



Bright from the start

INTERIM REPORT 2018



OCEANIA
HEALTHCARE



Welcome to Oceania Healthcare's interim report for the six months ended 30 November 2017

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Oceania at a glance

Oceania Healthcare is a leading provider of healthcare services in New Zealand being the third largest in residential aged care and sixth largest in retirement village. Our properties are located in prime metropolitan areas across New Zealand and we provide a full continuum of care offering to our residents.

We have a strong platform for growth given our substantial brownfield land bank, with proven expertise and experience in managing construction projects.

We have sufficient land to build 1,782 new residences (1,393 net of decommissions) with 1,057 of these already consented.¹

We pride ourselves in being a recognised industry leader in the provision of clinical care to our residents. For the third year in a row we were awarded the Overall Excellence in Care award by the NZ Aged Care Association and also won the Best Food in Aged Care award at the national Senior Lifestyle Cuisine competition.

¹ Excluding St Heliers and land adjacent to Eden.

Oceania site locations

As at 30 November 2017

~2,750
STAFF

~2,450
AGED CARE RESIDENTS

26
EXISTING FACILITIES WITH
MATURE OPERATIONS

22
EXISTING FACILITIES WITH
BROWNFIELD DEVELOPMENTS
(CURRENT AND PLANNED)

3
UNDEVELOPED SITES

51
TOTAL SITES





Highlights

Your Board of Directors is pleased to report our first half year result for the 12 months to 31 May 2018.

Total Operating Revenue

\$92.1^m

for the first six months to 30 November 2017

⬆️ **+3.3%** higher than the corresponding period last year.

Net Profit after Tax

\$42.5^m

for the first six months to 30 November 2017

⬆️ **+93.2%** higher than the corresponding period last year.

Pro forma Underlying EBITDA

\$25.3^m¹

⬆️ **+8.6%** higher than the corresponding period last year.

Total Assets

\$1.0^{bn}

⬆️ **+19.1%** higher than the corresponding period last year. This increase in the value of our properties reflects work in progress at our development sites and an uplift in the valuation of our existing properties.

¹ This is a non-GAAP measure.



Chair and Chief Executive Officer's Report

Financial Review

Oceania Healthcare reported net profit after tax of \$42.5m for the 6 month period to 30 November 2017, 93.2% higher than the prior corresponding period last year.

Pro forma underlying EBITDA¹ increased by 8.6% to \$25.3m over this time, driven by fees from ORA contracts (DMF) and realised development margins.

Total assets increased by \$160.5m to \$1.0bn due to significant development capital expenditure, acquisitions and revaluations.

Total operating revenue was up 3.3% to \$92.1m driven by increased care revenues of \$79.9m.

Occupancy at care facilities that are not impacted by our redevelopment activity held at 89.0% compared with 91.7% in the corresponding period last year. This is significantly higher

than the national average of 86.9%². Care revenue represented 86.8% of total operating revenue.

Operating expenses were up 5.1% driven by the Equal Pay settlement that became effective in July 2017.

With net debt of \$118.1m, as at 30 November 2017, our gearing remains conservative with net debt to net debt plus equity of 18.7%.

Operating Review

We have embarked on an extensive programme of capital works as a key strategy to support our core purpose which is to provide high quality aged care services and retirement facilities throughout New Zealand. We consider our development projects as not just bricks and mortar, but an opportunity to continually improve our design and core care services for our residents.

¹ This is a non-GAAP measure.

² For the quarter ended Sept 17 – Source: NZACA

It was especially pleasing in September to be recognised by our industry peers as the leading provider of aged care in New Zealand with Oceania winning the supreme award for Overall Excellence in Care by the NZ Aged Care Association for the third year in a row.

Care

There are strong underlying demographic trends in the aged care sector, however we operate in a competitive market. In order to maintain our industry leading reputation, we need to ensure that we are innovative and constantly focused on improving our customer experiences.

A core component of our aged care delivery is the provision of nutritious food and quality dining experiences for our residents. In July this year we won the Best Food in Aged Care award at the national Senior Lifestyle Cuisine competition against other top aged care facilities around the country for the third year in a row.

Our new clinical information system is on track for implementation in 2018. This system will significantly enhance the way we organise the delivery of care services to our residents whilst also streamlining our compliance requirements. The rollout of this system is made possible by our investment last year in wireless connectivity across all our sites.



After a successful trial at our Lady Allum site in Milford, we are rolling out the Oceania "I Love Music" programme across all our sites. This programme is an innovative way to connect residents with the meaningful tunes of their younger years by providing them with an iPod loaded with their own unique music playlist. We are seeing amazing results in the health and happiness of our residents with this programme.

Aged care is a highly regulated industry and all of our facilities require certification by the Ministry of Health to ensure they meet the required operational standards. We are pleased to report that 25% of our care sites have now achieved the maximum certification period possible of four years with the remainder of our sites holding a three year certification.

Development Progress

Our comprehensive programme of capital works continues to progress on time and on budget. All construction works that were forecast to be completed this financial year have either already been completed or are well on track to be completed by the end of January 2018.

The construction of the apartments in Stage 3 at Meadowbank, Auckland will be practically completed in January. This stage consists of 62 independent living apartments with a vast new village community centre, as well as 30 new luxury care suites. The first residents will move in during February 2018.

A further 25 new villas have been completed at Elmwood, Auckland on neighbouring land that we purchased two years ago, and residents began moving into their new villas in November.

Construction of another phase of 10 new villas at our Stoke Village, Nelson was completed in December 2017 with the first residents expected to occupy their villas in January.

Construction is also progressing according to programme for those projects that are expected to complete in the 2019 financial year.

The construction of 81 new care suites at Melrose, Tauranga is progressing well with completion scheduled for



Meadowbank Village, Auckland



Elmwood Village, Auckland

September 2018. The design of the next phase at Melrose, consisting of 72 independent living apartments with full community facilities, has been completed and the project is now in the building consent phase.

The basement level and ground works of our Auckland waterfront site in Browns Bay, The Sands (formerly Maureen Plowman), is now complete. This unrivalled location will feature 64 independent living apartments and 44 luxury care suites.

The fourth stage at Meadowbank, the construction of a further 49 apartments and 32 luxury care suites, commenced in September and is expected to be complete in May 2019.

The construction of a further four villas at Wharerangi, Taupo was commenced in early October to complement the villa development that was completed in May 2016, and all four villas already have presale applications on them. This popular site very near the lakefront in Taupo will have a 47 bed care facility and 22 retirement village units once completed.

