty Ltd
Freedom Aged Care Redland Bay (Operations) Pty Ltd	Freedom Aged Care Redland Bay (Properties) Pty Ltd	Freedom Aged Care Rochedale (Operations) Pty Ltd
Freedom Aged Care Rochedale (Properties) Pty Ltd	Freedom Aged Care Tamworth (Operations) Pty Ltd	Freedom Aged Care Tamworth (Properties) Pty Ltd
Freedom Aged Care Tanah Merah (Operations) Pty Ltd	Freedom Aged Care Tanah Merah (Properties) Pty Ltd	Freedom Aged Care Toowoomba (Operations) Pty Ltd
Freedom Aged Care Toowoomba (Properties) Pty Ltd	Freedom Aged Care Clayfield (Operations) Pty Ltd	Freedom Aged Care Clayfield (Properties) Pty Ltd
Freedom Home Care Services Pty Ltd	Residence Custodian Pty Ltd	Residence Management Pty Ltd

1. Pursuant to ASIC Class Order 98/1418, relief has been granted from the Act's requirements for preparation, audit and lodgement of financial reports.

The consolidated income statement and balance sheet of the entities that are parties to the Deed of Cross Guarantee are as follows:

	Closed Group	
Consolidated income statement	**2017 $m**	**2016 $m**
Continuing operations		
Sale of goods and construction contract revenue	253.4	317.3
Revenue from rendering of services	117.5	92.0
Other revenue	13.3	27.3
Revenue	**384.2**	**436.6**
Cost of sales	(211.6)	(268.8)
Gross profit	**172.6**	**167.8**
Change in fair value of investment properties	88.8	68.3
Change in fair value of resident loans	31.6	(19.1)
Employee expenses	(53.3)	(39.3)
Marketing expenses	(21.5)	(12.7)
Occupancy expenses	(7.0)	(1.4)
Administration expenses	(16.2)	(11.7)
Reversal of impairment of equity accounted investments	–	35.9
Other expense	(14.2)	(17.2)
Finance costs	(17.7)	(18.6)
Profit from continuing operations before income tax	**163.1**	**152.0**
Income tax loss	(54.6)	(44.9)
Profit from continuing operations after income tax	**108.5**	**107.1**

Appendix 2. Other Information (continued)

30. DEED OF CROSS GUARANTEE (continued)

	Closed Group	
Consolidated balance sheet	**2017 $m**	**2016 $m**
Current assets		
Cash and cash equivalents	36.7	29.3
Receivables	70.1	89.4
Inventories	137.4	158.7
Other financial assets	–	0.4
Other assets	2.3	2.3
Total current assets	**246.5**	**280.1**
Non-current assets		
Receivables	412.9	283.4
Inventories	56.7	112.5
Investment properties	2,750.6	2,525.1
Investments	7.9	15.2
Property, plant and equipment	16.4	14.6
Intangible assets	2.9	3.2
Other financial assets	330.8	413.6
Deferred tax assets	–	–
Other assets	9.9	10.0
Total non-current assets	**3,588.1**	**3,377.6**
TOTAL ASSETS	**3,834.6**	**3,657.7**
Current liabilities		
Payables	244.0	153.8
Interest bearing loans and borrowings	17.5	0.1
Provisions	5.8	6.3
Other financial liabilities	–	0.4
Deferred revenue	113.5	89.9
Total current liabilities (excluding resident loans)	380.8	250.5
Resident loans	1,267.0	1,232.5
Total current liabilities	**1,647.8**	**1,483.0**
Non-current liabilities		
Trade and other payables	73.0	86.2
Interest bearing loans and borrowings	706.3	903.7
Deferred tax liabilities	54.5	27.0
Provisions	2.3	1.8
Total non-current liabilities	**836.1**	**1,018.7**
TOTAL LIABILITIES	**2,483.9**	**2,501.7**
NET ASSETS	**1,350.7**	**1,156.0**
Equity		
Contributed equity	1,262.6	1,178.1
Reserves	(33.4)	122.3
Retained profits/(accumulated losses)	121.5	(144.4)
TOTAL EQUITY	**1,350.7**	**1,156.0**

31. OTHER ACCOUNTING POLICIES

Significant accounting policies relating to particular items are set out in the financial report next to the item to which they relate. Other significant accounting policies adopted in the preparation of the financial report are set out below. All these policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the requirements of the Act, the Standards and other authoritative pronouncements of the AASB. The financial report has been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss, investment property and non-current assets held for sale, which have been measured at fair value.

The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial report has been drawn up in accordance with ASIC Corporations (Stapled Group Reports) Instrument 2015/838 relating to combining accounts under stapling.

