

ASX Announcement

26 February 2020

Results for the half-year ended 31 December 2019

Eureka Group Holdings (ASX: EGH) (Eureka) is pleased to report a net profit after tax (NPAT) of \$5.22 million (2018: \$2.83 million) for the six months ended 31 December 2019.

The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) for the 6 months ended 31 December 2019 is \$6.77 million (2018: \$4.38 million). This includes: -

- a net gain on asset revaluations of \$0.71 million (2018: \$0.70 million);
- a gain of \$0.84 million on the sale of 16 units at Terranora, NSW (2018: \$nil);
- a refund of \$0.64 million of prior period goods and services tax (GST) (2018: \$nil); and
- a share of an underlying revaluation of the Tasmanian village portfolio of \$0.46 million (2018: \$nil).

The core operating EBITDA is \$4.12 million (2018: \$3.69 million), a 12% increase on prior year. Occupancy of 94% was achieved across the portfolio of 2,043 owned and managed village units at 31 December 2019 (2018: 92%). The Tasmanian villages contributed \$0.41 million (2018: \$0.31 million) towards core operating EBITDA (excluding the underlying revaluation of the assets).

Net debt has reduced from 30 June 2019 by 8% to \$42.42 million.

Net operating cashflow for the period was \$3.49 million (2018: \$2.17 million).

Eureka continues to dispose of non-performing assets with the sale of units at Terranora, NSW, the disposal of a property located at Bowen, Qld and the sale of two residential houses in Mt Gambier, SA.

The Group entered into an unconditional contract to acquire a 124-unit rental village in Bundaberg, Qld for \$13.13 million (excluding transaction costs), which is due to settle on 28 February 2020.

Dividend

An interim dividend of 0.55 cents per share will be paid on 25 March 2020. The record date for the dividend is 6 March 2020.

Outlook

Eureka has completed a satisfactory first half, improving occupancy rates, achieving cost savings and undertaking a capital expenditure program on village solar energy programs that will generate longer term value.

In the second half Eureka expects a continuation of improved occupancy rates and further development of the operating pillars set out in the 2019 Annual Report. Additional capital expenditure will be undertaken on village solar energy programs.

Earnings from the Bundaberg acquisition will commence in the fourth quarter.

Full year core operating EBITDA guidance is forecast in a range from \$8.00 million to \$8.20 million, consistent with previous guidance. Whilst Eureka is taking a prudent approach to expansion a number of acquisition and development opportunities are under review.

This announcement was approved, and authorised for release, by Eureka's Board of Directors.

For further information, contact Murray Boyte, Executive Chairman on 07 5568 0205.

Important Information and Disclaimer

This announcement may contain forward-looking statements, which include all matters that are not historical facts. Without limitation, indications of, and guidance on, future earnings and financial position and performance are examples of forward-looking statements.

Forward-looking statements, including projections or guidance on future earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including EGH). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual results, performance or achievement may vary materially from any projections and forward looking statements and the assumptions on which those statements are based.

Current period

1 July 2019 - 31 December 2019

Previous corresponding period

1 July 2018 - 31 December 2018

Results for announcement to the market

Summary Financial Information	Period ended 31 Dec 2019 A\$000	Period ended 31 Dec 2018 A\$000	Change %
Revenue from ordinary activities	16,700	13,812	+20.9%
EBITDA ¹	6,771	4,381	+54.6%
Profit / (loss) from ordinary activities after tax attributable to members	5,223	2,833	+84.4%
Net profit / (loss) for the period attributable to members	5,223	2,833	+84.4%

Dividends	Amount per security (cents)	Franked amount
Interim dividend (FY20) Final dividend (FY19)	0.55 1.00	NIL NIL
FY20 Interim dividend dates Ex-dividend date Record date Payment date	5 March 2020 6 March 2020 25 March 2020	
No dividend reinvestment plan is in operation.		

An explanation of the above figures is contained within the 'Review of results and operations' section of the Directors' Report, which forms part of the attached Half Year Financial Report.

¹ EBITDA (Earnings before interest, tax, depreciation and amortisation) is an unaudited non-IFRS measure. The Directors believe that it is a readily calculated measure that has broad acceptance and is referred to by regular users of published financial statements as proxy for overall operating performance. EBITDA presented has been calculated from amounts disclosed in the financial statements.

	Current Period Cents	Prior Period Cents
Net tangible assets per security		
Net tangible assets backing per ordinary security	34.23	31.34

Details of Entities Over Which Control Has Been Gained or Lost

Control gained over entities

Name of entity (or group of entities)

N/A

Date control gained

N/A

Contribution of the controlled entity (or group of entities) to profit after tax from ordinary activities during the period, from the date of gaining control

N/A

Details of Associates or Joint Venture Entities

Names of Joint Venture Entities

Affordable Living Services Unit Trust
Affordable Living Unit Trust

Percentage of holding in Joint Venture Entities

50%

	Current Period \$A'000	Prior Period \$A'000
Aggregate share of profits/(losses) from Joint Venture Entities	867	311
Contribution to net profit from Joint Venture Entities	867	311

Foreign Entities Accounting

For Foreign Entities provide details of which accounting standards have been adopted (e.g. International Accounting Standards)

N/A

Audit qualification of review

The attached Half Year Financial Report for the period ended 31 December 2019 has been reviewed by the auditor and the Independent Auditor's Review Report is included in the Half Year Financial Report. No disputes or qualifications are noted.

Attachments forming part of Appendix 4D

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| 1 | Half Year Financial Report for the period ended 31 December 2019 |
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Murray Boyte

Executive Chairman

Dated in Brisbane this 25th day of February 2020

Half Year Financial Report

31 December 2019



ABN: 15 097 241 159

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Directors' Report

The Directors present their report on Eureka Group Holdings Limited (the "Company", "EGH" or "Eureka") and its controlled entities (the "Group" or the "Consolidated Entity") for the half-year ended 31 December 2019 ("the period").