The construction of 90 new care suites at Trevellyn, Hamilton has commenced in January 2018 as stage 1 of the redevelopment of this 2.4ha site overlooking the river and less than 2 km from town.

CHAIR AND CEO'S REPORT



The Sands, Auckland

Resource consent was issued in August 2017 for our Windermere site in Papanui, Christchurch. This consent is for the construction of a boutique development of 68 independent living apartments and 60 luxury care suites.

Resource consent applications were also lodged for the construction of new villas at Gracelands and an extended care facility and apartments at Eversley, both in Hastings.

As part of our aged care growth strategy to enhance the number of beds that can be sold under occupation rights agreements, we have converted



Melrose Village, Tauranga

CHAIR AND CEO'S REPORT

44 rooms and units into care suites since June 2017 and will convert further rooms and studios at Elmwood, Heretaunga, Atawhai and St Johns Wood over the remainder of the 2018 financial year.

We have also commenced all remediation work identified in the Cove Kinloch report commissioned before our IPO and will complete these before the end of the financial year.

Acquisition

In August we purchased 2,668m² of land adjacent to our existing Mt Eden facility. Our intention is to add to our existing luxury care suite and independent apartment offering of 67 suites and 40 apartments in this highly sought after location.

We have also entered into an unconditional agreement to acquire 8,945m² of vacant land in Waimarie St, St Heliers, Auckland which has wide views over Auckland's harbour.

Our People

In July we implemented the new pay structure for healthcare assistants announced by the Government as part of the equal pay settlement which recognises the incredible contribution our people make to caring for the elderly. The increase in wage cost is in line with our forecast for 2018.

As part of our ongoing commitment to building the competencies of our people, our new Step Up learning and development programme for Leaders has had a number of facility managers complete the course so far this year.

Caring for the safety of our teams is just as important as caring for our residents. Our new moving and handling training programme continues to be a focus along with our injury management processes.

Interim Dividend

The Board has declared an interim dividend of \$12.7m, or 2.1 cents per share (not imputed), to be paid on 20 February 2018. The record date for entitlement is 13 February 2018.

Yours sincerely

Elizabeth Coutts

Chair, Oceania Healthcare Limited

Earl Gasparich

Chief Executive Officer



Directors' Report

30 November 2017

The Board has pleasure in presenting the interim report of Oceania Healthcare Limited and its subsidiaries, incorporating the consolidated interim financial statements and the independent review report, for the six months ended 30 November 2017.

The Board of Directors of the Company authorised these consolidated interim financial statements for issue on 25 January 2018.

The consolidated interim financial statements are unaudited.

For and on behalf of the Board

Elizabeth Coutts
Chairman

Hugh William FitzSimons
Director

Consolidated Statement of Comprehensive Income

For the six months ended 30 November 2017

\$'000	Notes	Unaudited Six months 30 Nov 2017	Unaudited Six months 30 Nov 2016 ¹
Operating revenue		90,207	87,771
Change in fair value of investment property	3.1	34,147	32,646
Other income		1,916	1,455
Total income		126,270	121,872
Employee benefits		54,476	51,446
Depreciation and amortisation		4,062	3,774
Finance costs		1,448	10,074
Impairment of property, plant and equipment	3.3	(1,118)	3,179
Other expenses		22,991	22,471
Total expenses		81,859	90,944
Profit before income tax		44,411	30,928
Income tax expense	5.1	1,890	8,956
Profit for the period		42,521	21,972
Other comprehensive income			
Items that will not be subsequently reclassified to profit and loss			
Gain on revaluation for the period net of tax	3.3	370	1,881
Items that may be subsequently reclassified to profit and loss			
Movement in interest rate swap net of tax		(19)	-
Other comprehensive income for the period net of tax		351	1,881
Total comprehensive income for the period attributable to shareholders of the parent		42,872	23,853
Basic earnings per share (cents per share)	4.2	7.0	6.5
Diluted earnings per share (cents per share)	4.2	7.0	6.5

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

¹ The 30 November 2016 income tax expense and, as a result, earnings per share have been restated. Refer to note 5.1(iv) for details.

Consolidated Balance Sheet

As at 30 November 2017

\$'000	Notes	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016 ¹
Assets				
Cash and cash equivalents		6,248	10,861	2,127
Trade and other receivables		15,134	11,302	11,656
Property, plant and equipment	3.3	279,154	267,972	244,544
Investment property	3.1	681,261	611,016	562,944
Intangible assets		17,335	17,053	17,329
Total assets		999,132	918,204	838,600
Liabilities				
Trade and other payables		27,719	27,480	23,576
Derivative financial instruments		420	283	-
Deferred management fee	3.2	18,845	19,534	18,890
Refundable occupation right agreements	3.2	290,781	282,904	266,695
Borrowings	4.3	123,810	95,242	275,764
Deferred tax liabilities	5.1	26,653	24,808	29,709
Total liabilities		488,228	450,251	614,634
Net assets		510,904	467,953	223,966
Equity				
Contributed equity	4.1	579,498	579,498	372,633
Retained deficit		(153,366)	(195,966)	(218,947)
Reserves		84,772	84,421	70,280
Total equity		510,904	467,953	223,966

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

¹ The 30 November 2016 deferred tax liabilities have been restated. Refer to note 5.1(iv) for details.

Consolidated Statement of Changes in Equity

For the six months ended 30 November 2017

\$'000	Notes	Contributed equity	Retained deficit	Asset revaluation reserve	Interest rate swap reserve	Total equity
Balance at 1 June 2016 (audited)		372,633	(240,988)	68,399	-	200,044
Profit for the period ¹		-	21,972	-	-	21,972
Other comprehensive income						
Revaluation of assets net of tax	3.3	-	-	1,881	-	1,881
Total comprehensive income		-	21,972	1,881	-	23,853
Transactions with owners						
Employee share scheme	4.1	-	69	-	-	69
Total transactions with owners		-	69	-	-	69
Balance as at 30 November 2016 (unaudited)		372,633	(218,947)	70,280	-	223,966
Balance at 1 June 2017 (audited)		579,498	(195,966)	84,603	(182)	467,953
Profit for the period		-	42,521	-	-	42,521
Other comprehensive income						
Revaluation of interest rate swaps net of tax		-	-	-	(19)	(19)
Revaluation of assets net of tax	3.3	-	-	370	-	370
Total comprehensive income		-	42,521	370	(19)	42,872
Transactions with owners						
Employee share scheme	4.1	-	79	-	-	79
Total transactions with owners		-	79	-	-	79
Balance as at 30 November 2017 (unaudited)		579,498	(153,366)	84,973	(201)	510,904

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

¹ The 30 November 2016 profit for the period has been restated. Refer to note 5.1(iv) for details.

