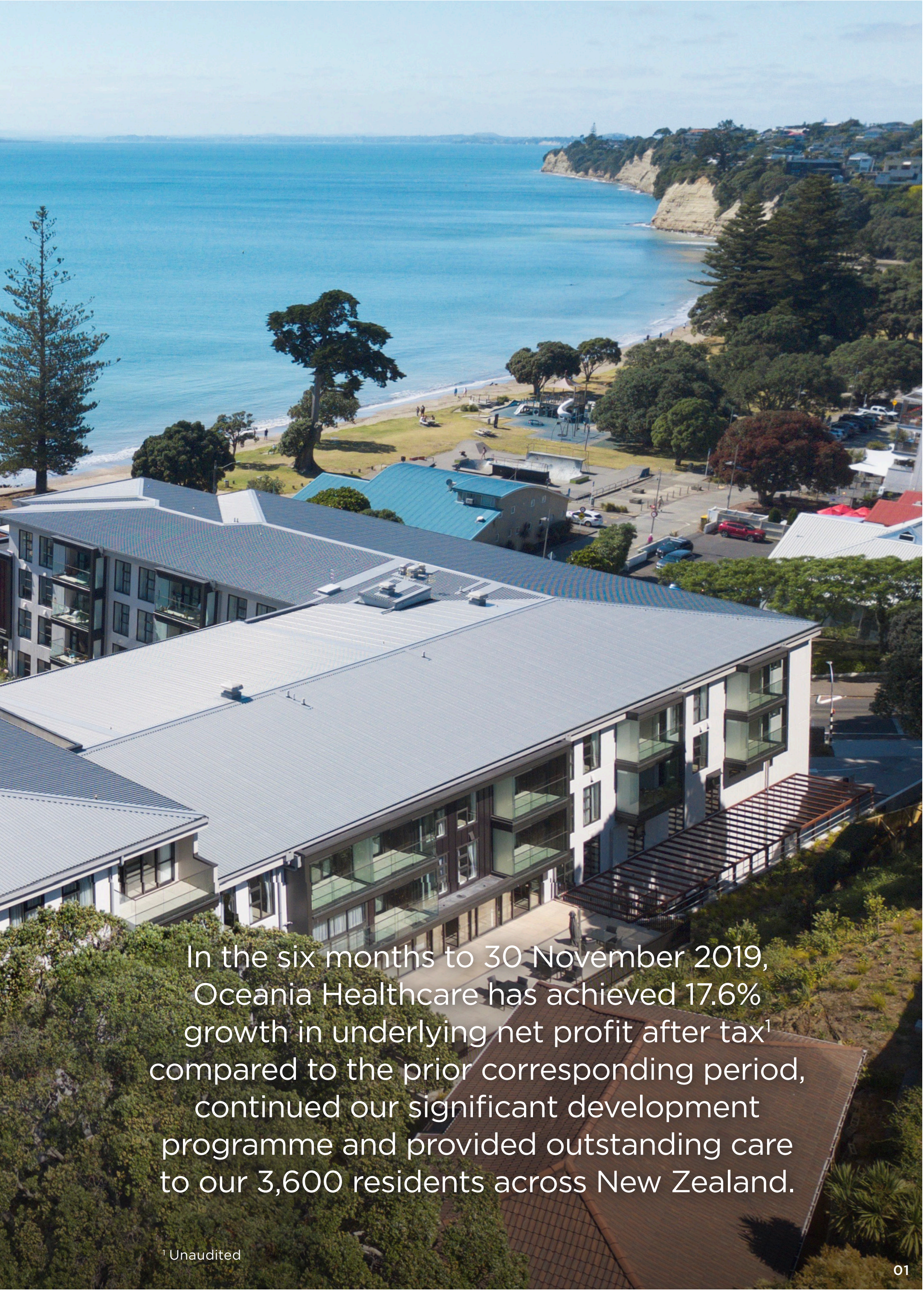
INTERIM REPORT 2020

OCEANIA
HEALTHCARE

Contents



In the six months to 30 November 2019, Oceania Healthcare has achieved 17.6% growth in underlying net profit after tax[1] compared to the prior corresponding period, continued our significant development programme and provided outstanding care to our 3,600 residents across New Zealand.

[1] Unaudited

At a glance

Oceania Healthcare is a leading provider of premium healthcare services, with sites located in metropolitan areas across New Zealand. We are dedicated to delivering exceptional and innovative hospitality services that delight our residents.

We have a strong platform for growth with a substantial development pipeline and proven expertise and experience in managing and delivering construction projects.

We have sufficient land to build 1,958 new residences (1,388 net of decommissions) with 86.6% of these already consented.

We pride ourselves in being a recognised industry leader in the provision of clinical care to our residents. In October 2019 we won the Excellence in Food Award for the second year in a row at the New Zealand Aged Care Association Conference.

As at 30 November 2019

Staff

~2,700

Residents

~3,600

Care beds and care suites

2,595

Units

1,209

Existing sites with mature operations	Existing sites with brownfield developments (current and planned)	Undeveloped sites		Total sites
24	20	2	=	46

Highlights

Financial[1]

Underlying Net Profit after Tax – continuing operations[2]

$24.1m

For the six months to 30 November 2019

↑17.6%

Ahead of underlying net profit after tax - continuing operations[2] of $20.5m for the six months to 30 November 2018

Total Assets

$1.5bn

As at 30 November 2019

↑23.8%

Higher than total assets of $1.2bn as at 30 November 2018

Reported Total Comprehensive Income

$24.0m

For the six months to 30 November 2019

↑23.1%

Ahead of total comprehensive income of $19.5m for the six months to 30 November 2018

Operating Cash Flow

$57.0m

For the six months to 30 November 2019

↑21.0%

Above reported operating cashflow of $47.1m for the six months to 30 November 2018

[1] Unaudited.

[2] Underlying net profit after tax – continuing operations contains a proforma adjustment that excludes the earnings from sites divested in IHY 2019.

Sales

New Units	Resale Units	New Care Suites	Resale Care Suites
29	39	55	63

For the six months to 30 November 2019

Total Sales

= 186 ↑29.2% Ahead of total sales for the six months to 30 November 2018

Developments

Units + Care Suites	Units + Care Suites	Units + Care Suites	Units + Care Suites
601	444	100	165
CONSENT SECURED	UNDER CONSTRUCTION	COMPLETED	TO COMPLETE IN FY2020

CONSENT SECURED: Resource consents at Waimarie St (Auckland) 76 apartments and 31 care suites, and Elmwood (Auckland) 229 apartments and 142 care suites and other resource consents relating to 123 beds and units.

86.6%

of the total development pipeline is now consented.

UNDER CONSTRUCTION: 444 units and care suites under construction at Meadowbank (Auckland), Green Gables (Nelson), Gracelands (Hastings), Whitianga, Elderslea (Upper Hutt), Woodlands (Motueka), Windermere (Christchurch), Eden (Auckland), The BayView (Tauranga) and Awatere (Hamilton).

COMPLETED: At Awatere (Hamilton) and Whitianga.

TO COMPLETE IN FY2020: A further 165 units and care suites are due to be completed at Meadowbank (Auckland), Green Gables (Nelson), Gracelands (Hastings), Elderslea (Upper Hutt) and Woodlands (Motueka).

Dear Shareholder,

We are pleased to present the Interim Report for the six months to 30 November 2019, after what has been another very active first half as we move through our redevelopment cycle and execute our care strategy.

The key highlights for the first half of FY2020 included:

- A 17.6% increase ($3.6m) in unaudited underlying net profit after tax from continuing operations compared to the prior corresponding period
- Operating cash flow of $57.0m, up 21.0% ($9.9m) compared to the prior corresponding period
- Good progress in the sell down of The Sands and Meadowbank Stage Four, with 48% of the apartments at The Sands and 49% of the apartments at Meadowbank sold or under application
- Total sales growth of 29.2% compared to the prior corresponding period
- On track to complete 265 new retirement village units and aged care beds in the year to 31 May 2020 with 90 new care suites at Awatere, Hamilton already completed in July 2019
- Capital expenditure of $71.4m on new developments during the period
- Interim dividend of 2.3 cents per share (not imputed) announced, an increase of 0.2 cents per share compared to the prior corresponding period, which will have a record date of 10 February 2020 and be paid on 24 February 2020. The Dividend Reinvestment Plan will apply
- Preparation for a domestic retail bond issue, subject to market conditions, to provide diversity of funding and tenor and help facilitate Oceania Healthcare's future growth
- Standing consent granted by the OIO for residential land purchases
- The appointment of Dr Frances Hughes CNZM as General Manager Nursing and Clinical Strategy to further strengthen clinical leadership and delivery

Financial Performance

Our unaudited underlying net profit after tax from continuing operations was $24.1m for the six month period to 30 November 2019, representing a $3.6m or 17.6% increase on the prior corresponding period primarily due to strong sales momentum at our two new Auckland Villages, The Sands and Meadowbank Stage 4, as well as continued strong demand for our new premium care suites across the country.

Our total assets are now $1.5bn, representing 23.8% growth over the prior corresponding period. Net debt of $288.1m as at 30 November 2019 represents a prudent gearing level of 31.8%% (net debt to debt plus equity).

The Board has declared an interim dividend of 2.3 cents per share (not imputed), an increase of 0.2 cents per share compared to the prior corresponding period. The record date for entitlement is 10 February 2020 and the dividend will be paid on 24 February 2020. The dividend reinvestment plan (DRP) announced in July 2019 will apply to the dividend payable on 24 February 2020 at a discount of 2.5% to the volume weighted average price of shares sold on the NZX Main Board over a period of five trading days starting on 7 February 2020.

Care

Aged Care is our core competency and it is at the very heart of our business. Oceania Healthcare is a recognised market leader in the delivery of the highest levels of clinical care, with a greater mix of hospital level care beds in the portfolio compared to other operators. Furthermore, as we redevelop our sites into premium offerings, we continue to maintain a higher weighting of care on site compared to other providers.