DIRECTORS

The following persons were Directors of the Company during the whole of the period and up to the date of this report, unless otherwise stated:

Murray Boyte

Sue Renkin

Russell Banham

Lachlan McIntosh

Resigned 31 December 2019

PRINCIPAL ACTIVITIES

The principal activities of EGH include:

- Providing independent living accommodation and services to a broad market of senior residents; and
- Providing specialist property asset management through property ownership, caretaking and infrastructure management.

REVIEW OF OPERATIONS AND RESULTS

The Group has reported a profit before and after tax for the period of \$5.22 million (2018: \$2.83 million) and an EBITDA¹ of \$6.77 million (2018: \$4.38 million). The Group's portfolio of residential village assets performed well as a result of increased occupancy and cost saving initiatives. The Group's results include a profit from the sale of units in Terranora, a refund of prior period goods and services tax (GST) and an increased profit contribution from the joint venture which owns and operates the villages in Tasmania.

A summary of the Group's performance and a reconciliation to the Group's EBITDA¹ from core operations is shown below:

Performance Summary

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Profit/(loss) before and after tax	5,223	2,833
Depreciation and amortisation	270	113
Finance costs	1,278	1,435
EBITDA ¹	6,771	4,381
(Gain)/Loss on fair value adjustment of:		
- Investment property	(786)	(865)
- Other assets	-	169
- Tasmanian villages – included in Share of profit of a joint venture	(457)	-
Impairment of intangible assets	80	-
Profit on sale of Terranora units	(839)	-
Refund of prior period GST	(644)	-
EBITDA ¹ from core operations	4,125	3,685
Earnings per share (basic and diluted)	2.26	1.23

¹ EBITDA (Earnings before interest, tax, depreciation and amortisation) is an unaudited non-IFRS measure. The Directors believe it is a readily calculated measure that has broad acceptance and is referred to by regular users of published financial statements as a proxy for overall operating performance. EBITDA presented has been calculated from amounts disclosed in the financial statements.

Directors' Report

Financial Position

A summary of the Group's financial position is shown below:

		Consolidated	
		31 Dec 2019	30 June 2019
Total Assets	\$'000	132,696	133,072
Net assets	\$'000	84,256	81,482
Working capital (current assets less current liabilities)	\$'000	9,950	10,887
Cash and cash equivalents	\$'000	2,549	3,060
Debt	\$'000	44,972	49,234
Shares on issue	'000	230,038	230,038
Net tangible assets per share	cents	34.2	33.1

Balance sheet movements during the period included:

- A reduction in inventory due to the sale of Terranora units (\$2.68 million), the sale of other non-core assets (\$2.07 million), repayment of debt (net \$4.26 million), asset revaluations (\$0.79 million) and the recognition of right of use (ROU) assets as a result of adopting AASB 16 (\$0.77 million). Further details about the ROU assets are contained in notes 1 and 12.
- Lease liabilities were recognised during the period as a result of adopting AASB 16 (\$1.03 million). Further details are contained in notes 1 and 14.

Acquisitions

During the period, the Group entered into an unconditional contract to acquire a 124-unit rental village in Bundaberg, Qld for \$13.13 million (excluding transaction costs), which is due to settle on 28 February 2020. A deposit of \$0.66 million was paid during the period.

The Group spent \$0.84 million on enhancing its owned villages through capital improvements including expenditure of \$0.07 million on its solar energy program. The Group increased its ownership in non-wholly owned villages by acquiring 7 units for \$0.65 million (excluding transaction costs). There were no other significant acquisitions made during the period.

Disposals

The Group's program of realising non-core and underperforming assets continued during the period including:

- settlement of 16 units at Terranora, NSW for \$4.22 million;
- disposal of the property located at Bowen, Qld for \$1.53 million; and
- the sale of two houses in Mt Gambier, SA for \$0.54 million.

Couran Cove

McIntosh Loan - the McIntosh loan has been repaid in full subsequent to 31 December 2019.

West Cabin Loan – the loan repayment is expected upon settlement of the sale contracts of the two cabins held as security against the loan.

Land option – the Group has a first right of refusal to purchase 60 proposed cabin sites for \$50,000 per site at Couran Cove, Qld. This option is held at its assessed fair value of \$1.24 million (30 June 2019: \$1.24 million).

Terranora

During the period, marketing and sales of the individually strata-titled units at Terranora has been ongoing with 16 units sold for total proceeds of \$4.22 million. An additional 6 units have settled or are contracted to settle subsequent to period-end, totalling \$1.54 million. The remaining unsold units are held in inventory and valued at the lower of cost or net realisable value.

The Group continues to hold a vacant 4.8 hectares of land (\$2.30 million) and manager's unit (\$0.60 million) as investment property at fair value.

Directors' Report

Capital management – debt & equity

Debt

The Group was in compliance with all banking covenants during the period. The Westpac debt facility of \$1.76 million was repaid during the period.

Under the terms of its National Australia Bank (NAB) debt facility, Eureka is able to deposit and withdraw funds in accordance with its working capital needs, subject to satisfaction of the bank's covenants. At balance date the undrawn amount under the facility was \$10.03 million.

Subsequent to the period ended 31 December 2019, the Group's NAB facility was increased from \$55.00 million to \$60.00 million to partly fund the acquisition of the new village at Bundaberg, Qld.

Equity

The following changes in equity occurred during the period:

- the on-market share buy-back is open until 16 March 2020. No shares were bought back and cancelled during the period (2018: nil);
- there were no share options or share rights outstanding at 31 December 2019; and
- a dividend of \$2.30 million was paid during the period.

Impact of AASB 16 Leases

The Group adopted AASB16 Leases from 1 July 2019 using the modified retrospective method, whereby the Group has recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of equity as at 1 July 2019 and has not restated comparatives, as permitted under the specific transition provisions in the standard. The leases relate to office space, office equipment and a number of residential units which the Group sub-leases. The adoption of AASB 16 Leases, has resulted in a decrease in operating expenses and an increase in depreciation and finance costs. Given the effect of the new accounting standard on the half year results and balance sheet at 31 December 2019, the Directors have included the following tables. Further information on the impact of the new Leases standard is described in note 1 and 12.