Stapling

On 12 November 2004, Aveo Group Trust units were stapled to Aveo Group Limited shares. The Group is a stapled entity that comprises Aveo Group Limited and its subsidiaries and Aveo Group Trust and its subsidiaries. The stapled securities cannot be traded or dealt with separately.

The constitutions of the Parent and the Property Trust ensure that, for as long as the two entities remain jointly quoted on the Australian Securities Exchange, the number of units in the Property Trust and the number of shares in the Parent shall be equal and that unitholders and shareholders will be identical.

Aveo Group Limited has been identified as the acquirer and the parent for the purposes of preparing the Group's financial statements. The Property Trust has been consolidated under the stapling arrangement and is identified as the acquiree.

The net assets of the acquiree have been identified as non-controlling interests and presented in the balance sheet within equity, separately from the Parent's equity. The profit of the acquiree has also been separately disclosed in the income statement.

Although the interests of the equity holders of the acquiree are treated as non-controlling interests, the equity holders of the acquiree are also the equity holders in the acquirer by virtue of the stapling arrangement.

(b) New accounting standards and interpretations

The Group has adopted as of 1 July 2016 all of the new and revised Standards and Interpretations issued by the AASB with mandatory effective dates impacting the current period. The adoption of the new and revised Standards and Interpretations had no material impact on the financial position or performance of the Group.

(c) Pending accounting standards

The following new Standards, amendments to Standards and Interpretations have been identified as those that may affect the Group on initial application. They have not been applied in preparing these financial statements.

AASB 9 Financial Instruments: Classification and Measurement

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting. The standard is applicable for annual reporting periods beginning on or after 1 January 2018. The Group has performed an assessment of the expected impact of the Standard, and believes it will not have a material effect on the Group's financial statements.

Appendix 2. Other Information (continued)

31. OTHER ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard is expected to be applicable for annual reporting periods beginning on or after 1 July 2018.

The Group has performed an assessment of the expected impact of the Standard, and believes it will not have a material effect on the Group's revenue recognition. In particular:

- Most of the Group's Retirement revenue is revenue from leases, which is specifically excluded from the scope of AASB 15 and is dealt under AASB 16 Leases. This does not change the accounting treatment for lessors;
- Most of the Group's Non-Retirement revenue is revenue from the sale of residential land. Under AASB 15, this revenue will be recognised on settlement, as is currently the case.

AASB 16 Leases

AASB 16 imposes revised requirement for recognising, measuring and disclosing the financial effects of leases.

Lessee accounting

Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Lessor accounting

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The standard is expected to be applicable for annual reporting periods beginning on or after 1 July 2019.

The Group has performed an assessment of the expected impact of the Standard. Because of the Group's limited lease portfolio as lessee, AASB 16 is not expected to have a significant effect on the Group's accounting treatment and disclosure of leases.

(d) Basis of consolidation

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Non-controlling interests in the net assets of consolidated entities are allocated their share of net profit after tax in the income statement and statement of comprehensive income, and are presented within equity in the balance sheet, separately from the equity of the owners of the Parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance. A change in ownership interest of a subsidiary that does not result in loss of control is accounted for as an equity transaction.

(e) Foreign currency translation

Functional and presentation currency

The Group's financial statements are presented in Australian dollars, which is Aveo Group Limited's functional and presentation currency.

Dictionary

for the year ended 30 June 2017

In the Financial and Directors' Reports, the following terms have the meaning shown:

Term	Meaning
AASB	Australian Accounting Standards Board
Act	Corporations Act 2001
AICD	Australian Institute of Company Directors
ASIC	Australian Securities and Investments Commission
Bad Leaver	A KMP whose employment is terminated or cancelled because of voluntary resignation, for cause or because of unsatisfactory performance or is otherwise determined by the Board to be a Bad Leaver
Board	The board of directors of Aveo Group Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Change of Control Event	A Change of Control Event occurs if a change in control of the Group occurs or is recommended by the Board, or a resolution is passed or order made for the winding up of the Parent or the vesting of the Property Trust
Committee	Nomination and Remuneration Committee of the Board
cps	Cents per security
Directors	Directors of Aveo Group Limited
DMF	Deferred management fees
DMF/CG	Deferred management fees and capital gains
DPS	Dividend/distribution per Security
DSP	Directors' Security Plan
EBIT	Earnings before interest and income tax
EBITDA	Earnings before interest, income tax, depreciation and amortisation
EOP	Employee Option Plan subject to performance conditions
EPS	Earnings per Security
Finsia	Financial Services Institute of Australasia
Freedom	Freedom Aged Care Pty Limited
FY	Financial year
FY14	Financial year ended 30 June 2014
FY15	Financial year ended 30 June 2015
FY16	Financial year ended 30 June 2016
FY17	Financial year ended 30 June 2017
FY18	Financial year ended 30 June 2018
FY21	Financial year ended 30 June 2021
Good Leaver	A KMP whose employment is terminated or cancelled and is not a Bad Leaver
Group	Aveo Group, which is a stapled entity comprising Aveo Group Limited and its subsidiaries, and Aveo Group Trust and its subsidiaries
KMP	Key Management Personnel: Those persons who, during the course of the year ended 30 June 2017, had the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise)
LTI	Long-Term Incentive: LTI is equity-based compensation which provides KMP with securities, options or rights, which may vest into Securities dependent upon performance against defined conditions typically over a three to four year performance period
LTIP	The Group's Long-Term Incentive Plan encompassing the EOP and the Rights Plan
MIB	Mulpha International Berhad; the Group is an associate of MIB
NED	Non-Executive Director
NTA	Net tangible assets
Parent	Aveo Group Limited