The Care segment generated total revenue for the first half of $81.3m, representing 84.2% of total operating revenue, and underlying EBITDA of $9.5m. Adding $8.9m of care suite development and resale gains over the period (currently classified in the Village segment), our total aged care related underlying EBITDA of $18.4m was $0.1m higher than the prior corresponding period.

Occupancy at care centres not impacted by our redevelopment activity also increased to 94.2% compared with 92.3% in the corresponding period last year.

Over the past two years, we have delivered new care centres with new care suites at Meadowbank, The BayView, Tauranga, The Sands and Awatere and we are well underway with the construction of our new care centres at Green Gables, Nelson and Windermere, Christchurch. In the case of Meadowbank, The Sands and Green Gables, we decommissioned the existing beds at the centres before demolishing the buildings and constructing new buildings which contain premium care suites. These care suites are a superior product offering and are more aligned to the needs of the local population.

Awatere, Hamilton

The BayView, Tauranga

As we progress the "brownfields" redevelopment of our premium locations, there is a short term reduction in recurring earnings from our existing beds when these beds are decommissioned for the redevelopment to be undertaken and we incur increased operating costs to get the new care centres established. Once the redevelopment is complete and the care suites are occupied by new residents, we generate an upfront development margin from first time sales of our care suites (a feature of this interim result). Following this stage, once the centre is fully occupied and the care suites sold, we generate recurring revenue from deferred management fees on the occupation right agreements, increasing earnings per bed.

While underlying earnings from the aged care sector have come under pressure over recent years due to increased wage costs (attributable to equal pay, the minimum wage and the shortage of registered nurses) not fully funded by the Government, we are responding to that challenge by both improved workforce planning (led by Dr Frances Hughes) as well as increasing our sources of premium revenue, which will reduce our exposure to Government funding.

Going forward into FY2021 and beyond, as more developments are completed and care suites are sold down, aged care earnings will increase as up front development margins are realised and higher recurring earnings generated from the deferred management fees in the longer term.

We are continuously innovating in our Care service delivery. In October 2019 we were pleased to win the Excellence in Food award for the second year in a row at the New Zealand Aged Care Association Conference. The roll out of our Resident Clinical Management System, e-Case, is also progressing well. As at 30 November 2019, e-Case has been implemented at 23 of our care centres across the country. Our centres are already enjoying the benefits of this system, which means that our staff can spend more time interacting with residents and their families, and less time completing paperwork at the nurses' station. We expect to have all care centres using e-Case by the end of this financial year.

Village

The Village segment generated total revenue for the first half of $14.6m and underlying EBITDA of $33.8m due to the sale of new retirement village apartments at The Sands and Meadowbank (including realised development margin and resale gains on care suites). Our total sales were 29.2% ahead of the prior corresponding period and sales at these two premium locations (completed in May 2019) are progressing to expectation. As at 30 November 2019, 49% of the apartments at Meadowbank and 48% of the apartments at The Sands have been sold or are under application.

We completed the new care centre at Awatere in July 2019 comprising 90 care suites and, as at 30 November 2019, we had sold eight new care suites to residents under ORAs with a further 69 residents having transferred from the old centre.

We have sold a further 31 new care suites at centres throughout the country where we have converted older, standard aged care rooms into premium care suites.

Developments

We have continued to make excellent progress with the execution of our development pipeline during the six month period to 30 November 2019. We have a proven ability to design and build our development projects on time and on budget.

We are well positioned to deliver 265 aged care beds and retirement village units by the end of this financial year. The final stage of 26 independent living apartments at Meadowbank is progressing well and is expected to be completed by May 2020. This stage will bring the total number of independent living apartments at Meadowbank to 193.

The construction of 28 apartments and 61 care suites at Green Gables, Nelson is also progressing well. This is another premium site where we decommissioned the existing aged care centre and are developing a new integrated aged care centre and retirement village. The site is in an excellent location close to the city centre in Nelson in a high value area of the region with good levels of demand for aged care. Construction is scheduled to be completed in May 2020.

Windermere, Christchurch

Gracelands, Hastings

Green Gables, Nelson

Construction of 32 new villas at Gracelands, Hastings is well advanced, with the first 17 villas nearing completion and the remaining villas scheduled to be completed by the end of the financial year. Gracelands is a popular and well-established village located close to Hastings and there has already been a high level of interest from the local community for these new villas.

In addition to these larger projects, we completed 10 villas at Whitianga, Coromandel in November 2019 and 12 villas at Elderslea, Upper Hutt in January 2020. We are also progressing well with the construction of six villas and a new community centre at Woodlands, Motueka and this is expected to be completed by May 2020.

Looking ahead to the next financial year, our developments at Windermere (comprising 71 care suites and 22 apartments) and Stage Two at The BayView (comprising 74 apartments and the community centre) are progressing well and these are both scheduled to be completed during FY2021.

We have recently started construction on three new developments. Construction of 49 new apartments and a new community centre is underway on land that we acquired in 2018 at Eden, Auckland. We have started work on the redevelopment of Lady Allum Village in Milford, Auckland, with the first stage of this redevelopment comprising the construction of 113 new care suites. The Stage Two works at Awatere have just commenced, consisting of 63 retirement village apartments and a new community centre on the land where the previous care centre was located. Construction of the Eden and Awatere Stage Two projects, and the first stage of Lady Allum Village, is expected to be complete during FY2022.

We have made good progress in our consenting activity during the six month period to 30 November 2019, with resource consents now obtained for 86.6% of the development pipeline. We were pleased to receive the resource consent to construct 76 apartments and 31 luxury care suites at our Waimarie Street site in St Heliers, Auckland, in August 2019. This development is an integral part of Oceania Healthcare's growth plan and will be the first "greenfields" development that we have undertaken. Our team has started work on the building consent documentation and we expect to start construction in FY2021, with completion scheduled for FY2023.

Resource consent was also granted for the development of 229 apartments at our Elmwood site in Manurewa, Auckland, in addition to the resource consent previously granted to construct a new 142 room care centre on the land adjacent to the site that was acquired in 2016. Elmwood is in an excellent location adjacent to Auckland's botanical gardens and the redevelopment will build upon Elmwood's strong reputation for delivering the highest quality care to its residents.

We have been granted a standing consent for residential land purchases by the Overseas Investment Office. This will allow Oceania Healthcare to make up to 12 transactions of residential land over the next three years without requiring individual approvals from the Overseas Investment Office. Although we have sufficient land to execute our development pipeline over the next six years, this consent will provide additional flexibility and will allow us to acquire properties in a timely manner when good opportunities arise.

Our People

Oceania Healthcare is a people business and we recognise that the passion of our staff is the key to delivering outstanding care to our residents. We have continued to provide industry leading learning and development programmes for our staff and increase our wage rates for healthcare assistants and registered nurses so that they remain well-aligned with the public sector and among the highest in the aged care sector.

One of the highlights of the last six months has been the appointment of Dr Frances Hughes as General Manager Nursing and Clinical Strategy at Oceania Healthcare. Dr Hughes is a registered nurse who has held senior management and nursing positions on a global level and was formerly the Chief Executive of the International Council of Nurses. She has worked for the World Health Organisation and was made an Officer of the New Zealand Order of Merit for services to mental health in 2005 and a Companion of the New Zealand Order of Merit for services to mental health and nursing in the 2020 New Year Honours. We are delighted to have Frances join the team and are excited about the skills and experience that she will bring to lift our service offering and enhance the quality of care to our residents.

We implemented an employee share scheme for our permanent employees in September 2019 to recognise their contribution to the success of Oceania Healthcare. As part of the scheme, we offered up to $800 of shares to eligible employees at no cost to them. The shares will vest to employees after three years if the employee remains employed by Oceania Healthcare. It was pleasing to see over 70% of eligible employees enrol in the scheme.

We maintain our strong focus on health and safety and have recently developed new initiatives to encourage staff to report injuries and follow our injury management processes. We have also strengthened our health and safety team to enhance the attention that our people give to keeping themselves safe at work every day.

We would like to acknowledge and thank directors and staff for their valuable contribution.

Thank you again for your ongoing support.

Yours sincerely

Liz Coutts

Elizabeth Coutts
Chair

Earl Gasparich
Chief Executive Officer

Three Year Summary

For the six months ended 30 November 2019

Financial Metrics

$NZm	Unaudited Nov 2019	Unaudited Nov 2018	Unaudited Nov 2017
Underlying net profit after tax[1]	**24.1**	20.9	19.9
Underlying net profit after tax[2] – continuing operations	**24.1**	20.5	18.8
Profit for the period	**14.9**	1.3	42.5
Total comprehensive income	**24.0**	19.5	42.9
Total assets	**1,496.5**	1,208.8	999.1
Operating cashflow	**57.0**	47.1	17.1

Operating Metrics

$NZm	Unaudited Nov 2019	Unaudited Nov 2018	Unaudited Nov 2017
Units	**1,209**	1,088	1,023
Care Suites	**655**	451	288
Care Beds	**1,940**	2,129	2,293
Total	**3,804**	**3,668**	**3,604**
New Sales	**84**	65	23
Resales	**102**	79	69
Total	**186**	**144**	**92**
Occupancy[3]	**94.2%**	92.3%	90.1%

[1] This is a non-GAAP measure, see note 2.1 in the consolidated interim financial statements for further details.

[2] Underlying net profit after tax – continuing operations contains a pro forma adjustment that excludes the earnings from sites divested in the first half of FY2019.

[3] Average annual occupancy in relation to sites not under development or conversion and excluding leasehold sites.