Consolidated Cash Flow Statement

For the six months ended 30 November 2017

\$'000	Unaudited Six months 30 Nov 2017	Unaudited Six months 30 Nov 2016
Cash flows from operating activities		
Receipts from residents for membership fees, village and care fees	78,521	81,519
Payments to suppliers and employees	(76,070)	(74,650)
Receipts from new occupation right agreements	34,411	31,345
Payments for outgoing occupation right agreements	(18,550)	(16,685)
Interest received	72	62
Interest paid	(1,325)	(8,801)
Net cash inflow from operating activities	17,059	12,790
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and investment property	165	-
Payments for property, plant and equipment and intangible assets	(14,278)	(8,698)
Payments for investment property and investment property under development	(34,645)	(21,026)
Net cash inflow from investing activities	(48,758)	(29,724)
Cash flows from financing activities		
Proceeds from borrowings	44,812	31,644
Repayment of borrowings	(17,726)	(16,687)
Net cash inflow from financing activities	27,086	14,957
Net decrease in cash and cash equivalents	(4,613)	(1,977)
Cash and cash equivalents at the beginning of the period	10,861	4,104
Cash and cash equivalents at end of period	6,248	2,127

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement (Continued)

For the six months ended 30 November 2017

Reconciliation of profit after income tax to net cash inflow from operating activities

\$'000	Notes	Unaudited Six months 30 Nov 2017	Unaudited Six months 30 Nov 2016
Profit after income tax for the period		42,521	21,972
Non cash items			
Deferred management fee accrued but not settled		(9,554)	(8,166)
Depreciation and amortisation		4,062	3,774
Impairment of goodwill		-	303
Net gain on disposal of property, plant and equipment		-	(3)
Fair value adjustment to investment property	3.1	(34,147)	(32,646)
(Reversal of Impairment) / impairment of property, plant and equipment	3.3	(1,118)	3,179
Bad and doubtful debt (benefit)		(152)	(14)
Interest charged but not paid		112	1,308
Residents share of resale gains		511	666
Movement in deferred tax	5.1	1,890	8,956
Other non cash items		196	(567)
		(38,200)	(23,210)
Cash items			
Receipts from new occupation right agreements		34,411	31,345
Payments for outgoing occupation right agreements		(18,550)	(16,685)
		15,861	14,660
Increase in operating assets and liabilities			
(Increase) / decrease in trade and other receivables		(3,969)	524
Increase / (decrease) in trade and other payables		846	(1,156)
Net cash inflow from operating activities		17,059	12,790

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Interim Financial Statements

For the six months ended 30 November 2017

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Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

1. General Information

1.1. Basis of Preparation

(i) Entities reporting

The interim financial statements of the 'Consolidated' or 'Group' entity are for the economic entity comprising Oceania Healthcare Limited and its subsidiaries, together 'the Group'. Refer to the 31 May 2017 annual report for details of the Group structure.

The consolidated interim financial statements incorporate the assets and liabilities of all subsidiaries of Oceania Healthcare Limited as at 30 November 2017 and the results of all subsidiaries for the six months then ended.

The Group owns and operates various rest homes and retirement villages around New Zealand. The Group's registered office is Affinity House, 2 Hargreaves Street, St Mary's Bay, Auckland 1011, New Zealand.

The consolidated entity is designated as a profit oriented entity for financial reporting purposes.

(ii) Statutory base

Oceania Healthcare Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993 and is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the NZX Main Board ('NZX') and the Australian Securities Exchange ('ASX') as a foreign exempt listing. The Group financial statements have been prepared in accordance with the requirements of the NZX and ASX listing rules, and Part 7 of the Financial Markets Conduct Act 2013.

The Group interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand Equivalent to International Accounting Standard 34 ('NZ IAS 34') and International Accounting Standard 34 Interim Financial Reporting ('IAS 34').

The accounting policies that materially affect the measurement of the Statement of Comprehensive Income, Balance Sheet and the Cash Flow Statement have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 May 2017.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

1.1. Basis of Preparation (Continued)

The consolidated interim financial statements do not include all the notes of the type normally included in the consolidated annual financial statements. Accordingly, these consolidated interim financial statements are to be read in conjunction with the consolidated annual financial statements for the year ended 31 May 2017, prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS').

The consolidated interim financial statements for the six months ended 30 November 2017 and comparatives for the six months ended 30 November 2016 are unaudited. The consolidated financial statements for the year ended 31 May 2017 were audited and form the basis for the comparative figures for that period in these statements. They are presented in New Zealand dollars which is the Group's presentational currency.

Where a change has been made to the presentation of the consolidated financial statements to that used in prior periods, comparative figures have been restated accordingly. A change in presentation has been made to the income tax note to separately disclose the reconciliation of current tax and deferred tax to provide clearer disclosure to the reader. Refer to note 5.1.

Where necessary, certain comparative information has been restated to reflect the tax impact of a reclassification of certain depreciable property assets. Refer to note 5.1(iv) for details.

The consolidated financial statements have been prepared in accordance with the going concern basis of accounting, which assumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future.

(iii) Key estimates and judgements

The preparation of financial statements in conformity with IAS 34 and NZ IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

1.1. Basis of Preparation (Continued)

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes:

- Fair value of investment property and investment property under development (note 3.1)
- Classification of accommodation with a care or service offering (notes 3.1 and 3.3)
- Fair value of freehold land and buildings (note 3.3)
- Revenue recognition of deferred management fee (refer 31 May 2017 annual report note 3.2)
- Recognition of deferred tax (note 5.1).

1.2. Accounting Policies

(i) New and amended standards adopted by the Group

There are no new standards or amendments to existing standards effective for the financial period ended 30 November 2017.

(ii) Measurement of fair value

The Group classifies its fair value measurement using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels.

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

The carrying amount of all financial assets and liabilities is considered to approximate to their fair value.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

2. Operating Performance

2.1. Operating Segments

The Group's chief operating decision-maker is the Board of Directors.

The operating segments have been determined based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance. The assets and liabilities of the Group are reported to the chief operating decision-maker in total and are not allocated by operating segment.

The Group comprises two segments, care operations and village operations, and operates in New Zealand. There have been no changes to the segments from those disclosed in the 31 May 2017 financial statements.