Impact on Consolidated Statement of Financial Position

	30 June 2019 \$'000	Adjustment on adoption of AASB 16 \$'000	1 July 2019 \$'000	Transactions during the period \$'000
Assets				
Right of use assets	-	880	880	(113)
Total assets	133,072	880	133,952	(113)
Liabilities				
Other financial liabilities	49,490	1,029	50,519	(116)
Total liabilities	51,590	1,029	52,619	(116)
Net assets	81,482	(149)	81,333	3
Equity				
Share capital	94,352	-	94,352	-
Accumulated losses	(12,870)	(149)	(13,019)	3
Total equity	81,482	(149)	81,333	3

Impact on Statement of Profit and Loss and Other Comprehensive Income

Lease expense	-	-	-	(141)
Depreciation expense	-	-	-	113
Interest expense	-	-	-	25
Net profit before and after tax	-	-	-	3

Directors' Report

Impact on Consolidated Statement of Cashflows

	30 June 2019 \$'000	Adjustment on adoption of AASB 16 \$'000	1 July 2019 \$'000	Transactions during the period \$'000
Cashflows from operating activities	-	-	-	110
Cashflows from financing activities	-	-	-	(110)
Net cashflows	-	-	-	-

Outlook for FY2020

Eureka is committed to:

- Further expanding its core business of providing rental accommodation for independent seniors through the active management of existing assets, the acquisition of additional villages and units, and the realisation of development opportunities;
- Improving the performance of our existing portfolio with continued focus on maintaining and improving occupancy through the ongoing strengthening of our relationships within our communities;
- Implementing operational efficiencies, cost reduction and streamlined support services through process and systems improvements across our villages and support office;
- Recycling of capital through the divestment of the Group's non-core assets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group, other than those addressed in the Directors' Report.

SUBSEQUENT EVENTS

Details of the events that occurred after the end of the period are contained in Note 2.

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191'Class issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. The amounts contained in the financial and directors' report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$'000).

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 29.



Murray Boyte
Executive Chairman

Dated this 25th day of February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Rental income		8,528	8,170
Catering income		2,104	2,173
Service and caretaking fees		1,844	1,459
Revenue from sale of inventory	7	4,224	2,010
Finance income		21	28
Other income		-	91
Property expenses		(5,623)	(6,215)
Cost of sales – inventory		(3,385)	(2,010)
Employee expenses		(1,383)	(1,085)
Finance costs		(1,278)	(1,435)
Marketing expenses		(82)	(79)
Depreciation & amortisation		(270)	(113)
Other expenses		(1,050)	(1,168)
Net gain/(loss) on change in fair value of:			
Investment property		786	865
Other assets		-	(169)
Impairment of intangibles		(80)	-
Share of profit of a joint venture	13	867	311
Profit before income tax expense		5,223	2,833
Income tax expense		-	-
Profit after income tax expense		5,223	2,833
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income/(loss) for the period, net of tax		-	-
Total comprehensive income/(loss) for the period		5,223	2,833
Basic earnings per share (cents per share)		2.26	1.23
Diluted earnings per share (cents per share)		2.26	1.23

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes. The Directors note that the 31 December 2019 period results include the impact of accounting for AASB 16 Leases, whilst the 31 December 2018 results were prepared under the previous lease accounting standard requirements; refer to notes 1 and 12 for further explanations.

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Note	31 Dec 2019 \$'000	30 June 2019 \$'000
Current Assets			
Cash and cash equivalents		2,549	3,060
Trade and other receivables	6	271	391
Inventory	7	6,535	9,215
Loans receivable	8	435	698
Other assets	9	2,674	1,464
		<u>12,464</u>	<u>14,828</u>
Non-current assets held for sale	10	534	519
Total current assets		<u>12,998</u>	<u>15,347</u>
Non-Current Assets			
Loans receivable	8	389	414
Joint Venture investment	13	5,192	4,661
Investment property	11	106,732	105,406
Property, plant and equipment		631	659
Right of use assets	12	767	-
Intangible assets		4,750	5,348
Other assets	9	1,237	1,237
Total non-current assets		<u>119,698</u>	<u>117,725</u>
Total Assets		<u>132,696</u>	<u>133,072</u>
Current Liabilities			
Trade and other payables		1,442	1,672
Other financial liabilities	14	1,132	2,372
Provisions		474	416
Total current liabilities		<u>3,048</u>	<u>4,460</u>
Non-current liabilities			
Other financial liabilities	14	45,342	47,118
Provisions		50	12
Total non-current liabilities		<u>45,392</u>	<u>47,130</u>
Total Liabilities		<u>48,440</u>	<u>51,590</u>
Net Assets		<u>84,256</u>	<u>81,482</u>
Equity			
Share capital	15	94,352	94,352
Accumulated losses		(10,096)	(12,870)
Total Equity		<u>84,256</u>	<u>81,482</u>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes. The Directors note that the 31 December 2019 period results include the impact of accounting for AASB 16 Leases, whilst the 30 June 2019 results were prepared under the previous lease accounting standard requirements; refer to notes 1 and 12 for further explanations.

Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash Flows from Operating Activities		
Receipts from customers	12,753	12,271
Payments to suppliers & employees	(8,088)	(9,304)
Interest received	28	5
Interest paid	(1,200)	(798)
Net cash provided by Operating Activities	3,493	2,174
Cash Flows from Investing Activities		
Payments for additions to investment properties	(2,347)	(946)
Payments for additions to inventory	(323)	(810)
Payments for property, plant and equipment	(12)	(43)
Payments made to sell non-current assets held for sale	(27)	(107)
Payments for intangible assets	-	(7)
Payments made to sell inventory	(242)	-
Payments of residential obligation loans	(97)	-
Proceeds from sale of investment properties	1,525	-
Proceeds from sale of inventory	3,575	2,010
Proceeds from the sale of non-current assets held for sale	540	100
Proceeds from repayment of loans provided	155	1,625
Proceeds from sale of intangible assets	-	606
Net Cash provided by Investing Activities	2,747	2,428
Cash Flows from Financing Activities		
Proceeds from borrowings	3,000	-
Repayment of borrowings	(7,263)	(5,121)
Payment of dividends	(2,300)	-
Principal portion of lease payments	(110)	-
Payments of transaction costs related to borrowings	(78)	(50)
Net Cash used in Financing Activities	(6,751)	(5,171)
Net increase/(decrease) in cash and cash equivalents	(511)	(569)
Cash and cash equivalents at the beginning of the period	3,060	1,986
Cash and cash equivalents at the end of the half year	2,549	1,417

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes. The Directors note that the 31 December 2019 period results include the impact of accounting for AASB 16 Leases, whilst the 31 December 2018 results were prepared under the previous lease accounting standard requirements. Refer to notes 1 and 12 for further explanations.

Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Share Capital \$'000	Accumulated Losses \$'000	Equity Reserves \$'000	Total \$'000
For the half-year ended 31 December 2019					
Balance at 1 July 2019		94,352	(12,870)	-	81,482
Opening adjustment on adoption of AASB 16 Leases		-	(149)	-	(149)
Balance at 1 July 2019 (Restated)		94,352	(13,019)	-	81,333
Profit for the period		-	5,223	-	5,223
Total comprehensive income for the period		94,352	(7,796)	-	86,556
<i>Transactions with owners in their capacity as owners:</i>					
Dividends paid	4	-	(2,300)	-	(2,300)
Balance at 31 December 2019		94,352	(10,096)	-	84,256
For the half-year ended 31 December 2018					
Balance at 1 July 2018		94,352	(19,664)	12	74,700
Profit for the period		-	2,833	-	2,833
Total comprehensive income for the period		-	2,833	-	2,833
<i>Transactions with owners in their capacity as owners:</i>					
Cancellation of share rights and options		-	-	(12)	(12)
Balance at 31 December 2018		94,352	(16,831)	-	77,521

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes. The Directors note that the 31 December 2019 period results include the impact of accounting for AASB 16 Leases, whilst the 31 December 2018 results were prepared under the previous lease accounting standard requirements. Refer to notes 1 and 12 for further explanations.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION OF THE FINANCIAL REPORTS

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 'Interim financial reporting' and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the Group's annual financial report for the full year ended 30 June 2019.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual report with the exception of new amended standards and interpretations which have been applied as required.

(a) New, revised or amending Accounting Standards and Interpretations adopted

The Group applied AASB 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

Several other amendments and interpretations apply for the first time for the half-year financial statements but do not have an impact on the consolidated half-year financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued or not yet effective.

AASB 16 Leases

The new standard is effective for annual periods beginning on or after 1 January 2019. Details of the impact of this adoption on the Group's consolidated financial statements are described below.

The Group has adopted AASB 16 using the modified retrospective approach whereby the Group has recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of equity as at 1 July 2019. Accordingly, the Group has not restated comparative balances in this set of financial statements.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117 *Leases*. The standard includes two recognition exemption for leases – lease of "low-value" assets and leases with a lease term of 12 months or less.

Under AASB 16, a contract is a lease or contains a lease if the contract conveys the right to contract the use of an identified asset for a period of time in exchange for consideration. The distinction between finance and operating leases is eliminated for lessees (with the exception of short-term and low value leases). Both finance leases and operating leases will result in the recognition of a right-of-use (ROU) asset and a corresponding lease liability on the balance sheet. The ROU assets for these leases were measured on a retrospective basis as of lease commencement date and the assets depreciated on a straight-line basis over the term of each lease. The associated liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 July 2019.

On transition, the Group elected to apply the following practical expedients:

- Application of a single incremental borrowing rate to a portfolio of leases with reasonably similar characteristics;
- Application of the short-term lease exemption to leases with a lease term that ends within 12 months of the date of initial application;
- Application of the low value assets exemption for assets with a value less than \$5,000;
- Excluding initial direct costs from the measurement of the ROU asset at the date of initial application; and
- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

Right of Use (ROU) assets

The Group recognises ROU assets at the commencement date of the lease i.e. the date the underlying asset is available for use. ROU assets are initially measured at cost, comprised of the initial measurement of the related lease liability, any lease payments made at or before the commencement of the contract, less any lease incentives received, any initial direct costs and any restoration costs. Subsequently the asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability. ROU assets are depreciated over the shorter period of either the useful life of the underlying asset or the lease term.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or as appropriate, changes in the assessment of whether an extension option is reasonably certain to be exercised.

Key judgements and estimates in applying AASB 16

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the measurement of the lease liabilities and ROU assets recognised.

The incremental borrowing rate is the estimated rate of the interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

Depreciation of ROU assets is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives being the lesser of the remaining lease term or the life of the underlying asset.

Sub-leases

The Group's sub-leases continue to be classified as operating leases and expensed on a straight-line basis over the term of the lease.

The Group has lease contracts for various items of equipment and property. On adoption of AASB 16, the Group recognised lease liabilities in relation to these leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities were measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate as on 1 July 2019.

The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.18%.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments disclosed as at 30 June 2019 as follows:

	<u>\$'000</u>
Operating lease commitments as at 30 June 2019	1,385
Discounted using the incremental borrowing rate	1,008
Add: other lease commitment	56
Less: low-value leases not recognised	<u>(35)</u>
Lease liabilities as at 1 July 2019 (under AASB 16)	<u>1,029</u>

The associated ROU assets for leases were measured on a retrospective basis as if the AASB 16 standard had been applied since the lease commencement date discounted using the lessee's incremental borrowing rate at the date of initial application. Consequently, lease liabilities exceeded the ROU assets' carrying amount on 1 July 2019 by \$0.15 million which has been adjusted in retained earnings on 1 July 2019.

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FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Effect of adoption of AASB 16

The following table summarises the impact on transition to AASB 16 on 1 July 2019:

	30 June 2019 \$'000	Adjustment on adoption of AASB 16 \$'000	1 July 2019 \$'000
Assets			
Right of use assets	-	880	880
Total assets	133,072	880	133,952
Liabilities			
Other financial liabilities	49,490	1,029	50,519
Total liabilities	51,590	1,029	52,619
Net assets	81,482	149	81,333
Equity			
Share capital	94,352	-	94,352
Retained earnings	(12,870)	(149)	(13,019)
Total equity	81,482	(149)	81,333

The application of AASB 16 has no cash effect to the Group and the changes are for financial reporting purposes only.