Consolidated Interim Financial Statements

For the six months ended 30 November 2019

Consolidated Statement of Comprehensive Income

For the six months ended 30 November 2019

$NZ000s	Notes	Unaudited Six months 30 Nov 2019	Unaudited Six months 30 Nov 2018
Revenue		**96,509**	94,282
Change in fair value of investment property	3.1	**11,365**	1,624
Change in fair value of right of use investment property[1]	3.4	**10,196**	-
Other income		**1,439**	2,132
Total income		**119,509**	**98,038**
Employee benefits and other staff costs		**63,024**	59,325
Depreciation and amortisation		**7,147**	4,329
Finance costs		**2,911**	2,014
Impairment of property, plant and equipment	3.2	**1,044**	5,659
Rental expenditure in relation to right of use investment property[1]		**11,536**	-
Other expenses		**27,161**	29,966
Total expenses		**112,823**	**101,293**
Profit before income tax		**6,686**	**(3,255)**
Income tax benefit	5.1	**8,166**	4,507
Profit for the period		**14,852**	**1,252**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Gain on revaluation of property, plant and equipment for the period, net of tax	3.2, 5.1	**10,884**	18,197
Gain on revaluation of right of use asset for the period, net of tax	3.4	**112**	-
		10,996	18,197
Items that may be subsequently reclassified to profit or loss			
(Loss) / gain on cash flow hedges, net of tax		**(1,898)**	63
Other comprehensive income for the period, net of tax		**9,098**	**18,260**
Total comprehensive income for the period attributable to shareholders of the parent		**23,950**	**19,512**
Basic earnings per share (cents per share)	4.2	**2.4**	0.2
Diluted earnings per share (cents per share)	4.2	**2.4**	0.2

[1] This relates to the right of use asset, Everil Orr. In the comparative period the revaluation and transactions in relation to this lease were included within investment property. The change in fair value of investment property for the six months to 30 November 2018 included an uplift of $4.5m and other expenses included a rental expense of $4.8m in relation to this lease. This change of classification has arisen on adoption of NZ IFRS 16 Leases.

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

Consolidated Balance Sheet

As at 30 November 2019

$NZ000s	Notes	Unaudited 30 Nov 2019	Audited 31 May 2019
Assets			
Cash and cash equivalents		**13,367**	22,762
Trade and other receivables		**40,023**	43,541
Investment property	3.1	**917,555**	881,674
Property, plant and equipment	3.2	**480,434**	442,709
Right of use assets	3.4	**35,089**	-
Intangible assets		**10,019**	8,668
Total assets		**1,496,487**	**1,399,354**
Liabilities			
Trade and other payables		**41,069**	38,565
Derivative financial instruments		**5,170**	2,443
Deferred management fee	3.3	**30,662**	27,002
Refundable occupation right agreements	3.3	**493,805**	436,481
Leases liabilities	3.4	**14,012**	-
Borrowings	4.3	**286,672**	270,159
Deferred tax liabilities	5.1	**6,867**	14,825
Total liabilities		**878,257**	**789,475**
Net assets		**618,230**	**609,879**
Equity			
Contributed equity	4.1	**583,072**	580,794
Retained deficit		**(113,085)**	(110,060)
Reserves		**148,243**	139,145
Total equity		**618,230**	**609,879**

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

Consolidated Statement of Changes in Equity

For the six months ended 30 November 2019

$NZ000s	Notes	Contributed equity	Retained deficit	Asset revaluation reserve	Cash flow hedge reserve	Total equity
Balance as at 1 June 2018 (audited)		**579,498**	**(127,899)**	**85,601**	**(103)**	**537,097**
Profit for the period		-	1,252	-	-	1,252
Other comprehensive income						
Revaluation of cash flow hedge net of tax		-	-	-	63	63
Revaluation of assets net of tax		-	-	18,197	-	18,197
Total comprehensive income		**-**	**1,252**	**18,197**	**63**	**19,512**
Transfer of revaluation reserve for assets held for sale		-	773	(773)	-	-
Transactions with owners						
Dividends paid		-	(15,713)	-	-	(15,713)
Employee share scheme		-	70	-	-	70
Total transactions with owners		**-**	**(15,643)**	**-**	**-**	**(15,643)**
Balance as at 30 November 2018 (unaudited)		**579,498**	**(141,517)**	**103,025**	**(40)**	**540,966**
Balance as at 1 June 2019 (audited)		**580,794**	**(110,060)**	**140,931**	**(1,786)**	**609,879**
Impact of adoption of NZ IFRS 16 Leases	3.4, 5.2	**-**	**(2,211)**	**-**	**-**	**(2,211)**
Profit for the period		**-**	**14,852**	**-**	**-**	**14,852**
Other comprehensive income						
Revaluation of cash flow hedge net of tax		**-**	**-**	**-**	**(1,898)**	**(1,898)**
Revaluation of assets net of tax	3.2, 5.1	**-**	**-**	**10,884**	**-**	**10,884**
Revaluation of right of use assets net of tax	3.4	**-**	**-**	**112**	**-**	**112**
Total comprehensive income		**-**	**14,852**	**10,996**	**(1,898)**	**23,950**
Transactions with owners						
Dividends paid	4.1	**-**	**(15,784)**	**-**	**-**	**(15,784)**
Share issue: dividend reinvestment scheme	4.1	**2,278**	**-**	**-**	**-**	**2,278**
Share issue: employee share scheme	4.1	**-**	**118**	**-**	**-**	**118**
Total transactions with owners		**2,278**	**(15,666)**	**-**	**-**	**(13,388)**
Balance as at 30 November 2019 (unaudited)		**583,072**	**(113,085)**	**151,927**	**(3,684)**	**618,230**

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

Consolidated Cash Flow Statement

For the six months ended 30 November 2019

$NZ000s	Unaudited Six months 30 Nov 2019	Unaudited Six months 30 Nov 2018
Cash flows from operating activities		
Receipts from residents for village and care fees	**81,796**	86,208
Payments to suppliers and employees	**(89,729)**	(84,281)
Rental payments in relation to right of use investment property	**(11,535)**	(4,815)
Receipts from new occupation right agreements	**102,070**	73,712
Payments for outgoing occupation right agreements	**(22,061)**	(22,316)
Interest received	**103**	83
Interest paid	**(3,130)**	(1,520)
Interest paid in relation to right of use assets	**(525)**	-
Net cash inflow from operating activities	**56,989**	**47,071**
Cash flows from investing activities		
Proceeds from sale and / or disposal of property, plant and equipment and investment property	**(36)**	19,678
Payments for property, plant and equipment and intangible assets	**(24,423)**	(40,811)
Payments for investment property and investment property under development	**(46,949)**	(53,136)
Net cash outflow from investing activities	**(71,408)**	**(74,269)**
Cash flows from financing activities		
Proceeds from borrowings	**77,201**	96,267
Repayment of borrowings	**(57,354)**	(61,000)
Transaction costs	**(41)**	-
Principal payments for right of use assets	**(1,276)**	-
Dividends paid	**(13,506)**	(15,713)
Net cash inflow from financing activities	**5,024**	**19,554**
Net increase in cash and cash equivalents	**(9,395)**	**(7,644)**
Cash and cash equivalents at the beginning of the period	**22,762**	18,288
Cash and cash equivalents at end of period	**13,367**	**10,644**

The Board of Directors of the Company authorised these consolidated financial statements for issue on 24 January 2020.

For and on behalf of the Board

Elizabeth Coutts
Chairman

Alan Isaac
Director

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

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 November 2019

1. General Information

1.1 Basis of Preparation

(i) Entities Reporting

The consolidated interim financial statements of the "Group" are for the economic entity comprising Oceania Healthcare Limited (the "Company") and its subsidiaries, together "the Group". Refer to note 5.5 of the 31 May 2019 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 2019 and the results of all subsidiaries for the six months then ended.

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

(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 under 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 consolidated interim 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 consolidated 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 Interim Financial Reporting ("NZ IAS 34") and International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). The Group is a Tier 1 for-profit entity in accordance with XRB A1.

The accounting policies that materially affect the measurement of the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet and the Consolidated Cash Flow Statement have been applied on a basis consistent with those used in the audited consolidated financial statements for the year ended 31 May 2019.

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 2019, 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 2019 and comparatives for the six months ended 30 November 2018 are unaudited. The consolidated annual financial statements for the year ended 31 May 2019 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 presentation currency.

The consolidated interim 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.

The Consolidated Balance Sheet has been prepared using a liquidity format.

(iii) Measurement Basis

These consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities, including investment properties, certain classes of property, plant and equipment, right of use assets, assets held for sale and cash flow hedges.

(iv) Key Estimates and Judgements

The preparation of the consolidated interim 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.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated interim 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 (note 3)
- Fair value of freehold land and buildings (note 3.2)
- Fair value of right of use assets (note 3.4)
- Revenue recognition of deferred management fees (note 3.3)
- Recognition of deferred tax (note 5.1)

1.2 Accounting Policies

(i) New and Amended Standards Adopted by the Group

During the period the Group adopted *NZ IFRS 16 Leases*. Refer to note 5.2 and note 3.4 for further details. The Group has not early adopted any standards, amendments or interpretations to existing standards that are not yet effective.

(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 their fair value.

1.3 Significant Events and Transactions

The financial position and performance of the Group were affected by the following events and transactions during the six months to 30 November 2019:

- Adoption of NZ IFRS 16 *Leases* ("NZ IFRS 16") – This standard is effective for reporting periods beginning on or after 1 January 2019. There has been no impact on prior period comparatives. See notes 5.2 and 3.4 for further details.

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 not by operating segment.

The Group operates in New Zealand and comprises three segments; care operations, village operations and other.

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"), which is 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 3.2 for details on capital expenditure.

Goodwill: Goodwill is allocated to care cash generating units.

> What is Total Comprehensive Income?
>
> Total comprehensive income is a measure of the total performance of all segments under NZ GAAP. It includes fair value movements relating to the Group's care centres and cash flow hedges.

2.1 Operating Segments (continued)

	Care
Product	Includes traditional care beds and care suites.
Services	The provision of accommodation, care and related services to Oceania's aged care residents. Includes the provision of services such as meals and care packages to independent living residents.
Recognition of Operating Revenue and Expenses	The Group derives Operating Revenue from the provision of care and accommodation. The daily fee is set annually by the Ministry of Health. In relation to the provision of superior accommodation above the Government specification the Group derives revenue from Premium Accommodation Charges ("PACs") or, in the case of care suites, through Deferred Management Fees ("DMF"). Operating Expenses primarily include staff costs, resident welfare expenses and overheads.
Recognition of Fair Value movements on New Developments	Fair value increases or decreases are recognised in other comprehensive income (i.e. not in profit or loss) for the fair value movement above historic cost. Impairments below historic cost are recognised in comprehensive income (i.e. profit or loss).
Recognition of Fair Value movements on Existing Care Centres and Retirement Villages	Fair value movements are treated the same as above. When sites are decommissioned for development this results in an impairment of the buildings and chattels which is recognised in comprehensive income (i.e. profit or loss).
Recognition in Underlying Profit (refer note 2.1 overleaf)	Fair value movements are removed.
Asset Categorisation	Assets used, or, in the case of developments, to be used, in the provision of care are recognised as property, plant and equipment.