Information regarding the operations of each reportable segment is included below. Amongst other criteria, performance is measured based on segmental underlying earnings before interest, tax, depreciation and amortisation ('EBITDA'); being the most relevant measure in evaluating the performance of segments relative to other entities that operate within the aged care and retirement village industries.

Additional segmental reporting information

Capital expenditure: Refer to notes 3.1 and 3.3 for details on capital expenditure. Chattels, freehold land and buildings, including related property held for development, classified as property, plant and equipment principally relate to care operations. Investment property assets principally relate to village operations. Capital expenditure on intangibles and other property, plant and equipment are unallocated to these segments.

Goodwill: Goodwill is allocated to Care Cash Generating Units.

Underlying Profit: Underlying Profit is a non-GAAP measure used by the Group to monitor financial performance and determine dividend distributions. Underlying measures require a methodology and a number of estimations to be approved by Directors in their preparation. Both the methodology and the estimations may differ among companies in the retirement village sector that report underlying financial measures. Underlying profit is a measure of financial performance and does not represent business cash flow generated during the period.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

2.1. Operating Segments (Continued)

Oceania calculates Underlying Profit by making the following adjustments to Net Profit after Tax:

- Removing the change in fair value of investment properties and any impairment or reversal of impairment of property, plant and equipment;
- Removing any impairment of goodwill;
- Removing any loss on disposal of chattels from the decommissioning of development sites;
- Adding back the Directors' estimate of realised gains on occupation right agreement ('ORA') units and care suites¹;
- Adding back the Directors' estimate of realised development margin on the cash settlement of the first sale of new ORA units or care suites following the development, or conversion of an existing care bed to a care suite or conversion of a rental unit to an ORA unit; and
- Adding back the deferred taxation component of taxation expense so that only current tax expense is reflected.

Resale gain

The Directors' estimate of realised gains on resales of ORA units and care suites is calculated as the net cash flow received by the Group on the cash settlement of the resale of pre-existing ORAs (i.e. the difference between the ORA licence payment received from the incoming resident and the ORA licence payment previously received from the outgoing resident).

Development margin

The Directors' estimate of realised development margin is calculated as the cash received on settlement of the first sale of new ORA units and care suites less the development costs associated with developing the ORA units and care suites. The development costs include:

- Construction costs directly attributable to the relevant project, including any required infrastructure (e.g. roading) and amenities related to the units (e.g. landscaping) as well as any demolition and site preparation costs associated with the project. The costs are apportioned between the ORA units and care suites, in aggregate, using estimates provided by the project quantity surveyor. The construction costs for the individual ORA units or care suites sold are determined on a prorated basis using gross floor areas of the ORA units and care suites;

¹ Units and care suites sold under an Occupation Right Agreement.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

2.1. Operating Segments (Continued)

- An apportionment of land value based on the gross floor area of the ORA units and care suites developed. The value for Brownfield² development land is the estimated fair value of land at the time a change of use occurred³ (from operating as a care facility or retirement village to a development site), as assessed by an external independent valuer. Greenfield⁴ development land is valued at historical cost; and
- Capitalised interest costs to the date of project completion apportioned using the gross floor area of ORA units and care suites developed.

Development costs do not include:

- Construction, land (apportioned on a gross floor area basis) and interest costs associated with common areas and amenities or any operational or administrative areas.

The Directors' estimate of development margin for conversions is calculated based on the difference between the ORA licence payment received on the settlement of sales of newly converted ORA units and care suites and the associated conversion costs. Conversion costs comprise:

- In the case of conversion of care beds to care suites, the actual refurbishment costs incurred; and
- In the case of conversions of rental units to ORA units, the actual refurbishment costs incurred and the fair value of the rental unit prior to conversion.

² Brownfield land refers to land previously utilised by, or part of, an operational aged care facility or retirement village.

³ The timing of a change of use is a Directors' estimate. It is based on a range of factors including evidence of steps taken to secure a resource consent and/or building consent for a particular development or stage of a development and the decommissioning of existing operations (either through the buy-back of existing village ORA units or decommissioning of an existing care facility). Note the cost of buybacks is not included in the development cost as an independent fair value of the land on an unencumbered basis is used as the value ascribed to the development land.

⁴ Greenfield land refers to land not previously utilised by, or as part of, an operational aged care facility or retirement village. Greenfield land is typically bare (undeveloped) land at the time of purchase.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

2.1. Operating Segments (Continued)

\$'000	Care Operations	Village Operations	Other	Total
Six months ended 30 November 2017 unaudited				
Operating revenue	79,260	10,947	-	90,207
Other income	671	589	584	1,844
Revaluation of investment property	-	34,147	-	34,147
Total income	79,931	45,683	584	126,198
Operating expenses	(63,523)	(5,957)	(7,987)	(77,467)
Reversal of impairment of property, plant and equipment	1,118	-	-	1,118
Impairment of goodwill	-	-	-	-
Segment EBITDA	17,526	39,726	(7,403)	49,849
Interest income	2	9	61	72
Finance costs	-	-	(1,448)	(1,448)
Depreciation and amortisation	(3,796)	-	(266)	(4,062)
Profit before income tax	13,732	39,735	(9,056)	44,411
Taxation (expense) / benefit	(1,553)	1,104	(1,441)	(1,890)
Profit for the period attributable to shareholders	12,179	40,839	(10,497)	42,521
Adjusted for underlying profit items				
Less: Change in fair value of investment property and reversal of impairment of property, plant and equipment	(1,118)	(34,147)	-	(35,265)
Add: Impairment of goodwill	-	-	-	-
Add: Loss on disposal of chattels at decommissioned sites	-	-	-	-
Add: Realised gain on resale	-	6,664	-	6,664
Add: Realised development margin	-	4,078	-	4,078
Underlying net profit before tax	11,061	17,434	(10,497)	17,998
Add: Deferred tax expense / (benefit)	1,553	(1,104)	1,441	1,890
Underlying net profit after tax	12,614	16,330	(9,056)	19,888
Less: Interest income	(2)	(9)	(61)	(72)
Add: Finance costs	-	-	1,448	1,448
Add: Depreciation and amortisation	3,796	-	266	4,062
Underlying EBITDA	16,408	16,321	(7,403)	25,326