Term	Meaning
Plan	The Aveo Group Performance Rights Plan that was approved at the Group's 2012 Annual General Meeting
Property Trust	Aveo Group Trust
PRP	Performance Rights Plan
Regulations	Corporations Regulations 2001
Rights	Performance Rights and Retention Rights: Rights to acquire Securities in the future for nil consideration, subject to achieving performance conditions, granted under the PRP
RACF	Residential aged care facility
ROA	Return on Retirement Assets: Retirement earnings before interest and tax, divided by average Retirement assets employed. Capitalised interest in Retirement development cost of goods sold is added back. Retirement assets employed at any date will be the sum of the carrying amounts of Retirement investment properties (including those under development), equity-accounted investments and aged care assets, all at 30 June 2013, together with cash expenditure (including development expenditure) on those assets to the date of calculation, less any cash recoveries of or from those assets (excluding any profit element) to the date of calculation
ROE	Return on Equity: The sum of the movement in securityholders' equity (excluding new issues of Securities and any change in fair value of Retirement assets occurring after 30 June 2015, net of income tax) and dividends and distributions declared divided by the opening balance of securityholders' equity. Average RoE for FY16 – FY18 will be calculated as the arithmetic average of RoE for those years.
RTSR	Relative TSR measures the TSR for Aveo Group relative to the TSR of a comparator group of Aveo's peers over the RTSR testing period
RVG	Retirement Villages Group, a stapled entity Comprising Retirement Villages Australia Limited, RVNZ Investments Limited and Retirement Villages Trust
Securities	Stapled securities of the Group
Securities Price	The price at which the last sale of Securities was traded on the ASX on the referenced day
Special Circumstances	The termination of a KMP's employment as a result of total and permanent disablement, death or such other circumstances as the Board may determine
Standards	Australian Accounting Standards
STIP	The Group's Short-Term Incentive Plan: A 12-month incentive plan that provides cash and Securities awards for performance against key financial and non-financial targets during any one financial year
STI	Short-Term Incentive (cash): Cash awards under the STIP
STID	Deferred STI: Awards of Securities under the STIP
TFR	Total Fixed Remuneration: The fixed component of remuneration, which includes base pay and superannuation and excludes movements in accrued annual and long service leave
Trust Group	Aveo Group Trust and its controlled entities
TSR	Total Securityholder Return: Security price growth plus dividends notionally reinvested in securities, over the assessment period
UPT	Underlying Profit after Tax: Reflects statutory profit after tax, as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit
Vesting Date	The date that STID vest, being 1 September of the year following the award

Directors' Declaration

In the opinion of the Directors of Aveo Group Limited and Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust (collectively referred to as 'the Directors'):

(a) the Financial Statements and Notes set out on pages 46 to 99, and the Remuneration Report in the Directors' Report set out on pages 31 to 45, are in accordance with the Act, including:

  (i) giving a true and fair view of the Group's and the Trust Group's financial position as at 30 June 2017 and of their performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Regulations;

(b) the Financial Report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board, as disclosed in note 31(a); and

(c) there are reasonable grounds to believe that the Group and the Trust Group will be able to pay their debts as and when they become due and payable.

At the date of this declaration there are reasonable grounds to believe that Aveo Group Limited and the Group entities named in note 30 will be able to meet any obligations or liabilities to which they are or may have become subject to by virtue of the Deed of Cross Guarantee between Aveo Group Limited and those Group entities pursuant to ASIC Class Order 98/1418 (as described in note 30).

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2017 required by section 295A of the Act.