As a result of initially applying AASB 16, for the leases that were previously classified as operating leases, the Group recognised \$0.88 million of right of use assets and \$1.03 million of lease liabilities in the consolidated statement of financial position on 1 July 2019. There have been no additions to ROU assets in the six-month period to 31 December 2019.

Each lease payment is now allocated between the liability and the finance cost. Previously lease payments were expensed in full to the profit or loss. The finance cost is now charged over the lease period, from transition date, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated over the lease term, from lease commencement date, on a straight-line basis. During the six months ended 31 December 2019, the Group recognised \$0.11 million of depreciation charges and \$0.03 million of interest costs from these leases.

The adoption of AASB 16 has impacted the consolidated statement of cash flows with the reclassification of the lease liability portion of the lease payments from operating to financing activities.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of office equipment.

(b) Comparative Information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and or disclosures.

(c) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are:

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Investment Property – Measurement

The Group carries its investment property at fair value, with changes in fair value being recognised in profit or loss. The best evidence of fair value is current selling prices in an active market for similar investment properties. Where such information is not available, the Group determines a property's value within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- a) Valuations undertaken by accredited external independent valuers;
- b) Acquisition price paid for the property;
- c) Recent prices of similar properties with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- d) Capitalised income projections based upon a property's estimated maintainable earnings and capitalisation rate derived from analysis of market evidence.

Investment Property – Classification

The Group classifies property as investment property when it meets the following key criteria:

- The property is held by the Group to generate long term investment growth and ongoing rental returns; and
- Ancillary services are insignificant to the arrangement as a whole.

Associated with these properties are ancillary services, principally the provision of food services to residents. Judgement is required as to whether the ancillary services are significant. Management has determined that the ancillary services are not significant by comparing:

- the fair value of the ancillary services to the total income generated from the property; and
- the profit generated from ancillary services to the total profit generated from the property.

In addition, qualitative factors have been considered as part of the assessment of ancillary services including both operational and legislative considerations. An assessment of the qualitative and economic factors associated with these services has been made and the ancillary services have been concluded not to be significant and hence property has been recorded as investment property.

Properties that do not meet this criteria are classified as property, plant and equipment.

Inventory

Inventory is valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Amortisation of Management Rights

Management rights are amortised over either 40 years (for strata-titled villages) or the period of the management right contract (for single-owner villages).

For strata-titled villages (where units are individually owned by third parties) where management rights are attached, the Group amortises its management rights over a period of 40 years (being the estimated useful life). The amortisation period used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. In determining the useful life, the Group considers the expected usage of the assets, the legal rights over the asset and the renewal period of the management rights agreements. The management rights are attached to each individual village's property and include options or the ability to renew the contract. Taking these points into consideration, the Directors believe the amortisation period should be similar to the life of the property rather than the agreement period.

For single-owner villages (where all units in the village are owned by a single third party) where management rights are attached, the management rights are amortised over the life of the contract. This is because Eureka has materially less control over future contract renewals than it does with strata-titled villages because Eureka does not own or have any sort of tenure in respect of the managers unit and a single vote of the owner can elect not to renew Eureka's management rights contract.

Recovery of Receivables

At each reporting date the Group assesses the recoverability of trade, loan and other receivables by reference to the expected future cash flows, the credit worthiness of the borrowers and the value of security provided. For trade and other receivables, the Group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Non-Current Amounts Receivable and Associated Option over property

Options over property are initially measured at cost. Subsequent to acquisition, options continue to be recorded at cost, however are tested for impairment on an annual basis. Impairment is tested by reference to the assessed value of the underlying property assets or final cash settlement alternatives. Impairment losses are recorded as incurred. Should these options not be exercised and this asset revert back to a receivable it will be assessed for impairment as a loan receivable at that point in time.

Bartercard

Bartercard assets are initially recorded at cost. At each balance date an assessment is made of the cash equivalent value obtainable on the expenditure of Bartercard. If this value exceeds cost no adjustment is made, however if the cash price equivalent is less than cost, an impairment charge is made to this asset.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences and tax losses. These assets are only recognised if the Group considers it probable that future taxable amounts will be available to utilise those temporary difference assets. Judgement is required in assessing the availability of income tax losses primarily involving the satisfaction by the relevant Group entities of legislative requirements at each reporting date by the Group including for certain years satisfaction of the "Same Business Test" as defined in S.165-210 of the Income Tax Assessment Act 1997.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

2. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

NAB finance facility

The Group agreed an increase in its NAB facility limit to \$60 million, the terms of which are materially unchanged.

Loans receivable

The McIntosh loan was repaid in full. The balance as at 31 December 2019 was \$0.04 million.

Dividend

The Board has declared an interim dividend in respect of the current year of 0.55 cents per share, payable on 25 March 2020 amounting to \$1.27 million.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

3. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets or liabilities as at 31 December 2019.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

4. DIVIDENDS

A dividend of 1.0 cent per share, totalling \$2.30 million, was declared on 30 August 2019 and paid on 17 October 2019. No other dividends were paid or declared during the period.

Since 31 December 2019 the Board has declared an interim dividend of 0.55 cents per share, amounting to \$1.27 million payable on 25 March 2020. The record date is 6 March 2020. The financial effect of this dividend has not been brought to account in this half year financial report ended 31 December 2019.

5. OPERATING SEGMENTS

Identification of reportable operating segments and principal services

For the period ended 31 December 2019, the Group is organised into two operating segments, all located in Australia:

- Rental Villages – ownership of seniors' rental villages; and
- Property Management - management of seniors' independent living communities.

The operating segments have been identified based upon reports reviewed by the Board of Directors, who are identified as the chief operating decision makers and are responsible for assessing performance and determining the allocation of resources. There is no aggregation of operating segments and the Board of Directors views each segments performance based on profit after tax. The accounting policies adopted for internal reporting to the chief operating decision makers are consistent with those adopted in the financial statements.

Segment information is prepared in conformity with the accounting policies of the Group as discussed in Note 1 and Accounting Standard AASB 8.

Cash flows are not measured or reported by segment.