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

2.1. Operating Segments (Continued)

\$'000	Care Operations	Village Operations	Other	Total
Six months ended 30 November 2016 unaudited				
Operating revenue	77,762	10,009	-	87,771
Other income	367	457	569	1,393
Revaluation of investment property	-	32,646	-	32,646
Total income	78,129	43,112	569	121,810
Operating expenses	(59,843)	(5,749)	(8,139)	(73,731)
Impairment of goodwill	(186)	-	-	(186)
Impairment of property, plant and equipment	(3,179)	-	-	(3,179)
Segment EBITDA	14,921	37,363	(7,570)	44,714
Interest income	-	6	56	62
Finance costs	-	-	(10,074)	(10,074)
Depreciation and amortisation	(3,489)	-	(285)	(3,774)
Profit before income tax	11,432	37,369	(17,873)	30,928
Taxation benefit / (expense) ¹	77	(9,961)	928	(8,956)
Profit for the period attributable to shareholders	11,509	27,408	(16,945)	21,972
Adjusted for underlying profit items				
Add / (Less): Change in fair value of investment property and impairment of property, plant and equipment	3,179	(32,646)	-	(29,467)
Add: Impairment of goodwill	186	-	-	186
Add: Realised gain on resale	-	6,429	-	6,429
Add: Realised development margin	-	944	-	944
Underlying net profit before tax	14,874	2,135	(16,945)	64
Add: Deferred tax (benefit) / expense ¹	(77)	9,961	(928)	8,956
Underlying net profit after tax	14,797	12,096	(17,873)	9,020
Less: Interest income	-	(6)	(56)	(62)
Add: Finance costs	-	-	10,074	10,074
Add: Depreciation and amortisation	3,489	-	285	3,774
Underlying EBITDA	18,286	12,090	(7,570)	22,806

¹ The 30 November 2016 income tax expense has been restated. Refer to note 5.1(iv) for details.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3. Property Assets

3.1. Investment Property

\$'000	Notes	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016
Investment property under development at fair value				
Opening balance		79,486	48,311	48,311
Transfer from property, plant and equipment	3.3	376	12,944	13,949
Capitalised expenditure		32,720	29,131	12,301
Capitalised interest		1,134	230	8
Disposals		(57)	-	-
Transfer within investment property		(57,723)	(14,915)	(14,915)
Change in fair value during the period		-	3,785	4,369
Closing balance		55,936	79,486	64,023
Completed investment property at fair value				
Opening balance		531,530	447,560	447,560
Transfer within investment property		57,723	14,915	14,915
Transfer to property, plant and equipment	3.3	-	(2,981)	-
Capitalised expenditure		1,925	18,429	8,105
Capitalised interest		-	232	65
Disposals		-	(1)	(1)
Change in fair value during the period		34,147	53,376	28,277
Closing balance		625,325	531,530	498,921
Total investment property		681,261	611,016	562,944

Change in Fair Value Recognised in the Statement of Comprehensive Income

\$'000	Unaudited 30 Nov 2017	Unaudited 30 Nov 2016
Increase in fair value of investment property	70,245	67,073
Less: Transfers during the period	(376)	(13,949)
Less: Capitalised expenditure including capitalised interest	(35,779)	(20,479)
Plus: Disposals	57	1
Change in fair value recognised in Statement of Comprehensive Income	34,147	32,646

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.1. Investment Property (Continued)

Investment property includes both freehold land and buildings and land and buildings under development, comprising independent units, certain care suites, serviced apartments and common facilities, provided for use by residents under the terms of an ORA. Investment property is held for long-term yields and is not occupied by the Group.

Completed investment property

The fair value of completed investment property is based on an industry accepted valuation model applied to the expected future cash flows to derive a net present value.

As required by NZ IAS 40 'Investment Property', the fair value as determined by the independent valuer is adjusted for assets and liabilities already recognised in the Balance Sheet which are also reflected in the discounted cash flow model.

CBRE Limited performed a 'roll forward' of the valuation of completed investment property that was completed at 31 May 2017 for the period from 1 June 2017 to 31 October 2017 for all sites. This involved the Group confirming the movements in the sales, resales and repurchases of ORA's during the period, an assessment by the valuer of the general market conditions and the impact of the changes, where appropriate, in the completed value of investment properties. The 'roll forward' provides an assessment by the valuer of the financial impact of the changes for the five month period since the most recent full valuation as at 31 May 2017. CBRE Limited, independent registered valuers and associates of the New Zealand Institute of Valuers, will perform a full valuation for the year ended 31 May 2018.

The CBRE Limited valuation is reviewed by management for accuracy of inputs and reasonableness of assumptions.

The CBRE Limited valuation has been adjusted by management for the impact of any sales, resales and repurchase of ORA's between 1 November 2017 and 30 November 2017 to arrive at the fair value of completed investment properties at 30 November 2017.

Based on information available the Directors do not expect a material valuation movement in investment property under development in the interim period and so no external valuation has been sought with relation to the 30 November 2017 balance date except as it relates to the Meadowbank facility where land relating to the practically completed development has been valued and transferred to completed investment property.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.1. Investment Property (Continued)

Investment property under development

Investment property under development as at 30 November 2016 was valued by CBRE Limited as a material movement from the 31 May 2016 value was expected at that time.

The Group has applied the following methodology in relation to the measurement of investment property under development as at 30 November 2017:

Practical completion not achieved

Where the development still requires substantial work such that practical completion is not going to be achieved, and a reliable estimate of fair value cannot be made, at or close to balance date, the fair value recognised is the fair value of the development land as determined by CBRE Limited at 31 May 2017 plus the cost of any work in progress, an amount of \$53.0m as at 30 November 2017 (31 May 2017: \$32.2m, 30 November 2016: \$15.3m), in relation to these development sites. Any developments completed in the period have been transferred to investment property.

Where an individual development is of both investment property and freehold buildings in nature, the fair value of land is apportioned between investment property under development and freehold land and buildings under development, by applying the estimated gross floor area for these respective areas of the development based on information obtained from external Quantity Surveyors at the planning and design stages. Any work in progress is allocated in line with the budgeted cost to build.

Practical completion achieved

Where a development is practically completed, or likely to be completed at, or close to, balance date the investment property is transferred to completed investment property and measured at its completed fair value as determined by CBRE Limited with an adjustment made for any estimated costs, in accordance with the project budget, to be incurred to complete the development.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.1. Investment Property (Continued)

Property specific assumptions

Seismic and weather tightness assessments

The CBRE Limited valuation, and accordingly the fair value of investment property, incorporates the findings of independent seismic strength engineering assessments conducted by MSC Consulting Group Ltd ('MSC'), based on visual inspections and by applying the guidelines recommended by the New Zealand Society for Earthquake Engineering. The CBRE Limited valuation also incorporates the estimated costs to address weather tightness at certain sites. These estimated costs are based on management budgets which utilise building condition reports completed by CoveKinloch New Zealand Limited in February 2017. Based on further investigation and updated project budgets these estimated costs have been reduced by \$1.13m since 31 May 2017 in arriving at the 30 November 2017 valuation.