Signed in accordance with a resolution of the Board of Directors:

S H Lee
Chairman

G E Grady
Executive Director and Chief Executive Officer

Dated at Sydney this 16th day of August 2017.

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent auditor's report to the Securityholders of Aveo Group

Aveo Group is a stapled entity comprising Aveo Group Limited and its subsidiaries and Aveo Group Trust and its subsidiaries ("Aveo Group" or "the Group"). Aveo Group Trust comprises Aveo Group Trust and its subsidiaries ("Trust Group").

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Aveo Group, which comprises the consolidated balance sheets as at 30 June 2017, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of Aveo Group and Aveo Group Trust's consolidated financial position as at 30 June 2017 and of their consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report 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 Report* section of our 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 report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Retirement Villages, Resident Loans valuation and Deferred Management Fee revenue

Why significant	How this matter was addressed in our audit
The Group has Retirement Village Investment Properties of $5,324 million (89% of total assets) and Resident Loans amounting to $2,798 million (70% of total liabilities).	Our audit procedures evaluated the quality and the objectivity of the valuation process through assessing the appropriateness of the valuation methodology and

Building a better working world

Both the Retirement Village Investment Properties and Resident Loans are fair valued at each reporting date with gains or losses arising from changes in the fair values recognised in the income statement in the year in which they arise.

Valuations, resident obligations and deferred management revenue ('DMF') are based on a number of assumptions such as growth and discount rates, pricing assumptions and average tenure assumptions which require estimation and significant judgement. Changes in certain assumptions can lead to significant changes in the valuation, resident obligation or DMF revenue.

In addition to the estimation and significant judgement involved, the valuation is also determined by a complex retirement asset valuation model.

The use of inappropriate assumptions, clerical or methodology errors in the valuation model, or the use of inaccurate underlying resident contract data could lead to an incorrect valuation of the Retirement Village Investment Property, the Resident Loan balances and the DMF revenue.

Due to the complex and judgemental nature of the retirement investment property valuation, the Group engages an independent third party expert to value the portfolio independently. This independent valuation is then used as a benchmark to which management assesses their own internal valuation.

Notes 1, 7 and 9 to the financial report respectively contain the carrying amounts of the DMF revenue, Resident Loans and the Retirement Village Investment Properties as well as a description of the applicable accounting policy treatment. Notes 7 and 9 also discloses the key assumptions and the sensitivity of these valuations to changes in key assumptions.

Disclosure of the significant judgements is included in note 14 of the financial report.

assumptions, testing the clerical accuracy of the valuation model and the accuracy of the valuation inputs.

We achieved this by performing the following procedures:

- Involved our real estate valuation specialists to assess the key valuation assumptions and model methodology.
- Evaluated the independent portfolio valuation used by the Group in their valuation process and assessed the independence and competence of the independent valuation expert.
- Assessed the market values adopted for individual retirement units against prevailing market conditions and historical sales prices achieved during the year.
- Tested the accuracy of the underlying resident data on which the valuation is based by agreeing, on a sample basis, information in the model to resident contracts.
- Tested a sample of resident data to assess whether the accounting treatment of contractual DMF and accrued DMF were applied appropriately.
- Involved our financial modelling specialists to test the clerical accuracy and logical integrity of the retirement models prepared by the Group.
- Evaluated the adequacy of the disclosures relating to investment properties, resident obligations and DMF in the financial report, including those made with respect to judgements, estimates and fair value measurement.

Non-Retirement Development Inventories – net realisable value

Why significant	How this matter was addressed in our audit
The Group has $170 million (3% of total assets) of non-retirement development inventories at balance date. Inventories are carried at the lower of cost and net realisable value and the assessment of net realisable value involves a significant degree of judgement and can present a range of alternative outcomes. The net realisable value assessment is based on project feasibility models that take into account costs incurred to date, forecast costs to complete, average expected selling prices and sales rate per unit. The	Our audit procedures focused on assessing the judgements and assumptions made by the Group in the feasibilities underpinning the net realisable value assessments. We achieved this by performing the following procedures: ▸ Understood the Group's processes and assessed the design and operating effectiveness of relevant controls over cost accumulation and estimating costs to complete. ▸ Tested the allocation of cost of sales recognised in the consolidated statement of comprehensive income.

Group also considers the impact of changes in expected market conditions and changes to strategy.

This is considered a key audit matter due to the significant degree of judgement inherent in estimating the forecast cost to complete and future sales assumptions.

There is judgement involved in determining the appropriate allocation of cost of sales on realisation of inventory.