	Village	Other
	Includes independent living and rental properties.	N/A
	The provision of accommodation and related services to independent residents in the Group's retirement villages.	Provision of support services to the Group (includes administration, marketing and operations). In addition this segment includes the provision of training by the Wesley Institute of Learning.
	The Group derives Operating Revenue from weekly service fees and rental income. Operating Revenue also includes DMF accrued over the expected occupancy period for the relevant accommodation. Operating Expenses include village property maintenance, sales and marketing, and administration related expenses.	Includes support office and corporate expenses and operating lease costs relating to the Group's three leasehold sites. Finance costs relate to the cost of bank debt acquired for the purchase and development of villages. Income and expenditure relating to the Wesley Institute of Learning is recognised in this segment.
	Fair value movements are recognised in comprehensive income (i.e. profit or loss).	N/A
	Fair value movements are recognised in comprehensive income (i.e. profit or loss).	N/A
	Fair value movements are removed. Realised gains on resales and the development margins from the sale of independent living units and care suites are included.	No material adjustments.
	Assets used for village operations are recognised as investment property.	Support office assets are recognised as property, plant and equipment. Assets include intangibles (e.g. software).

2.1 Operating Segments (continued)

Six months ended 30 November 2019 (unaudited) $NZ000s	Care Operations	Village Operations	Other	Total
Revenue	81,320	14,551	638	96,509
Change in fair value of investment property	-	11,365	-	11,365
Change in fair value of right of use asset	-	10,196	-	10,196
Other income	194	1,135	8	1,337
Total income	81,514	37,247	646	119,407
Operating expenses	(72,139)	(19,701)	(9,881)	(101,721)
Impairment of property, plant and equipment	(1,044)	-	-	(1,044)
Segment EBITDA	8,331	17,546	(9,235)	16,642
Interest income	-	22	80	102
Finance costs	-	-	(2,911)	(2,911)
Depreciation and amortisation	(6,691)	-	(456)	(7,147)
Profit before income tax	1,640	17,568	(12,522)	6,686
Income tax benefit	254	2,146	5,766	8,166
Profit for the period attributable to shareholders	1,894	19,714	(6,756)	14,852
Other comprehensive income				
Gain on revaluation of property, plant and equipment for the period, net of tax	10,884	-	-	10,884
Gain on revaluation of right of use asset for the period, net of tax	112	-	-	112
Loss on cash flow hedges, net of tax	-	-	(1,898)	(1,898)
Total comprehensive income for the period attributable to shareholders of the parent	12,890	19,714	(8,654)	23,950

Six months ended 30 November 2018 (unaudited) $NZ000s	Care Operations	Village Operations	Other	Total
Revenue	82,019	12,263	-	94,282
Change in fair value of investment property	-	1,624	-	1,624
Change in fair value of right of use asset	-	-	-	-
Other income	881	1,005	163	2,049
Total income	**82,900**	**14,892**	**163**	**97,955**
Operating expenses	(68,250)	(11,897)	(9,144)	(89,291)
Reversal of impairment of property, plant and equipment	(5,659)	-	-	(5,659)
Segment EBITDA	**8,991**	**2,995**	**(8,981)**	**3,005**
Interest income	-	15	68	83
Finance costs	-	-	(2,014)	(2,014)
Depreciation and amortisation	(4,075)	-	(254)	(4,329)
Profit before income tax	**4,916**	**3,010**	**(11,181)**	**(3,255)**
Taxation (expense) / benefit	(4,275)	8,665	117	4,507
Profit for the period attributable to shareholders	**641**	**11,675**	**(11,064)**	**1,252**
Other comprehensive income				
Gain on revaluation of land and buildings for the period, net of tax	18,197	-	-	18,197
Gain on revaluation of right of use asset for the period, net of tax	-	-	-	-
Gain on cash flow hedges, net of tax	-	-	63	63
Total comprehensive income for the period attributable to shareholders of the parent	**18,838**	**11,675**	**(11,001)**	**19,512**

2.1 Operating Segments (continued)

Underlying net profit after tax ("Underlying Profit")

Underlying Profit is a non-GAAP measure of financial performance and considered in the determination of dividends. The calculation of Underlying Profit requires a number of estimates to be approved by the Directors in their preparation. Both the methodology and the estimates may differ among companies in the retirement village sector. Underlying Profit does not represent cash flow generated during the period.

The Group calculates Underlying Profit by making the following adjustments to reported Net Profit after Tax:

	Net profit after tax
Add back / remove	Change in fair value of investment property, right of use investment property assets and cash flow hedges and impairment / reversal of impairment of property, plant and equipment and right to use property, plant and equipment
Add back	Impairment of goodwill
Remove	DMF income in relation to right of use investment property assets
Add back	Rental expenditure in relation to right of use investment property assets
Add back / remove	Loss / gain on sale or decommissioning of assets
Add back	Directors' estimate of realised gains on the resale of units and care suites sold under an occupation right agreement ("ORA")
Add back	Directors' estimate of realised development margin on the first sale of new ORA units or care suites following the development of an ORA unit or care suite, conversion of an existing care bed to a care suite or conversion of a rental unit to an ORA unit
Add back	Deferred taxation component of taxation expense so that only the current tax expense is reflected
=	**Underlying Profit**
Remove	Interest income
Add back	Finance costs (including lease interest under NZ IFRS16)
Add back	Depreciation and amortisation (including right of use property, plant and equipment)
=	**Underlying EBITDA**

Resale gain – Underlying Profit

The Directors' estimate of realised gains on resales of ORA units and care suites (i.e. the difference between the incoming resident's ORA licence payment and the ORA licence payment previously received from the outgoing resident) is calculated as the net cash flow received, and receivable at the point that the ORA contract becomes unconditional and has either "cooled off" (the contractual period in which the resident can cancel the contract) or where the resident is in occupation at balance date.

Development margin – Underlying Profit

The Directors' estimate of realised development margin is calculated as the ORA licence payment received, and receivable, in relation to the first sale of new ORA units and care suites, at the point that the ORA contract becomes unconditional and has either "cooled off" or where the resident is in occupation at balance date, less the development costs associated with developing the ORA units and care suites.

The Directors' estimate of realised development margin for conversions is calculated based on the difference between the ORA licence payment received, and receivable, in relation to sales of newly converted ORA units and care suites, at the point that the ORA contract becomes unconditional and has either "cooled off" or where the resident is in occupation at balance date, and the associated conversion costs.

2.1 Operating Segments (continued)

The table below describes the composition of development and conversion costs.

Included	**New builds:** - the construction costs directly attributable to the relevant project, including any required infrastructure (e.g. roads) 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; - an apportionment of land value based on the gross floor area of the ORA units and care suites developed. The value for Brownfield[2] development land is the estimated fair value of land at the time a change of use occurred[3] (from operating as a care centre or retirement village to a development site), as assessed by an external independent valuer. Greenfield[4] 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. **Conversions:** - of care beds to care suites – the actual refurbishment costs incurred; and - of rental units to ORA units – the actual refurbishment costs incurred and the fair value of the rental unit prior to conversion.
Excluded	- construction, land (apportioned on a gross floor area basis) and interest costs associated with common areas and amenities or any operational or administrative areas.

[2] Brownfield land refers to land previously utilised by, or part of, an operational aged care centre 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 centre). 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 centre or retirement village. Greenfield land is typically bare (undeveloped) land at the time of purchase.

Six months ended 30 November 2019 (unaudited) $NZ000s	Care Operations	Village Operations	Other	Total
Total comprehensive income for the period attributable to shareholders of the parent	12,890	19,714	(8,654)	23,950
Adjusted for Underlying Profit items				
Less: Change in fair value of investment property, right of use assets and cash flow hedges and impairment of property, plant and equipment	(9,952)	(21,561)	1,898	(29,615)
Add: Impairment of goodwill	-	-	-	-
Less: DMF in relation to right of use investment property	-	(638)	-	(638)
Add: Rental expenditure in relation to right of use asset	-	11,536	-	11,536
Add: (Gain) / loss on sale or decommissioning of assets	148	(11)	-	137
Add: Realised resale gain[5]	-	8,222	-	8,222
Add: Realised development margin[6]	-	18,719	-	18,719
Underlying net profit before tax	3,086	35,981	(6,756)	32,311
Less: Deferred tax benefit	(254)	(2,146)	(5,766)	(8,166)
Underlying net profit after tax	2,832	33,835	(12,522)	24,145
Less: Interest income	-	(22)	(80)	(102)
Add: Finance costs	-	-	2,911	2,911
Add: Depreciation and amortisation	6,691	-	456	7,147
Underlying EBITDA	9,523	33,813	(9,235)	34,101

[5] Includes $2.0m in relation to care suites.

[6] Includes $6.9m in relation to care suites.

2.1 Operating Segments (continued)

Six months ended 30 November 2018 (unaudited) $NZ000s	**Care Operations**	**Village Operations**	**Other**	**Total**
Total comprehensive income for the period attributable to shareholders of the parent	**18,838**	**11,675**	**(11,001)**	**19,512**
Adjusted for Underlying Profit items				
Less: Change in fair value of investment property[7] and swaps and reversal of impairment of property, plant and equipment	(12,538)	(1,624)	(63)	(14,225)
Add: Impairment of goodwill	-	-	-	-
Less: DMF in relation to right of use asset	-	(309)	-	(309)
Add: Rental expenditure in relation to right of use asset	-	4,815	-	4,815
Add: (Gain) / loss on sale or decommissioning of assets	(590)	-	435	(155)
Add: Realised gain on resale[8]	-	5,950	-	5,950
Add: Realised development margin[9]	-	9,861	-	9,861
Underlying net profit before tax	**5,710**	**30,368**	**(10,629)**	**25,449**
Add: Deferred tax expense / (benefit)	4,275	(8,665)	(117)	(4,507)
Underlying net profit after tax	**9,985**	**21,703**	**(10,746)**	**20,942**
Less: Interest income	-	(15)	(68)	(83)
Add: Finance costs	-	-	2,014	2,014
Add: Depreciation and amortisation	4,075	-	254	4,329
Underlying EBITDA	**14,060**	**21,688**	**(8,546)**	**27,202**

[7] Includes change in fair value of Everil Orr right of use asset.