Key accounting estimates and judgements

Introduction

All investment properties have been determined to be Level 3 in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

Classification of accommodation with a care or service offering

Where services are provided to residents who occupy accommodation under an ORA it is the Group's policy to look at how consequential, or significant, these are in the context of the overall revenue/income derived from the accommodation in ascertaining whether the accommodation is land and buildings (referred to as property, plant and equipment) or investment property. Whether the level of service provided is significant is an area of judgement.

It is the Group's policy to review sites that provide accommodation that is subject to an ORA and also incorporates a provision to receive services on a case by case basis, where this type of accommodation is significant in the context of the site's overall capacity.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.1. Investment Property (Continued)

The Group applies the following principles when ascertaining the appropriate accounting treatment to be applied:

Scenario	Consideration of Significance of Cashflows	Classification
Additional Services are optional (whether or not the unit is certified for Aged Related Residential Care ('ARRC')).	Qualitatively the business model is the provision of retirement accommodation.	Investment property
Services are compulsory but an insignificant portion of total revenue from the unit.	Quantitatively insignificant (a guideline of under 20% of total revenue is adopted) and qualitatively the business model is the provision of retirement accommodation.	Investment property
Services are compulsory and a significant portion of the total revenue derived from the unit.	Quantitatively significant. Qualitatively the business model is the provision of care.	Property, plant and equipment
Full ARRC funded care is compulsory for that unit/bed.	Qualitatively the business model is the provision of care. Quantitative assessment not relevant as price of accommodation (and therefore deferred management fee) does not change overall purpose of the accommodation.	Property, plant and equipment

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.1. Investment Property (Continued)

Other relevant information

The valuation of investment property is adjusted for cashflows relating to refundable occupation licence payments, residents' share of resale gains and management fee receivable recognised separately on the Balance Sheet and also reflected in the valuation model.

A reconciliation between the valuation and the amount recognised on the Balance Sheet as investment property is as follows:

\$'000	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016
Completed investment property			
Valuation	339,639	252,706	234,377
Plus: Refundable occupation licence payments	326,617	315,425	298,783
Plus: Residents' share of resale gains	9,506	9,770	8,790
Less: Management fee receivable	(50,188)	(46,150)	(42,781)
Less: Resident obligations for units not included in valuation	(249)	(221)	(248)
	625,325	531,530	498,921
Investment property under development			
Fair value of investment property under development	55,936	79,486	64,023
	55,936	79,486	64,023
Total investment property at fair value	681,261	611,016	562,944

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.2. Refundable Occupation Right Agreements

\$'000	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016
Village			
Refundable occupation licence payments	326,617	315,425	298,783
Residents share of resale gains	9,506	9,770	8,790
Less: Management fee receivable (per contract)	(68,412)	(64,856)	(61,155)
	267,711	260,339	246,418
Care Suites			
Refundable occupation licence payments	29,390	28,285	24,475
Accommodation rebate	610	575	491
Less: Management fee receivable (per contract)	(6,930)	(6,295)	(4,689)
	23,070	22,565	20,277
Total refundable occupation right agreements	290,781	282,904	266,695

The management fee receivable is recognised in accordance with the terms of the resident's occupation right agreement.

Reconciliation of management fees recognised under IFRS and per ORA terms

\$'000	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016
Village			
Management fee receivable (per contract)	68,412	64,856	61,155
Deferred management fee	(18,224)	(18,706)	(18,374)
Management fee receivable (per IFRS)	50,188	46,150	42,781
Care Suites			
Management fee receivable (per contract)	6,930	6,295	4,689
Deferred management fee	(621)	(828)	(516)
Management fee receivable (per IFRS)	6,309	5,467	4,173

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.3. Property, Plant and Equipment

\$'000	Freehold Land	Freehold Buildings	Freehold Land and Buildings Under Development	Chattels and Leasehold Improvements	Total
At 30 Nov 2016 (unaudited)					
Cost	-	-	-	44,003	44,003
Valuation	69,765	141,339	18,393	-	229,497
Accumulated depreciation	-	-	-	(28,956)	(28,956)
Net book amount	69,765	141,339	18,393	15,047	244,544
At 31 May 2017 (audited)					
Cost	-	-	-	46,750	46,750
Valuation	72,045	153,468	27,806	-	253,319
Accumulated depreciation	-	-	-	(32,097)	(32,097)
Net book amount	72,045	153,468	27,806	14,653	267,972
At 30 Nov 2017 (unaudited)					
Cost	-	-	-	44,366	44,366
Valuation	73,245	167,618	24,078	-	264,941
Accumulated depreciation	-	-	-	(30,153)	(30,153)
Net book amount	73,245	167,618	24,078	14,213	279,154

Key accounting estimates and judgements

All land and buildings have been determined to be Level 3 in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

Valuation process and key inputs

The Group's land and buildings and land and buildings under development were revalued on 31 May 2017 by independent registered valuers CBRE Limited. CBRE Limited are appropriately qualified with experience of valuing residential aged care and retirement village properties in New Zealand.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.3. Property, Plant and Equipment (Continued)

The valuation comprises land, improvements, chattels and goodwill. The fair value of land and buildings is determined by CBRE Limited based on the level of rent able to be generated from the maintainable net cash flow of the facility subject to average efficient management. Where a decrease in land and buildings has been recognised below original cost this has been recognised directly to the Statement of Comprehensive Income. The 31 May 2017 CBRE Limited valuation included \$59.1m (31 May 2016: \$51.6m) of goodwill. An additional \$2.0m has arisen as at 31 October 2017 on valuation of the Meadowbank care suites. There is \$17.0m (31 May 2016: \$17.3m) of goodwill recognised on acquisition included in these financial statements as an intangible asset.

When the Group undertakes development of a new site the classification between freehold land buildings and investment property is reviewed. For sites with a care facility, including those with care suites, these properties are classified as freehold land and buildings. For sites with a retirement village the properties are classified as investment property. Refer to note 3.1 for further information, including the principles applied by the Group in determining the appropriate apportionment between freehold land, buildings and investment property.

The Group's policy is to revalue all freehold land and buildings, including land and buildings under development annually. If the Directors expect a material valuation movement in the interim period a valuation is also sought at this time.

Based on information available the Directors do not expect a material valuation movement in the interim period and so no external valuation has been sought with relation to the 30 November 2017 balance date except as it relates to the construction of new care suite units at the substantially completed Meadowbank facility.