Notes 1 and 8 to the financial report respectively contain the revenue recognised in relation to the sale of inventories and carrying amounts of inventories as well as a description of the accounting policy treatment.

Disclosure of the significant judgements is included in note 14 of the financial report.

- Assessed the Group's impairment methodology and project margin analysis and, on a sample basis, tested the feasibility models for mathematical accuracy.
- Identified higher risk projects, based on our judgement, and assessed project costs to date and estimated costs to complete compared to budget, the progress of the development, and contingency estimates for remaining development risks. This included enquiring with project managers.
- Assessed the key inputs and assumptions used in the project feasibility analysis for a sample of projects, which included comparing this information to external market data and historical sales and costs.
- Involved our real estate valuation specialists to assess market factors impacting areas of judgement and evaluate the appropriateness of the discount rates applied based on our assessment of market activity in the year.

Retirements Villages Group Acquisition

Why significant	How this matter was addressed in our audit
On 24 August 2016, the Group acquired the remaining 27.1% ownership interest in Retirement Villages Group ("RVG") making RVG a wholly owned subsidiary of the Group which is therefore no longer equity accounted. This has been accounted for as a business combination under Australian Accounting Standard - AASB 3 *Business combinations*. The Group assessed that there were no unrecognised assets or liabilities at acquisition and that the carrying amounts of the assets and liabilities at 30 June 2016 were not materially different to the fair value at acquisition. In accordance with the initial measurement requirements of AASB 3, the $265 million investment previously held under equity accounting was revalued to fair value of $305 million resulting in a gain of $40 million before tax. The consideration paid for the remaining ownership interest was below fair value which resulted in a discount on acquisition of $13 million before tax. Both these items have been recognised in the income statement. Profits earned prior to the date of acquisition have been included within the share of net (loss)/profit of associated and joint ventures accounted for using the equity method. Note 17 to the financial report discloses the details of the acquisition and associated accounting treatment.	Our audit procedures focused on assessing the judgements made by the Group and the appropriateness of the treatment adopted in line with AASB 3 *Business Combinations*. We achieved this by performing the following procedures: ▸ Obtained and reviewed the Securities Sales Agreement and assessed the acquisition accounting treatment recorded in accordance with the agreement. ▸ Assessed the fair value of assets and liabilities at the date of acquisition with reference to the audited position at 30 June 2016. ▸ Assessed the appropriateness of the treatment of the gain on consolidation and discount on acquisition in accordance with Australian Accounting Standards. ▸ Performed a recalculation of the Group's share of RVG profit up to the date the Group acquired the remaining ownership interest in RVG to assess whether this was appropriately equity accounted and that the results subsequent to this date were appropriately consolidated into the results of the Group.

Building a better working world

Information other than the Financial Report and Auditors Report

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon. We obtained the Directors' Report, Remuneration Report and the Corporate Governance Statement that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, 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 Report

The Directors of Aveo Group Limited and the Directors of Aveo Funds Management as Responsible Entity for Aveo Group Trust (collectively referred to as "the Directors") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to

draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 34 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Aveo Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Douglas Bain
Partner
Sydney
16 August 2017

Securityholder Information

The information set out below was prepared as at 25 August 2017 and applies equally to the Aveo Group Trust and Aveo Group Limited, as members are required to hold equal numbers of units in the Group Trust and shares in the Parent Entity under the terms of the joint quotation on the Australian Securities Exchange.

Largest 20 Securityholders	Number of Securities	Percentage of Issued Securities
HSBC Custody Nominees (Australia) Limited	121,516,067	20.90
Citicorp Nominees Pty Limited	110,940,502	19.08
J.P Morgan Nominees Australia Limited	63,335,852	10.89
National Nominees Limited	43,657,680	7.51
Rosetec Investments Ltd <Rosetec Investments Ltd A/C>	27,050,301	4.65
Citicorp Nominees Pty Ltd <Citibank ESW RIL&CITIC A/C>	20,790,847	3.58
HSBC Custody Nominees (Australia) Limited - A/C 2	20,031,003	3.45
BNP Paribas Noms Pty Ltd <DRP>	17,816,620	3.06
UBS Nominees Pty Ltd	15,149,064	2.61
Citicorp Nominees Pty Ltd <CB ESW Mulpha Inv & Citic A/C>	13,683,928	2.35
Ilwella Pty Ltd	13,500,000	2.32
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	9,183,634	1.58
RBC Investor Services Australia Nominees Pty Ltd <VFA A/C>	6,246,403	1.07
AET SFS Pty Ltd <AOG Unallocated A/C>	4,143,966	0.71
Mt Byron Pastoral Company Pty Ltd	3,000,000	0.52
Mt Byron Pastoral Company Pty Ltd <Super Fund A/C>	1,881,101	0.32
RBC Investor Services Australia Nominees Pty Limited <BKCust A/C>	1,717,848	0.30
AMP Life Limited	1,714,787	0.29
Citcorp Nominees Pty Limited <Colonial First State Inv A/C>	1,667,124	0.29
BNP Paribas Noms (NZ) Ltd <DRP>	1,362,656	0.23
	498,389,383	**85.73**

The total number of securities on issue as at 25 August 2017 is 581,337,672.