[8] Includes $1.7m in relation to care suites.

[9] Includes $3.0m in relation to care suites.

3. Property Assets

The Group operates care centres and retirement villages. As outlined in section 2.1, village sites are typically investment property and care sites are typically property, plant and equipment.

What is Investment Property?

Land and buildings are classified as investment property when they are held to generate revenue either through capital appreciation or through rental income.

As residents occupying our retirement villages live independently, the level of services provided is seen as secondary to the provision of accommodation. Accordingly, these buildings are classified as investment property as they are held primarily to generate DMF income.

What is Property, Plant and Equipment?

Land, buildings and chattels are classified as property, plant and equipment when they are used to generate revenue through the provision of goods and services or for administration purposes.

As residents occupying our care centres, including care suites, require services including nursing care, meals and laundry the buildings in which they live are considered to be operated by the Group to generate this revenue and are classified as property, plant and equipment.

What is a Care Suite?

Care suites are a premium offering for a resident requiring rest home or hospital level care. The care suite is located within a care centre. Rather than pay a daily premium accommodation charge for the provision of the premium room the residents enter into an ORA with a net management fee.

3. Property Assets (continued)

Classification of Serviced Apartments and Care Suites

Where services are provided to residents who occupy accommodation under an ORA, it is the Group's policy to assess their level of significance in the context of the overall income derived from the serviced apartment or care suite in ascertaining whether the serviced apartment or care suite is freehold land and buildings (referred to as property, plant and equipment) or investment property.

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

CLASSIFICATION

Investment Property Village Assets	Property, Plant and Equipment Care Assets	
Independent living (villa or apartment)	Care suite	Traditional care bed

SCENARIO

Additional Services are optional	Services are compulsory but an insignificant portion of total revenue from the unit.	Services are compulsory and a significant portion of the total revenue from the unit.	Full ARRC[1] funded care is compulsory for that unit/bed.

CONSIDERATION OF SIGNIFICANCE OF CASHFLOWS

Qualitatively the business model is the provision of retirement accommodation	Quantitatively insignificant (a guideline of under 20% of total revenue is adopted) and qualitatively the business model is the provision of retirement accommodation	Quantitatively significant. Qualitatively the business model is the provision of care	Qualitatively the business model is the provision of care. Quantitative assessment not relevant as price of accommodation does not change overall purpose of the accommodation

[1] ARRC refers to age-related residential care.

3.1 Village Assets: Investment Property

$NZ000s	Notes	Unaudited 30 Nov 2019	Audited 31 May 2019
Investment property under development at fair value			
Opening balance		**101,460**	108,204
Transfer from / (to) property, plant and equipment	3.2	**3,350**	(6,626)
Capitalised expenditure		**45,867**	89,396
Capitalised interest and line fees		**1,500**	4,910
Transfer to completed investment property		**(14,366)**	(105,532)
Change in fair value during the period – developments as at balance date		**375**	8,015
Change in fair value during the period – developments completed during the period		**1,650**	3,093
Closing balance		**139,836**	**101,460**
Completed investment property at fair value			
Opening balance		**780,214**	647,357
Transfer from investment property under development		**14,366**	105,532
Transfer to property, plant and equipment	3.2	**(17,592)**	(12,101)
Transfer to right of use assets	3.4	**(14,006)**	-
Capitalised expenditure		**4,732**	3,930
Capitalised interest and line fees		**709**	-
Disposals		**(44)**	-
Change in fair value during the period – existing villages		**3,227**	(6,100)
Change in fair value during the period – recently completed developments[1]		**6,113**	41,596
Closing balance		**777,719**	**780,214**
Total investment property		**917,555**	**881,674**

[1] Recently completed developments refers to those developments which were being sold down during the period.

3.1 Village Assets: Investment Property (continued)

Change in Fair Value Recognised in the Consolidated Statement of Comprehensive Income

$NZ000s	Unaudited 30 Nov 2019	Unaudited 30 Nov 2018
Increase in fair value of investment property	**35,881**	48,878
Add: Transfers to property, plant and equipment and to right of use assets during the period	**28,248**	1,086
Less: Capitalised expenditure including capitalised interest	**(52,808)**	(48,340)
Add: Disposals	**44**	-
Change in fair value recognised in Consolidated Statement of Comprehensive Income	**11,365**	**1,624**

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

$NZ000s	Unaudited 30 Nov 2019	Audited 31 May 2019
Investment Property under development		
Valuation	**139,836**	101,460
	139,836	**101,460**
Completed Investment Property		
Valuation	**341,954**	380,229
Add: Refundable occupation licence payments	**500,353**	456,349
Add: Residents' share of resale gains	**6,510**	6,900
Less: Management fee receivable	**(68,299)**	(61,745)
Less: Resident obligations for units not included in valuation	**(2,799)**	(1,519)
	777,719	**780,214**
Total investment property at fair value	**917,555**	**881,674**

Where an incoming resident has an unconditional ORA in respect of a retirement village unit and the corresponding outgoing resident for that same accommodation has not yet been refunded, the CBRE Limited valuation is adjusted for the incoming resident balances only. An adjustment of $2.8m (31 May 2019: $1.5m) is included in the above reconciliation to reflect this.

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 Consolidated Balance Sheet and also reflected in the valuation model.

Why do we adjust for the liability to residents?

In the CBRE Limited valuation the fair value of investment property includes an allowance for the amount that is payable by the Group to residents already in occupation within the property. However, this liability to existing residents is recognised in the Group's Consolidated Balance Sheet (referred to as refundable occupation right agreements – see note 3.3). Accordingly, the Group adds this net liability to residents to the CBRE Limited valuation to "gross up" the fair value of investment property and avoid double counting the liability to residents.

Valuation Process and Key Inputs

Investment Property under Development

CBRE Limited provided valuations of development land in respect of investment property under development as at 31 October 2019.

The fair value of investment property is determined by the Directors having taken into consideration the valuation conducted by CBRE Limited as an independent registered valuer and the cost of work undertaken in relation to investment property under development. As at 30 November 2019, in respect of two development sites, the Directors determined a fair value that was, in aggregate, $1.9m higher than the valuation midpoints provided by CBRE Limited but within the valuation ranges provided by CBRE Limited.

The Directors do not judge there to have been a material movement in the adopted land value between 31 October 2019 and 30 November 2019 and, therefore, no adjustment has been made to this value. Any costs incurred to 30 November 2019 on the developments are included in arriving at the fair value as at 30 November 2019.

The Group has applied the following methodology in relation to the measurement of investment property under development:

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 per the Directors' valuation plus the cost of any work in progress. An amount of $71.3m as at 30 November 2019 (31 May 2019: $33.5m) has been recognised in relation to these development sites.

3.1 Village Assets: Investment Property (continued)

Where an individual development is of both investment property and freehold buildings in nature, the fair value of land and work in progress 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 the project quantity surveyors at the planning and design stages.

Practical completion achieved

Where a development is practically completed, or likely to be completed at, or close to, balance date the investment property is measured at its completed fair value per the Directors' valuation with an adjustment made for any estimated costs, in accordance with the project budget, to be incurred to complete the development, and is then transferred to completed investment property.

Completed Investment Property

The fair value of completed investment property includes the right of use asset under a finance lease (Everil Orr per below).

As required by NZ IAS 40 *Investment Property*, the valuation of investment property is adjusted for cash flows relating to refundable occupation licence payments, residents' share of resale gains and management fees receivable recognised separately on the Consolidated Balance Sheet and also reflected in the valuation model.

The Group's interest in all completed investment property was valued on 31 October 2019 by CBRE Limited (31 May 2019: 30 April 2019 by CBRE Limited), at a total of $383.3m (31 May 2019: $403.2m). The CBRE Limited valuation has been adjusted downwards for the impact of any sale, resale and repurchase of ORAs between 1 November 2019 and 30 November 2019 of $14.1m (31 May 2019: adjusted downwards by $23.0m), with a corresponding increase in refundable occupation licence payments of $17.3m (31 May 2019: $34.0m), to arrive at the fair value of completed investment properties at 30 November 2019.

Property Specific Assumptions

Seismic and Weather Tightness Assessments

The CBRE Limited valuation, and accordingly the fair value of investment property, incorporates an allowance in relation to remediation to properties where seismic strength testing has been carried out in prior years.

Assets Held for Sale

Investment property assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at their fair value.

3.2 Care Assets: Property, Plant and Equipment

$NZ000s	Notes	Freehold Land and Buildings Under Development	Freehold Land	Freehold Buildings	Chattels and Leasehold Improvements	Total
Period ended 30 November 2019						
Opening net book amount		70,297	70,662	282,417	19,333	442,709
Additions		12,206	-	4,952	4,933	22,091
Capitalised interest and line fees		464	-	539	-	1,003
Disposals		-	-	-	(114)	(114)
Depreciation		-	-	(4,310)	(1,439)	(5,749)
Transfer (to) right of use assets	3.4	-	-	-	(5,375)	(5,375)
Transfer (to) / from investment property	3.1	(3,350)	570	17,022	-	14,242
Revaluation surplus						
Comprehensive income						
Existing care centres		(853)	15	(102)	-	(940)
Care centres recently developed / under development		-	(135)	31	-	(104)
Other comprehensive income[1]						
Existing care centres		270	705	127	-	1,102
Care centres recently developed / under development		-	24	11,545	-	11,569
Closing net book amount (unaudited)		79,034	71,841	312,221	17,338	480,434
At 30 November 2019 (unaudited)						
Cost		-	-	-	44,739	44,739
Valuation		79,034	71,841	312,221	-	463,096
Accumulated depreciation		-	-	-	(27,401)	(27,401)
Net book amount		79,034	71,841	312,221	17,338	480,434

[1] The revaluation noted in the Statement of Comprehensive Income differs from the above due to deferred tax, refer note 5.1.