The fair value of freehold land and buildings, including land and buildings under development was determined by CBRE Limited at 31 May 2017. This has been adjusted for the cost of any additions or work in progress incurred, less any disposals and depreciation recognised since 1 June 2017 to arrive at the fair value of land and buildings and land and buildings under development at 30 November 2017. Chattels and leasehold improvements are carried at cost less depreciation.

Freehold development land as at 30 November 2016 was valued by CBRE Limited as a material movement from the 31 May 2016 value was expected at that time.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

3.3. Property, Plant and Equipment (Continued)

The CBRE Limited valuation at 31 May 2017 incorporated the estimated costs to address weather tightness at certain sites based on building condition reports completed by CoveKinloch New Zealand Limited in February 2017. Based on further investigation and updated project budgets the 31 May 2017 valuation has been adjusted by management for the reduction in the estimated costs of \$1.68m since 31 May 2017 in arriving at the 30 November 2017 valuation.

Finance leases

The Group leases various equipment and motor vehicles under finance lease agreements. The lease terms are between 3 and 6 years and have a net book value as at 30 November 2017 of \$5.8m (31 May 2017: \$7.3m, 30 November 2016: \$6.1m).

4. Shareholders' Equity and Funding

4.1. Shareholder Equity and Reserves

Shares	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016
Share capital			
Authorised, issued and fully paid up capital	610,254,535	610,254,535	340,213,420
Total contributed equity	610,254,535	610,254,535	340,213,420
Movements			
Opening balance of ordinary shares issued	610,254,535	340,213,420	340,213,420
Subscription for shares (Oceania Healthcare Holdings Limited)	-	13,712,002	-
Subscription for shares (IPO)	-	253,164,557	-
Shares issued for long term incentive plan	-	3,164,556	-
Closing balance of ordinary shares issued	610,254,535	610,254,535	340,213,420

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

4.1. Shareholder Equity and Reserves (Continued)

\$'000	Unaudited 30 Nov 2017	Audited 31 May 2017	Unaudited 30 Nov 2016
Share capital			
Authorised, issued and fully paid up capital	579,498	579,498	372,633
Total contributed equity	579,498	579,498	372,633
Movements			
Opening balance of ordinary shares issued	579,498	372,633	372,633
Subscription for shares (Oceania Healthcare Holdings Limited)	-	14,398	-
Subscription for shares (IPO)	-	200,000	-
Capitalised costs on IPO	-	(7,533)	-
Closing balance of ordinary shares issued	579,498	579,498	372,633

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

Recognition and measurement

None of the above issued shares are held by the Company or its subsidiaries with the exception of shares issued to OCA Employees Trustee Limited, a subsidiary, on behalf of Oceania employees in relation to a Long Term Incentive Plan ('LTIP').

A total of 5,895,329 shares issued to OCA Employees Trustee Limited and certain members of the Senior Management Team in respect of the LTIP are classified as Treasury Shares as the Company has a beneficial interest in the shares until the vesting conditions are met.

Dividends

On 25 January 2018 an interim dividend of 2.1 cents per share (not imputed) was declared and will be paid on 20 February 2018 (31 May 2017: nil). The record date for entitlement is 13 February 2018.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

4.1. Shareholder Equity and Reserves (Continued)

Asset revaluation reserve

The asset revaluation reserve is used to record the revaluation of freehold land and buildings and land and buildings under development.

Interest rate swap reserve

The interest rate swap reserve is used to record gains or losses on instruments used as cash flow hedges. The amounts are recognised in the Statement of Comprehensive Income when the hedged transaction affects profit and loss.

4.2. Earnings per Share

Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit after tax of the Group by the weighted average number of ordinary shares outstanding during the year.

\$'000	Unaudited 30 Nov 2017	Unaudited 30 Nov 2016
Profit after tax (\$'000)	42,521	21,972 ¹
Weighted average number of ordinary shares outstanding ('000s)	604,359	337,483
Basic earnings per share (cents per share)	7.0	6.5

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 30 Nov 2017 there were 1,820,515 shares with a dilutive effect (31 May 2017: 910,257, 30 November 2016: nil).

\$'000	Unaudited 30 Nov 2017	Unaudited 30 Nov 2016
Profit after tax (\$'000)	42,521	21,972 ¹
Diluted weighted average number of ordinary shares outstanding ('000s)	605,047	337,483
Basic earnings per share (cents per share)	7.0	6.5

¹ The 30 November 2016 profit for the period has been restated. Refer to note 5.1(iv) for details. The impact on both basic and diluted EPS was a decrease of 0.1 cents per share.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

4.3. Borrowings

\$'000	Unaudited 30 Nov 2017	Unaudited 30 Nov 2016
Secured		
Bank loans	118,555	89,430
Capitalised loan costs	(519)	(627)
Finance leases	5,774	6,439
Total borrowings	123,810	95,242

Financing Arrangements

At 30 November 2017, the Group held committed bank facilities with drawings as follows:

\$'000	Nov-17		May-17	
	Committed	Drawn	Committed	Drawn
General Corporate Facility	60,000	19,965	60,000	20,965
Development Facility	175,000	98,590	175,000	68,465
Total	235,000	118,555	235,000	89,430

The Group's revolving Development Facility is utilised to cover costs associated with current development projects. The revolving General Corporate Facility represents corporate debt supported by the cash flows of the business as well as development land for projects not currently funded by the Development Facility.

Interest on the General Corporate Facility is typically payable quarterly.

Interest on the Development Facility is capitalised and repaid together with principal using the ORA licence proceeds received upon settlement of initial sales of newly developed units and care suites. Line fees are payable quarterly on the committed General Corporate Facility and the Committed Development Facility.

Finance Lease

Finance lease liabilities relate to the lease of various equipment and motor vehicles and are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

5. Other Disclosures

5.1. Income Tax

\$'000	Unaudited 30 Nov 2017	Unaudited 30 Nov 2016
Income tax expense		
Current tax	-	-
Deferred tax	1,890	8,956
	1,890	8,956
Taxation expense is calculated as follows:		
Profit before income tax	44,411	30,928
Tax at the New Zealand tax rate of 28%	12,435	8,660
Adjusted by the tax effect of:		
Non-deductible impairment of goodwill	-	52
Non-deductible expenditure	88	375
Capitalised interest deductible for tax	(259)	(24)
Non assessable revaluation of investment property	(9,561)	(9,141)
Taxable depreciation	(1,862)	(1,825)
Accounting depreciation	1,084	1,026
Non-assessable revaluation of fixed asset	(313)	890
Adjustment for timing difference of provisions	(92)	(183)
Other	-	(74)
Prior period adjustments	-	3
Losses (utilised) / recognised	(1,520)	241
Current tax expense	-	-
Impact of change to held for use for investment property	-	10,362 ¹
Impact of movements in investment property	(1,098)	(315)
Impact of movements in property, plant and equipment	1,311	124
Other adjustments	157	204
Prior period adjustments	-	(600)
Losses utilised / (recognised)	1,520	(819)
Deferred tax expense	1,890	8,956
Income tax expense	1,890	8,956

¹ The 30 November 2016 balances in respect of the tax effect of investment property and property, plant and equipment have been restated. Refer to note 5.1(iv).