SUBSTANTIAL HOLDERS AS AT 25 AUGUST 2017

Substantial Securityholders	Effective Date	Number of Securities	%
Mulpha International Bhd	24/8/2016	131,174,775	22.60

Distribution of Securityholders	Number of Securities	Number of Securityholders
Category		
1 – 1,000	1,570,783	4,748
1,001 – 5,000	10,435,682	3,649
5,001 – 10,000	13,799,580	1,805
10,001 – 100,000	36,028,827	1,520
100,001 and over	519,502,800	99
	581,337,672	**11,821**

There were 2,035 Securityholders holding less than a marketable parcel at $2.6100 per security.

VOTING RIGHTS

On a show of hands every securityholder, present in person or by proxy or by attorney or by duly authorised representative, shall have one vote and on a poll, every securityholder so present shall have one vote for every security held by such securityholder.

SECURITIES EXCHANGE

Aveo Group Limited and Aveo Group Trust, are jointly quoted on the Australian Securities Exchange (ASX Code: AOG) with a home exchange in Sydney.

ON MARKET BUY BACK

There is currently an on-market buy back within the 10/12 limit for the period commencing 17 August 2017 and ending on 16 August 2018. A total of 500,000 securities have been purchased under this buy-back.

SECURITYHOLDERS' ENQUIRIES

Securityholders with enquiries about their holding should contact the Aveo Group Securityholder Registrar as follows:

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED

Level 4
60 Carrington Street
Sydney NSW 2000

Telephone (within Australia): 1300 658 814
Telephone (outside Australia): +61 (0)3 9415 4316
Facsimile: +61 (0)3 9473 2500
Internet: www.computershare.com.au

Enquiries of a general nature should be directed to the Company Secretary on +61 2 9270 6100 or via email company.secretarial@aveo.com.au

DISTRIBUTION/DIVIDEND

A distribution for the twelve month period ending 30 June 2017 of 9.0 cents per stapled security was paid to securityholders on 29 September 2017. The record date for determining entitlement to the distribution was 30 June 2017.

REINVESTMENT PLAN

Aveo Group has a Distribution Reinvestment Plan (DRP) which allows securityholders to have their payments used to buy more stapled securities in the Group at a discount of up to 10% as determined by the Board with no costs. On 24 September 2012, Aveo Group announced that its DRP would be suspended and would remain suspended until the directors of Aveo Group decide to reapply it to future distributions. On 14 June 2017, Aveo Group confirmed that the DRP remains suspended and therefore would not operate for the distribution for the twelve month period ended 29 June 2017.

ELECTRONIC COMMUNICATIONS

As an Aveo securityholder, every year you are sent a number of securityholder communications via post. Register your email address with the Aveo Group Securityholder Registrar to receive your securityholder communications electronically.

ANNUAL REPORT

Securityholders have a choice as to whether or not they receive the annual report. If you do not wish to receive the annual report please advise the Securityholder Registrar in writing. These securityholders will continue to receive all other securityholder information.

The annual report, together with all significant announcements made by the Group to the ASX, are available from the Investor Centre on the Aveo website (http://www.aveo.com.au/)

TO CONSOLIDATE SECURITYHOLDINGS

Securityholders who want to consolidate their separate securityholdings into one account should write to the Securityholder Registrar or their sponsoring broker, whichever is applicable.

TAX FILE NUMBERS (TFN)

Whilst not compulsory, most Australian resident securityholders prefer to quote their TFN to avoid having withholding tax deducted from dividends which are unfranked or from distributions paid by property trusts. Securityholders should advise in writing their TFN details to the Securityholder Registrar or sponsoring broker, whichever is applicable.

COMPLAINTS

Any securityholder wishing to register a complaint should direct it to the Company Secretary in the first instance, at the Aveo Group's address listed in this report.

Aveo Funds Management Limited is a member of an independent dispute resolution scheme, the Financial Ombudsman Service (FOS). If a securityholder feels that a complaint remains unresolved or wishes it to be investigated further, FOS can be contacted as detailed below:

By telephone:	1300 780 808
In writing:	Financial Ombudsman Services Limited GPO Box 3, Melbourne VIC 3001
Website:	www.fos.org.au

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 15 November 2017.