	Rental Villages	Property Management	Unallocated	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2019				
Revenue	10,499 ¹	1,977	-	12,476
Revenue from sale of inventory	4,224	-	-	4,224
Interest revenue	-	-	21	21
Total Revenue	14,723	1,977	21	16,721
Expenses	(4,523)	(1,315)	(2,468) ²	(8,410)
Cost of sales - inventory	(3,385)	-	-	(3,385)
Interest expense	(1,278)	-	(102)	(1,276)
Total expenses	(9,186)	(1,315)	(2,570)	(13,071)
Net gain on change in fair value of investment property	786	-	-	786
Share of profit of a joint venture	867	-	-	867
Impairment of intangibles	-	(80)	-	(80)
	1,653	(80)	-	1,573
Profit/(loss) before income tax expense	7,227	444	(2,448)	5,223
Income tax expense	-	-	-	-
Profit/(loss) after income tax expense	7,227	444	(2,448)	5,223
Segment Assets	114,897	5,313	12,486 ³	132,696
Segment Liabilities	47,677	39	724 ⁴	48,440

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

¹ Included in revenue is \$0.64 million relating to a refund of prior periods GST.

² Included in unallocated expenses is employee benefits expense of \$1.54 million, professional fees of \$0.23 million, insurance expenses of \$0.20 million, Directors' fees of \$0.17 million, office expenses of \$0.14 million and other administrative expenses of \$0.19 million.

³ Included in unallocated assets is inventory of \$6.53 million, loans receivable of \$0.36 million, Couran Cove land option of \$1.24 million, Bartercard of \$1.18 million, cash balances of \$2.55 million, prepayments of \$0.41 million, right of use assets of \$0.10 million and other assets of \$0.11 million.

⁴ Included in unallocated liabilities is trade and other creditors of \$0.41 million, lease liabilities of \$0.11 million and provisions of \$0.20 million.

	Rental Villages \$'000	Property Management \$'000	Unallocated \$'000	Total \$'000
31 December 2018				
Revenue	9,859	1,943	-	11,802
Revenue from sale of inventory	2,010	-	-	2,010
Interest revenue	-	-	28	28
Other revenue	1	-	90	91
Total Revenue	11,870	1,943	118	13,931
Expenses	(5,050)	(1,343)	(2,268) ¹	(8,661)
Cost of sales - inventory	(2,010)	-	-	(2,010)
Interest expense	(1,429)	-	(5)	(1,434)
Total expenses	(8,489)	(1,343)	(2,273)	(12,105)
Net gain/(loss) on change in fair value of:				
Investment property	865	-	-	865
Other assets	(169)	-	-	(169)
Share of profit of a joint venture	311	-	-	311
	1,007	-	-	1,007
Profit/(loss) before income tax expense	4,388	600	(2,155)	2,833
Income tax expense	-	-	-	-
Profit/(loss) after income tax expense	4,388	600	(2,155)	2,833
Segment Assets	110,507	6,028	14,685 ²	131,220
Segment Liabilities	53,115	80	504 ³	53,699

¹ Included in unallocated expenses is employee benefits expense of \$1.08 million, professional fees of \$0.39 million, insurance expenses of \$0.16 million, Directors' fees of \$0.15 million, payroll tax of \$0.13 million, recruitment costs of \$0.08 million, office expenses of \$0.08 million and other administrative expenses of \$0.19 million.

² Included in unallocated assets is inventory of \$10.07 million, loans receivable of \$0.65 million, Couran Cove land option of \$1.24 million, Bartercard of \$0.59 million, cash balances of \$1.41 million, prepayments of \$0.36 million and other assets of \$0.36 million.

³ Included in unallocated liabilities is trade and other creditors of \$0.40 million and provisions of \$0.10 million.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

6. TRADE AND OTHER RECEIVABLES

	Consolidated	
	31 Dec 2019 \$'000	30 June 2019 \$'000
Trade receivables	66	88
Other debtors	205	303
Provision for expected credit loss	-	-
	<u>271</u>	<u>391</u>

Trade receivables are non-interest bearing unless otherwise stated and are generally on 30 day terms.

7. INVENTORY

	Consolidated	
	31 Dec 2019 \$'000	30 June 2019 \$'000
Balance at beginning of reporting period	9,215	11,783
Additions – Terranora units	370	412
Disposals – Terranora units	(3,050)	(380)
Disposals – Couran Cove units	-	(2,000)
Transfer to investment properties	-	(600)
Balance at end of reporting period	<u>6,535</u>	<u>9,215</u>

During the period, 16 units were sold for a total consideration of \$4.22 million (which comprised of \$0.65 million in Bartercard and the balance in cash). The \$0.65 million in Bartercard received has a face value of \$0.93 million, however has been recorded at its assessed fair value of \$0.65 million on initial recognition. The costs of development at Terranora are capitalised to the inventory as incurred. The inventory is expected to be realised within 12 months via sales to third parties.

8. LOANS RECEIVABLE

	Consolidated	
	31 Dec 2019 \$'000	30 June 2019 \$'000
Vendor finance	462	486
McIntosh Loan (i)	42	306
West Cabin Loan (ii)	320	320
	<u>824</u>	<u>1,112</u>
Current	435	698
Non-current	389	414
	<u>824</u>	<u>1,112</u>

(i) The McIntosh loan (refer Note 17) was repaid in full subsequent to 31 December 2019.

(ii) The West Cabin loan is expected to be repaid upon settlement of the sale contracts of the two cabins held as security against the loan.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

9. OTHER ASSETS

	Consolidated	
	31 Dec 2019	30 June 2019
	\$'000	\$'000
Current		
Prepayments and other assets (i)	1,491	871
Bartercard (ii)	1,183	593
	<u>2,674</u>	<u>1,464</u>
Non-current		
Other (iii)	1,237	1,237
	<u>1,237</u>	<u>1,237</u>

- (i) Amounts included relate to prepaid expenses and other operational assets used in ordinary business activities.
- (ii) Bartercard is an alternative currency and operates as a trade exchange. The Group has utilised Bartercard in the current reporting period and has done so over recent years. At 31 December 2019, the Bartercard balance is \$1.18 million (2018: \$0.59 million), which is recorded at cost, less any impairment. Amounts of Bartercard have been advanced to suppliers in exchange for future supply of goods. These are recorded at the fair value of goods to be received and are disclosed in prepayments and other assets \$0.46 million (2018: \$0.45 million) and Investment Property \$0.71 million (2018: \$0.75 million).
- (iii) The Group has a first right of refusal to purchase 60 proposed cabin sites for \$50,000 per site at Couran Cove, Qld. This option is held at its assessed fair value of \$1.24 million (30 June 2019: \$1.24 million).