$NZ000s	Notes	Freehold Land and Buildings Under Development	Freehold Land	Freehold Buildings	Chattels and Leasehold Improvements	Total
Year ended 31 May 2019						
Opening net book amount		44,363	67,124	177,697	14,377	303,561
Additions		57,665	4	7,485	7,351	72,505
Capitalised interest and line fees		2,858	-	-	-	2,858
Disposals		-	-	(3)	(295)	(298)
Depreciation		-	-	(5,797)	(3,638)	(9,435)
Transfer from / (to) investment property	3.1	10,666	(2,194)	10,255	-	18,727
Reclassification within property, plant and equipment		(61,727)	(2,180)	62,369	1,538	-
Revaluation surplus						
Comprehensive income						
Existing care centres		-	443	(7,498)	-	(7,055)
Care centres recently developed / under development		-	-	73	-	73
Other comprehensive income[1]						
Existing care centres		1,930	7,465	30,390	-	39,785
Care centres recently developed / under development		14,542	-	7,446	-	21,988
Closing net book amount (audited)		70,297	70,662	282,417	19,333	442,709

$NZ000s	Notes	Freehold Land and Buildings Under Development	Freehold Land	Freehold Buildings	Chattels and Leasehold Improvements	Total
At 31 May 2019 (audited)						
Cost		**-**	**-**	**-**	**48,304**	**48,304**
Valuation		**70,297**	**70,662**	**282,417**	**-**	**423,376**
Accumulated depreciation		**-**	**-**	**-**	**(28,971)**	**(28,971)**
Net book amount		**70,297**	**70,662**	**282,417**	**19,333**	**442,709**

[1] The revaluation noted in the Statement of Comprehensive Income differs from the above due to deferred tax, refer note 5.1.

3.2 Care Assets: Property, Plant and Equipment (continued)

Land and Buildings Under Development

A valuation in respect of development land was provided by CBRE Limited as at 31 October 2019.

The Directors do not judge there to have been a material movement in the land value between 31 October 2019 and 30 November 2019 and therefore no adjustment has been made to this value. Any costs incurred to 30 November 2019 on the developments are included in arriving at the fair value as at 30 November 2019.

The Group has applied the following methodology in relation to the measurement of land and buildings under development:

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 per the Directors' valuation plus the cost of any work in progress. An amount of $26.2m as at 30 November 2019 (31 May 2019: $13.5m) has been recognised in relation to these development sites.

Where an individual development is of both investment property and freehold buildings in nature, the fair value of land and work in progress 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 the project quantity surveyors at the planning and design stages.

Practical completion achieved

Where a development is practically completed, or likely to be completed at, or close to, balance date the land and buildings are measured at its completed fair value per the Directors' valuation with an adjustment made for any estimated costs, in accordance with the project budget, to be incurred to complete the development, and is then transferred to completed land and buildings.

Completed Land and Buildings

A valuation in respect of completed land and buildings was provided by CBRE Limited as at 31 October 2019. The Directors do not judge there to have been a material movement in the land value between 31 October 2019 and 30 November 2019 and therefore no adjustment has been made to this value.

The valuation of the Group's care centres was apportioned to land, buildings, chattels and goodwill. The fair value of land and buildings as calculated by CBRE Limited is based on the level of rent able to be generated from the maintainable net cash flow of the site subject to average efficient management.

The fair value of the Group's land and buildings as determined by the Directors is based on these apportionments. However, chattels are carried at historic cost less depreciation and the amount apportioned to goodwill by CBRE Limited is not recorded in the consolidated interim financial statements. The CBRE Limited valuation included $17.5m of goodwill (31 May 2019: $20.6m) in respect of completed land and buildings.

The CBRE Limited valuation used in the determination of the fair value of freehold buildings, incorporates an allowance in relation to remediation to properties where seismic strength testing has been carried out in prior years.

Care Suites and Serviced Apartments

As discussed earlier in note 3, where services are provided to residents who occupy accommodation under an ORA, it is the Group's policy to look at the significance of these services in the context of the overall revenue derived from care suite or serviced apartment in ascertaining whether the care suite or serviced apartment is property, plant and equipment or investment property. Care suite residents occupying accommodation under an ORA receive a significant level of services. Hence they are included in property, plant and equipment. Care suite land and buildings are held at fair value.

In the 12 months to 31 May 2019 the valuer performed a review of the valuation methodology for care suites with the outcome that the value of all cash flows associated with the ORA have been allocated to freehold land and buildings. This has resulted in a reduction in the level of goodwill in CBRE Limited's apportionment relating to care suites. The treatment of the cashflows under the daily care fees remain unchanged. These continue to be apportioned to land, buildings, chattels and goodwill in the same manner as traditional care beds.

Where a site is in its first few years of operation, the Directors assess the appropriateness of the fair value of care suites by taking into consideration the CBRE Limited valuation and applying different operating assumptions including instances where care suites are occupied by residents paying a premium accommodation charge. As at 30 November 2019 the Directors have adjusted the CBRE Limited valuation in respect of two sites. This adjustment decreased the CBRE Limited valuation by $12.1m (30 November 2018: nil).

The CBRE Limited valuation includes $0.4m of goodwill (31 May 2019: $0.4m). This goodwill is not recognised in the consolidated financial statements.

Key Accounting Estimates and Judgements

All land and buildings have been determined to be Level 3 (31 May 2019: Level 3) in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

3.3 Refundable Occupation Right Agreements

What's an ORA?

An ORA is a contract which sets out the terms and conditions of occupation of an independent living unit or care suite. A new resident is charged a refundable occupation licence payment in consideration for the right to occupy one of the Group's units, apartments or care suites. On termination of the ORA the occupation licence payment is repaid to the exiting resident.

What's DMF?

An amount equal to a capped percentage of the occupation licence payment is charged by the Group as a management fee for the right to use and enjoy the common areas of the village. The deferred management fee is payable by the resident on termination of the ORA.

$NZ000s	**Unaudited 30 Nov 2019**	Unaudited 31 May 2019
Village		
Refundable occupation licence payments	**500,353**	456,349
Residents' share of resale gains	**6,510**	6,900
Less: Management fee receivable (per contract)	**(94,870)**	(85,178)
	411,993	**378,071**
Care Suites		
Refundable occupation licence payments	**97,389**	71,811
Accommodation rebate	**507**	738
Less: Management fee receivable (per contract)	**(16,084)**	(14,139)
	81,812	**58,410**
Total refundable occupation right agreements	**493,805**	**436,481**

Reconciliation of Management Fees recognised under NZ IFRS and per ORA

$NZ000s	Unaudited 30 Nov 2019	Audited 31 May 2019
Village		
Management fee receivable (per contract)	**(94,870)**	(85,178)
Deferred management fee	**26,571**	23,433
Management fee receivable (per NZ IFRS)	**(68,299)**	**(61,745)**
Care Suites		
Management fee receivable (per contract)	**(16,084)**	(14,139)
Deferred management fee	**4,091**	3,569
Management fee receivable (per NZ IFRS)	**(11,993)**	**(10,570)**

3.4 Leases

What's a right of use asset?

Right of use assets are assets held under a lease arrangement. It represents the value of the lessee's right to use an asset over the life of the lease. There is a corresponding lease liability on the Balance Sheet which represents the present value of the future lease payments.

The accounting treatment of leases has changed in the current period due to the adoption of NZ IFRS 16, see note 5.2 for details.

3.4 Leases (continued)

Right of use Assets $NZ000s 30 Nov 2019	Notes	Investment Property	Land and Buildings	Chattels	Total
Opening net book value		-	-	-	-
Recognition on adoption of NZ IFRS 16 Leases		-	5,423	229	5,652
Transfer from investment property / property, plant and equipment	3.1, 3.2	14,006	-	5,375	19,381
Additions		4	8	1,054	1,066
Depreciation		-	(311)	(1,051)	(1,362)
Revaluation for the period[1]		10,196	156	-	10,352
Net book value as at 30 November 2019 (unaudited)		**24,206**	**5,276**	**5,607**	**35,089**
Cost		-	-	9,157	9,157
Valuation		24,206	5,276	-	29,482
Accumulated depreciation		-	-	(3,550)	(3,550)
Net book value as at 30 November 2019 (unaudited)		**24,206**	**5,276**	**5,607**	**35,089**

Lease Liabilities $NZ000s 30 Nov 2019	Notes	Investment Property	Land and Buildings	Chattels	Total
Opening net book value		-	-	-	-
Recognition on adoption of NZ IFRS 16 Leases		-	8,444	278	8,722
Transfer from borrowings	4.3	-	-	5,517	5,517
Additions		-	-	1,054	1,054
Interest		-	240	262	502
Lease payments made		-	(525)	(1,258)	(1,783)
Lease liabilities as at 30 November 2019 (unaudited)		**-**	**8,159**	**5,853**	**14,012**

The maturity of these lease liabilities is as follows:

Lease Liabilities $NZ000s	Unaudited 30 Nov 2019
Less than one year	2,488
One to five years	5,791
More than five years	5,733

[1] The revaluation noted in the Statement of Comprehensive Income differs from the above due to deferred tax, refer note 5.1.

Right of use assets and lease liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the remaining lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liabilities.

Right of use assets are initially recognised at cost, comprising of the initial amount of the lease liability less any lease incentives received. Right of use leases relating to equipment and motor vehicles are subsequently depreciated using the straight line method from the commencement date to the end of the lease. Right of use leases relating to care centres are subsequently measured at fair value by CBRE Limited. In considering the lease term, the Group applies judgement in determining whether it is reasonably certain that an extension or termination option will be exercised.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the incremental borrowing rate at the commencement of the lease is used.