ANNUAL TAXATION STATEMENTS

The Aveo Group Annual Taxation Statements, including the Aveo Group Tax Guide for the year ended 30 June 2017 was dispatched to all securityholders on 29 August 2017.

For information regarding the taxable components, including the relevant components for Aveo Group Trust under 12-H of the *Taxation Administration Act* 1953 (Cth) please refer to the Aveo Group website at https://www.aveo.com.au/investor-centre/distributions/ for further details.

Corporate Governance

CORPORATE GOVERNANCE STATEMENT

The full Corporate Governance Statement (Statement), which outlines key aspects of Aveo Group's corporate governance framework and practices, in addition to the Appendix 4G, was approved by the Board of Directors on 16 August 2017 and are available at:

http://www.aveo.com.au/investor-centre/corporate-governance

This Statement outlines the main corporate governance practices that have been in place for the FY17 financial year, and the extent to which the Group has followed the recommendations of the 3rd Edition of the ASX Corporate Governance Council's (Council) Corporate Governance Principles and Recommendations (the Guidelines).

The Guidelines set out the core principles and practices that the Council believe underlie good corporate governance, and all listed entities are required to report against the Guidelines on an "if not, why not" basis. The Board of Directors continually reviews the governance framework and practices of the Group to ensure they meet the interests of securityholders.

The Aveo Group website also contains copies of the Board and Committee Charters, and key policies referred to in the Corporate Governance Statement.

BOARD OF DIRECTORS

The Board has determined that the optimal Board size is seven Directors. As such, the Board currently comprises six Non-Executive Directors and the Executive Director (who is the Chief Executive Officer).

During FY17, there were a number of changes to the Aveo Group Board Directors, whereby after more than 11 years of service, non-executive director and Chairman of the Audit & Risk Committee Mr L. R. McKinnon retired from the Aveo Group Board on 16 November 2016 and Mr S.B Muggleton who joined the Board as a non-executive director in June 2014, resigned from the Board on 31 August 2016.

Following the resignations of Mr McKinnon and Mr Muggleton, the Board welcomed two new Directors during FY17, Ms D.P. Saw appointed on 16 November 2016 and Mr K.K Lo on 16 February 2017.

Ms Saw brings to Board significant experience in property financing and investment, specifically capital management, real estate transactional experience and risk management. Ms Saw represented a diversity milestone for the group, being the first female director appointed to the Board.

Mr Lo brings to Board extensive legal and finance background obtained primarily in funds management, as well as real estate experience obtained in both Asia and the United States.

Both Ms Saw and Mr Lo will offer themselves for election by Securityholders at the 2017 Annual General Meeting on 15 November 2017.

DIRECTORS' SKILLS AND EXPERIENCE

The Board considers that its directors and senior management have the combined skills and experience to discharge their respective obligations that will assist in the realisation of the Group's strategy to become a pure-play retirement operator and the identified financial targets for FY18 to FY21 which underpin this strategy.

The skills and experience of the Board is summarised in the diagram and table below.

The executive and professional experiences of the Aveo Directors are varied, with a mix of financial, accounting, risk, healthcare and legal backgrounds.

Each of the skills that the Board believes are required are represented on the diagram. While each Director has varying skills and experience, and not all Directors possess each skill, as a collective, the Board believes all skills required are represented in its membership. However, as the strategy for the Group evolves, the Board will, at least, annually review the skills and experience required.

An area that is becoming increasingly important within the Group as the Group's strategy develops and is achieved is a deeper understanding and experience in retirement, aged care and the delivery of support services. The Board considers this particular skill as a potential skill requirement in the future, as well as an area for further training and development for existing Directors.

The following business experience and skills have been identified as required to enable the Board to discharge its duties effectively and enable Aveo to deliver on its strategy. The Board will endeavour to maintain this mix of skills on the Board and build on them over time.

Skills/experience	Detail	Board Skills
Accounting and Audit	Experience with accounting and audit functions, including understanding the impact of accounting policies on Aveo	Yes
Corporate Finance and Treasury	Experience in managing finance and treasury functions	Yes
Enterprise Risk Management	Experience in identifying, monitoring and managing key risks to the organisation	Yes
Capital Transactions	Experience in managing capital transactions	Yes
Mergers, acquisitions and divestments	Experience in identifying and managing the process for mergers, acquisitions and divestments, including integration	Yes
Aged care and allied health services provision	Understanding of the sector in which Aveo operates	Yes
Corporate and regulatory governance	Understanding the regulatory framework affecting Aveo	Yes
Retirement village operations	Understanding of retirement village operations	Yes
Legal and compliance	Ability to identify key risks to the group in a wide range of areas including legal and regulatory compliance and monitor risk and compliance management frameworks and systems.	Yes
Human resources and remuneration	Experience in managing staff and developing remuneration and human resource frameworks	Yes

DIVERSITY

In addition to Directors skills and experience, the Board also actively seeks to have a diverse Board representation and reviews diversity on a regular basis.