10. NON-CURRENT ASSETS HELD FOR SALE

	Consolidated	
	31 Dec 2019	30 June 2019
	\$'000	\$'000
Current		
Non-current assets held for sale	534	519
	<u>534</u>	<u>519</u>

The balance at 31 December 2019, comprised two managers' units in Village Life Caboolture.

The sale of two residential houses in Mt Gambier was completed during the period for a total consideration of \$0.54 million.

11. INVESTMENT PROPERTY

	Consolidated	
	31 Dec 2019	30 June 2019
	\$'000	\$'000
Balance at beginning of reporting period	105,406	100,756
Acquisitions (i)	1,353	177
Disposals (ii)	(1,516)	-
Capital expenditure	835	1,620
Transfer to non-current assets held for sale	(534)	-
Transfer from intangibles – management rights (iii)	402	-
Transfer from inventory – Terranora manager's residence	-	600
Net increment due to fair value adjustment	786	2,253
Balance at end of reporting period	<u>106,732</u>	<u>105,406</u>

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

- (i) Includes a \$0.66 million deposit which was paid during the period in relation to the acquisition of a new village in Bundaberg, for which settlement of the purchase is expected to occur on 28 February 2020.
- (ii) During the period, the Group divested its investment in a property located in Bowen, Qld for cash consideration of \$1.53 million. The village was sold at market value, based upon an independent external valuation, to an entity related to Mr McIntosh, a director during the period.
- (iii) Management rights held in relation to villages that are now wholly owned by the Group, for which no external revenue stream exists and that were previously classified as intangibles, have been reclassified to investment property and are included in the fair value of the respective properties.

The Group's investment property portfolio consists of 24 rental village assets along with associated managers' units and other rental units. The Group considers its investment properties reside in one class of asset, being seniors' rental villages.

At 31 December 2019, the Group undertook a review of the fair value of all investment properties held and recorded a net revaluation gain of \$0.79 million (2018: \$0.87 million). This adjustment related to all assets in the asset class and was based on inputs and assumptions disclosed in Note 16.

The net change in fair value is recognised in profit or loss in the period in which the assessment is made.

Amounts recognised in profit or loss for investment properties:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Rental income	8,528	8,170
Catering income	2,104	2,173
Direct operating expenses generating rental and catering income	(4,523)	(5,050)
Net gain from revaluation of investment property to fair value	786	865

The Group has no restrictions on the realisability of its investment property. The Group has a contractual obligation for the acquisition of a village in Bundaberg, Qld which is due to settle on 28 February 2020. There are no further contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. Certain assets are pledged as security for borrowings – Refer to Note 14.

12. RIGHT OF USE ASSETS

Right of use assets have arisen upon adoption of AASB 16 Leases from 1 July 2019. Refer to note 1 for further information.

	Consolidated	
	31 Dec 2019	30 June 2019
	\$'000	\$'000
Leased property		
Adjustment on adoption of AASB 16 on 1 July 2019	869	-
Depreciation expense	(112)	-
Closing balance at 31 December 2019	757	-
Leased equipment		
Adjustment on adoption of AASB 16 on 1 July 2019	11	-
Depreciation expense	(1)	-
Closing balance at 31 December 2019	10	-
Total Right of use assets at 31 December 2019	767	-

Income received from sub-leasing right of use assets was \$0.02 million for the period.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

13. JOINT VENTURE INVESTMENT

	Consolidated	
	31 Dec 2019	30 June 2019
	\$'000	\$'000
Balance at beginning of reporting period	4,661	4,672
Share of profit from joint venture ¹	867	712
Cash distribution received	(336)	(723)
Balance at end of reporting period	5,192	4,661

¹ Share of profit from joint venture included an underlying increase in the fair value of the Tasmanian villages of \$0.46 million (2018: \$nil)

14. OTHER FINANCIAL LIABILITIES

		Consolidated	
		31 Dec 2019	30 June 2019
		\$'000	\$'000
Current			
Commercial bills – secured	(a)	462	2,262
Lease liability	(b)	223	-
Insurance funding		447	110
		<u>1,132</u>	<u>2,372</u>
Non-current			
Commercial bills – secured	(a)	44,972	47,471
Lease liability	(b)	690	-
Borrowing costs		(320)	(353)
		<u>45,342</u>	<u>47,118</u>

- (a) As at 31 December 2019, the balance included accrued interest of \$0.46 million (2018: \$0.52 million) and the Group has access to the following facilities:

National Australia Bank (“NAB”):

- Maximum limit of \$55.00 million. Interest is payable at a fixed rate of 4.97% on \$35.00 million and at variable rates (currently 3.05%) on the remaining drawn amount. The facility expires on 31 December 2021. Quarterly interest only repayments are required. At 31 December 2019, total drawings on this facility were \$44.97 million.

The NAB facilities are secured against the Group's property assets of \$113.14 million (2019: \$115.15 million). This value represents the carrying value of assets pledged by the Group.

The commercial bill facilities are subject to covenants which are commensurate with normal secured lending terms.

The Group complied with its covenants throughout the current and prior period.

Subsequent to 31 December 2019, the facility limit has been increased to \$60.00 million. The terms and conditions of the loan remain materially unchanged.

Westpac Banking Corporation (“Westpac”):

- During the period, the commercial loan of \$1.76 million was repaid in full. Interest was payable at a variable rate on this facility.