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

5.1. Income Tax (Continued)

Movement in the deferred tax balance

\$'000	Balance 1 June 2017	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 30 Nov 2017 (unaudited)
Investment property	(12,179)	1,098	-	(11,081)
Property, plant and equipment	(19,126)	(1,311)	(72)	(20,509)
Provisions and other assets / liabilities	4,158	(157)	117	4,118
Tax losses	2,339	(1,520)	-	819
Deferred tax liabilities	(24,808)	(1,890)	45	(26,653)

\$'000	Balance 1 June 2016	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 31 May 2017 (audited)
Investment property	(2,083)	(10,096)	-	(12,179)
Property, plant and equipment	(21,357)	3,409	(1,178)	(19,126)
Provisions and other assets / liabilities	2,264	1,894	-	4,158
Tax losses	-	2,268	71	2,339
Deferred tax liabilities	(21,176)	(2,525)	(1,107)	(24,808)

\$'000	Balance 1 June 2016	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 30 Nov 2016 (unaudited) ¹
Investment property	(2,083)	(10,047) ¹	-	(12,130)
Property, plant and equipment	(21,357)	428	423	(20,506)
Provisions and other assets / liabilities	2,264	(156)	-	2,108
Tax losses	-	819	-	819
Deferred tax liabilities	(21,176)	(8,956)	423	(29,709)

¹ The 30 November 2016 balances in respect of the tax effect of investment property and property, plant and equipment have been restated. Refer to note 5.1(iv).

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

5.1. Income Tax (Continued)

Recognition and measurement

No income tax was paid or payable during the period.

Key accounting judgements

(i) Deferred tax on investment property

Deferred tax on investment property is assessed on the basis that the asset value will be realised through use ('Held for Use').

An initial recognition exemption has been applied to newly developed village sites in accordance with NZ IAS 12.

The Group's ORA comprises two gross cash flows (being an ORA deposit upon entering the unit and the refund of this deposit upon exit). In determining the tax base of investment property, the Group considered whether taxable cash flows are received at the end of the ORA period (i.e. upon refund of the ORA deposit by way of set off on exit by a resident) or at the beginning of the ORA period (i.e. at time of the receipt of the ORA deposit). The Group has carefully evaluated all the available information and considers it appropriate to recognise and measure the tax base and associated deferred tax based on the taxable cash flows being receivable at the end of the ORA period as this best represents the Group's contractual entitlement.

Contractually, management fees are received upon refund of the ORA deposit by way of set off on exit of a unit by a resident.

Should the taxable cash flows of investment property be treated as received at the beginning of the ORA period an additional deferred tax liability of \$3.7m would be recognised on the Balance Sheet. An additional current year tax expense of \$3.7m and a corresponding reduction in net profit after tax of \$3.7m would also be recognised (31 May 2017: \$3.1m, 30 November 2016: \$3.2m).

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

5.1. Income Tax (Continued)

(ii) Recognition of tax losses

The Group had not recognised any tax losses since the year ended 31 May 2014 in the Balance Sheet as, in prior reporting periods, the Directors considered it would not be probable that the Group would utilise the tax losses prior to any change of shareholding continuity. Relevant disclosures were made in the respective financial statements.

After completing the IPO in May 2017 and following consideration of the Group's capital structure and profitability forecasts, the Directors consider it appropriate to recognise a portion of the Group's available tax losses to the extent that these are expected to be utilised before any breach of shareholding continuity, from a change in shareholding or other means of restructure, in accordance with NZ IAS 12.

(iii) Recognition of Deferred Management Fee

The interpretation of NZ tax laws in relation to deferred management fees involves significant judgements and uncertainty. Deferred management fees are currently recognised for tax purposes consistent with the revenue recognition policy as provided in the 31 May 2017 annual financial statements. Consequently no deferred tax is recognised.

(iv) Update of 30 November 2016 comparatives

As disclosed in the Annual Report for the year ended 31 May 2017 in estimating the income tax expense and deferred tax liability in the interim period to 30 November 2016, certain assets were classified incorrectly as depreciable for tax purposes. As a result the deferred tax liability as at 30 November 2016 and, consequently, the income tax expense for the interim period ended 30 November 2016 were understated by \$4.1m. The comparatives presented in these interim financial statements have been corrected. There was no impact on the cash flows or the underlying profit presented in the interim period to 30 November 2016.

The presentation of the November 2016 comparatives have also been updated to align with the presentation adopted for November 2017.

Notes to the Financial Statements (Continued)

For the six months ended 30 November 2017

5.2. Contingencies and Commitments

As at 30 November 2017 the Group had no contingent liabilities or assets (31 May 2017: nil, 30 November 2016: nil).

At 30 November 2017 the Group has a number of commitments to develop and construct certain facilities totalling \$103.0m (31 May 2017: \$41.6m, 30 November 2016: \$46.7m).

5.3 Events after Balance Date

On 15 December 2017 the Group entered into an unconditional agreement to acquire 8,945m² of vacant land located at 14-22, 28 and 30 Waimarie Street, St Heliers, Auckland.

On 25 January 2018 an interim dividend of 2.1 cents per share (not imputed) was declared and will be paid on 20 February 2018. The record date for entitlement is 13 February 2018.

There have been no other significant events after Balance Date.

Independent Review Report

To the shareholders of Oceania Healthcare Limited



Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Oceania Healthcare Limited (the Company) including its subsidiaries (together, the Group) on pages 14 to 45, which comprise the consolidated balance sheet as at 30 November 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the interim financial statements

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

Our responsibility

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

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

We are independent of the Group. Other than in our capacity as the auditor, we have no relationship with, or interests in, the Group.

Independent Review Report (Continued)

To the shareholders of Oceania Healthcare Limited



Conclusion

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

Who we report to

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

For and on behalf of:

Chartered Accountants
25 January 2018

Auckland



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