Lease of Investment Property

The Group leases one site, Everil Orr, which meets the definition of investment property. The site comprises both apartments and common facilities provided for use by residents under the terms of an ORA. Payments to the lessor under this lease are made as ORAs are sold. Subsequent cash flows upon the sale and resale of the units are shared between the lessor and the Group.

Due to the variability of these payments both the right to use asset and the corresponding lease liability were initially recognised at nil value. Rental payments are recognised as a rental expense through the Consolidated Statement of Comprehensive Income. The right to use asset is held at fair value in accordance with NZ IAS 40 Investment Property and has been valued by CBRE Limited at 31 October 2019. The valuation has been adjusted by the Directors for the impact of any sale of ORAs between 1 November 2019 and 30 November 2019 to arrive at the fair value as at 30 November 2019 and any changes in fair value are taken to the Consolidated Statement of Comprehensive Income.

The carrying value of the right to use asset as at 30 November 2019 in respect of this leased site is $24.2m (31 May 2019: $14.0m), included within completed investment property above, refer note 3.1

Lease of Property, Plant and Equipment

The Group leases three care centres which are valued as right of use assets as well as various equipment and motor vehicles.

A valuation in respect of right of use property assets was provided by CBRE Limited as at 31 October 2019.

The Directors do not consider there to have been a material movement in the right of use asset value between 31 October 2019 and 30 November 2019 and therefore no adjustment has been made to this value.

4. Shareholder Equity and Funding

4.1 Shareholder Equity and Reserves

	Unaudited 30 Nov 2019 Shares	Audited 31 May 2019 Shares	**Unaudited 30 Nov 2019 $NZ000s**	Audited 31 May 2019 $NZ000s
Share capital				
Authorised, issued and fully paid up capital	**613,532,055**	610,254,535	**583,072**	580,794
Total contributed equity	**613,532,055**	610,254,535	**583,072**	580,794
Movements				
Opening balance of ordinary shares issued	**610,254,535**	610,254,535	**580,794**	579,498
Shares issued for long term incentive plan	**-**	-	**-**	1,296
Shares issued for employee share scheme	**1,004,640**	-	**-**	-
Shares issued for dividend reinvestment plan	**2,272,880**	-	**2,278**	-
Closing balance of ordinary shares issued	**613,532,055**	610,254,535	**583,072**	580,794

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. The Company incurred no transaction costs issuing shares during the period (31 May 2019: nil).

During the year to 31 May 2019 an amount of $1.3m was recognised in equity in respect of 2,730,772 shares which had previously vested but for which the loan was repaid in accordance with the terms of the 2015 Long Term Incentive Plan ("LTIP"), see note 4.3 in the 31 May 2019 audited consolidated financial statements.

During the six months to 30 November 2019 1,004,640 shares were issued as part of an employee share scheme ("ESS"). All permanent employees were invited to participate. Full time employee participants were allocated $800 of shares and part time employee participants were allocated $400 of shares with a total of 1,004,640 shares issued under this scheme. The shares are held in trust and will be transferred to the employee if the employee remains employed by Oceania (or any of its subsidiaries) for the following three years.

2,272,880 shares with a value of $1.0018 per share were also issued in the six months to 30 November 2019 in relation to the 31 May 2019 dividend reinvestment plan.

Recognition and Measurement

None of the above issued shares are held by the Group 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 and in relation to the ESS.

The shares issued for both the LTIP and ESS are classified as Treasury Shares as the Group has a beneficial interest in the 4,169,196 shares until the vesting conditions are met (1,004,640 ESS shares, 3,164,556 LTIP shares).

As at the time of signing the financial statements, the Board is considering appropriate adjustments to lower the performance hurdle of the May 2020 LTIP, in accordance with the scheme rules, to take into account changes to the business since the time that the scheme was implemented; for example, the effect of divested sites. The cumulative expense recognised of $0.4m continues to be recognised within reserves as at 30 November 2019.

Group structure

The Group's largest shareholder is Oceania Healthcare Holdings Limited ("OHHL"). On 5 September 2018 OHHL sold 15.56% of its holding. On 22 May 2019 OHHL sold a further 0.49% holding resulting in a remaining 40.94% shareholding as at 30 November 2019 (31 May 2019: 41.16%).

Dividends

On 24 January 2020, an interim dividend of 2.3 cents per share (not imputed) was declared and will be paid on 24 February 2020. The record date for entitlement will be 10 February 2020.

	Unaudited 30 Nov 2019 cents per share	**Unaudited 30 Nov 2019 $NZ000s**	Audited 31 May 2019 cents per share	Audited 31 May 2019 $NZ000s
Final dividend for the prior year	**2.6**	**15,867**	2.6	15,867
Interim dividend for the period	**-**	**-**	2.1	12,815
Total dividends declared during the period[1]		**15,867**		28,682

[1] Total dividends declared during the period differs to dividends paid per the Consolidated Statement of Changes in Equity as a result of dividends payable on LTIP scheme which remain within the Group until vesting.

4.1. Shareholder Equity and Reserves (continued)

Dividend Reinvestment Plan

On 25 July 2019, the Board approved the implementation of a dividend reinvestment plan for New Zealand and Australian shareholders. This plan shall also be effective for the dividend payable on 24 February 2020 and shall apply to those shareholders who have provided a participation election by 5.00pm on the dividend election date, being 11 February 2020.

Asset Revaluation Reserve

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

Cash Flow Hedge Reserve

The cash flow hedge reserve is used to record gains or losses on instruments used as cash flow hedges. The amounts are recognised in the Consolidated Statement of Comprehensive Income when the hedged transaction affects profit or loss. Refer note 5.6 of the 31 May 2019 audited consolidated financial statements.

4.2 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 period.

	Unaudited 30 Nov 2019	Unaudited 30 Nov 2018
Profit after tax ($'000)	**14,852**	**1,252**
Weighted average number of ordinary shares outstanding ('000s)	**608,656**	604,359
Basic earnings per share (cents per share)	**2.4**	**0.2**

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 November 2019 there were no shares with a dilutive effect (31 May 2019: nil).

	Unaudited 30 Nov 2019	Unaudited 30 Nov 2018
Profit after tax ($'000)	**14,852**	**1,252**
Diluted weighted average number of ordinary shares outstanding ('000s)	**608,656**	605,546
Diluted earnings per share (cents per share)	**2.4**	**0.2**

4.3 Borrowings

$NZ000s	Unaudited 30 Nov 2019	Audited 31 May 2019
Secured		
Bank loans	**287,457**	265,487
Capitalised loan costs	**(785)**	(845)
Finance leases	**-**	5,517
Total borrowings	**286,672**	**270,159**
Current	**-**	1,600
Non current	**287,457**	269,404
Total borrowings excluding capitalised loan costs	**287,457**	**271,004**

Recognition and Measurement

Bank Loans

Interest is charged using the BKBM Bill rate plus a margin and line fee. Interest rates applicable in the six months to 30 November 2019 ranged from 2.36% to 2.83% (year to 31 May 2019: 2.94% to 3.48%).

Debt Financing

On 6 July 2018 an agreement was entered into with the banking syndicate to increase total debt facility limits from $235m to $350m as follows:

(i) General Corporate Facility limit increased to $135m (formerly $75m); and

(ii) Development Facility limit increased to $215m (formerly $160m).

In addition to the above, the maturity of borrowings was extended to 31 July 2023.

Financing arrangements

At 30 November 2019, the Group held committed bank facilities with drawings as follows:

	Unaudited 30 Nov 2019		Audited 31 May 2019	
$NZ000s	Committed	Drawn	Committed	Drawn
General Corporate Facility	**135,000**	**123,467**	135,000	101,961
Development Facility	**215,000**	**163,990**	215,000	163,526
Total	**350,000**	**287,457**	**350,000**	**265,487**

4.3 Borrowings (continued)

The Group's revolving Development Facility is utilised to cover costs associated with current development projects. The revolving General Corporate Facility is used for general corporate purposes as well as for development land and initial costs 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.

The financial covenants in the Group's senior debt facilities, with which the Group must comply include:

a) Interest Cover Ratio – the ratio of Adjusted EBITDA to Net Interest Charges is not less than 2.0x; and

b) Loan to Value Ratio – the ratio of total bank indebtedness shall not exceed 50% of the total property value of all Group's properties (including the "as-complete" valuations for projects funded under the Development Facility).

The covenants are tested half yearly. All covenants have been complied with during the period. The Group has agreed with its banks that the calculation of Adjusted EBITDA and Net Interest, for the purposes of the financial covenants, shall be based on the accounting treatment in use before the introduction of NZ IFRS 16.

Assets Pledged as Security

The bank loans of the Group are secured by mortgages over the Group's care home freehold land and buildings and rank second behind the Statutory Supervisors where the land and buildings are classified as investment property and investment property under development. There was no material change to security arrangements as a result of the refinance.

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.

5. Other Disclosures

5.1 Income Tax

What is Current Tax?

Current tax is an estimate of the tax that is payable to Inland Revenue for the current financial period.

What is Deferred Tax?

Deferred tax is an estimate of income tax that will be payable or recoverable in respect of temporary differences relating to the accounting and tax values of the Group's assets and liabilities. Deferred tax also includes the value of tax losses that we consider we will use in the future to meet any income tax obligation.