The Group is committed to an inclusive workforce that embraces and promotes diversity and equality in the workplace, as it adds value to the organisation by actively creating opportunities for all employees to use their knowledge, skills and abilities.

The Group believes that diversity extends beyond gender and the Diversity Policy has evolved on this basis. The Board recognises the value in having a mix of relevant business, executive and professional experience, and benefits of diversity.

The following chart demonstrates the diversity of the Board, which the Board, has determined to be a good mix for the current business and its strategy.

Five Year Financial Summary

		2017	2016	2015	2014	2013
Net profit/(loss) attributable to securityholders	$m	252.8	116.0	58.0	26.1	(166.5)
Underlying net profit after tax[1]	$m	108.4	89.0	54.7	42.1	39.2
Total assets	$m	5,955.1	4,094.5	3,392.80	3,269.8	3,357.9
Total debt	$m	573.1	462.0	359.5	344.6	685.0
Total equity	$m	1,978.7	1660.4	1505.6	1,429.5	1,174.0
Reported gearing[2]	%	16.9	17.4	13.8	15.8	31.5
Market capitalisation	$m	1,605	1,715	1326.7	1,030.2	408.4
Security price at year end[3]	$	2.78	3.17	2.58	2.06	1.27
Reported earnings per security[3]	cents	44.2	22.1	11.6	5.9	(52.4)
Underlying earnings per security[3]	cents	18.9	17.0	10.9	9.5	13.6
Dividends & distributions paid	$m	52.0	43.5	25.8	20.0	3.2
Dividends & distributions per security[3]	cents	9.00	8.00	5.00	4.00	1.00
Net tangible assets per security[3]	$	3.37	3.00	2.85	2.78	3.53

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit.
2. Measured as net debt divided by total assets net of cash and resident loans.
3. This data has been adjusted to reflect the seven for one stapled security consolidation made on 13 December 2012.

Corporate Directory

CORPORATION/RESPONSIBLE ENTITY

Aveo Group Limited
ABN 28 010 729 950

Aveo Funds Management Limited
ABN 17 089 800 082
AFSL 222273

Level 5, 99 Macquarie Street
Sydney NSW 2000

Website: www.aveo.com.au

BOARD OF DIRECTORS

Seng Huang Lee (Chairman)
Jim Frayne
Geoffrey Grady
Eric Lee
Kelvin Lo
Walter McDonald
Diana Saw
Greg Shaw (Alternate to Seng Huang Lee)
Greg Shaw (Alternate to Eric Lee)

COMPANY SECRETARY

Anna Wyke

CHIEF FINANCIAL OFFICER

David Hunt

AUDIT COMMITTEE

Jim Frayne (Chairman)
Eric Lee
Kelvin Lo

NOMINATION AND REMUNERATION COMMITTEE

Walter McDonald (Chairman)
Jim Frayne
Seng Huang Lee

AUDITOR

Ernst & Young

COMPLAINT RESOLUTION SERVICE (FINANCIAL SERVICES)

Financial Ombudsman Service Limited
GPO Box 3
Melbourne Vic 3001

Telephone: 1300 780 808

CONTACT

Level 5, 99 Macquarie Street
Sydney NSW 2000

Telephone: +61 2 9270 6100

DISCLAIMER OF LIABILITY

This Report contains forward-looking statements (**Forward Statements**). Forward Statements can generally be identified by the use of forward looking words such as "guidance", "anticipate", "estimates", "will", "should", "could", "may", "expects", "plans", "forecast", "target" or similar expressions. Forward Statements, including indications, guidance or outlook on future revenues, distributions or financial position and performance or return or growth in underlying investments are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No independent third party has reviewed the reasonableness of any such statements or assumptions. No member of the Group represents or warrants that such Forward Statements will be achieved or will prove to be correct or gives any warranty, express or implied, as to the accuracy, completeness, likelihood of achievement or reasonableness of any Forward Statement contained in this Report. Except as required by law or regulation, the Group assumes no obligation to release updates or revisions to Forward Statements to reflect any changes.

Please note: All figures are Australian dollars unless otherwise indicated.

Aveo Group
2017 Annual Report

www.aveo.com.au