- (b) Lease liabilities have arisen upon adoption of AASB 16 Leases from 1 July 2019. Refer to note 1 for further information.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

15. SHARE CAPITAL

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and on a poll, each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

	31 Dec 2019 Number	31 Dec 2019 \$'000	Consolidated 30 June 2019 Number	30 June 2019 \$'000
Balance at beginning and end of period	230,037,638	94,352	230,037,638	94,352

16. FAIR VALUES

Investment property and retirement village resident loans receivable are measured at fair value using the fair value measurement hierarchy method described in Note 1. All fair value measurements are categorised as Level 3 in the fair value hierarchy. There were no transfers between levels during the period. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The Group has a number of financial assets and financial liabilities (loans receivable and commercial bills) which are not measured at fair value in the statement of financial position. The fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

The Directors believe at 31 December 2019 the carrying value of all assets and liabilities approximates their fair values.

Investment properties may be valued using two methods, the capitalisation method and direct comparison approach. Under the capitalisation method, fair value is estimated using assumptions regarding the expectation of future benefits. The capitalisation method involves estimating the expected income projections of the property into perpetuity and applying a capitalisation rate. The capitalisation rate is based upon current market evidence. Future income projections take into account occupancy, rental income and operating expenses.

Under the direct comparison approach, key inputs are the recent sales of comparable units in comparable villages. All resulting fair value estimates for properties are included in Level 3 in the fair value hierarchy.

Retirement village resident loans are measured as the ingoing contribution less deductions over time for the period of tenancy as a percentage of the length of expected residence term. Although the expected average residency term is between one to ten years, these obligations are classified as current liabilities, as required by the Accounting Standards, because the Group does not have an unconditional right to defer settlement to more than twelve months after reporting date. The liability is stated net of accrued deferred management fees at reporting date, because the Group's contract with residents require net settlement of those obligations. These are included in trade payables.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

17. RELATED PARTY TRANSACTIONS

(i) Loan to a director, Mr McIntosh (resigned 31 December 2019)

	Consolidated	
	31 Dec 2019 \$'000	30 June 2019 \$'000
Balance at beginning of reporting period	306	-
Loans advanced	-	350
Loan repayments received ¹	(276)	(61)
Net interest charged	12	17
Balance at end of reporting period	42	306

¹ Loan repayments include director's fees and other fees of \$0.13 million which were offset against the loan balance during the period.

The loan was repaid in full subsequent to 31 December 2019.

(ii) Purchases from parties related to a director, Mr McIntosh (resigned 31 December 2019)

The Group acquired the following goods and services from entities that are related parties:

	Consolidated	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Manager's units rental fees	26	26
Consulting fees	50	-

Amounts outstanding at the end of the reporting period in relation to these transactions (included in Trade and other payables)

-

(iii) Fees received from related parties

The Group received fees for the following services from entities that are related parties:

	Consolidated	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<i>Parties related to a director, Mr McIntosh (resigned 31 December 2019)</i>		
Management fees	13	12
<i>Joint venture</i>		
Management fees	139	126

Amounts outstanding at the end of the reporting period in relation to these transactions (included in Trade and other receivables)

30

23

All transactions were made on commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Notes to the Financial Statements

 FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

(iv) Lease liabilities associated with right of use assets provided by related parties

As a result of the application of AASB 16 Leases, the Group recognised lease liabilities associated with right of use assets provided by related parties. The Group is the lessee for leases associated with two managers' units in entities associated with Mr McIntosh (a director during the period).

The liabilities associated with right of use assets provided by related parties (entities controlled or significantly influenced by related parties) are as follows:

	Consolidated	
	31 Dec 2019 \$'000	30 June 2019 \$'000
Balance at beginning of reporting period	-	-
Adjustment on adoption of AASB 16 on 1 July 2019	523	-
Interest	17	-
Repayments	(26)	-
Balance at end of reporting period	514	-

The balance is included in the lease liabilities disclosed in note 14.

(v) Other material transactions with director related entities

During the period, the Group divested its investment in a property located in Bowen, Qld for \$1.53 million. The village was sold at market value, based upon an independent external valuation, to an entity related to Mr McIntosh, a director during the period.

Directors' Declaration

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

In accordance with a resolution of the Directors of Eureka Group Holdings Limited, I state that:

In the opinion of the Directors of Eureka Group Holdings Limited (the "Company"):

- a. The accompanying financial statements and notes are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Board



Murray Boyte
Executive Chairman

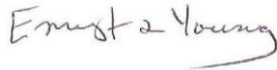
Dated this 25th day of February 2020

Auditor's Independence Declaration to the Directors of Eureka Group Holdings Limited

As lead auditor for the review of Eureka Group Holdings Limited for the half-year ended 31 December 2019, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Eureka Group Holdings Limited and the entities it controlled during the financial period.



Ernst & Young



Brad Tozer
Partner
25 February 2020

Independent Auditor's Review Report to the Members of Eureka Group Holdings Limited Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Eureka Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

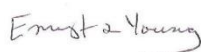
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

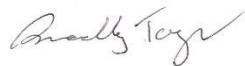
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Brad Tozer
Partner
Brisbane
25 February 2020

Corporate Directory

Registered Address & Contact Details

Registered Address	Suite 2D 7 Short St, Southport QLD 4215
Postal Address	PO Box PO Box 10819, Southport BC QLD 4215
Phone number	07 5568 0205
Website	www.eurekagroupholdings.com.au
Email	info@eurekagroupholdings.com.au

Board of Directors

Murray Boyte (Executive Chairman)
Sue Renkin
Russell Banham

Senior Management

Cameron Taylor	Chief Operating Officer
Tracey Campion	Chief Financial Officer

Company Secretary

Laura Fanning

Solicitors

Jones Day
Riverside Centre
Level 31/123 Eagle Street
Brisbane QLD 4000
Tel: 07 3085 7000
Fax: 07 3085 7099

Mills Oakley
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151 Clarence Street
Sydney NSW 2000
Tel: 02 8289 5800
Fax: 02 9247 1315

Auditors

Ernst & Young
111 Eagle St
Brisbane Qld 4000
Tel: 07 3011-3333
Fax: 07 3011-3344

Share Registry

Link Market Services – Brisbane
Level 21, 10 Eagle Street
Brisbane Qld 4000
Call Centre: 02 8280-7454
Fax: 07 3228-4999

Listing Details

ASX Limited
ASX Code: EGH (ordinary shares)

Australian Business Number

15 097 241 159