5.1 Income Tax (continued)

$NZ000s	Unaudited 30 Nov 2019	Unaudited 30 Nov 2018
Income tax benefit		
Current tax	-	-
Deferred tax	(8,166)	(4,507)
	(8,166)	**(4,507)**
Taxation expense is calculated as follows:		
Profit before income tax	6,686	(3,255)
Tax at the New Zealand tax rate of 28%	1,872	(911)
Adjusted by the tax effect of:		
Non-deductible impairment of goodwill	-	-
Non-deductible expenditure	166	68
Capitalised interest deductible for tax	(900)	(739)
Taxable deferred management fees	(435)	630
Non-assessable revaluation of investment property	(6,037)	(455)
Taxable depreciation	(2,519)	(1,573)
Accounting depreciation	1,658	1,223
Right of use asset	24	-
Non-deductible impairment / (reversal of non-deductible impairment) of fixed asset	292	1,585
Adjustment for timing difference of provisions	133	(333)
Other	-	-
Losses recognised / (utilised)	5,746	505
Current tax expense	**-**	**-**
Impact of movements in investment property	(2,659)	787
Impact of movements in property, plant and equipment	(6)	1,142
Impact of movements in right of use assets	(60)	-
Other adjustments	(133)	332
Deferred management fee	438	(630)
Prior period adjustments: treatment of DMF income	-	(6,138)
Losses utilised or (recognised) / derecognised	(5,746)	-
Deferred tax benefit	**(8,166)**	**(4,507)**
Income tax benefit	**(8,166)**	**(4,507)**

Movement in the Deferred Tax Balance:

$NZ000s	Balance 1 June 2019 Audited	Recognised in Consolidated Statement of Comprehensive Income	Recognised in Other Comprehensive Income	Balance 30 Nov 2019 Unaudited
Investment property	**(9,264)**	**2,659**	**-**	**(6,605)**
Property, plant and equipment	**(22,504)**	**6**	**(1,787)**	**(24,285)**
Right of use assets	**-**	**60**	**816[1]**	**876**
Provisions and other assets / liabilities	**6,123**	**133**	**763**	**7,019**
DMF revenue in advance	**7,069**	**(438)**	**-**	**6,631**
Tax losses	**3,751**	**5,746**	**-**	**9,497**
Deferred tax liabilities	**(14,825)**	**8,166**	**(208)**	**(6,867)**

$NZ000s	Balance 1 June 2018 Audited	Recognised in Consolidated Statement of Comprehensive Income	Recognised in Other Comprehensive Income	Balance 31 May 2019 Audited
Investment property	(9,624)	360	-	(9,264)
Property, plant and equipment	(18,470)	1,636	(5,670)	(22,504)
Provisions and other assets / liabilities	4,759	760	604	6,123
DMF revenue in advance	-	7,069	-	7,069
Tax losses	-	3,751	-	3,751
Deferred tax liabilities	**(23,335)**	**13,576**	**(5,066)**	**(14,825)**

Recognition and Measurement

No income tax was paid or payable during the period (30 November 2018: nil).

Key accounting judgements

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.

[1] Includes the tax effect of the opening retained earnings adjustment on adoption of NZ IFRS 16

5.1 Income Tax (continued)

The Group's ORAs comprise two distinct 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.

In calculating deferred tax under the Held for Use methodology, the Group has made significant judgements to determine taxable temporary differences. The carrying value of the Group's investment property is determined on a discounted cash flow basis and includes cash flows that are both taxable and non-taxable in the future. The Group has recognised deferred tax on the cash flows with a future tax consequence being DMF as provided by CBRE Limited, to the extent that it arises from depreciable components (i.e. buildings) of the investment property. The Group uses the council rateable valuations to estimate the apportionment of cash flows arising from the depreciable (i.e. buildings) and non-depreciable components (i.e. land).

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

Recognition of Deferred Tax on Deferred Management Fee

The interpretation of New Zealand tax laws in relation to DMF involves significant judgements and uncertainty. As at 31 May 2018, the Group recognised DMF for tax purposes in a manner consistent with the Group's revenue recognition policy. As explained in the 31 May 2018 consolidated annual financial statements, Inland Revenue was disputing the tax treatment adopted by the Group in respect of the 2016 income year.

During October 2018, the Group obtained a binding ruling from Inland Revenue, applicable for ORAs entered into after 1 June 2018 with certain revisions to the terms and conditions relating to the DMF. Pursuant to this ruling DMF revenue is recognised as derived on the exit of a unit or care suite by a resident.
On 20 November 2018, as a result of the binding ruling and associated certainty of the tax position going forward, the Group resolved the dispute with Inland Revenue. The Group have included an adjustment in the 31 May 2018 tax return to recognise tax on DMF in accordance with the contractual term of the resident's ORA.

This resulted in the recognition of a tax liability of $6.1m as at 30 November 2018, being the tax effect of the cumulative difference between the two treatments of $21.9m. This was fully met by the application of $21.9m of the $64.6m available tax losses that had not previously been recognised on the Consolidated Balance Sheet. A corresponding deferred tax asset of $6.1m was recognised at this point for tax paid on DMF revenue in advance of its accounting recognition. A movement of $0.9m was then recognised in the year to 31 May 2019 resulting in a closing deferred tax asset of $7.1m in respect of DMF revenue as at 31 May 2019. A further movement of $0.4m was recognised in the six months to 30 November 2019 resulting in a closing deferred tax asset of $6.6m as at 30 November 2019.

Recognition of Deferred Tax on Tax Losses

The Company and its subsidiaries exited the former OHHL tax consolidated group from 31 May 2015. All tax losses incurred by the Company and its subsidiaries until 31 May 2015 are tax losses of the OHHL consolidated tax group (of which the Group is no longer a member).

On 5 September 2018 the Group forfeited all losses generated prior to the IPO of the Company as a result of the sale of 15.56% of OHHL's shareholding. This resulted in the cessation of shareholder continuity.

The Group also utilised $21.9m of losses to offset additional taxable income arising from the change in recognition of DMF revenue as noted above.

After allowing for the utilisation of losses to offset additional taxable income arising from the change in recognition of DMF revenue, the forfeiture of losses generated prior to IPO on 5 September 2018, and taking into consideration the new losses generated in the six months to 30 November 2019, the Group now has an estimated $46.1m (31 May 2019: $25.6m) of available tax losses at 30 November 2019. Of these total available tax losses, $12.2m may be forfeited in the event of a further sale of shares by OHHL.

A deferred tax asset of $9.5m has been recognised as at 30 November 2019, being the tax effect of the remaining $33.9m of tax losses (31 May 2019 : $3.8m). These are effectively the tax losses generated after 5 September 2018 which will be retained by the Group in the event of any further sale of shares by OHHL provided there are no other significant shareholding changes.

5.2 New Accounting Standards

New and amended standards adopted by the Group

In the current period, the Group adopted all mandatory new and amended standards and interpretations, including:

NZ IFRS 16, *Leases* (effective for the Group from 1 June 2019)
The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective of the standard is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions.

The standard does not change the accounting treatment from the perspective of lessors and the Group confirms that there is no change in recognition of rental and DMF income.

The standard requires a lessee to recognise a lease liability on the balance sheet reflecting the future lease payments and a right of use asset for all lease contracts, except those which are of low value or short term. This standard primarily effects the accounting of the Group's operating leases. As at 31 May 2019 the Group had non-cancellable operating lease commitments of $13.1m under operating leases. Many of the Group's leases relate to leases of low value assets however the Group currently leases three care centres and two administrative buildings.

The Directors have elected to apply the modified retrospective approach. Under this approach the cumulative effect of the initial recognition of NZ IFRS 16 is recognised as an adjustment to retained earnings as at 1 June 2019 and comparative figures are not restated but instead continue to reflect the accounting treatment under the previous standard. In addition, the Group has utilised the following permitted practical expedients:

a) The recognition exemption for short-term leases (term up to one year) and low-value leases (under $5k);

b) Not reassessing whether a contract is, or contains, a lease at the date of initial application;

c) Leases which end within 12 months of the date of initial application.

The following impacts are noted in the context of the 30 November 2019 balances:

a) A straight-line operating lease expense of $0.6m would have been recognised if the new standard had not been adopted, however instead there is an additional depreciation charge of $0.4m and additional interest expense on lease liabilities of $0.2m;

b) The repayment of the principal portion of all lease liabilities has been classified as financing activities; and

c) The Consolidated Balance Sheet has been impacted by the recognition of additional right of use assets of $5.7m and corresponding additional lease liabilities of $8.7m in respect of leases previously classified as operating leases. Total right of use assets and corresponding liabilities are $35.1m and $14.0m respectively. This results in a decrease in opening retained earnings as at 1 June 2019 of approximately $3.0m (Net of tax: $2.2m).

The adoption of NZ IFRS 16 has had no impact on net cash flows of the Group. See note 3.4 for further details.

5.3 Contingencies and Commitments

At 30 November 2019, the Group had no contingent liabilities or assets (31 May 2019: nil).

At 30 November 2019, the Group has a number of commitments to develop and construct certain sites totalling $131.6m (31 May 2019: $106.7m) of which $131.6m (31 May 2019: $106.7m) relates to development sites.

As at 30 November 2019, a commitment of $9.3m (31 May 2019: $11.5m) exists in relation to Stage One and $17.6m (31 May 2019: $27.2m) in relation to Stage Two in the form of future lease payments in respect of the development of Everil Orr, a leasehold site. Lease payment obligations arise as ORAs are sold. See note 3.4 for further details.

There are no significant unrecognised contractual obligations entered into for future repairs and maintenance at balance date.

5.4 Events After Balance Date

Dividends

On 24 January 2020 an interim dividend of 2.3 cents per share (not imputed) was declared and will be paid on 24 February 2020. The record date for entitlement is 10 February 2020. The dividend reinvestment plan announced in July 2019 will apply to the dividend payable on 24 February 2020 at a discount 2.5% to the volume weighted average price of shares sold on the NZX Main Board over a period of five trading days starting on 7 February 2020. Refer note 4.1.

There have been no other significant events after balance date.

Independent review report

To the shareholders of Oceania Healthcare Limited

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of Oceania Healthcare Limited (the "Company") and its subsidiaries (the "Group") on pages 15 to 59, which comprise the consolidated balance sheet as at 30 November 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' responsibility for the consolidated interim financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated 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 control as the Directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated 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 auditors 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 consolidated 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 consolidated interim financial statements.

We are independent of the Group. Our firm carries out other assurance services for the Group in the areas of trustee reporting and agreed upon procedures in respect of proxy voting at the Annual Shareholders Meeting. The provision of these other services has not impaired our independence.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 November 2019, and its financial performance and cash flows for the six months then ended, 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:

PricewaterhouseCoopers

Chartered Accountants | Auckland
24 January 2020

oceaniahealthcare.co.nz

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